

**Trust for Civil Society in Central
and Eastern Europe**

Financial Statements

December 31, 2009



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

Board of Directors Trust for Civil Society in Central and Eastern Europe

We have audited the accompanying statement of financial position of Trust for Civil Society in Central and Eastern Europe (the "Trust") as of December 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Trust's 2008 financial statements and in our report dated May 8, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Trust, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
April 26, 2010

Trust for Civil Society in Central and Eastern Europe

Statement of Financial Position

December 31, 2009

(with comparative amounts at December 31, 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 214,070	\$ 1,199,715
Pledges receivable, net	-	27,211
Receivables and other assets	23,873	11,948
Investments	23,304,981	29,451,135
Property and equipment, net	33,187	42,797
Security deposit	3,063	3,063
	<u>\$ 23,579,174</u>	<u>\$ 30,735,869</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Account payable and accrued expenses	\$ 43,112	\$ 53,034
Grants payable, net	4,529,624	5,385,871
Total Liabilities	<u>4,572,736</u>	<u>5,438,905</u>
Net Assets		
Unrestricted	-	-
Temporarily restricted	19,006,438	25,296,964
Total Net Assets	<u>19,006,438</u>	<u>25,296,964</u>
	<u>\$ 23,579,174</u>	<u>\$ 30,735,869</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Activities

Year Ended December 31, 2009

(with summarized totals for the year ended December 31, 2008)

	Unrestricted	Temporarily Restricted	2009 Total	2008 Total
REVENUE AND SUPPORT				
Contributions	\$ -	\$ 502,789	\$ 502,789	\$ 986,104
Investment income, net	153,165	-	153,165	369,860
Realized gain on sale of investments	1,102,324	-	1,102,324	1,190,968
Unrealized gain (loss) on investments	819,398	-	819,398	(4,461,301)
Other income	2,064	-	2,064	3,115
Net assets released from restrictions	<u>6,793,315</u>	<u>(6,793,315)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>8,870,266</u>	<u>(6,290,526)</u>	<u>2,579,740</u>	<u>(1,911,254)</u>
EXPENSES				
Program services	8,641,292	-	8,641,292	11,639,598
General and administrative	180,062	-	180,062	226,984
Fundraising	<u>25,523</u>	<u>-</u>	<u>25,523</u>	<u>25,101</u>
Total Expenses	<u>8,846,877</u>	<u>-</u>	<u>8,846,877</u>	<u>11,891,683</u>
Deficiency of Revenue and Support Over Expenses	23,389	(6,290,526)	(6,267,137)	(13,802,937)
Foreign currency translation loss	<u>(23,389)</u>	<u>-</u>	<u>(23,389)</u>	<u>(13,386)</u>
Change in Net Assets	-	(6,290,526)	(6,290,526)	(13,816,323)
NET ASSETS				
Beginning of year	<u>-</u>	<u>25,296,964</u>	<u>25,296,964</u>	<u>39,113,287</u>
End of year	<u>\$ -</u>	<u>\$ 19,006,438</u>	<u>\$ 19,006,438</u>	<u>\$ 25,296,964</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Functional Expenses

Year Ended December 31, 2009

(with summarized totals for the year ended December 31, 2008)

	Program Services	General and Administrative	Fundraising	2009 Total	2008 Total
Grants	\$ 6,805,664	\$ -	\$ -	\$ 6,805,664	\$ 10,374,489
Cross border initiative	684,255	-	-	684,255	156,235
Fellowship grants	39,377	-	-	39,377	155,531
Community foundation	20,800	-	-	20,800	177,116
Program implementation	47,664	-	-	47,664	93,302
Payroll and related	336,425	88,955	25,523	450,903	506,854
Occupancy	32,047	13,734	-	45,781	59,966
Professional fees	110,508	27,627	-	138,135	83,034
Travel	46,883	5,209	-	52,092	105,471
Meetings and other functions	17,428	-	-	17,428	18,689
Office expenses	10,287	4,409	-	14,696	22,274
Telephone	12,335	5,286	-	17,621	25,463
Insurance	-	5,963	-	5,963	5,486
Repairs and maintenance	-	15,818	-	15,818	12,360
Depreciation	12,599	-	-	12,599	12,056
Bank charges	-	11,502	-	11,502	11,892
Postage	668	1,559	-	2,227	4,507
Dues and subscriptions	16,481	-	-	16,481	21,164
Civil Society Forum	396,191	-	-	396,191	10,739
Evaluation	51,680	-	-	51,680	35,055
	<u>\$ 8,641,292</u>	<u>\$ 180,062</u>	<u>\$ 25,523</u>	<u>\$ 8,846,877</u>	<u>\$ 11,891,683</u>
Total Expenses	<u>\$ 8,641,292</u>	<u>\$ 180,062</u>	<u>\$ 25,523</u>	<u>\$ 8,846,877</u>	<u>\$ 11,891,683</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Statement of Cash Flows

Year Ended December 31, 2009

(with comparative amounts for the year ended December 31, 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (6,290,526)	\$ (13,816,323)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	12,599	12,056
Realized gain on sale of investments	(1,102,324)	(1,190,968)
Unrealized (gain) loss in market value of investments	(819,398)	4,461,301
Changes in operating assets and liabilities		
Pledges receivable	27,211	122,000
Receivables and other assets	(11,925)	27,996
Accounts payable and accrued expenses	(9,922)	(7,094)
Grants payable	(856,247)	2,099,520
Net Cash from Operating Activities	<u>(9,050,532)</u>	<u>(8,291,512)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(149,873)	(366,740)
Proceeds from sale of investments	8,217,749	7,717,000
Purchase of property and equipment	(2,989)	(20,490)
Security deposit payment	-	(1,429)
Net Cash from Investing Activities	<u>8,064,887</u>	<u>7,328,341</u>
Net Change in Cash and Cash Equivalents	(985,645)	(963,171)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,199,715</u>	<u>2,162,886</u>
End of Year	<u>\$ 214,070</u>	<u>\$ 1,199,715</u>

See notes to financial statements

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

1. Organization and Tax Status

Trust for Civil Society in Central and Eastern Europe (the “Trust”) is operated exclusively for charitable and educational purposes by supporting activities for the benefit of, to perform the functions of, and to carry out the purposes of The German Marshall Fund of the United States. It helps Americans and Europeans learn from each other and from other industrial societies how to best serve their economic, social, cultural, and political development. It operates a grant-making program in Central and Eastern Europe for the purposes of economic development, fostering democracy, the environment, immigration and integration.

The Trust is involved in a major initiative to create sustainability for civil society and nongovernmental organizations in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. The Trust provides a coordinated structure through which philanthropic institutions and individuals may combine their resources and efforts to provide an effective and efficient response to support the long-term sustainable development of civil society and nongovernmental organizations in Central and Eastern Europe.

The Trust assists local people and institutions in individual countries to take strategic steps with long-term benefits toward three primary objectives: (1) creating a supportive environment for Civil Society which includes the legal, fiscal, and political environments that nurture the development of strong civic life; (2) strengthening the nonprofit sector, which includes capacity building, especially intra sector and cross sectoral cooperation and partnership; and (3) enhancing the financial sustainability of nonprofit organizations, which consists of encouraging indigenous philanthropy as well as public and other sources of support for nonprofits, operational and strategic development support for nonprofit organizations, and contributions to the endowment of proven "mature" nonprofit organizations.

The Trust is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization that is not a private foundation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the Trust to make certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of contingencies at the date of the financial statements and the reported amount of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

2. Summary of Significant Accounting Policies (*continued*)

Basis of Presentation

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Trust and changes therein are classified and reported as unrestricted, temporarily restricted and permanently restricted.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Trust considers all unrestricted highly liquid investments with an initial maturity of three months or less at the time of purchase to be cash equivalents. Cash held in investment accounts or for long term use is not considered a cash equivalent.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Trust that is, in substance, unconditional. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on the Trust's historical experience, review of account balances and expectations relative to collections.

Fair Value of Financial Instruments

The Trust follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The values by input level of the Trust's investments are included in Note 4 to the financial statements.

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the related asset, generally three to seven years.

Grants Payable

Grants payable are accrued at the time authorized. Grants payable later than one year from the end of a calendar year are discounted to net present value.

Foreign Currency Translation

Substantially all assets and liabilities of the Trust's European operations are translated at year-end exchange rates; revenue, support and expenses are translated at average exchange rates during the year. Gains and losses from foreign currency translation for the period are included in the statement of activities.

Functional Allocation of Expenses

The cost of providing program and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between programs and other activities.

Prior Year Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's financial statements as of and for the year ended December 31, 2008, from which the summarized comparative information was derived.

Accounting for Uncertainty in Income Taxes

The Trust's accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management of the Trust is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

Management has determined that the Trust has no uncertain tax positions that would require financial statement recognition. The Trust is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2006.

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is April 26, 2010.

Reclassification

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

3. Concentration of Credit Risk

The Trust's financial instruments that are potentially exposed to concentration of credit risk consist of cash, cash equivalents and investments. The Trust places its cash and cash equivalents with quality financial institutions in the United States and Europe. At times, cash balances may be in excess of FDIC insurance limit. The Trust routinely assesses the financial strength of its cash, cash equivalents and investment portfolio. As a consequence, concentrations of credit risk are limited.

4. Investments and Investment Income

The following are major categories of investments measured at estimated fair value as of December 31:

Description	2009		
	Level 1	Level 2	Total
Money market funds	\$ 4,504,207	\$ -	\$ 4,504,207
Index mutual funds	5,985,998	-	5,985,998
Fixed income funds	-	12,814,776	12,814,776
	<u>\$ 10,490,205</u>	<u>\$ 12,814,776</u>	<u>\$ 23,304,981</u>

Description	2008		
	Level 1	Level 2	Total
Money market funds	\$ 4,480,380	\$ -	\$ 4,480,380
Index mutual funds	6,782,484	-	6,782,484
Fixed income funds	-	18,188,271	18,188,271
	<u>\$ 11,262,864</u>	<u>\$ 18,188,271</u>	<u>\$ 29,451,135</u>

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

4. Investments and Investment Income *(continued)*

Investment income consists of the following as of and for the year ended December 31:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 164,564	\$ 386,859
Investment fees	<u>(11,399)</u>	<u>(16,999)</u>
	<u>\$ 153,165</u>	<u>\$ 369,860</u>

5. Conditional Pledge

Under a funding agreement, the Trust received a conditional pledge which is not included in these financial statements. The \$500,000 remaining balance under the funding agreement is expected to be paid in 2011.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Office equipment	\$ 68,679	\$ 68,679
Furniture and fixtures	19,805	16,816
Leasehold improvements	<u>17,106</u>	<u>17,106</u>
	105,590	102,601
Accumulated depreciation	<u>(72,403)</u>	<u>(59,804)</u>
	<u>\$ 33,187</u>	<u>\$ 42,797</u>

Trust for Civil Society in Central and Eastern Europe

Notes to Financial Statements

7. Grants Payable

Grants payable totaled \$4,529,624 and \$5,385,871 net of a discount to present value of \$60,889 and \$136,832 at December 31, 2009 and 2008.

As of December 31, 2009, Directors of the Trust had approved grants for future payment as follows:

<u>Year</u>	
2010	\$ 3,835,590
2011	654,923
2012	<u>100,000</u>
Total grants	4,590,513
Discount to present value using a rate of 5%	<u>(60,889)</u>
	<u><u>\$ 4,529,624</u></u>

8. Lease Commitments

The Trust occupies office space in Warsaw, Poland under an annual lease. Additional office space in Sofia, Bulgaria was leased for a term of five years beginning in August 2006. The monthly rent for this space is approximately \$1,900. These costs are paid in foreign currencies, therefore the amounts may fluctuate. Rent expense was \$36,088 and \$55,389 in 2009 and 2008. Minimum future lease payments computed using the exchange rate in effect at December 31, 2009, are as follows:

<u>Year</u>	
2010	\$ 22,342
2011	<u>5,586</u>
	<u><u>\$ 27,928</u></u>

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for future periods and programs. Temporarily restricted net assets that met the timing and purpose restrictions in 2009 have been released from restrictions.