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G|M|F The German Marshall Fund
of the United States

STRENGTHENING TRANSATLANTIC COOPERATION

THE GERMAN MARSHALL FUND OF THE UNITED STATES (GMF) is a nonpartisan American public policy and grantmaking institution dedicated to promoting greater cooperation and understanding between the United States and Europe.

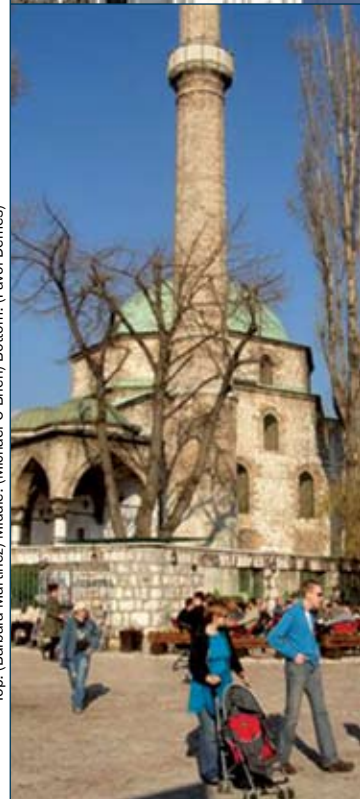
GMF does this by supporting individuals and institutions working on transatlantic issues, by convening leaders to discuss the most pressing transatlantic themes, and by examining ways in which transatlantic cooperation can address a variety of global policy challenges. In addition, GMF supports a number of initiatives to strengthen democracies.

Founded in 1972 through a gift from Germany as a permanent memorial to Marshall Plan assistance, GMF maintains a strong presence on both sides of the Atlantic. In addition to its headquarters in Washington, DC, GMF has six offices in Europe: Berlin, Bratislava, Paris, Brussels, Belgrade, and Ankara.

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Top: (Barbara Martinez) Middle: (Michael O'Brien) Bottom: (Pavol Demes)

LETTER

from the President

Since the end of the Cold War, the transatlantic agenda has been through several iterations, with countless philosophies competing for attention. But through all the debates about strained or severed relations or arguments for closer cooperation between the United States and Europe, two items have risen to the top that require prolonged and significant transatlantic focus: the complete transformation of Europe's East and applying transatlantic resources to global challenges.

The vision of Europe, whole and free, first addressed in a speech by former U.S. President George H.W. Bush, is nearing completion. The January 1, 2007, accession of Romania and Bulgaria to the European Union is a major achievement and one indicator that this vision will be realized. However, transatlantic cooperation on this project must not slow down. The integration of the Western Balkans, Belarus, Ukraine, and other countries into Euroatlantic institutions will require a substantial commitment of political and financial resources.

While one can assess progress toward the completion of the European quilt as countries join NATO, the European Union, and other institutions, the success of transatlantic cooperation on global political and economic challenges is considerably more difficult to measure. Given the shared histories of the United States and Europe, and the shared commitment to values of peace, democracy, and prosperity, we are our own best allies in dealing with the new challenges springing from all parts of the world. The payoffs of these common initiatives are not always easy to tally.

Nonetheless, the rest of the world looks to us to lead. Combined, the United States and Europe have a substantial share of the world's wealth, an overwhelming share of military power, and significant political clout in multilateral arenas. While democracies like India, Japan, Brazil, and others are important allies, the world's democratic core is transatlantic.

Together, we face crises on several fronts — humanitarian, economic, environmental, and political. On the humanitarian front, Africa looms large as the poorest continent with AIDS and the situation in Darfur as two of its most pressing challenges. The economic challenges are characterized by north-south disparities, and we must work to make globalization a positive reality for the world's poor.

On the environment, the 10 hottest years on record have come since 1994, and are likely evidence of long-term climate change. Energy challenges continue for political reasons both in the United States and in Europe, and in oil-rich hotspots like the Middle East and South America. And speaking of political pressures, the transatlantic alliance faces many tough questions with unclear answers in China, Russia, Iran, and the Middle East.

It is a daunting agenda, but the German Marshall Fund (GMF) is doing its part to strengthen transatlantic cooperation on these pressing issues. GMF continues to work on a strong transatlantic relationship, with the focus on building political networks through the Marshall Memorial Fellowship Program — which celebrates its 25th anniversary in 2007 — and through other political and media exchanges like study tours, conferences, and symposia. Our Comparative Domestic Policy program shows how best practices in local communities can translate on the opposite side of the Atlantic.

Over the past several years, GMF has begun to add a global dimension to our work. The longest-standing program with global reach has been our Immigration

and Integration program. While it began many years ago by focusing on domestic issues, it now also addresses the impact of immigration on sending countries and on the migrants themselves, which were hot topics at the month-long Bellagio Dialogue on Migration we held in cooperation with the Rockefeller Foundation over the summer. Our Economic Policy program, with its strongest component devoted to trade and development thanks to the Hewlett Foundation's support, has worked on issues from the WTO's Doha Round to transatlantic regulatory cooperation to the economic component of migration.

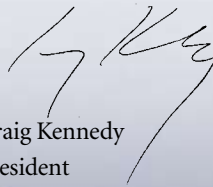
GMF's newer initiatives include transatlantic approaches to China, the Black Sea, the Middle East, and North Africa. On China, GMF is planning the Stockholm China Forum — which will bring together a collection of China and transatlantic experts — as the next major event of our nascent programming on U.S. and European relations with China. We are working on this project with Swedish institutions and Die Zeit Foundation, which has been an important partner of GMF for many years.

In 2007, GMF will open its seventh European office, in Bucharest, Romania, with the launch of the Black Sea Trust, a public-private partnership devoted to grantmaking in the countries bordering the Black Sea and modeled on our award-winning Balkan Trust for Democracy.

GMF continues to explore opportunities for transatlantic cooperation in the Middle East, especially the Israel-Palestine conflict. And one region on the horizon is North Africa, where a common transatlantic approach led by Europe's southern countries could help these countries enter a new period of economic prosperity and greater political freedom.

GMF took several steps forward in 2006 to address the new global transatlantic agenda. In addition to our fifth year of surveying Americans and Europeans for *Transatlantic Trends*, and our third year of surveying for *Perspectives on Trade and Poverty Reduction*, we launched Brussels Forum, which is GMF's most ambitious project to date. On the following pages you will read more about Brussels Forum, but it was an exciting and novel way of moving the transatlantic agenda forward through an innovative discussion format and top-notch participation.

This global agenda is a sum of our continuing commitment to GMF's core mission, building a stronger, more effective transatlantic community. Our increased emphasis on cooperating on global challenges reflects the changing reality of U.S.-European relations in the post-Cold War, post-9/11 world.



Craig Kennedy
President



Background: (William Bohlen)
Right: (Gaetan Miciotte)

HIGHLIGHTS 2006

BRUSSELS FORUM

In April, the German Marshall Fund launched a new, signature event, Brussels Forum. The inaugural Forum proved an ideal platform for some of the most influential American and European political, corporate, and intellectual leaders to address the pressing global challenges facing both sides of the Atlantic. Going forward, Brussels Forum

will provide an annual opportunity for intense, honest dialogue and debate highlighting the breadth and depth of the transatlantic relationship.

In its first year, Brussels Forum attracted U.S. Senator John McCain, former Senator John Edwards, European Commission President Jose-Manuel Barroso, EU High Representative for the Common Foreign and Security Policy Javier Solana, DaimlerChrysler CEO Dieter Zetsche, Georgian President Mikheil Saakashvili, Romanian President Traian Basescu, and NATO Secretary-General Jaap de Hoop Scheffer. The more than 250 participants at the event, entitled “Transatlantic Challenges in a Global Era,” included senior officials from the EU, NATO, and national governments, journalists, legislators, think tank scholars, and business representatives.

The innovative “in-the-round” format and comprehensive international media coverage provided Brussels Forum with a higher profile than anything GMF had done before. GMF launched Brussels Forum in partnership with the Bertelsmann Stiftung, the DaimlerChrysler Corporation Fund, the Federal Government of Belgium and the Government of Brussels-Capital Region, and the Monitor Group. A combination of panel discussions, keynote



Above: NATO Secretary-General Jaap de Hoop Scheffer listens to Javier Solana, Secretary-General of the Council of European Union, during a panel at Brussels Forum.

Left: Participants at Brussels Forum converse over coffee.

(Gaetan Miclotte)

(Gaetan Miclotte)



(Gaeltan Micolotte)



(Gaeltan Micolotte)

speeches, and night owl and power breakfast sessions provided ample opportunities for both structured and informal dialogue. Topics included energy security, the Middle East, economics and trade, terrorism, and cultural identity.

“Whether we turn our attention to the regime in Iran, the displaced in Sudan, troops under NATO command in Afghanistan, or to our own citizens, individuals everywhere look to the United States

Top: Brussels Forum marked the first GMF event with audience participation from all sides.

Left: Senator John McCain (R-AZ) delivers the opening speech at Brussels Forum.



Above: DaimlerChrysler CEO Dieter Zetsche and Belgian Prime Minister Guy Verhofstadt share a moment during Brussels Forum.

Right: Loretta Sanchez, member of the U.S. House of Representatives, talks about immigration.

(Gaelan Miclotte)

and Europe for unity and leadership,” McCain said in the opening speech.

“If the transatlantic market leads, the global economy will follow,” Barroso said the next morning, adding that the U.S. and EU cannot exhibit “narrow-minded chauvinism” when it comes to protectionism and globalization.

We look forward to establishing Brussels Forum as a premier annual transatlantic attraction at which the future agenda of U.S.-European cooperation around the world is shaped and debated.



(Gaelan Miclotte)

POLICY COHERENCE FOR DEVELOPMENT CONFERENCE

In September, GMF hosted a workshop in Geneva on “Promoting Policy Coherence for Development.” Co-sponsored by the Dutch Ministry of Foreign Affairs and the Organisation for Economic Co-operation and Development (OECD), along with the cooperation of the Kenyan Ministry of Trade and Industry, discussions focused on the importance of ensuring coherence among trade, migration, and development policies for the realization of the Millennium Development Goals. The event attracted a group of 60 representatives from several multilateral organizations, government officials, and experts from the United States, Europe, and Africa.

Participants pointed out that agricultural trade and support policies are often cited as an example of policy incoherence, but it also became clear that the reform of OECD countries’ trade rules and an increase of development assistance alone is not enough to help developing countries reap the benefits of further trade liberalization. Participants also repeatedly stressed the need for greater capacity building in developing countries. This would ensure more equitable participation

in the multilateral trade system, assist developing countries in implementing existing rules to mitigate the impacts of trade liberalization on domestic economies, anticipate further social, economic, and environmental adjustments associated with future obligations, and improve developing countries’ supply-side capacities and competitiveness along with their access to global markets.

At the end of the meeting, participants came up with a list of concrete suggestions that can be pursued in order to align trade, migration, and development policies and make them more effective for both developed and developing countries. These suggestions included stronger private sector involvement informing both national and international development strategies, development of regional poverty reduction strategies, the need for a designated primary intergovernmental organization that assumes the lead role on promoting the policy coherence agenda, and better dissemination efforts about the impact and results of coherent policies on both developed and developing countries.

ANGELA MERKEL INAUGURATES GMF HEADQUARTERS

On January 13, 2006, GMF welcomed German Chancellor Angela Merkel for the dedication of its newly renovated headquarters in Washington. The ceremony celebrated the legacy of the Marshall Plan, GMF's own historical ties to Germany, and the transatlantic relationship that grew out of the post-war assistance. Built in 1912, GMF's headquarters building housed West Germany's diplomatic mission and embassy to the United States from 1952–64, and served as West Germany's initial liaison to the Marshall Plan administration.

"By moving into this building, the German Marshall Fund deliberately followed in the tradition [of the Marshall Plan], a tradition which remains alive because the projects, the staff, and the fellows of the German Marshall Fund are constantly developing it," Merkel said to the assembled group, including members of the U.S. Congress and the German Bundestag, European ambassadors, and other distinguished guests. She also emphasized that the values of the Marshall Plan — freedom, democracy, and securing citizens' rights — are just as important today as they were 50 years ago.

Guido Goldman, co-chairman of GMF's Board of Trustees, introduced Merkel to the audience and presented her with a replica of the European Recovery Program's prize-winning poster, titled "All Our Colors to the Mast." Goldman spoke about the origin of GMF, noting that the organization began in 1972 from "something unique in the history of this country — the fact that another country chose to say thank you for a major initiative, the initiative of the Marshall Plan." Following Merkel's remarks, Board of Trustees co-chairman Marc Leland invited her to sign a commemorative plaque that is now displayed in the building's lobby.



(Paul Fetter)

Above: German Chancellor Angela Merkel.

Left: Chancellor Angela Merkel inaugurates GMF's Washington, DC, headquarters.



(Paul Fetter)

Immigration will continue to increase, and governments on both continents must work together on documentation, legalization, and security.

BELLAGIO DIALOGUE ON MIGRATION

In June and July 2006, GMF in partnership with the Rockefeller Foundation, convened the Bellagio Dialogue on Migration. This four-week program of workshops, cultural events, and keynote addresses examined and advanced thinking on the challenges that international migration pose to Europe, the United States, and migrant countries of origin.

Beginning with the premise that significant migration to and from the United States and Europe will continue, the Bellagio Dialogue on Migration brought to the Rockefeller Foundation property in Bellagio, Italy, more than 150 policymakers, academics, civil servants, community-based practitioners, foundation representatives, and artists from 15 countries to identify effective approaches to some of these challenges.

The Dialogue undertook the challenges of international migration by dividing the topic into three broad categories: the economic dimensions of migration for sending and receiving countries, the social dimensions of migration facing newcomers and their host societies, and the intersection of migration, security, and rights. Over the course of the month, participants assessed the effects of



(William Bohlen)

global forces like economic competitiveness on international migration; confronted the challenges of managing diversity in western democracies, including integration, religious pluralism, and equality of opportunity; and evaluated the balance between national security and immigrant rights.

Speaking at the closing conference to the month-long symposium, Italian Interior Minister Giuliano Amato and then-U.S. Rep. Jim Kolbe (R-AZ) agreed that immigration will continue to increase and that governments on both continents must work together on documentation, legalization, and security. They also posited that international cooperation is critical to creating mutually advantageous outcomes for sending countries, receiving countries, and migrants themselves.

Top: From left to right, Augustin Escobar, Phil Martin, Rep. Jim Kolbe (R-AZ), and Sara Reckless discuss migration during a break from the proceedings at the Bellagio Forum on Migration.

Below: A scene from Lake Como.



(William Bohlen)

TRANSATLANTIC TRENDS 2006

The launch of this year's *Transatlantic Trends* survey coincided with the fifth anniversary of the September 11 attacks. The results showed that the image of the United States in the eyes of the European public has not recovered from its steep decline after the beginning of the war in Iraq. At the same time, Americans and Europeans show similar levels of concern toward a diverse array of global threats and challenges, highlighting the potential for future transatlantic cooperation.

Transatlantic Trends is a project of GMF and the Compagnia di San Paolo, with additional support from the Fundação Luso-Americana, Fundación BBVA, and the Tipping Point Foundation. It is a comprehensive survey of public opinion in the United States and twelve European countries: Germany, France, Great Britain, Italy, the Netherlands, Poland, Portugal, Slovakia, Spain, Turkey, Bulgaria, and Romania. For the fifth consecutive year, respondents were asked their views on foreign policy and each other, as well as on world leadership, multilateral institutions, democracy promotion, and the European Union.



Hürriyet

INTERNATIONAL
Herald Tribune

Frankfurter Allgemeine

The Washington Post

NRC  **HANDELSBLAD**

Los Angeles Times

DIE ZEIT

Key findings include:

- **Similar threat perceptions:** Large majorities of Americans and Europeans agree on the importance of global threats, including international terrorism, Islamic fundamentalism, immigration, global warming, and violence and instability in Iraq. The largest increase over the past year on both sides of the Atlantic was among respondents who see Islamic fundamentalism as an “extremely important” threat.
- **Preventing Iran’s nuclear ambitions:** Americans and Europeans agree that joint efforts to prevent Iran from acquiring nuclear weapons should continue, although opinion is divided on the use of military force.
- **Agreement on civil liberties:** Americans and Europeans show broad agreement on which compromises to strike on civil liberties in the fight against terrorism. Majorities on both sides of the Atlantic oppose granting their governments greater authority to monitor citizens’ telephone calls, but they support granting greater authority to monitor communications on the Internet and to install surveillance cameras in public places.
- **Turkey cooling toward the West:** Turkish public opinion has cooled toward the United States and Europe but warmed toward Iran. On a 100-point “thermometer” scale, Turkish “warmth” toward the United States declined from 28 degrees in 2004 to 20 in 2006, and toward the European Union from 52 degrees to 45. Over the same period, Turkish warmth toward Iran rose from 34 degrees to 43.

TRANSATLANTIC LEARNING

MARSHALL MEMORIAL FELLOWSHIP

The Marshall Memorial Fellowship (MMF) provides a unique opportunity for emerging leaders from the United States and Europe to explore societies, institutions, and cultures on opposite sides of the Atlantic. The MMF program, which will celebrate its 25th year in 2007, draws fellows from 21 European countries and the United States for a three- to four-week traveling program.

The German Marshall Fund awards more than 100 Marshall Memorial Fellowships each year to leaders in politics, government, business, media, and the nonprofit sector who are committed to strengthening the transatlantic relationship. Close to 1,500 fellows have participated in the program since its inception in 1982, creating a diverse network of transatlanticists who remain engaged through annual conferences, meetings, online communications, and involvement in other GMF programs.

For the first time, in 2006, the MMF program expanded so that fellows from the Balkans and Turkey traveled to the United States, and fellows from the United States traveled to both the Balkans and Turkey.

American and European fellows each visit five or six cities per trip. They meet formally and informally with a range of policymakers and prominent

members of the business, government, political nongovernmental organization (NGO), and media communities. GMF works closely with partner institutions and individual consultants in each city, providing fellows with an invaluable local perspective on transatlantic and domestic issues. In 2006, three groups of American fellows visited 24 European cities, including Amsterdam, Athens, Belgrade, Berlin, Brussels, Hamburg, Lisbon, Paris, Sofia, Turin, and Warsaw. European fellows' itineraries took them to 36 American cities, including Boise, Chicago, Cleveland, Dallas, Denver, Galveston, Lincoln, Madison, Seattle, and Washington, DC.

Along the way, each fellow has the opportunity to explore his or her own professional interests beyond the group programs, which focus on a range of domestic and international policy areas.

Below: 2006 European MMF participants enjoy themselves near the end of their fellowship.



MARSHALL FORUM ON TRANSATLANTIC AFFAIRS

The sixth annual Marshall Forum on Transatlantic Affairs, titled “The United States and Europe — Meeting Local, Regional and International Challenges,” was held March 16–19 in Tremezzo, Italy. One of GMF’s signature events, the three-day Marshall Forum brought together around 100 political, business, media, and community leaders from the United States and 20 European countries to discuss the transatlantic relationship in a global context. GMF established the gathering in 2001 as a venue for alumni of the Marshall Memorial Fellowship and other GMF programs to exchange ideas in an atmosphere of informal conversation and formal debate.

This year’s event focused on how the challenges facing the transatlantic relationship come into play on the local, national, and international levels. Topics included democracy promotion, the compatibility of economic competitiveness and social policies, the future of Europe, immigration policies, Turkey, and the relationship between international trade and agriculture policies.

Among the featured speakers were Ivailo Kalfin, Foreign Minister of Bulgaria (MMF 1998); Sandra Pianalto, President and CEO, Federal Bank of Cleveland; Angela Hofmann, Director for International Trade, Wal-Mart; Fred Kempe, then with the *Wall Street Journal*; and Edi Rama, mayor of Tirana and head of Albania’s Socialist Party.

TRANSATLANTIC FELLOWS PROGRAM

The Transatlantic Fellows (TAF) program is a critical part of the GMF’s contribution to policy debates affecting the United States and Europe. Each year, GMF invites a small number of leading intellectuals and policy practitioners to spend a period of time in residence at GMF offices in Washington, DC, and Europe. Fellows work with GMF staff to generate innovative policy approaches to transatlantic issues and provide advice on programs of strategic interest. Recent fellows have worked to deepen GMF’s intellectual resources on relations with wider Europe and the Black Sea region, trade and development, and immigration.

Articles by fellows have appeared in the *Financial Times*, the *Washington Post*, and the *International Herald Tribune*, among other news and opinion outlets. Fellows have also published prominent books, including Robert Kagan’s *Dangerous Nation* and Daniel W. Drezner’s *U.S. Trade Strategy*. Other TAF activities in 2006 included events that engaged the transatlantic policy communities on the future of the European Union, debated issues of “free”

and “fair” trade in the global economy, and developed policy lessons on the role of foundations in providing development aid.

2005–06 Transatlantic Fellows:

- **Paul Applegarth**, former chief executive officer of the Millenium Challenge Corporation
- **Benoît Chevalier**, former head of European and international affairs at the French Ministry of Transport
- **Daniel W. Drezner**, associate professor of international politics at the Fletcher School of Law and Diplomacy, Tufts University
- **Ulrike Guérot**, former head of the EU Unit at the German Council on Foreign Relations, and member of the French Order National du Merit
- **Jörg Himmelreich**, former member of the policy planning staff of the German Foreign Office
- **Stephanie Henning**, former professional staff on the U.S. House Ways and Means Trade Subcommittee
- **Robert Kagan**, contributing editor at the *Weekly Standard* and the *New Republic*, senior associate at the Carnegie Endowment for International Peace



Top: (Michael O'Brien) Middle: (Pavol Demes) Bottom: (Matthew Wojtkun)

- **Ethan Kapstein**, *Paul Dubrule Professor of Sustainable Development at INSEAD*
- **Miguel Rodriguez Mendoza**, *former deputy director general of the World Trade Organization*
- **Joseph P. Quinlan**, *chief market strategist, Bank of America*
- **Robin Shepherd**, *adjunct fellow at the Center for Strategic and International Studies and former Moscow correspondent, The Times (U.K.)*
- **Jack Thurston**, *associate at the Foreign Policy Centre, former special advisor to British Agriculture Minister Nick Brown*
- **Daniel Twining**, *former foreign policy advisor to U.S. Senator John McCain, Fulbright scholar at Oxford University*
- **Patrick Weil**, *director of the Center for the Study of Immigration, Integration, and Citizenship Policies at the Sorbonne University*
- **Michael Werz**, *director, New York office, Hessen Universities Consortium*

COMPARATIVE DOMESTIC POLICY PROGRAM

Recognizing the importance of sustained transatlantic cooperation and exchange at the grassroots level, the Comparative Domestic Policy (CDP) program continues GMF's long tradition of facilitating and promoting the exchange of best practices across the Atlantic in the urban, regional, and social policy



arenas. Through partnerships with community foundations, think tanks, and major European and American foundations, the CDP program exposes civic leaders to alternative approaches to urban and regional challenges and provides a forum for brainstorming and networking among leaders in European and American cities and regions. It also encourages an active exchange of information and best practices on pressing societal challenges that are applicable beyond the local level, and informs national policymakers and practitioners of innovative approaches to local and regional policy challenges.

GMF works with its partners, including the Compagnia di San Paolo and the Hertie Foundation, and fellows to identify domestic policy challenges where the sharing of transatlantic experiences and knowledge would be particularly timely and welcome. GMF does this by concentrating primarily on urban and regional development, agriculture and rural communities, energy and the environment, and changing demographics and social policy.

In 2005-06, the CDP program led study tours, organized conferences, and launched a fellowship program to help cities on both continents address these challenges. In March, the CDP program held a small conference, entitled “Combating Social Exclusion in Education and Employment: Shared Experiences in the United States and Europe,” which brought together American and European experts and practitioners to discuss the most effective measures in tackling discrimination through education and workforce development. Following the conference, six European participants traveled to Los Angeles and Atlanta for a firsthand look at American programs and policies targeting discrimination.





(Maia Corneau)

Rep. Bill Delahunt (D-MA) speaks at this year's Congress-Bundestag Forum in San Diego while Anja Hajduk, a Green party member of the German Bundestag, listens.

Additionally, the CDP program published *Transatlantic Connections Transforming Communities*, a study of the impact of past GMF fellowships and study tours on domestic policy issues, which showed that small grants yielded big results for local communities.

CONGRESS-BUNDESTAG FORUM

For four days in February 2006, German and American lawmakers gathered in San Diego, California, to participate in the third annual Congress-Bundestag Forum. Here they renewed and deepened contacts with each other and shared knowledge about political processes on both sides of the Atlantic.

Twelve members of the German Bundestag representing a range of parties and five members of the U.S. Congress, from both parties, took part in the conference, organized by GMF and the Robert Bosch Foundation.

The Forum began with a lively session on domestic security concerns, as participants debated about how prepared the United States and Germany are for new risks, such as energy shortages,

global pandemics, and natural catastrophes. The group then talked about political campaigns and fundraising in both countries. Kailash Joshi, advisor to Satyam Computer Service, Ltd., and former general manager of IBM Lexington, KY, delivered a keynote address on the importance of global economic cooperation.

On the second day of the Forum, participants toured the U.S.–Mexican border and the local U.S. Customs facility, where they learned about new initiatives to increase border security. The group then returned to the conference site to discuss demographics, immigration, and integration in Europe and the United States, as well as cross-border trade and economic issues.

IMMIGRATION AND INTEGRATION PROGRAM

GMF seeks to enhance understanding among American and European policymakers, opinion leaders, media, and civil society organizations about the challenges and opportunities that increased immigration poses for societies. GMF works on migration, immigration, and integration through several programs. In addition to the month-long Bellagio Dialogue on Migration, GMF held several events on these issues, including a workshop on migration and economics with Dr. Rita Süßmuth, member of the Global Commission on Migration; an expert seminar with State Minister Dr. Maria Böhmer and the Hertie Foundation on integration and education; and a conference on migration and development in Washington, DC.

The Immigration and Integration Key Institutions are the cornerstone of GMF's migration work. They provide important input for the migration and integration debates in the United States and Europe and bring together leading experts.

Five Key Institutions are currently supported:

- **European Forum for Migration Studies**, University of Bamberg, Germany
- **Institute for the Study of International Migration**, Georgetown University
- **Migration Dialogue**, University of California, Davis

- **Center for International Relations**, Poland
- **Center for International and European Law on Immigration and Asylum**, University of Konstanz, Germany

JOURNALISM PROGRAM

GMF's journalism programs promote in-depth coverage of transatlantic issues by American and European journalists and encourage an open and spirited exchange between media professionals on both sides of the Atlantic. In addition to regularly including journalists in GMF programs, GMF offers a range of awards and fellowship opportunities tailored specifically to members of the news media.

On June 5, GMF awarded the seventh annual Peter R. Weitz Journalism Prize for excellence in reporting on European affairs to the *Los Angeles Times*' Sebastian Rotella and Philip Shishkin of the *Wall Street Journal*. Rotella received the \$10,000 senior prize for a series of articles focusing on "Europe's Restive Muslims." The \$5,000 junior prize went to Shishkin for his work covering the politics and people of Eastern Europe and the Balkans. The event featured a keynote address by the Latvian president Vaira Vike-Freiberga. In her remarks, the president emphasized the important role journalists play in upholding democracy.

GMF also coordinates journalism fellowship trips each year for European and American journalists to explore issues of transatlantic importance. These trips may be organized around other GMF programs or they may be focused on important transatlantic events such as a summit or election. At a time when news outlets have fewer resources to post correspondents overseas, GMF's journalism study tours contribute to independent and balanced coverage of issues and events relevant to the transatlantic debate.

In May 2006, with negotiations underway on the future status of Kosovo and just ahead of the referendum on the future status of Montenegro, eight journalists from news outlets in the United States, Germany, Greece, Poland, and Serbia traveled to Serbia, Kosovo, and Montenegro. They did first-hand reporting on the critical issues facing the Balkans

in a year filled with anticipation over the region's future. Traveling the region together, participants not only gained new insights about the Balkans, but also engaged in discussions about American and European attitudes and policies toward the region.

ACADEMIC POLICY RESEARCH GRANTS

In 2006, GMF developed a new grantmaking program to support academic policy research, replacing its longstanding individual research fellowship program. This new program supports up to six conferences on policy issues announced each year through a call for proposals, at up to \$25,000 per conference. Proposals were invited in three policy areas this year: democracy promotion, economic competitiveness, and immigration. American and European university-based scholars from any discipline were eligible to apply.

Grants were awarded in 2006 to:

- **Esther Brimmer**, *Johns Hopkins University, School of Advanced International Studies* — "Defending the Gains? Transatlantic Responses when Democracy is Under Threat"
- **Josh DeWind**, *Social Science Research Council* — "Muslim and Government Relations in Contexts of National Securitization"
- **Daniel Hamilton**, *Johns Hopkins University, School of Advanced International Studies* — "Sleeping Giant: Opening the Transatlantic Services Market"
- **Irena Mladenova**, *Economic Policy Institute* — "The Role of Human Capital in International Competitiveness. Transatlantic Comparison of Experience with Migration in the United States and the European Union"
- **Abraham Newman**, *Georgetown University* — "The Institutional Foundations of International Economic Competitiveness"
- **Richard Youngs**, *Fundacion para las Relaciones Internacionales y El Dialogo Exterior (FRIDE)*, and **Michael McFaul**, *Stanford University's Center on Democracy, Development and the Rule of Law (CDDRL)* — "Evaluating International Efforts at Democracy Promotion"



TREMEZZO YOUNG LEADERS CONFERENCE

The 2006 Tremezzo Young Leaders conference, entitled “Defining the Transatlantic Playing Field: Conflict, Chances, Challenges,” took place from June 21–23. Participants came from eight European countries and six American states and represented a mix of professional backgrounds: government, media, business, and the think tank and NGO communities. Highlights of the three-day conference included a discussion on energy security and Russia, which broadened into a discussion about democracy; a session about how to deal with Iran; and a session about immigration and demographics. There was also a special dinner session on food and culture, featuring a meal with regional seasonal ingredients. Piercarlo Bussetti, a Michelin-starred chef from Turin, discussed how his deeply rooted cuisine was influenced by his experiences cooking in the United States and Japan.

The Tremezzo Young Leaders conference is a joint annual project of GMF and the Bertelsmann Foundation, begun in 2001, and held on the shores of Lake Como. The aims of this participant-driven conference are to develop lasting professional and personal connections between emerging leaders of various professional backgrounds who will shape

transatlantic policy in the years to come, and to promote an open and frank intellectual exchange about pressing issues on the transatlantic agenda.

MANFRED WÖRNER SEMINAR

The 24th Manfred Wörner Seminar, which brings together 15 American and 15 German young leaders to discuss defense and security, was held in Berlin, Bonn, and Brussels in June. Participants met with high-level German, American, and NATO officials. The seminar is co-sponsored by GMF and the German Armed Forces Office.

Highlights of this year’s agenda were discussions with Jaap de Hoop Scheffer, NATO Secretary-General; Victoria Nuland, U.S. ambassador to NATO; Colonel Hans Werner Wierman and Lieutenant General Johann-Georg Dora at the German Ministry of Defense; Hans-Ulrich Klose, member of the Bundestag and deputy chairman of the Foreign Affairs Committee; Jeff Gedmin, director of the Aspen Institute in Berlin; and Rolf Nickel, Germany’s deputy national security advisor.

The discussion centered on the transformation of the German military and its integration into

The organizers and participants of this year’s Tremezzo Young Leaders Conference.



(Courtesy of German Armed Forces)

Top: The participants of the 2006 Manfred Wörner Seminar.

Below: Participants visit the dome of the German Bundestag (middle) and in a workshop (bottom).

multinational organizations, the transformation of NATO and its complementarity with the European Security and Defense Policy, and the state of transatlantic relations with regard to global challenges like the negotiations with Iran, the political developments in Russia, and the conflict between Israel and Palestine.

APSA CONGRESSIONAL FELLOWSHIP

Each year, the American Political Science Association (APSA) Congressional Fellowship program, with support from GMF, provides an opportunity for two German professionals to gain an insider's view of Capitol Hill through a 10-month fellowship in a U.S. congressional office. Fellows secure their own jobs as legislative assistants in Congress by contacting member offices directly. Once they obtain a position, APSA fellows gain an intimate understanding of the functioning of the federal government as a whole. The program provides participants with a unique view into the American political process that they take home with them.

Two outstanding fellows were selected for the 2005–06 APSA program. Sebastian Schwark, a Ph.D. candidate in political science at the Georg-August-Universität, worked on energy issues and American competitiveness in a global economy in the office of Senator Max Baucus of Montana. Caroline-Lucie Ulbrich, who previously worked for the European Central Bank and the Institute for Cultural Diplomacy, served as a Legislative Fellow on the Democratic staff of the Senate Finance Committee, focusing on international trade issues.



(Courtesy of German Armed Forces)



(Courtesy of German Armed Forces)



TRANSATLANTIC POLICY PROGRAMS

FOREIGN POLICY GRANTMAKING

In 2006, the German Marshall Fund created two new programs that restructured and combined the Foreign Policy and Central and East European Key Institution programs: Transatlantic Network Building grants and Transatlantic Policy Research grants. For the past eight years, the Key Institution programs supported the growth of transatlantic programs and a valuable network of think tanks in the United States and Europe. GMF was once the primary funder for this type of work, and we are now gratified to be just one of several significant contributors supporting convening and research on U.S.-European relations. As the transatlantic policy environment has changed over this time, GMF has developed new programs to continue to support policy dialogue and research.

TRANSATLANTIC NETWORK BUILDING

Transatlantic Network Building grants support ongoing lecture or seminar series, as well as recurrent small conferences targeting specific audiences, with an emphasis on transatlantic issues. Grants were awarded in 2006 to the following institutions:

- American Council on Germany
- Aspen Institute Berlin
- Atlantic Council of the United States
- Brookings Institution
- Center for Strategic and International Studies
- Centre d'Etudes et de Recherches Internationales, Paris
- Centrum für angewandte Politikforschung, Munich
- Council on Foreign Relations
- Deutsche Gesellschaft für Auswärtige Politik, Berlin
- European Institute
- French Center on the United States, Paris
- Global Public Policy Institute, Berlin
- Transatlantic Policy Network, Brussels
- United States Association of Former Members of Congress

TRANSATLANTIC POLICY RESEARCH

Transatlantic Policy Research grants support think tanks and policy institutions conducting research that challenges and fosters transatlantic policy debate through fieldwork, collaborative conferences, and/or publications. Grants were awarded in 2006 to the following institutions:

- American Enterprise Institute
- American Institute for Contemporary German Studies
- Atlantic Council of the United States
- Brookings Institution
- Center for International Relations, Poland
- Centre for European Reform, London
- Council on Public Policy, Bayreuth
- Deutsche Gesellschaft für Auswärtige Politik, Berlin
- Europeum, Prague
- French Center on the United States, Paris
- Hellenic Foundation for European and Foreign Policy, Athens
- Institute for Public Affairs, Bratislava
- Institute of Public Affairs, Warsaw
- Istituto Affari Internazionali, Rome
- Nixon Center
- Prague Security Studies Institute
- Slovak Foreign Policy Association, Bratislava
- Stiftung Wissenschaft und Politik, Berlin



(Pavol Demes)

The symposium's focus this year was to bridge the current debate between the "deepening" and the "widening" camps within the EU and how this impacts the United States.

TRANSATLANTIC THINK TANK SYMPOSIUM

GMF convened the fourth annual Transatlantic Think Tank Symposium in Vienna, Austria, in June. The symposium's focus this year was to bridge the current debate between the "deepening" and the "widening" camps within the EU and how this impacts the United States. Issues examined included the future of the European Constitution, the situation in the Balkans, a common strategy for Iran, and transatlantic economic concerns.

C. Boyden Gray, ambassador of the United States to the European Union, delivered remarks on what actions should be taken by the United States and the EU on issues including climate protection, economy, and trade. Dr. Johannes Kyrle, general secretary of the Austrian Foreign Service, discussed the agenda of the formal U.S.-EU summit and the common goals and strategies for the United States and the EU.

Working this year with the generous support of the European Commission and in cooperation with the Vienna-based Austrian Institute for International Affairs (OIIP), the Think Tank Symposium brought together more than 40 leading experts from both sides of the Atlantic to discuss issues of transatlantic concern. The Transatlantic Think Tank Symposium alternates annually between Washington, DC, and European capitals.



(Pavol Demes)

Top: U.S. Ambassador to the EU, C. Boyden Gray addresses the participants of the Transatlantic Think Tank Symposium in Vienna.
Left: A panel discussion at the Think Tank Symposium in Vienna's Schloss Laudon.

CONGRESSIONAL STAFF STUDY TOURS

U.S. congressional staff study tours are an effective tool for building a more informed political leadership and raising awareness of European issues in the United States. In 2006, GMF conducted two of these trips, during which participants met with government officials, members of NGOs, industry heads, and community leaders:

- **Balkans:** In July, GMF led a study tour for eight congressional staff to Serbia, Kosovo, Montenegro, and Bosnia and Herzegovina. Discussions on the final status of Kosovo dominated most meetings, but staff gleaned a better understanding of many other important issues that affect the region, including the Serbian elections, the recent independence of Montenegro, war tribunals and outstanding delivery of war criminals, and Bosnian constitutional reform.
- **South Caucasus:** A second study tour took a group of six congressional staff to Georgia, South Ossetia, Armenia, and Azerbaijan. The study tour was held in October and focused primarily on the unresolved conflicts of Abkhazia, South Ossetia, and Nagorno-Karabakh, integration into western international organizations, and energy security for the region.

Participants of a U.S. congressional staff study tour meet with Veton Surroi (right), a publisher and politician in Kosovo.

Participants for trips were selected from both the U.S. House of Representatives and the Senate, and each group included Democrats and Republicans.

BRUSSELS DISTINGUISHED SPEAKERS SERIES

GMF's Transatlantic Center in Brussels continues to make it a priority to bring the highest levels of U.S. leadership to the heart of the European Union. The Brussels Distinguished Speakers Series is one of several GMF initiatives to increase contacts between Washington and Brussels as the EU's influence in the world and its role in defining policy increases vis-à-vis individual country governments. The series is intended to promote the discussion of topical transatlantic issues in Brussels and expose a European audience to many of the domestic debates that affect transatlantic ties. Speakers are drawn from all sides of the governmental, political, corporate, journalistic, and academic worlds.

This year, the Brussels office welcomed ambassador Dan Fried, U.S. assistant secretary of State for European and Eurasian affairs; Michael P. Jackson, deputy secretary of the U.S. Department of Homeland Security; and Nicholas Burns, U.S. under secretary of State, political affairs.





(Marc Hutzell)

WIDER EUROPE



Serbian President Boris Tadić meets with Serbian students.

(Jolanda Korac)

BALKAN TRUST FOR DEMOCRACY

The Balkan Trust for Democracy (BTD) is a 10-year, \$30-million grantmaking initiative that supports democracy, good governance, and Euroatlantic integration in Southeastern Europe. This award-winning public-private partnership was created in 2003 by the German Marshall Fund, the United States Agency for International Development (USAID), and the Charles Stewart Mott Foundation. BTD is structured to allow both European and U.S. partners to join the effort to strengthen transatlantic cooperation in the Balkans. Since its founding, additional contributions from the Rockefeller Brothers Fund, the Royal Netherlands Embassy in Belgrade, the Greek Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency (SIDA), the Tipping Point Foundation, Compagnia di San Paolo, and the Robert Bosch Foundation have made BTD a true transatlantic partnership.

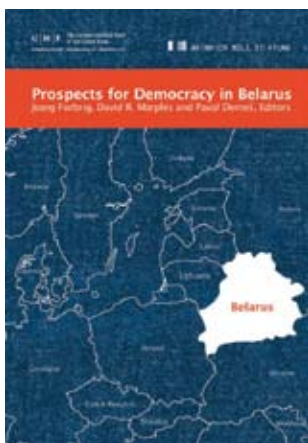
The 2006 fiscal year was the most productive year yet for BTD, with over 350 proposals reviewed and 156 grants made. That activity came during an important period of transition in the Balkans. Montenegrins voted to separate from the state

union with Serbia, new governments were elected in Macedonia and Bosnia and Herzegovina, and Serbian voters approved a new constitution. Several countries made clear steps forward toward inclusion in the EU and NATO, the International Criminal Tribunal for the Former Yugoslavia stepped up its efforts to close the book on the Milosević era, and the UN furthered talks on the final status of Kosovo.

In addition to grantmaking, the Balkan Trust for Democracy has continued to work to accelerate the region's integration into Euroatlantic structures and to raise the profile of the Balkans. Together with GMF's Washington Headquarters and its other European offices, BTD connects local actors with European Union, American, and international individuals and institutions through study tours, conferences, informal meetings, and government hearings in order to build networks and consensus on Balkan issues from a broader, multi-stakeholder perspective. One example of this policy work is Executive Director Ivan Vejvoda's September testimony on the future direction of Serbia before a United States House subcommittee.

DEMOCRATIC REFORM IN BELARUS

Over the last two years, GMF, led by its Bratislava office, has become actively engaged in supporting Belarusian civil society in its quest for democracy. GMF has utilized its long-standing experience supporting democratic reform in Central and Eastern



Europe to engage with a country that has isolated itself from international institutions and relations. GMF has provided non-partisan support to Belarusian civic groups and activists, cooperated with international donors, and reached out to American and European policymakers and opinion leaders to

build international support for democracy in Belarus.

This comprehensive assistance package has been complemented by policy-oriented and analytical work on Belarus. Hosted by GMF and the Konrad Adenauer Foundation, democratic leader Alyaksandr Milinkevich and his colleagues met with international foundations and NGOs in Brussels in February 2006. Jointly with the Heinrich Böll Foundation of Germany, two high-level seminars for experts, civic activists, and policymakers from Belarus, Europe, and the United States were held in Warsaw in January 2006 and in Bratislava in March. These seminars addressed the lack of democracy in Belarus and developed international strategies to assist Belarusian democrats. Resulting from these discussions, GMF published a book, *Prospects for Democracy in Belarus*, in April.

WIDER BLACK SEA REGION

GMF's focus on the Black Sea region intensified this year. The region has become a strategic bridge between Europe, Russia, and the Middle East. Many

key issues facing the transatlantic relationship have ties to the Black Sea region. This was evident at Brussels Forum, which was attended by both Romanian President Traian Basescu and Georgian President Mikheil Saakashvili.

GMF announced in June that it intends to form the Black Sea Trust for Regional Cooperation (BST), in partnership with the United States Agency for International Development (USAID), the Charles Stewart Mott Foundation, the Romanian government, and other private and public donors from Europe and the United States. The BST, which will be modeled on GMF's successful Balkan Trust for Democracy, will provide grants to support the consolidation of democracy, regional cooperation on civil society development, and support of good governance in the Black Sea region.

GMF has also held a workshop series, "Developing a New Euroatlantic Strategy for the Black Sea Region," which looked at how to anchor Black Sea countries more closely to the West. The workshops were held in Brussels in December 2005, in Berlin in March 2006, and in Ankara in September 2006.

A number of high-level government officials, business leaders, and journalists have also taken part

GMF announced in June that it intends to form the Black Sea Trust for Regional Cooperation, in partnership with the United States Agency for International Development, the Charles Stewart Mott Foundation, the Romanian government, and other private and public donors from Europe and the United States.

Romanian President Traian Basescu attends a GMF-hosted dinner on Capitol Hill.



in study tours to the region, including visits this past year to Georgia, Azerbaijan, and Armenia. Groups also visited frozen conflict zones such as Abkhazia and South Ossetia.

TRUST FOR CIVIL SOCIETY

The Trust for Civil Society in Central and Eastern Europe, based in Warsaw, Poland, was established in 2001 as a joint 10-year project of GMF, the Ford Foundation, the Charles Stewart Mott Foundation, the Open Society Institute, and the Rockefeller Brothers Fund. Its mission is to promote the development and long-term stabilization of civil society and NGOs in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia. The Trust provides grants to support civil society institutions, activities, and projects in each country. The founding donors have pledged \$65 million to the Trust toward a goal of \$75 million. To date, the Trust has awarded nearly \$25 million in grants to organizations in the target countries. In 2006, the Trust opened a second office in Sofia, Bulgaria, and welcomed a new executive director, Rayna Gavrilova.

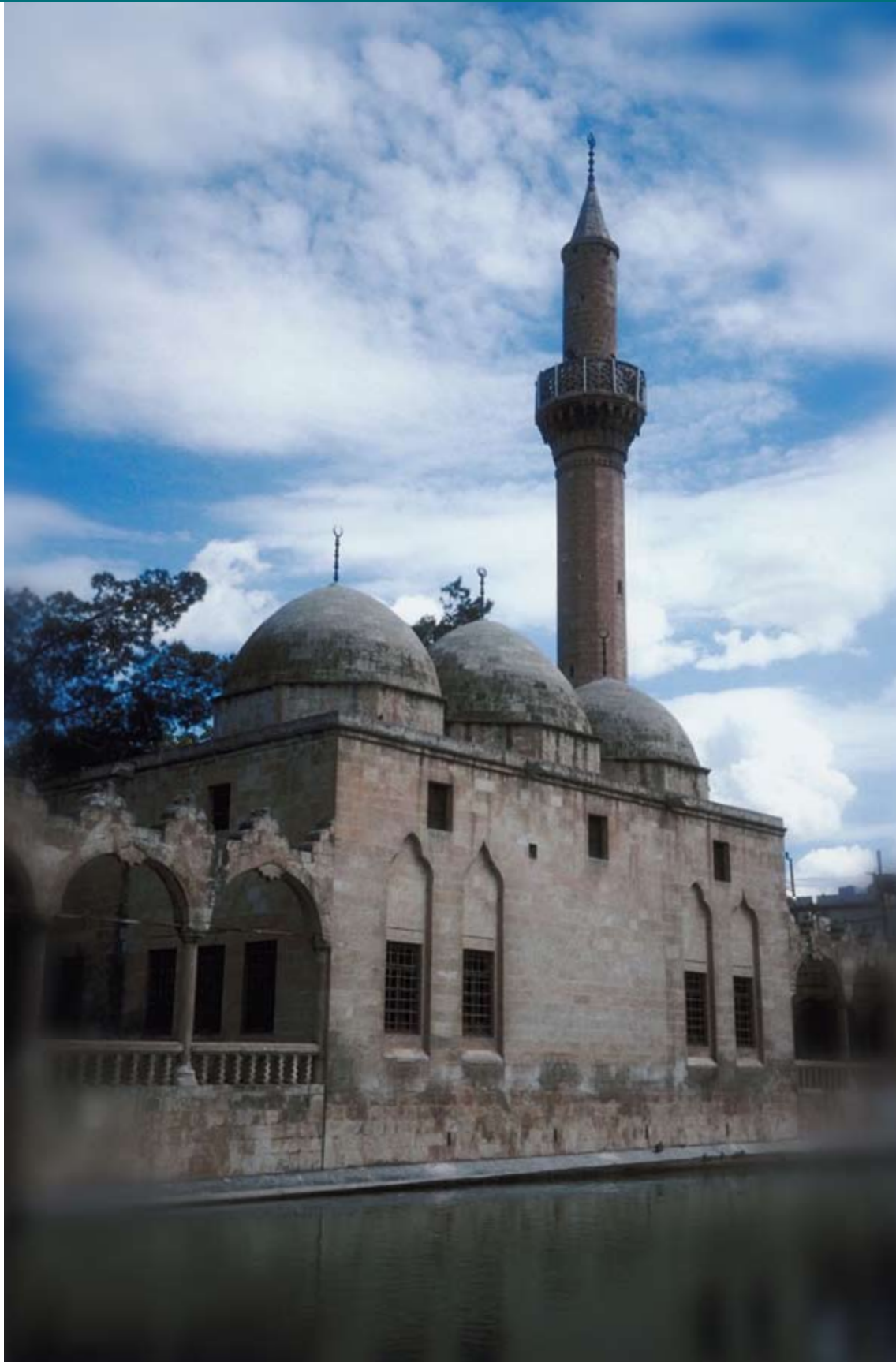
ANKARA SPEAKERS SERIES

On June 7, GMF's Ankara office wrapped up its Ankara Speakers Series. The series, which was supported by the Charles Stewart Mott Foundation, brought together Americans, Europeans, and Turks to discuss the issues on the transatlantic agenda.

The series kicked off in August 2005, and over the course of a year, brought fifteen prominent speakers — including U.S. Congressman Robert Wexler and Matthew Bryza, U.S. deputy assistant secretary of State for European and Eurasian affairs — to Turkey to debate various topics, including Turkish-U.S. relations, Turkish-EU relations, immigration and integration, energy security, and foreign direct investment.

The series gave Americans, Europeans, and Turks an opportunity to exchange knowledge and best practices on issues of common interest. It also exposed Americans and Europeans to Turkey and Turkish opinions, and gave local Turkish policy-makers and experts access to outside voices, ideas, and models.





U.S.-EUROPE IN THE WORLD

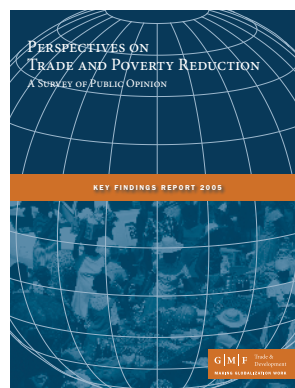
Economic Policy Program

DEVELOPING COUNTRY POLICYMAKERS GATHER

In March, the German Marshall Fund, together with the International Centre for Trade and Sustainable Development, hosted a distinguished group of developing-country policymakers for two days of talks on the prospects for a pro-development outcome of WTO negotiations. The delegation met different stakeholders in Washington — including U.S. congressional staff, Administration officials, think tank representatives, and the media — to increase understanding of each side's policy goals and to strengthen cooperation on the Doha Development Agenda (DDA).

The highlight of the two days was a well-attended public event on how to advance the DDA. Freelance journalist and GMF fellow Elizabeth Becker served as moderator and encouraged the visiting guests to speak about their individual countries' perspectives in trade negotiations. The guests included Faizel Ismail, head of the South African delegation to the WTO; Anwarul Hoda, a leading Indian trade expert; Debapriya Bhattacharya, executive director of the Centre for Policy Dialogue in Bangladesh; Kaliopate Tavola, Fiji's minister of foreign affairs, external trade, and sugar; and Mario Matus, the Chilean ambassador to the WTO.

PERSPECTIVES ON TRADE AND POVERTY REDUCTION 2005



GMF's second *Perspectives on Trade and Poverty Reduction* survey of American and European public opinion was released in December 2005, timed to the World Trade Organization's Hong Kong Ministerial.

A majority of respondents on both sides of the Atlantic (67%) said they support international trade, yet when specific reforms are mentioned — like reducing domestic farm subsidies or lowering trade barriers — public opinion is mixed. Just 46%, a plurality of all respondents, said they thought they would actually benefit personally from freer international trade.

Conducted in France, Germany, Italy, Poland, the United Kingdom, and the United States, the survey explored views on agricultural subsidies, development aid, and the impact of freer trade domestically and internationally.

The survey found that a reduction of U.S. and EU agriculture subsidies — a pivotal issue in the WTO Doha Round — was not a high priority for most respondents. Democratic governance proved to be a deciding factor in determining public support for development assistance or trade promotion to poor countries.



SOUTH AFRICA JOURNALISTS' TRIP

In October, a group of nine European and American journalists traveled to South Africa as part of a journalism fellowship to look at the challenges and opportunities surrounding trade and economics in South Africa and the African continent. *Le Figaro*, *USA Today*, *La Repubblica*, and *Slate* were among the news organizations represented. Over the course of a week in Johannesburg, Pretoria, and Soweto, the journalists met with business leaders, NGOs, community leaders, activists, government officials, and local journalists. On issues ranging from the AIDS crisis to crime to energy, the journalists became well-versed in the intricacies of a complex country with a complicated history.



Top High school students relax in Soweto, South Africa.

Middle: A street market in Pretoria, South Africa.

Bottom: Participants of the South Africa study tour outside the Union Buildings, the official seat of the South African government.

China

GMF-BUCERIUS CHINA CONFERENCE

As GMF begins to explore how the United States and Europe interact with China, GMF, in partnership with the Bucerius Law School, organized an October conference in Washington, DC, “The United States, Europe, and China: Toward a Global Strategic Triangle.” With high-level participation from both sides of the Atlantic, including government officials, think tank representatives, journalists, and distinguished economists and trade experts, the conference proceedings explored China through the transatlantic prism.

In the opening dinner, Richard d’Amato, chairman of the U.S.-China Economic and Security Review Commission, gave an overview of American policy toward China. The next morning began with discussions focused on the implications of China’s rise for the transatlantic relationship, as well as China’s political and economic potential and its domestic challenges. Six breakout sessions covered issues including human rights, health, demographics, the environment, China’s role in international trade, and its military modernization.

Professor John Jackson, a distinguished U.S. trade law expert from Georgetown University, gave a luncheon keynote address on China and the WTO. At an evening dinner hosted by the German Embassy, Volker Stanzel, German ambassador to China, offered a European perspective on China. The concluding sessions dealt with the issues of China’s increasing weight as a regional power and as a global player.



HONG KONG MINISTERIAL

As the World Trade Organization’s 6th Ministerial Conference was underway in Hong Kong in December 2005, GMF in partnership with the William and Flora Hewlett Foundation, assembled key corporate, NGO, and government stakeholders for several discussion sessions on completing the Doha Development Round.

In a keynote address, Dutch Development Cooperation Minister Agnes van Ardenne-van der Hoeven urged the assembled group to pressure their respective governments to keep anti-poverty efforts at the center of the WTO talks. “It is not too late to go all out for an ambitious and balanced package in the DDA [Doha Development Agenda],” she said.

During another session, Ken Cook of the Environmental Working Group and GMF Transatlantic Fellow Jack Thurston presented the background and results of their separate, complementary projects on increased transparency of U.S. and EU agricultural payments, respectively.

Dutch Development Cooperation Minister Agnes van Ardenne-van der Hoeven urged the assembled group to pressure their respective governments to keep anti-poverty efforts at the center of the WTO talks.

Bottom: Participants speak at the GMF-Bucerius China Conference held at GMF’s Washington, DC, headquarters.



(Matthew Wojtkun)



PARTNERSHIPS

Our goal is to tackle the fundamental issues of the U.S.–European relationship by drawing on a wide network of individuals and institutions on both sides of the Atlantic.

Successful transatlantic relations depend on strong partnerships built up over time, across sectors, and between regions of the world. The German Marshall Fund has integrated this model of partnership into its organizational strategy as a means of achieving greater cooperation among the United States, Europe, and other regions. This approach has led to the inclusion in the transatlantic community and the GMF network of a wide variety of individuals — policymakers, journalists, nonprofit leaders, and business leaders — and organizations cutting across the full spectrum of society.

GMF understands the crucial role that partnerships play in addressing the concerns facing the transatlantic community. Our goal is to tackle the fundamental issues of the U.S.–European relationship by drawing on a wide network of individuals and institutions on both sides of the Atlantic. We actively seek innovative solutions and partners with whom we can work to develop a sustainable, effective transatlantic community.

GMF pursues a variety of partnership models based on a shared vision, such as developing joint

initiatives, undertaking matching funding projects, providing grants for projects carried out by other institutions and individuals, developing fully funded programs, and seeking in-kind contributions. We are grateful to all of our partners for their contributions to furthering transatlantic cooperation. *We also wish to thank those governments, businesses, and organizations, too numerous to list here, whose in-kind support has been invaluable.*



(Gaelan Micolotte)

A number of organizations have made financial contributions to GMF's activities, including:

Atlantic Philanthropies	Henry M. Jackson Foundation
Bank of Sweden Tercentenary Foundation	HTC America
Bertelsmann Stiftung	Kongsgaard-Goldman Foundation
Bill & Melinda Gates Foundation	Lynde and Harry Bradley Foundation
The Boeing Company	Merck & Co.
Bucerius Law School	Ministry of Defence of Georgia
Charles Stewart Mott Foundation	Monitor Group
Citigroup Foundation	Netherlands Ministry of Foreign Affairs
The Cleveland Foundation	Robert Bosch Stiftung
Compagnia di San Paolo	Rockefeller Brothers Fund
DaimlerChrysler Corporation Fund	Rockefeller Foundation
DIE ERSTE österreichische Spar-Casse Privatstiftung	Royal Netherlands Embassy, Belgrade
Deutsche Telekom	Safeco Corporation
European Commission	Seattle Foundation
Foreign Relations Committee of the German Bundestag	Stavros S. Niarchos Foundation
Fundação Luso-Americana	Swedish Foundation for International Cooperation in Research and Higher Education
Fundación BBVA	Swedish International Development Cooperation Agency
Gemeinnützige Hertie-Stiftung	Swedish Ministry of Foreign Affairs
German Federal Foreign Office	ThyssenKrupp
German Federal Ministry of the Interior	Tipping Point Foundation
Governments of Belgium and Brussels Capital Region	Trust for Mutual Understanding
Greek Foreign Ministry	U.S. Agency for International Development
Heinrich Böll Stiftung	U.S. Mission to the European Union
	U.S. Mission to NATO
	William and Flora Hewlett Foundation

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT



*To the Board of Trustees
German Marshall Fund of the United States —
A Memorial to the Marshall Plan and Subsidiary*

We have audited the accompanying consolidated balance sheet of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary (GMF) as of May 31, 2006, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of GMF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary as of May 31, 2006, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 8, 2006, on our consideration of GMF's internal controls over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Alexandria, Virginia
August 8, 2006



(Ursula Soyez)

CONSOLIDATED BALANCE SHEET

May 31, 2006

Assets

Cash and Cash Equivalents	\$17,365,854
Investments	195,608,435
Grants Receivable	1,953,914
Property and Equipment, net	17,913,001
Other Assets	480,000
	<u>\$233,321,204</u>

Liabilities And Net Assets

Liabilities

Accounts payable and accrued expenses	\$2,070,669
Deferred revenue	11,769,154
Grants payable	2,608,812
Total liabilities	<u>16,448,635</u>

Net Assets

Unrestricted:	
Undesignated	205,213,883
Board-designated — Balkan Trust for Democracy	7,598,473
	<u>212,812,356</u>
Temporarily restricted	4,060,213
	<u>216,872,569</u>
	<u>\$233,321,204</u>

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended May 31, 2006

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Investment income	\$21,971,597	—	\$21,971,597
Non-federal grants	—	10,176,227	10,176,227
Federal grants	1,584,617	—	1,584,617
Royalties and other	147,431	—	147,431
Net assets released from restrictions	7,625,017	(7,625,017)	—
Total support and revenue	31,328,662	2,551,210	33,879,872
Expenses:			
Program services:			
Internal projects expense	9,393,639	—	9,393,639
Grant expense	8,398,572	—	8,398,572
Management and general	9,204,140	—	9,204,140
Fundraising	149,054	—	149,054
Total expenses	27,145,405	—	27,145,405
Change in net assets	4,183,257	2,551,210	6,734,467
Net assets:			
Beginning	208,629,099	1,509,003	210,138,102
Ending	\$212,812,356	\$4,060,213	\$216,872,569

See Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended May 31, 2006

Cash Flows from Operating Activities	
Change in net assets	\$6,734,467
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Depreciation	470,527
Realized and unrealized gains on investments	(19,885,537)
Net gains on Balkan Trust from Democracy	(27,463)
Changes in assets and liabilities:	
(Increase) decrease in:	
Grants receivable	(1,953,914)
Other assets	(271,914)
Increase (decrease) in:	
Accounts payable and accrued expenses	(168,771)
Deferred revenue	(374,574)
Grants payable	(627,171)
Net cash (used in) operating activities	<u>(16,104,350)</u>
Cash Flows from Investing Activities	
Purchases of investments	(57,178,909)
Proceeds from sale of investments	82,160,612
Purchases of property and equipment	(3,212,614)
Net cash provided by investing activities	<u>21,769,089</u>
Net increase in cash and cash equivalents	5,664,739
Cash and Cash Equivalents	
Beginning	<u>11,701,115</u>
Ending	<u>\$17,365,854</u>

See Notes To Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

The German Marshall Fund of the United States — A Memorial to the Marshall Plan (GMF) was incorporated on March 15, 1972, under the laws of the District of Columbia. GMF is an American institution that stimulates the exchange of ideas and promotes cooperation between the United States and Europe in the spirit of the postwar Marshall Plan.

The German Bundestag has approved funding for GMF as an independent American grantmaking institution. From March 15, 1972 through May 31, 2006, the German Bundestag has contributed approximately 129 million euros to GMF.

GMF makes grants in the following areas:

- Economics
- Environment
- Foreign policy
- Immigration and integration
- Special opportunities

In May 2004, GMF formed a limited liability corporation named 1700 18th Street LLC (LLC), which was incorporated as a wholly owned subsidiary of GMF. The purpose of LLC was to purchase a building in Washington, D.C. In June 2004 LLC purchased a building for approximately \$5.9 million.

Basis of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting whereby revenue is recognized when earned and expenses are recognized when incurred.

Principles of Consolidation

The accompanying consolidated financial statements, which include the accounts of GMF and LLC (collectively, GMF), have been consolidated in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, GMF is required to report 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. There were no permanently restricted net assets at May 31, 2006.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit, repurchase agreements, and short-term investments in money market funds.

Financial Risk

GMF maintains its cash in bank deposit accounts which, at times, may exceed United States federally insured limits. In addition, GMF maintains several accounts in European financial institutions. GMF has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash. GMF invests in professionally managed portfolios that contain common shares of publicly traded companies, hedge funds, bond funds, and private equity funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to change in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Translation of Foreign Currencies

Financial statements for foreign activities reflect assets and liabilities converted to U.S. dollar values at prevailing rates of exchange. Gains or losses from fluctuations of foreign exchange rates are not material to the financial statements.

Investments

Investments are carried at fair market value. Fair market value is determined using quoted market prices. Investment income or loss is included in the change in unrestricted net assets, unless the income is restricted by donor or law.

Grants Receivable

GMF receives grants from a number of organizations for various purposes. Grants are recognized as unconditional promises to give and recorded as support in the period during which the promise is made.

Property and Equipment

Property and equipment is reported at cost net of accumulated depreciation. GMF follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000. GMF currently depreciates its assets using the straight-line depreciation method over 3-5 years, with no salvage value. Buildings are currently depreciated over a 40-year term using the straight-line method.

Valuation of Long-Lived Assets

GMF accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. GMF had no impairment of long-lived assets during 2006.

Designated Net Assets

The Board of Trustees has established board-designated net assets to fund the Balkan Trust for Democracy activities.

Revenue Recognition

Contribution revenue is recognized at the time an unconditional promise to give is received.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, grants receivable and payable, and accounts payable approximates fair value because of the short maturity of these financial instruments.

Grant funds received in advance are reported as refundable advances. Revenues from federal grants are recognized as costs are incurred.

The fair value of investments is based upon values provided by the external investment managers or quoted market values. Fair value of investments in limited partnerships is determined by quoted market values or the general partners.

Income Taxes

GMF is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is currently classified as an organization that is not a private foundation within the meaning of Section 509(a) of the Code.

1700 18th Street LLC is a single member limited liability company for federal income tax purposes. All tax attributes flow through to GMF under this entity form. Accordingly, no provision for income taxes has been made.

Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Investments

Investments at May 31, 2006, consist of the following:

Equities	\$62,500,315
Venture capital funds, limited partnerships and hedge funds	99,660,317
Corporate bonds	33,447,803
	<u>\$195,608,435</u>

Investment income for the year ended May 31, 2006, consists of the following:

Interest and dividends	\$2,058,587
Unrealized and realized gains on investments	19,913,010
	<u>\$21,971,597</u>

Venture capital funds and limited partnerships comprise approximately 23% of GMF's total investments at fair value at May 31, 2006. The fair

values of both the venture capital funds and limited partnerships are determined either by using quoted prices listed on national exchanges, by the general partners of the limited partnerships or managers of the venture capital funds.

Note 3. Property and Equipment

At May 31, 2006, property and equipment consists of the following:

Building	\$16,975,780
Land	1,237,440
Furniture, fixtures and equipment	1,465,512
Leasehold improvements	4,415
	<u>19,683,147</u>
Less: accumulated depreciation	1,770,146
	<u>\$17,913,001</u>

Depreciation expense was \$470,527 for the year ended May 31, 2006.

Note 4. Leases

GMF's office in Berlin, Germany, is leased until July 2009. GMF's office in Paris, France, is leased until May 2010. GMF's Brussels, Belgium's office is leased until November 2010. All three leases require monthly payments with annual adjustments based on the Consumer Price Index (CPI).

The future approximate minimum lease payments under non-cancelable operating leases as of May 31, 2006, are:

Years ending May 31,	
2007	\$263,102
2008	258,302
2009	150,959
2010	14,000
	<u>\$686,363</u>

Total rental expense was approximately \$239,150 for the year ended May 31, 2006.

Note 5. Contingencies

Federal awards consist of a grant received from the U.S. Agency for International Development (USAID) to be expended and administered by GMF on projects in Central and Eastern Europe, in the areas in which GMF operates. The grant was restricted to the use set forth in the grant agreement between USAID and GMF. The related expense is included in grant expense in the accompanying consolidated financial statements.

The portion of GMF's revenue from federal awards is subject to audit by the federal government. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported in accordance with, and audited under, government audit requirements. Until such audits have been completed, and final settlement is reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Note 6. Board-Designated Net Assets

The GMF Board of Directors has designated a portion of the unrestricted net assets to be utilized for the Balkan Trust for Democracy funding. The following represents activity of this amount for the year ended May 31, 2006:

Balance May 31, 2005	\$8,468,954
Board-approved expenditures	(870,481)
Balance May 31, 2006	<u>\$7,598,473</u>

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available at May 31, 2006, for the following purposes:

Marshall Memorial Fellowship program	\$167,893
Economics	478,820
Transatlantic Policy Dialogue	2,204,101
Democracy in Central and Eastern Europe	1,150,517
Other	58,882
	<u>\$4,060,213</u>

A total of \$7,625,017 was released from restrictions during the year ended May 31, 2006, as a result of satisfying the above restrictions.

Note 8. Grants Payable

At May 31, 2006, GMF had grants payable to third parties amounting to \$2,608,812 representing committed grants that are expected to be disbursed within one year.

GMF has made grants to organizations with at least one Board member in common with GMF. These grants totaled \$177,000 for the year ended May 31, 2006. These grants are made on the same basis as other grants. Related Board members do not participate in the approval process.

Note 9. Related Party Transaction

GMF is affiliated with Friends of the Carpathian Foundation — United States (FCF), a not-for-profit organization incorporated in November 2002 to engage in activities to create sustainability for civil society, ethnic harmony, and cultural and economic development, particularly in the border regions of Hungary, Poland, Romania, Slovakia, and the Ukraine. GMF has the ability to appoint two of the five Board members of FCF, but no control or economic interest exists between the two organizations and, therefore, consolidation is not required. As of May 31, 2006, FCF owed GMF \$147,264.

Note 10. Pension Plan

Eligible employees who have attained age 21, and completed six months of employment, may participate in GMF's defined contribution retirement program. GMF contributes an amount equal to 15% of a participant's annual salary up to Social Security wage limit, and 10% of the annual salary in excess of the Social Security base up to the maximum annual salary allowed by the Employee Retirement Income Security Act of 1974 (ERISA) regulations. Retirement expense was approximately \$422,000 for the year ended May 31, 2006. Vesting is immediate for all participants.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance And Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

*To the Board of Trustees
German Marshall Fund of the United States —
A Memorial to the Marshall Plan and Subsidiary
Washington, D.C.*

We have audited the consolidated financial statements of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary (GMF), as of and for the year ended May 31, 2006, and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect GMF's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as Items 06-1 and 06-2. We also noted certain matters that we have reported to management of GMF in a separate letter dated August 8, 2006.

A material weakness is a reportable condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GMF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

McShadrey & Pullen, LLP

Alexandria, Virginia

August 8, 2006

**Independent Auditor's Report on Compliance With Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

*To the Board of Trustees
German Marshall Fund of the United States —
A Memorial to the Marshall Plan and Subsidiary
Washington, D.C.*

Compliance

We have audited the compliance of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary (GMF) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2006. GMF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs, is the responsibility of GMF's management. Our responsibility is to express an opinion on GMF's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GMF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GMF's compliance with those requirements.

In our opinion, GMF complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2006.

Internal Control Over Compliance

The management of GMF is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GMF's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic consolidated financial statements of the German Marshall Fund of the United States — A Memorial to the Marshall Plan and Subsidiary, as of and for the year ended May 31, 2006, and have issued our report thereon dated August 8, 2006. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

McShadrey & Pullen, LLP

Alexandria, Virginia

August 8, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended May 31, 2006

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant/ Contract Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Agency for International Development				
Balkan Trust for Democracy	98.N/A	194-A-00-03-00101-00	\$1,282,837	\$1,282,837
Belarus Fund for Democracy	98.N/A	REE-A-00-05-00105-00	301,780	301,780
Total U.S. Agency for International Development			1,584,617	1,584,617
Total Expenditures of Federal Awards			\$1,584,617	\$1,584,617

See Note To Schedule Of Expenditures Of Federal Awards.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of GMF and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of

OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended May 31, 2006

Section I — Summary of Auditor's Results

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 3. Non-compliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Reportable condition(s) identified that are not considered to be material weakness(es)? | None reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 4. Identification of major program: | |

<i>CFDA/Identifying Number(s)</i>	<i>Name of Federal Program or Cluster</i>
194-A-00-03-00101-00	Balkan Trust for Democracy
REE-A-00-05-00105-00	Belarus Fund for Democracy

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as low-risk auditee? | Yes |

Section II—Financial Statement Findings

Reportable Conditions

Finding 06-01

Condition: Investment accounts were not reconciled in a timely manner during the fiscal year ended May 31, 2006.

Effect: Material changes in the investment accounts would not be properly reflected in GMF's internal financial statements on a monthly basis. As a result, management would be basing monthly decisions on financial statements that could be missing material information since investments comprise a majority of GMF's asset balance.

Recommendation: Investment accounts should be reconciled on a monthly basis and any necessary adjustments should be posted in the general ledger so that monthly financial statements reflect the most recent year-to-date activity of GMF.

Management's Response: Management agrees completely with the recommendation to record and reconcile, on a regular basis, the investment accounts into our balance sheet — we did this only once at year's end.

Deferring this until the end of the fiscal year and then recording the entire year's activity at one time was a strategic decision. The logic was that given our lofty Fiscal Year 2006 goals and very limited accounting staff (basically only the CFO and the Accounting Manager for approximately half of the year, then a third staff person added a few months later followed by a fourth employee after that) there was an overwhelming amount of challenges. Therefore since the investment consultants (Vantage), the custodians (Northern Trust), GMF's Investment Committee and management review the statements and performance on a regular/monthly basis this was an area that for the first

year (and **only** the first year) we could defer posting the entries without any risk to the portfolio value or accuracy of the statements. During our field work planning with the auditors in April, this approach was explained as well as noting that all of the other accounts (all U.S. and overseas bank accounts cash, payables, receivables, fixed asset, etc. — namely the accounts that only the accounting department were reviewing) were being reconciled monthly without fail. Please note that in Fiscal Year 2007 and going forward we are recording the investment entries on a monthly basis.

Finding 06-02

Condition: Monthly corporate credit card charges are not reviewed by a supervisor prior to payment.

Effect: Inappropriate expenses could be charged to the GMF credit card and go undetected.

Recommendation: As part of the monthly close process, all credit card charges should be reviewed by the supervisor of the individual submitting the expenditures for propriety and for proper business purpose.

Management's Response: Management agrees with this recommendation and now that GMF's financial structure is in place this challenge will be tackled. As it is now accounting reviews the expenses carefully when submitted but there are obvious limits and weaknesses to this approach. This is an issue that we have acknowledged as an internal control concern but until the financial structure was in place it could not be addressed in the appropriate manner.

Section III—Federal Awards Findings and Questioned Costs

None reported.

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