

**TRUST FOR CIVIL SOCIETY IN
CENTRAL AND EASTERN EUROPE**

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2002 AND 2001

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Trust for Civil Society in Central and Eastern Europe

We have audited the accompanying statements of financial position of Trust for Civil Society in Central and Eastern Europe (a not-for-profit corporation) as of December 31, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Trust for Civil Society in Central and Eastern Europe as of December 31, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Lutz + Carr, LLP

New York, New York
May 5, 2003

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Assets		
Cash (Note 2)	\$ 2,158,535	\$ 538,573
Investments, at fair value (Notes 1b and 3)	19,818,100	19,528,515
Unconditional promises to give (Notes 1c and 4)	16,555,684	20,891,695
Miscellaneous receivables and other assets	3,406	282,367
Property and equipment, net of accumulated depreciation (Notes 1d and 5)	26,714	34,965
Security deposit	<u>7,533</u>	<u>7,533</u>
Total Assets	<u><u>\$38,569,972</u></u>	<u><u>\$41,283,648</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 16,568	\$ 16,090
Grants payable (Notes 1e and 6)	<u>8,396,814</u>	<u>3,862,653</u>
Total Liabilities	8,413,382	3,878,743
Commitment (Note 7)		
Net Assets		
Temporarily restricted (Note 8)	<u>30,156,590</u>	<u>37,404,905</u>
Total Liabilities and Net Assets	<u><u>\$38,569,972</u></u>	<u><u>\$41,283,648</u></u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Changes in Unrestricted Net Assets		
Revenues and Support		
Grants and contributions	\$ 1,013,989	\$ 3,936,790
Investment income	1,007,341	540,497
Realized gain on sale of investments	33,198	6,502
Unrealized depreciation in market value of investments	(1,040,409)	(203,660)
Net assets released from restriction	7,248,315	-
Total Unrestricted Revenue and Support	<u>8,262,434</u>	<u>4,280,129</u>
Expenses		
Program expenses	8,138,516	4,080,281
Management and general	123,918	199,848
Total Expenses	<u>8,262,434</u>	<u>4,280,129</u>
Change in Unrestricted Net Assets	<u>-</u>	<u>-</u>
Changes in Temporarily Restricted Net Assets		
Contributions	-	37,404,905
Net assets released from restriction	<u>(7,248,315)</u>	<u>-</u>
Change in Temporarily Restricted Net Assets	<u>(7,248,315)</u>	<u>37,404,905</u>
Increase (decrease) in net assets	(7,248,315)	37,404,905
Net assets, beginning of year	<u>37,404,905</u>	<u>-</u>
Net Assets, End of Year	<u><u>\$30,156,590</u></u>	<u><u>\$37,404,905</u></u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (7,248,315)	\$37,404,905
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,251	5,769
Realized gain on sale of investments	(33,198)	(6,502)
Unrealized depreciation in market value of investments	1,040,409	203,660
(Increase) decrease in:		
Unconditional promises to give	4,336,011	(20,891,695)
Miscellaneous receivables and other assets	278,961	(282,367)
Security deposit	-	(7,533)
Increase in:		
Accounts payable and accrued expenses	478	16,090
Grants payable	4,534,161	3,862,653
Net Cash Provided By Operating Activities	<u>2,916,758</u>	<u>20,304,980</u>
Cash Flows From Investing Activities		
Net purchases of investments	(1,296,796)	(19,725,673)
Purchase of property and equipment	-	(40,734)
Net Cash Used By Investing Activities	<u>(1,296,796)</u>	<u>(19,766,407)</u>
Net increase in cash	1,619,962	538,573
Cash, beginning of year	<u>538,573</u>	<u>-</u>
Cash, End of Year	<u><u>\$ 2,158,535</u></u>	<u><u>\$ 538,573</u></u>

See notes to financial statements.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2002 AND 2001****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The 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 best to serve their economic, social, cultural, and political development. It operates a grant making program in Central and Eastern Europe in the areas 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.

b - Investments

In accordance with Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the Trust reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

c - Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Trust that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other 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.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2002 AND 2001****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Unconditional Promises to Give (continued)**

The Trust uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

d - Property and Equipment

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the related asset.

e - Grants Payable

Grants payable are accrued at the time authorized. Grants payable later than one year from the end of a fiscal year are discounted to present value using a rate of 5%.

f - Financial Statement Presentation

The Trust presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Trust reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

g - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h - Tax Status

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

Note 2 - Concentration of Credit Risk

The Foundation maintains its cash and certain investments in several financial institutions in the United States and Europe. The cash balances at the United States institution is insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2002, the Trust's uninsured cash and certain investments totalled \$2,612,809.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Note 3 - Investments

Investments consist of:

	<u>2002</u>		<u>2001</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity mutual funds	\$ 6,926,846	\$ 5,431,849	\$ 5,946,783	\$ 5,715,791
Fixed income mutual funds	13,581,048	13,831,977	13,544,847	13,572,179
Certificates of deposit	<u>554,274</u>	<u>554,274</u>	<u>240,545</u>	<u>240,545</u>
	<u>\$21,062,168</u>	<u>\$19,818,100</u>	<u>\$19,732,175</u>	<u>\$19,528,515</u>

Note 4 - Unconditional Promises to Give

These amounts are restricted for future periods and programs and are due as follows:

	<u>2002</u>	<u>2001</u>
One year	\$ 6,000,000	\$ 5,850,000
Two to five years	<u>12,200,000</u>	<u>17,700,000</u>
	18,200,000	23,550,000
Less: Discount to present value	<u>1,644,316</u>	<u>2,658,305</u>
	<u>\$16,555,684</u>	<u>\$20,891,695</u>

Uncollectible promises are expected to be insignificant. Amounts to be received after one year are discounted to present value using a discount rate of 5%.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2002</u>	<u>2001</u>
Auto	5 years	\$22,525	\$22,525
Office equipment	3-7 years	<u>18,209</u>	<u>18,209</u>
		40,734	40,734
Less: Accumulated depreciation		<u>14,020</u>	<u>5,769</u>
		<u>\$26,714</u>	<u>\$34,965</u>

Depreciation expense for the years ended December 31, 2002 and 2001 was \$8,251 and \$5,769, respectively.

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Note 6 - Grants Payable

Grants as of December 31, 2002 and 2001 are payable as follows:

	2002	2001
Within one year	\$4,379,970	\$2,230,000
One to five years	4,500,000	1,800,000
	8,879,970	4,030,000
Less: Discount to present value	483,156	167,347
	<u>\$8,396,814</u>	<u>\$3,862,653</u>

Note 7 - Lease Commitment

The Trust occupies office space under an agreement providing for monthly costs of \$2,032 through 2004.

Rental costs in 2002 and 2001 were \$29,681 and \$28,753, respectively.

Note 8 - Restrictions on Net Assets

Temporarily restricted net assets are restricted for future periods and programs.

Note 9 - Functional Allocation of Expenses

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

ADDITIONAL INFORMATION



**INDEPENDENT AUDITOR'S REPORT ON
ADDITIONAL INFORMATION**

To the Board of Trustees of
Trust for Civil Society in Central and Eastern Europe

Our report on our audits of the basic financial statements of Trust for Civil Society in Central and Eastern Europe for 2002 and 2001 appears on page 1. We conducted our audits in accordance with U.S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the years ended December 31, 2002 and 2001 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
May 5, 2003

TRUST FOR CIVIL SOCIETY IN CENTRAL AND EASTERN EUROPE

SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002			2001		
	Program Expenses	Management and General	Total	Program Expenses	Management and General	Total
Grants paid	\$7,949,161	\$ -	\$7,949,161	\$3,862,653	\$ -	\$3,862,653
Program implementation	12,117	-	12,117	37,570	-	37,570
Payroll, fees and related costs	94,589	53,240	147,829	76,828	49,986	126,814
Occupancy costs	16,197	16,197	32,394	15,125	15,124	30,249
Professional fees	-	30,586	30,586	12,804	61,824	74,628
Travel	36,671	-	36,671	38,489	-	38,489
Office expenses	4,529	4,528	9,057	22,075	22,074	44,149
Telephone	6,496	3,248	9,744	4,078	4,077	8,155
Insurance	-	6,840	6,840	-	7,198	7,198
Repairs and maintenance	-	5,802	5,802	-	21,340	21,340
Depreciation	8,251	-	8,251	5,769	-	5,769
Bank charges	-	2,486	2,486	-	4,734	4,734
Miscellaneous	-	-	-	-	12,680	12,680
Meetings and conference	5,224	-	5,224	1,556	-	1,556
Postage	1,981	991	2,972	811	811	1,622
Dues and subscriptions	3,300	-	3,300	2,523	-	2,523
Total Expenses	<u>\$8,138,516</u>	<u>\$ 123,918</u>	<u>\$8,262,434</u>	<u>\$4,080,281</u>	<u>\$ 199,848</u>	<u>\$4,280,129</u>