

POLISH-AMERICAN FREEDOM FOUNDATION

2003 ANNUAL REPORT

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Letter from the PAFF Leadership

As it winds up its fourth year of activity, the Polish-American Freedom Foundation remains committed to its founding mission – to strengthen civil society, democracy and a free market economy in Poland as well as to share the Polish transition experience with other countries in Central and Eastern Europe.

Against this general background, our priority continues to be equalizing opportunities for individual and social development. As a result, two objectives dominate the Foundation's domestic programs: leveling the playing field in education for young people in rural areas and small towns, combined with modernization of education, as well as supporting civic initiatives in solving local problems and stimulating aspirations toward development, especially in the under-privileged regions.

Following the method adopted at the beginning of our activity, PAFF programs are managed by nongovernmental organizations competent in their respective fields. And, decisions to make grants for individual projects within a given program are made by committees of independent experts appointed by the Foundation.

Last year, we continued and further developed most of our initial programs. We also launched new undertakings. Of special note is the „EURO-NGO” Program designed to address some of the opportunities and challenges resulting from Poland's integration with the European Union. Under the Program, we established a nationwide network of almost 200 specialists with expertise regarding EU funds available for nongovernmental organizations. In 2004, these specialists will transfer their knowledge to approximately 1,600 NGO leaders from across the country, and will continue to provide professional assistance to groups and institutions interested in the resources offered by various EU programs.

Poland's EU membership makes PAFF's initiatives addressed to other Central and Eastern European countries take on a new dimension – specifically the Lane Kirkland Scholarships and the Region in Transition Program (RITA). Our goal is to continue lending support to actions strengthening Poland's bonds with neighboring countries that remain outside the EU. This includes support for transformation taking place in these countries and efforts to facilitate developing their links with the integrated Europe and the Euro-Atlantic community of shared values.

In 2003, the first three years of the Foundation's activity were comprehensively evaluated. An Ad-Hoc Review Committee, appointed by the Board of Directors and led by Nicholas A. Rey, analyzed the Foundation's programs and their implementation – reviewing how they meet our strategic guidelines and assessing their operating efficiency. Stephen McCormick, an independent U.S. consultant, assisted the Committee in that work. He prepared a report that included on-site research conducted by a group of experts and involving randomly selected local projects executed under Foundation's programs. We and our partners working together to implement PAFF initiatives were gratified by the report's conclusions. It recognized our focus on socially important objectives and the implementation of diverse forms of activity. It commends the innovative methods applied and the fact that many projects continue beyond the expiration of PAFF funding. The report also suggests practical recommendations for the future.

Considering the findings of the report and summing up the Foundation's recent year of activity, we wish to express our appreciation and gratitude to all the individuals and institutions involved in the implementation of these initiatives. In particular, we would like to thank the Board of Directors, whose suggestions and support we highly value. We are happy to welcome to the Polish-American Freedom Foundation Frederick M. Bohlen, Executive Vice-President of the Rockefeller University, who joined our Board in November 2003.

We are pleased to note that 2003 saw a major increase in the Foundation's net assets which grew to an impressive \$215 million. This is primarily thanks to a generous \$71 million transfer from the Polish-American Enterprise Fund. Another reason was the increased value of the Foundation's endowment, stemming from the Investment Committee's prudent equity and fixed income policies – coupled with improved conditions on financial markets. In managing its funds, the Foundation continues to cooperate with highly respected partners in the United States and Poland.

Last year the Foundation allocated more than \$4.8 million for its programs; since its inception in 2000 until the end of 2003 – almost \$14 million has been disbursed. In 2004, we plan to expend a total of \$6 million to carry out our undertakings. Soon the financial scope of our annual involvement should increase further, strengthening the Foundation's position as a leading institution of its kind in Central and Eastern Europe.

The year 2004 marks the 15th anniversary of the Support for East European Democracy (SEED) Act passed by U.S. Congress. The act enabled the establishment of the Polish-American Enterprise Fund. Thanks to the success of the Fund, which supported the development of a market economy in Poland for a decade, it was possible to return part of its assets to the U.S. Treasury, and also to establish the Polish-American Freedom Foundation.

The success of the Enterprise Fund and the first achievements of the Freedom Foundation are, to a large extent, due to the work of thousands of Polish entrepreneurs and NGO leaders, who have taken advantage of the opportunities created by Congress 15 years ago. They are also a symbol and an excellent example of Polish-American cooperation.



John P. Birkelund
Chairman of the Board of Directors



Jerzy Koźmiński
President and Chief Executive Officer

New York / Warsaw, March 2004

Fourth Year of the Foundation's Operation

Initiatives in Education

► The "Education on the Internet – Polish Educational Portal Interkl@sa" Program

One of the first non-commercial, educational portal in Poland, currently the largest, the *www.interklasa.pl*, has been operating since 2001. It is a joint undertaking between the Polish-American Freedom Foundation and the Interkl@sa Initiative, which operates on the basis of modern technological infrastructure, provided by the Poznań-based Super-Computer Network Center (Poznańskie Centrum Superkomputerowo-Sieciowe).

The Portal provides service to schools, teachers, students and their parents, as well as to educational institutions and non-governmental organizations. Its abundant offerings are being enlarged on a regular basis. They include numerous topical educational services, over 5,000 publications and articles, and multimedia files. After the three years of operation, the Portal has over 10,000 permanent, registered users, and the average monthly number of 'hits' (visits) has already exceeded 4 million. New services have been added, including the "Your News" and an electronic newsletter launched in 2003, reaching more than 30,000 Internet users each week. Also, among the new services are: the *frantice.interklasa.pl* and *interklasa.pl/angielski* (they support French and English study), as well as the *poezja.interklasa.pl* (a collection of approx. 11,000 poems). Several hundred new lesson scenarios, presentations and training outlines were published as well as multimedia didactic aids, including animated lessons about the EU, educational animations on history and geography. The Portal also includes a Polish language version of the "European Schoolnet" newsletter with information about opportunities for schools to participate in European projects. The Portal was the vehicle used to conduct the "Spring 2003 Day" project, devoted to the European Union, with over 500 Polish schools participating (4,500 in all of Europe).

In 2003, several educational projects were implemented under the auspices of the Interklasa Portal, including the "Lesson with the Polityka", in collaboration with the "Polityka" weekly, and the "Which Way to Take to Reach Prosperity?" project implemented with the Polish Economists' Society. The Portal also organized many competitions such as the "Folklore of My Region" – in collaboration with the European Parliament – and the "Best School www. site."

► Program Manager: The Foundation for Economic Education

► „English Teaching”

The Program's objective is to equalize English language learning opportunities for children and young people from rural areas and small towns.

Two modules were continued under the Program in 2003: "Small Grants" (41 projects) and the "Teaching English Teachers" training courses, initiated in 2002. The training was to educate English teachers about interactive methods of working with students, as well as other ways to use modern didactic techniques. 300 teachers from rural areas and small towns from all over Poland took part in 10 training sessions. In total approximately 7,000 students and teachers benefited from the activities under both modules.

At the beginning of 2003, a new module was launched – "Follow me": 10 schools and organizations were given grants to continue and to expand selected, model projects from the first edition of the Program (in 2000-2001).

The 1st Polish Meeting of English Teachers was organized, with 425 people participating. The participants learned about effective methods to teach in classes with varied levels of knowledge, about the work with dyslexic students, and about ways to use computers in the learning process. The topics discussed also included the development of applications for funding from assistance programs (mainly from the EU). A mini grants competition was organized for those schools and organizations whose representatives took part in the meeting, and 43 projects were funded as a result.

Thanks to the cooperation with the Kosciuszko Foundation based in New York, 68 young people took part in summer language camps organized by the Ministry of National Education and Sports and UNESCO, and 40 teachers took part in training delivered by American trainers.

► Program Manager: The "Nida" Development Foundation

► The “Computer Long Distance Training” Program

The Program, initiated in September 2002, is a unique undertaking aimed at improving teachers’ knowledge and skills by providing free distance computer training via Internet.

During its current, pilot stage, the Program is addressed to 3,000 teachers who have bought computers under the “Computer for a Teacher” Program (implemented by PAFF in 2000-2001), and to the training participants under the “Interkl@sa” project. Through the Program, teachers can learn about mechanisms to use and also to develop www. sites, to prepare presentations and spreadsheets, and to develop tools to test their students’ knowledge.



Gomunice – a municipality in the county of Radomsko (voivodeship of Łódź), with a population of 6,000.

Alicja Antoniak, Iwona Węgrzyńska, Aneta Gębicz, Martyna Góralczyk, Iwona Orpel, Żaneta Kowalska-Dyja, Andrzej Antoniak, Andrzej Drygała i Dariusz Dyja, are teachers of the Public High School at Gomunice, who took part in the “Distance Learning” Program. They all completed both training modules: distance and on-site, passed the exam and obtained certificates recognized by the Ministry of National Education and Sports.

The teachers appreciate the fact that the training method gives them the opportunity to adjust the pace to individual abilities and computer knowledge acquired beforehand. During the second stage of the training (on-site), each participant developed and presented an educational package related to the subject he or she taught. Thanks to the on-site training courses, they had an opportunity to learn about and use multimedia devices in practice, such as digital cameras, including video, and scanners. *It was good play, combined with learning* – according to the teachers of Gomunice.

In order to obtain certificates for the completion of the training that is recognized by the Polish Ministry of Education and Sports, teachers have to complete two training modules: distance learning through a service established by the Polish Educational Portal (www.kurs.interklasa.pl), and on-site workshops, organized near their places of residence. In addition, all those who pass the final test obtain from the Foundation a partial refund of their cost of the Internet connection.

More than 2,000 teachers took part in the training during the first year of the Program’s operation: 800 of them have completed the “distance” module, and 600 the on-site training courses.

► Program Manager: The National Foundation for Computer Literacy

► The “Learning Schools” (LES) Program

The objective of this Program, begun in 2001, is to develop and disseminate an effective model to improve the quality of schools’ operation throughout the Polish educational sector, using experiences of non-governmental organizations and based on successful solutions that have been tested abroad. Thanks to training courses for teachers, schools are implementing new methods to define tasks, assign responsibility to have them accomplished, and develop effective mechanisms to regularly monitor the results.

In 2003, the Program involved 296 schools, and 910 teachers participated in training courses organized under LES.

In total 2,139 teachers, of whom 1,186 came from rural areas and small towns, completed the training during the Program’s three years of operation. Following the end of the training cycle, the majority of schools continue to be involved in the activities of the “Learning Schools’ Club”, which provides a forum for exchange of experiences. The “Learning Schools’ Academy” offers a variety of training courses to improve the quality of teachers’ and schools’ work, including also those who do not belong to the LES Club. 720 teachers completed the Academy’s training courses in 2003.

In 2002, the “Learning Schools” Program provided the inspiration and basis for the “School with Class” mass campaign, undertaken by the Center for Citizenship Education and “Gazeta Wyborcza” daily, in which more than 4,000 schools took part. The 26 schools from rural areas and small towns which were particularly active within the “School with Class” framework during the year, and were willing to further improve the quality of their operation, were invited to join the LES Program – offering a higher level of advancement.

The LES web site was being developed in 2003, together with a related data base with materials and tools, including didactic aids to support teachers to meet LES standards, as well as to increase their effectiveness in everyday work with students (e.g. lessons' scenarios, questionnaires, classroom layout). It currently contains more than 2,500 documents.

▶ **Program Manager:** Center for Citizenship Education Foundation

▶ **The "Training for Health Care Managers" Program**

In 2000, PAFF began to implement an initiative to modernize the management of the health care sector in Poland. 22 educational centers qualified for the Program, which delivered postgraduate training in the field of health care management. In 2003, 13 centers that submitted the most interesting training improvement plans received grants to help them implement their projects. While continuing the scholarship segment during this edition of the Program, 513 applications were processed and 138 scholarships granted to physicians from rural areas and small towns to pursue post-diploma studies. Out of 1,006 applications, 407 scholarships were granted in total in 2000-2003.



Marek Sobański is one of the alumni of the postgraduate studies, organized under the "Training for Health Care Managers" Program. He is head of the Health Center in the municipality of Godziesze Wielkie in the county of Kalisz (the Małopolskie Voivodeship), with a population of 8,000. The Center provides health care to nearly 6,500 patients who can consult three "family physicians", two specialists and six nurses.

The knowledge acquired during the postgraduate studies concerning the management of health centers, has proven to be very useful in practice, and allowed to introduce changes that are beneficial to our Health Center's patients. We have improved the service quality from an organizational and administrative perspective, thanks to the introduction of computers and general renovation of the building, performed in compliance with the requirements of the Ministry of Health. Medical personnel are also developing their skills, both in medical fields and others, thanks to IT training – says Marek Sobański.

Presentation of experiences from those countries with modern health care systems continued in 2003. Experiences gathered in Denmark, the Netherlands, Britain and Portugal had been presented during the preceding years, as well as the structure of the health services in large metropolitan areas, such as New York City, Berlin and Warsaw. Two subsequent conferences were organized in Warsaw and Toruń, with participation of lecturers from the United Kingdom and the U.S. Organizational and financial experiences of the health services in the EU and the U.S. were discussed, as well as opportunities and challenges of the Polish health care system, following Poland's accession to the EU. More than 1,000 physicians took part in conferences organized under the Program. Presentations by foreign experts were published in brochures, both in Polish and English.

Results of the previous research, regarding accreditation of academic centers with postgraduate studies for health care managers, were presented. The professional profiles of health care managers were analyzed as well. The research will continue in 2004.

▶ **Program Manager:** Society of Health Care Managers

▶ **The "Management Education 2003" Program**

The Program is a continuation of an undertaking initiated by the Polish-American Enterprise Fund in 1991, and implemented by the Educational Enterprise Foundation (EEF). Its objective is to support higher education in the field of economy and management through scholarships, publications, conferences, competitions and other initiatives undertaken to enhance both the quality and access to this education. The Program's priority is to equalize educational opportunities for young people from rural areas and small towns, to enable them to meet the requirements of both national and international job markets in future.

783 students from 46 best training quality, private business schools, were granted scholarships in 2003 (3,131 scholarships were granted in total in 2001-2003). Thus, the total number of scholarships granted by the Educational Enterprise Foundation since 1991 reached nearly 23,000. EEF continued to support the participation of Polish student teams in "The Global Internet Marketplace Competition", where they traditionally score among the highest. More subsidized books (translated into Polish) were published to support students of economics, including the "Consumers' Behaviors" by Gerrit Antonides, Fred van Raij, and the "Financial Investment Theories" by David Luenberger.

EEF has also prepared 20 articles that will be offered free of charge to be published by local press. The aim of the project is to promote issues concerning the market and economy that can help overcome existing stereotypes. In addition, the 19th "Business Community's Expectations Concerning Higher Managerial Studies" conference was organized in collaboration with the academic community. The 7th round of the "Enterprise and Management" competition for students of economics, in which 100 student teams participated, was completed.

▶ **Program Manager: Educational Enterprise Foundation**

▶ **The "Equal Opportunities" Program**

The objective of this Program is to support and to inspire local initiatives to equalize educational opportunities for children and young people in rural areas and small towns. The above activities are aimed primarily at secondary schools (mainly junior high schools), and performed by local non-governmental organizations, schools and other educational centers, as well as informal youth groups from all over Poland – to a great degree with participation of teachers, parents and local authorities.

The Program supports projects that improve the effectiveness of the learning process and the development of skills that are useful at school and beyond. It has enabled both talented young people, as well as those who have problems with learning, to participate in all kinds of activities that stimulate interests such as computer, language, reading and journalism training.

A new edition of the Program, the "Equal Opportunities 2003", was announced last year. It consists of four modules: an open "Small Grants" competition, the promotion of model projects implemented during the previous edition, the "Partner Schools" grants competition and the "Active Schools" competition. 121 projects in total are implemented under these modules.

246 initiatives in total have been realized during the Program's four editions since 2001, with nearly 50,000 individuals participating.

▶ **Program Manager: Polish Children and Youth Foundation**

▶ **The "Bridge Scholarships" Program**

The Program addresses a serious social problem, i.e. the growing disparity between young people from rural areas and their counterparts from large cities in gaining access to university studies. Young people from villages, especially those from former state-owned farming estates, account for a marginal share of all those studying in higher schools. Many talented young girls and boys do not even consider undertaking these studies because of the difficult financial condition of their families. The "Bridge Scholarships" Program is aimed at helping young people from those environments to attend university by providing scholarships during the first year of studies.

Young people from former state-owned farms are the Program's main target group. Another group are those who benefit from local NGOs scholarship funds that operate in rural areas and small towns. During the academic years 2002/03 and 2003/04, 3,323 individuals applied to the Program. 2,642 of them qualified to participate.

The Bridge Scholarships Program is a joint venture between PAFF, Agriculture Property Agency of the State Treasury, the National Bank of Poland, Bank Gospodarstwa Krajowego, and a coalition of several dozen local, non-governmental organizations cooperating with the Batory Foundation and the Academy for the Development of Philanthropy in Poland.



The Best of the Best – The "Top Student" Competition. On October 21, 2003, the results of the competition for the best average score obtained during the first year of university study, under the Bridge Scholarships Program were announced in the Kazimierzowski Palace of Warsaw University. The competition, organized by PAFF and the Educational Enterprise Foundation, was addressed to those scholarship holders whose average score was 4.0 or above for the academic year 2002/03. More than 20% of the Program participants qualified. The best, i.e. 102 students from rural areas and small towns, and from former state-owned farming estates in particular, who scored at least 4.38, were granted scholarships for the second year of university studies.

The total funds that all the partners have managed to attract to implement the Program are three times the amount allocated by the Polish-American Freedom Foundation. Nearly PLN 11 million were collected for the first two years of the Program implementation.

► **Program Manager: Educational Enterprise Foundation**

Support for Local Communities

► The "Act Locally" Program

The objective of the Program is to support civil initiatives that serve to solve local problems and to stimulate new aspirations among local communities of up to 20,000.

Projects implemented under the Program stimulate social activity of local residents, counteract unemployment, stimulate the development of small businesses, support social services provided to marginalized groups (including the elderly and handicapped), help to equalize opportunities in gaining access to education and culture, help to improve public safety, the reconstruction of national heritage, and provide support to the development of citizens' organizations. All the projects involve volunteers and 25% of the cost is financed from local sources.



"Environmentally-friendly Enterprise", a project of the 3rd round of the Program, accomplished by the "On Symsarna" Social Development Foundation (Fundacja Rozwoju Społecznego "Nad Symsarną") of Lidzbark Warmiński.

Project managers organized an ecological game tournament in Lidzbark Warmiński in order to make local businesses more sensitive to issues concerning environmental protection. It is a board game, and four teams of several members each can participate in it. It is successfully used as a training tool to company staff, entrepreneurs and young people. *The idea was taken from Denmark. We wanted to demonstrate that everyone can have positive impact on the environment, and that what we can do for it in our own backyard is important to ecology* – Majka Żylińska, President of the "On Symsarna" Social Development Foundation, explains.

participants to the game learn how to manage a company with respect to the environment. 12 teams competed to become the winner (60 individuals in total), including both school students and local entrepreneurs. The rules of the game copy the way businesses operate. It depended on decisions and the knowledge of the players what position their company would gain on the marketplace, and whether it would become an environment-polluting one or an environmentally friendly one. Two conferences were also held under the project, devoted to ecological topics. All those interested could learn about threats caused by grass burning and chemical pollution, as well as about benefits obtained thanks to the company sewage treatment plants.

The second edition of the Program ended and the third began in 2003. 99 projects were financed during edition two, and they were divided into three tracks. Model solutions of social problems from edition one were adopted in 12 local communities. At the same time, 38 new projects were realized in five voivodeships with the worst social and economic conditions. Under the third – pilot – track, additional funds were attracted and grants extended to 51 local initiatives (through three local grant-giving organizations) in the communities of Biłgoraj, Leżajsk and Bystrzyca Kłodzka.

During the third edition of the Program, 187 five-month projects were funded through a national grants competition. Local media, regional (TVP3) and national (TVP2) public television joined in promoting the competitions and projects.

During the three editions of the "Act Locally" Program, the Foundation supported more than 355 local initiatives, disbursing more than \$ 1,000,000 in 2000-2004.

► **Program Manager: Academy for the Development of Philanthropy in Poland**

► The "Mutual Information Society" Program

The Program, initiated in 2001, included the development of a professional information system to serve non-governmental organizations and citizens' initiatives. The key component of this unique system is the www.ngo.pl Portal for NGOs; an interactive tool to exchange information and update it remotely.

Entrants to the Portal increased by 300% in 2003. The News Service (wiadomosci.ngo.pl) is very popular among Portal users; 6,659 items of information were published by it in 2003, and 2,000 permanent users subscribed to its electronic version. The www.ngo.pl includes 40 topical services; comprehensive sources of useful information for NGOs. These include guide-type services, such as ksiegowosc.ngo.pl (accounting) or prawo.ngo.pl (law), or topical services devoted to such fields as foreign cooperation (zagranica.ngo.pl) and European Union (eu.ngo.pl). Regional services form its important part (e.e. slask.ngo.pl), launched in 10 voivodeships. The Portal also includes 20 databases with over 63,000 records in total. A database of organizations and institutions acting for the benefit of the ill and handicapped was added in 2003; it has 8,500 records currently.

The Portal also offers such tools as chat groups, surveys, and services, such as group communication (engo.pl), and CMS (Content Management System), i.e. website development and management. The "Gazeta.ngo.pl" publication is new within the MIS offer; each month, its 5,000 copies provide information to the third sector – where there is no Internet access.

The MIS system also includes so called "Informatorium" (nearly 5,000 individuals used its resources in 2003), the Info line 0-801-646-719 (more than 1,800 telephone inquiries), and brochures published within the "It's Worth it to Know More" series, with a total circulation of 150,000 copies.

The annual "Volunteerism and Philanthropy among Poles" survey was carried out under the Program in 2003; willingness to donate 1% of personal income tax to public benefit organizations (a new law) was its main focus.

► Program Manager: Klon/Jawor Society

► The "Citizen and Local Government" Program

The objective of the Program launched in September 2002 is to support initiatives undertaken by non-governmental organizations, which enhance the development of lasting, transparent mechanisms of cooperation with local government. In 22 gminas of up to 50,000 inhabitants each, annual projects selected through a national grants competition, have been implemented. They are to contribute to the establishment of transparent procedures for local government decision making, and to increase the participation of organizations and citizens' groups to co-decide about issues of the local community, resulting in better satisfaction of residents' needs. The organizations which received grants took part in a specialist training course for the exchange of information, and the enhancement of knowledge and improvement of projects, regarding methods of activity, evaluation of effectiveness and financial matters.

In addition, an analysis of other past selected programs by various organizations and institutions was performed; these projects were to improve cooperation between local authorities and NGOs. The material that was developed (available on www.fjdl.org.pl web site) also includes a list of 10 publications and 32 training and consulting institutions, as well as several sample solutions concerning the cooperation between non-governmental organizations and local, powiat and voivodeship authorities.



Project "You Can Do More Together" – the "Rural Community" Regional Educational and Cultural Association of Kijew.

The project was implemented in the gmina of Olecko (population of 22,000; the Warmińsko-Mazurskie Voivodeship). Its objective was to improve the exchange of information and to establish cooperation between the local community, non-governmental organizations and the local government. The training, presenting the specific nature of the operation of civil and local government activity, along with regular meetings and consulting sessions, resulted in the development of detailed policies concerning the cooperation between the City of Olecko and

local NGOs. From this grew a Cooperation Program for 2004, adopted by the City Council. A "City Hall Guidebook" and an "NGO Guide" (also available on the www.olecko.pl City Hall web site) were developed thanks to the Program; they also organized the 2nd Olecko Forum of Non-governmental Organizations and the "Local Government is Me" competition, addressed to students of primary schools and high schools.

Based on the Program's experiences, an initiative was developed (by PAFF, the Batory Foundation, the Foundation in Support of Local Democracy, the Gazeta Wyborcza daily, the Civil Education Center and the World Bank), called the "Transparent Gmina", and addressed to local authorities, the purpose of which is to stimulate, support and foster local communities' efforts to improve and promote public life standards in these communities.

► Program Manager: Foundation in Support of Local Democracy

► The “Village in Transition” Program (VITA)

The “VITA” Program, implemented mainly from 2001 through 2002 and consolidated in 2003, was to stimulate grass-roots civil initiatives in relatively inactive rural communities, and to initiate regular exchange of information and experiences between non-governmental organizations working for the benefit of rural areas.

The core of the Program consisted of three broad undertakings to stimulate activity among local communities and was implemented by four non-governmental organizations (Foundation for the Development of Polish Agriculture, the Ideal Gmina Foundation, Foundation of Social and Economic Initiatives and Foundation Partnership for Environment) in seven, under-developed regions of Poland. The information stage targeted more than 1,500 individuals in 72 gminas (266 local communities). 120 training courses followed, adjusted to the current needs of local communities, with approx. 3,000 participants representing 227 communities from 112 gminas. As a result, and with the support of expert advisors, 77 projects were designed and implemented, aimed at inspiring local milieus to independently solve their problems and to overcome barriers in development. Many projects are continued after the PAFF funding ended, using the tools and structures developed under the Program.

A mechanism was also established to exchange experiences between organizations and institutions operating for the benefit of rural areas. The “Atlas of Rural Initiatives” presenting nearly 200 model local projects that can be replicated in other regions, and a National Meeting of Rural Organizations (approximately 500 individuals from all over Poland), serve this purpose.

► Program Manager: Rural Development Foundation

► The “Pro Publico Bono” Award

Since 2000, the Polish-American Freedom Foundation has been funding prizes for the Nationwide “Pro Publico Bono” Competition for the Best Civil Initiative, conducted under the auspices of the Polish Ombudsman.

The fifth edition of the Competition took place in 2003. The Competition is to give awards to the most valuable civil initiatives within the fields of: education, culture and national heritage, health protection, social and charitable assistance, development of the environment and the region, with special emphasis on cooperation with local authorities, and also public diplomacy and European integration at the national, regional and local levels.



The Angelus Silesius Meeting Center of Wrocław is an educational and upbringing center, which organizes international meetings of youth to help them to get to know one another and to overcome barriers, as well as conducts high-school students' meetings to discuss personal development and civil education, and it also promotes the idea and training of volunteers. The “Silesius for Schools, i.e. Mini-Meetings on Maxi-Issues” educational program was awarded during edition five of the Pro Publico Bono Competition. It involved 50 one-day meetings for 50 student groups from 20 schools in the Wrocław metropolitan area (1,055 students in total), devoted to civil education, patriotism, European culture, moral attitudes and human rights. The initiator of the project and the author of the idea is Piotr Radomski, who has been related to the Angelus Silesius Meeting Center for five years.

200 organizations competed for prizes in the course of edition five of the Competition. During a ceremony held in Krakow on November 11, the Jury awarded 21 monetary prizes and three honorary ones, mainly to organizations from small towns, such as Pyzdry, Głogów or Szamocin, but also to those from large cities, including Krakow and Warsaw. The main prizes were awarded to the Angelus Silesius Meeting Center of Wrocław (within the regional initiatives' category) and to the “Amazons” Polish Mastectomized Women's Clubs' Federation with headquarters in Poznań (within the national initiatives' category). The effort to organize the Competition was accompanied by activities to integrate its former winners through an Internet discussion forum (www.propublicobono.pl), topical seminars and meetings with local government officials in those communities where initiatives awarded during the earlier editions had been developed.

► Program Manager: The “Pro Publico Bono” Competition Foundation

► „EURO-NGO“

The objective of the Program is to contribute to the efficient functioning of non-governmental organizations following Poland's accession to the European Union, mainly by helping them to get prepared to obtain EU funds. The anticipated result of the Program will be a national, generally accessible information system to be developed within two years, which will provide information about the rules and operating mechanisms of structural and community funds available in Poland, in particular offering advice for leaders of civil initiatives, mainly those from rural areas and small towns, interested in applying for EU funding, as well as facilitating cooperation between representatives of NGOs, public administration and business communities while planning and utilizing EU funds to promote regional development.

Marek Wystryk of Katowice has graduated from the Catholic University of Lublin and Adamiński School of Economics in Katowice. He is a volunteer and member of the following associations: Center for the Development of Civil Initiatives of Katowice, Citizens Advice Bureau of Radlin and Association of Lovers of Rydułty.

He combines his interest in European integration with extensive knowledge of the non-governmental sector. He has acquired knowledge in professional management techniques and experience in designing projects for non-governmental organizations. He received a certificate with distinction at the end of the EURO-NGO training program (he was the only person to achieve the maximum score during the exam). As a specialist, he intends to provide services to those organizations that deal with problem regarding heavy industry restructuring process (e.g. the unemployment, social assistance, restoration of post-mining areas, small and medium-sized enterprises), and to help develop organizational partnerships to solve local problems through the development and implementation of joint projects using EU funds.

From 780 applicants to become specialists, 203 were selected to the Program through a national competition. They participated in specialist training with experts in public and EU administration and NGOs. 188 of the trainees acquired the knowledge necessary to transfer to NGOs the skills of how to apply for UE funds effectively. The specialists will begin to deliver training in 2004, addressed to approx. 1,600 leaders of local organizations operating in rural areas and small towns. In order to implement their task, they will cooperate with voivodeship structural funds' liaison officers, regional SPLOT network centers and the Representation of Polish Non-Governmental Organizations in Brussels. Stefan Batory Foundation is PAFF's partner in this endeavor.

► **Program Manager: The Network of Support for NGOs "SPLOT"**

► **The "Financial Management for NGOs" Program (FIMANGO)**

The objective of the Program that was completed in 2002 was to improve the financial management of non-governmental organizations. A need expressed by the third sector and the positive outcome of the first edition, resulted in a second edition of the Program. 600 individuals in total participated in 20 training courses during both editions.

The subject content of the courses focused on computer (IT) training for NGO accountants in 2003. In their survey questionnaires, the alumni of the training courses emphasized that the training helped to enhance functioning of their organizations. Hardware that was purchased for the Program will be used during subsequent training courses in the future. Issues # 6 and 7 of an educational brochure were published, including publications on current accounting and tax matters, and NGOs' cooperation with banks. The total number of copies of brochures developed and disseminated under the Program is 10,000. Special CD-ROMs were produced and made available, to help NGO accountants. An Internet service was also set up under the Program, serving as a vehicle to provide assistance to non-governmental organizations in financial matters.

Continuing demand for this type of training and experiences gathered provided the basis for launching edition three of the Program to be implemented in 2004.

PAFF's partner co-funding the Program is the Leopold Kronenberg Banking Foundation.

► **Program Manager: Civil Society Development Foundation**

► The “Undoing Unemployment” Program

The objective of this PAFF pilot Program, implemented since 2000, is to trigger and support local initiatives to actively fight unemployment through outplacement, a methodology adjusted to the Polish realities.

The Program involved 1,165 individuals in five projects, addressed to diverse professional and social groups – all threatened with structural unemployment, namely: Polish State Railroad workers, nurses and midwives, those from rural areas, and young people looking for their first jobs. Program participants received psychological and legal assistance and were given the opportunity to improve their skills through supplementary training. Each Program beneficiary also used the job exchange, supported by a dedicated database with 3,000 job offers.

The results of the Program went beyond original expectations; soon afterwards, nearly half of the participants found new jobs, or created them by becoming self-employed. In 2003, the Foundation made a decision to continue the Program, in order to promote the outplacement methodology and to disseminate the Program's experiences. Over 800 individuals took part in conferences and seminars on outplacement, and the *www.bezrobocie.org.pl* web site was set up. Over 90 individuals completed the training program for outplacement projects' organizers and managers.

► Program Manager: Foundation for Social and Economic Initiatives

Citizen in a Democratic State of Law

► The “Supporting Legal Reforms: Computer Training” Program

Positive results of the Program initiated by PAFF in 2001, to apply modern computer techniques to judges' and court administration personnel's work, convinced PAFF to implement a subsequent round of the Program in 2003.

Training courses are carried out in centers established under the Program to familiarize judges and judiciary staff with basic types of software which will be useful in their work. Emphasis was placed on involving participants from outside large cities. 1,464 individuals took part in 122 training courses organized in 2003. 2,780 judges and court administration officers



The Białystok Training Center for Judges has delivered 29 computer-training courses on how to apply IT in judicial proceedings, and 18 training computer English teaching courses. 90 judges participated in workshops on how to use the Internet to access European laws and decisions of the European Court of Justice. Thanks to the training, judges use Internet systems providing legal information and data bases to download legislation, widely use publications, analyses and expertise that are available in the web. A computer network set up in the court allows for the exchange of information about amendments to the legislation and analyses of judicial decisions. Using computers, it is much easier to make technical arrangements regarding the court work. Thanks to the skills acquired during the training, judges from various courts now communicate with each other as well as with researchers by e-mail, and exchange information about training courses and conferences on legal matters.

Much still has to be done in order to introduce IT in the judiciary, but already today one can say that judges in the courts of Białystok have made significant progress towards efficient and professional law enforcement, thanks to the computer training courses – judge Tomasz Kałużny asserts.

in total attended 234 training courses (5,000 hours) in 2001-2003. Thanks to efficient organization, the costs of the courses are much lower as compared to training offered elsewhere in Poland.

A conference to summarize the Program's course and results was held in Krakow in May 2003. The second edition has confirmed positive practical value of the computer training center model that was developed under the Program. Training centers established in Warsaw, Białystok, Wrocław, Krakow and Szczecin, with support from the Ministry of Justice, will continue their operation once PAFF's funding has ended. Their experiences can be used by other institutions willing to undertake similar initiatives, as well.

► Program Manager: Foundation Center for Judges Training “Iustitia”

► **The “Citizen and Law” Program**

The objective of the Program (implemented in 2002-2003) was to support the development of various, voluntary forms of citizens' advice and legal information for those in difficult life and financial conditions, especially in small towns' communities.

The Program's special focus was to increase the scope of assistance offered to the groups in need and to improve the quality of the advice by strengthening selected organizations and improving the skills of their personnel. The Program has also contributed to the promotion of the idea of pro bono advice to the public, not only from non-governmental organizations but also from lawyers and law students.

The Program was implemented through 22 citizens' projects, selected during a competition, which offered model solutions, stimulated citizens' initiatives and conveyed educational messages. The awarded winning projects from all over Poland (including Starachowice, Konin, Łomża, Nowy Sącz, and Krakow), were addressed to various social groups: victims of violence, the Roma population, members of families threatened with pathologies and the disabled.

In addition, in collaboration with the Association of Citizen Advice Bureaus (Związek Biur Porad Obywatelskich), the Non-governmental Advice Forum (Pozarządowa Platforma Poradnicza) was established, to exchange information between organizations that provide legal information to citizens. The objective was to help organizations increase their efficiency while undertaking activities aimed at those providing legal advice to citizens, and to present successful solutions to other interested NGOs and institutions. The Forum's activity resulted in the creation of a topical section on the web which consists of service and data bases giving information about non-governmental advisory organizations, and has triggered cooperation among those organizations while providing services to various social groups.

► **Program Manager: The Institute of Public Affairs**

Sharing Polish Experience in the Transformation

► **The “Region in Transition” Program (RITA)**

The Program was initiated in 2001 and is addressed to Polish non-governmental organizations and educational institutions that implement or intend to implement projects to share Polish experiences of social and economic transformation with other countries of Central and Eastern Europe. The Program primarily supports and initiates projects undertaken by Polish organizations together with partners from the Region, as well as helps to exchange information and experience related to Polish NGOs that are active in Central and Eastern Europe.

Grants competitions were organized in 2003 to which 272 applications were submitted, half of which were from organizations that had not taken part in the two earlier editions of the Program. Grants were made to 49 projects that involved cooperation with various groups in 17 countries. The projects concerned both cooperation at the local level, as well as experts' support related to the best Polish experiences. The majority of projects involved cooperation with Ukraine, Belarus and the Kaliningrad District of the Russian Federation.

“Study Tours to Poland” were introduced in 2003, under which Polish non-governmental organizations were to arrange 2-week visits for young leaders and professionals from Ukraine, Belarus and the Kaliningrad District of the Russian Federation.

The “Poland-Ukraine. Cooperation of Non-Governmental Organizations” exhibition was presented under the Program during the International Economic Forum in Krynica.

► **Program Manager: The Foundation Education for Democracy**

Facts and Figures 2000-2003

...modern technologies

- ▶ **Polish Educational Portal Interkl@sa** www.interkasa.pl – largest Web resources in Poland: topical services, lessons' scenarios, news service, free e-mail accounts, educational library, Internet bookstore: **10,000** registered users, **30,000** newsletter subscribers, average **4 million** "hits" per month.
- ▶ **3000** beneficiaries of The "Computer for a Teacher" Program, **1000** e-mail accounts.
- ▶ **2000** teachers from small cities and villages has been taking part in The "Computer Long Distance Training" Program: **800** of them has completed the "distance" module, while **600** on-site training courses.
- ▶ The Non-governmental Organizations Portal www.ngo.pl – the unique undertaking in Europe: **16** databases – **60,000** records, news service, **2000** subscribers of the newsletter, **40** topical services, **10** regional portals, discussion forums, group communication service.
- ▶ **5** computer training centers for judges and judicial administration staff: **234** training courses, **2780** beneficiaries of The "Support the Legal Reforms" Program.

...equalizing opportunities

- ▶ **109** completed projects in two editions of The "English Teaching" Program: over **20,000** students and teachers directly covered by the program, **10** trainings – **300** participants.
- ▶ **246** accomplished projects in four rounds of The "Equal Opportunities" Program: nearly **50,000** participants, special round addressed to people who have suffered from the flood in 2001.
- ▶ **3500** scholarships for students of economy from small towns and villages granted under The "Management Education" Program in 2000-2003, **46** universities involved in co-operation, **23** economic publications
- ▶ **2642** "bridge scholarships" granted under two editions of the program for high school alumni from rural areas for the first year of studies.
- ▶ **296** schools have been participating in The "Learning Schools" Program: **2139** teachers have been trained, **720** participants of The Learning Schools Academy.

...supporting human potential

- ▶ **407** scholarships have been granted to health care managers under The "Trainings for Health Care Managers" Program; **22** training centers, **6** international conferences – over **1000** participants, **4** publications
- ▶ Nearly **600** participants took part in training courses for financial officers of the no-governmental organizations, **20** training sessions, **7** free-of-charge guidebooks, **2** CD's, a dedicated website on auditing NGOs.
- ▶ The "Citizen and Law" Program: over **12,000** free-of-charge advices for over **3500** individuals in difficult life and financial condition, **22** accomplished projects.
- ▶ "EURO-NGO": **188** participants of trainings – specialists in knowledge, necessary to be able to use UE funds effectively; their skills would be transferred to approx. **1600** leaders of local NGOs from small towns and rural areas.

...reinforcing citizens' energy

- ▶ Over **355** initiatives supported under three rounds of The "Act Locally" Program: **285,000** beneficiaries and **12,700** volunteers in total; **12** model local initiatives.
- ▶ **1165** individuals were covered by The "Undoing Unemployment" Program which utilized the "outplacement" methodology – nearly a half of them found new jobs: **5** large projects were realized; over **800** participants of trainings under the Outplacement Academy.
- ▶ **77** accomplished projects under The "Village in Transition" Program: **112** local communities covered by the program, nearly **3000** participants, creation of the "Atlas of Rural Initiatives" with description of **200** model projects.
- ▶ **22** subsidized initiatives in The "Citizen and Local Government" Program.
- ▶ **80** prizes financed by PAFF in **4** editions of the "Pro Publico Bono" Competition for the Best Civil Initiative in Poland.

...sharing Polish experiences

- ▶ **129** fellows from **5** countries – Ukraine, Belarus, Russia (Kaliningrad District), Lithuania and Slovakia participated in The Lane Kirkland Scholarship Program in 2000-2003.
- ▶ **149** projects in total has been supported under two rounds of The "Region in Transition" Program; a co-operation with non-governmental organizations from **17** countries including: Ukraine, Belarus, Lithuania, Russia, Slovakia, Romania, Georgia, Azerbaijan, Kazakhstan and Moldova, has been established.

► The Lane Kirkland Scholarship Program

The Foundation launched a long-term Program in 2000 to share the Polish experience of transformation by providing scholarships for young leaders from countries of Central and Eastern Europe who are willing to act for the development of a market economy, democracy and civil society.

83 visiting fellows participated in the Program in 2000-2003. 46 individuals are taking part in the Program in the academic year 2003/04. They come from Ukraine (25), Belarus (15), Slovakia (2), Lithuania (2) and Russia – the Kaliningrad District (2).

The Kirkland fellows, selected each year through a three-stage competition, are active young people from public administration, academia, business, as well as representatives of non-governmental organizations, the media and politics. The Program gives them an opportunity to participate in individually tailored, two-semester post-diploma studies at Polish universities as well as internships in various institutions.



Vitali Fedorovich Braginec of Minsk (Belarus) graduated from the Faculty of Law and the Faculty of Physics of the Byelorussian State University. He is writing his doctor's thesis on bankruptcy law at the same University. During his scholarship in Poland (2002/2003) he studied at the Faculty of Law and Administration of the Adam Mickiewicz University of Poznań under Prof. Elżbieta Jantón-Drozdowska, where he defended his thesis on mergers of legal entities. He established a company in 1996 and was its Director. Having returned home, he transformed it into the "Braginiec and Partners" law firm, dealing with comprehensive services provided to legal entities, accreditation of foreign companies' representative offices, products' certification, appraisal of assets, etc. He currently employs 15 staff. He plans to open an office in Warsaw in the fall of 2004. Another Kirkland scholarship holder, Yuri Struchevsky (2001/2002) has been one of his partners for several months now.

Vitali Braginec is an active member of Belorussian NGOs.

Having returned home, they continue their research and professional careers, using the knowledge and contacts established in Poland. Some are invited to lecture at universities where they worked during the scholarship, while others implement joint projects with Polish partners. Regular contacts are maintained with all of them.

The Kirkland Fellows' First Conference was held in 2003. Its underlying theme was the prospect of Poland's cooperation with her neighbors from Eastern Europe, following the enlargement of the European Union. 69 alumni of the Program took part in the Conference. On that occasion, the first issue of the Kirkland Program Newsletter was published.

► Program Manager: Polish-U.S. Fulbright Commission

The Foundation's Programs 2000-2003

Initiatives in Education

▶ **Polish Educational Portal "Interkl@sa"**

Program Manager: Foundation for Economic Education
<http://www.interklasa.pl>

▶ **Computer for a Teacher**

Program Manager: National Foundation for Computer Literacy
<http://www.ofek.waw.pl>

▶ **Computer Long Distance Training**

Program Manager: National Foundation for Computer Literacy
<http://www.ofek.waw.pl>

▶ **English Teaching**

Program Manager: "Nida" Development Foundation
<http://www.nida.pl>

▶ **Training for Health Care Managers**

Program Manager: Society of Health Care Managers
<http://www.stomoz.pl>

▶ **Learning Schools**

Program Manager: Center for Citizenship Education Foundation
<http://www.ceo.org.pl>

▶ **Management Education**

Program Manager: Educational Enterprise Foundation
<http://www.fep.lodz.pl>

▶ **Equal Opportunities**

Program Manager: Polish Children and Youth Foundation
<http://www.pcyf.org.pl>

▶ **Bridge Scholarships**

Program Manager: Educational Enterprise Foundation
<http://www.fep.lodz.pl>

Citizen in a Democratic State of Law

▶ **Supporting Legal Reforms: Computer Training**

Program Manager: Foundation Center for Judges Training "Iustitia"
<http://www.iustitia.pl>

▶ **Citizen and Law**

Program Manager: Institute of Public Affairs
<http://www.isp.org.pl>

Support for Local Communities

▶ **Mutual Information Society**

Program Manager: Klon/Jawor Society
<http://www.ngo.pl>

▶ **Act Locally**

Program Manager: Academy for the Development of Philanthropy in Poland
<http://www.filantropia.org.pl>

▶ **Financial Management for NGOs**

Program Manager: Civil Society Development Foundation
<http://www.frso.pl>

▶ **Undoing Unemployment**

Program Manager: Foundation for Social and Economic Initiatives
<http://www.fise.org.pl>

▶ **Village in Transition**

Program Manager: Rural Development Foundation
<http://www.fww.org.pl>

▶ **"Pro Publico Bono" Award**

Program Manager: "Pro Publico Bono" Competition Foundation
<http://www.propublicobono.pl>

▶ **Citizen and Local Government**

Program Manager: Foundation in Support of Local Democracy
<http://www.frdl.org.pl>

Sharing Polish Experience in Transformation

▶ **The Lane Kirkland Scholarship Program**

Program Manager: Polish-U.S. Fulbright Commission
<http://www.fulbright.edu.pl>

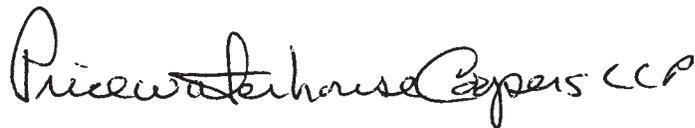
▶ **Region in Transition (RITA)**

Program Manager: Foundation Education for Democracy
<http://www.edudemo.org.pl>

Report of Independent Auditors

To the Board of Directors of the
Polish-American Freedom Foundation:

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the Polish-American Freedom Foundation (the "Foundation") at December 31, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



March 15, 2004

Financial Statements

Statement of Financial Position as of December 31, 2003

ASSETTS

ASSETTS:

Cash and cash equivalents (Note 6)	\$ 3,134,676
Fixed income investments (Note 6)	57,299,229
Equity investments (Note 6)	155,959,049
Fixed assets, net (Note 7)	31,871
Prepaid expenses and other assets	43,026

Total assets	\$ 216,467,851
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LIABILITIES AND NET ASSETS

LIABILITIES:

Grants payable (Notes 1, 5)	\$ 1,012,531
Accounts payable and accrued expenses	182,171

Total liabilities	1,194,702
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NET ASSETS:

Unrestricted net assets (Notes 2, 4)	215,273,149
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Total liabilities and net assets	\$ 216,467,851
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The accompanying notes are an integral part of these financial statements.

Statement of Activities for the Year Ended December 31, 2003

Changes in unrestricted net assets:

Income:		
Interest and dividend income	\$	4,232,871
Support (Note 4)		71,000,000
Net realized and unrealized appreciation on securities		22,490,415
		<hr/>
Total income		97,723,286
		<hr/>
Expenses:		
Employee compensation and benefits		619,323
Operating expenses		417,842
Occupancy		116,714
Depreciation		27,242
		<hr/>
Total expenses		1,181,121
		<hr/>
Excess of income over expenses, before grants		96,542,165
Grants (Notes 1, 5)		(4,950,302)
		<hr/>
Total increase in unrestricted net assets		91,591,863
Unrestricted net assets, beginning of the year		123,681,286
		<hr/>
Unrestricted net assets, end of the year	\$	215,273,149
		<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows for the Year Ended December 31, 2003

Cash flows from operating activities:

Increase in net assets	\$ 91,591,863
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:	
Net realized and unrealized appreciation on securities	(22,490,415)
Depreciation	27,242
Decrease in prepaid and other	19,198
Increase in liabilities	30,651
Increase in grants payable	203,387
Net cash from operating activities	<u>69,381,926</u>

Cash flows from investing activities:

Endowment Fund investment portfolio activity:	
Proceeds from sales/redemption of investments (Note 6)	294,404,896
Cost of investments purchased (Note 6)	(384,314,754)
Cost of fixed assets purchased	(13,201)
Net cash used in investing activities	<u>(89,923,059)</u>
Net decrease in cash and cash equivalents	(20,541,133)
Cash and cash equivalents, beginning of year	<u>23,675,809</u>
Cash and cash equivalents, end of year	<u>\$ 3,134,676</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements as of December 31, 2003

1. ORGANIZATION

The Polish-American Freedom Foundation (the "Foundation") is a U.S. not-for-profit corporation established on August 11, 1999 pursuant to an agreement between the Polish-American Enterprise Fund (the "Fund") and the U.S. Government. The Foundation was created to advance the purposes of the Support for East European Democracy Act of 1989 by building upon the successful assistance programs and sound practices established by the Fund, and to undertake other developmental initiatives designed to solidify Poland's successful transition to democracy and free markets.

The Foundation concentrates its efforts in four main program areas: (i) Initiatives in Education, (ii) Support for Local Initiatives, (iii) Regional Outreach – Sharing Polish Experience in Transformation, and (iv) Citizen in a State of Law. The Foundation generally seeks an external program manager (typically a well established non-governmental organization in Poland) to execute the objectives of each individual grant, thereby leveraging the Foundation's resources.

With the permission of the Minister of Foreign Affairs of Poland, the Foundation has opened a Representative Office in Poland whose purpose is to engage in activities to promote the Foundation and to provide information and consultation to the Foundation with respect to its activities.

2. BASIS OF PRESENTATION

In accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations, the Foundation is required to classify information regarding its financial position and activities into certain classes of net assets. Pursuant to the Grant Agreement (defined in note 4), at December 31, 2003, the entire balance of net assets was classified as unrestricted. Unrestricted net assets are those net assets that are not restricted by donor imposed stipulations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Equity and fixed income investments are generally valued based upon the closing price as quoted on major exchanges. However, certain fixed income securities are valued based upon yields or prices of securities of comparable quality, coupon, maturity and type as well as indications as to values from brokers and dealers.

The Foundation engages professional investment managers who make investment decisions according to the Foundation's investment policy and monitor the Foundation's investments.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid financial instruments with original maturity of three months or less to be cash equivalents.

Grants

Grants are recorded as grant expense in the statement of activities and grants payable in the statement of financial position when the grant is approved in accordance with policies set by the Board of Directors, negotiations have been finalized with the grantee, and the parties have signed the grant agreement.

Translation of Foreign Currency

The functional currency of the Polish representative office is the Polish zloty. Expenses transacted in Polish zlotys are translated into United States dollars at the average exchange rates in effect during the period. Polish zloty denominated assets and liabilities are translated at the year-end spot currency rate.

Translation adjustments are reflected in the statement of activities.

Donated Services

The Foundation's directors receive no compensation or fees for serving as directors. Such directors donate significant amounts of their time to the Foundation's programs. No amounts have been reflected in the accompanying financial statements for such donated services, inasmuch as no objective basis is available to measure the value of such services. The Foundation's non-executive Polish directors receive a fee for providing advice and assistance to the Foundation. For the year ended December 31, 2003 the total fees paid to all Polish directors amounted to \$43,000.

Depreciation and Amortization

Computer hardware, furniture, equipment and automobiles are depreciated on a straight-line basis over their estimated useful lives, ranging from three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Operating Expenses

Professional services, expenses of Board of Directors meetings, expenses for travel, lodging and meals incurred in connection with the Foundation's operations and administrative expenses are classified as operating expenses.

Credit risk

Credit risk is the possibility that loss may occur from counter party failure to perform according to the terms of a contract. Unless noted otherwise, collateral or other security is not normally required by the Foundation to support financial instruments with credit risk. At December 31, 2003, the Foundation had credit exposure mainly from debt instruments in the Foundation's portfolio. The maximum risk of accounting loss from these financial instruments is represented by their respective balance sheet amounts.

4. POLISH-AMERICAN ENTERPRISE FUND GRANT

Pursuant to an agreement signed in 1999 between the Fund and the U.S. Government and in consultation with the Government of Poland, the Fund has returned \$120 million of the Fund's assets to the U.S. Treasury and intends to use substantially all of the remaining balance of its assets to endow the Foundation (the "Endowment Amount").

According to the terms of the grant agreement between the Fund and the Foundation, as amended, (the "Grant Agreement"), the Foundation shall be operated as a perpetual endowment, with the long-term objective of earning an average annual return on the Endowment Amount which exceeds average annual disbursements to beneficiaries and for expenses as defined in the Grant Agreement.

According to the terms of the Grant Agreement, the Fund has the right to require repayment or transfer of all or any portion of the Endowment Amount paid or transferred to the Foundation together with any interest thereon if foreign policy grounds exist, as described in Section 801 of the SEED Act.

The Foundation has received the following Endowment Amounts from the Fund (dollars in millions):

Prior to 2003	\$ 137.0
2003	71.0
	<u>\$ 208.0</u>

5. GRANTS AND GRANTS PAYABLE**Grants**

In accordance with accounting principles generally accepted in the United States of America, the Foundation is required to record the total amount of a grant as an expense at the time the grant agreement is signed. As programs develop, the Foundation and the grantee may agree to decrease the amount of a grant to reflect changes in a program not anticipated at the time the grant agreement was signed. For the year ended December 31, 2003, the Foundation signed \$5,080,533 of new grant agreements and reduced the amount of grant agreements signed in prior periods by \$130,231, resulting in a net expense for grants of \$4,950,302 reported in the accompanying statement of activities.

Grants Payable

Each time the Foundation records an expense to reflect the signing of a new grant agreement it also records a grant payable to reflect a liability to fund the full amount of the grant. In practice, the Foundation generally disburses grants to grantees over time, as funds are required to meet the costs of each program. As a result, the amount recorded as an expense for Grants in the statement of activities generally does not equal the amount of grants disbursed by the Foundation in a fiscal period. For the year ended December 31, 2003, the Foundation disbursed \$4,746,915 of grants as compared to \$4,950,302 of grants expense reported in the accompanying statement of activities. As a result, grants payable increased by \$203,387 during 2003.

The following table sets forth the changes in grants payable for the year ending December 31, 2003:

Grants disbursed		\$ 4,746,915
Grant agreements signed	\$ (5,080,533)	
Decrease in amount of grant agreements signed in prior periods	<u>130,231</u>	
Grant expense reported in statement of activities		<u>(4,950,302)</u>
Net change in grants payable		203,387
Grants payable, beginning of period		<u>809,144</u>
Grants payable, end of period		<u>\$ 1,012,531</u>

In addition, as of December 31, 2003, the Foundation had approved 10 grants totaling \$7.1 million that were subject to the completion of grant negotiations and the signing of grant agreements to the satisfaction of all parties. Subsequent to December 31, 2003 the Foundation signed 8 of these grant agreements, totaling \$3.9 million.

6. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents:

As of December 31, 2003, the Foundation's cash and cash equivalents consisted of \$3.1 million in cash (principally money market funds) that was deposited in various high quality financial institutions in the United States. Substantially all of the cash and cash equivalents balance was held by the Foundation's various investment managers and was available for investment in fixed income and equity securities.

Investments:

Following is the cost, fair value and percentage of net assets by classification for investments in the Foundation's investment portfolio:

	Cost	Fair value	% of net assets
Fixed income investments:			
U.S. fixed income	\$ 50,176,021	\$ 49,812,039	23.1%
PLN fixed income	7,232,531	7,487,190	3.5%
Total fixed income investments	<u>57,408,552</u>	<u>57,299,229</u>	<u>26.6%</u>
Equity investments	137,193,931	155,959,049	72.4%
	<u>\$ 194,602,483</u>	<u>\$ 213,258,278</u>	<u>99.0%</u>

PLN fixed income investments consist of Polish Government treasury bills. Equity investments include direct purchases of shares in listed companies, investments in listed and non-listed mutual funds, investments in limited partnerships, and investments in limited liability companies. The Foundation evaluates investment manager performance on a total return basis, net of custodial, investment management and advisory fees. The total amount of such fees reflected in the statement of activities was \$672,650, which represents 0.3% of the total value of investments under management at December 31, 2003. Of this amount, \$575,955 was reflected in net realized and unrealized appreciation on securities and \$96,695 was reflected in interest and dividend income.

7. FIXED ASSETS

As of December 31, 2003, fixed assets consisted of:

Computer equipment and software	\$ 79,407
Furniture and equipment	59,379
Automobiles	36,444
Leasehold improvements	2,275
	<u>177,505</u>
Less – Accumulated depreciation	145,634
Net book value	<u>\$ 31,871</u>

8. LEASE COMMITMENTS

The Foundation is committed to make minimum annual rental payments for office space under an operating lease which expires December 31, 2005. Lease commitments for the twelve months are approximately \$132,000 per annum for each of 2004 and 2005.

9. TAX STATUS

United States

The Foundation is exempt from U.S. Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code"), and has been classified as an organization that is not private a foundation as defined in Section 509(a)(1) of the Code. In addition, the Foundation is exempt from payments of state and local income taxes.

Poland

The Foundation's Representative Office in Poland is not subject to Polish corporate income taxation.

Board of Directors

John P. Birkelund – Chairman

Chairman of the Board of Directors of the Polish-American Enterprise Fund, Senior Advisor Saratoga Partners

Marek Belka

Prime Minister of the Republic of Poland, former Polish Deputy Prime Minister and Finance Minister, former Economic Advisor to the President of the Republic of Poland. *Because of Prof. Marek Belka's public roles, he has taken a leave of absence from the Board (as of May 2004).*

Joseph C. Bell

Senior Partner in Hogan & Hartson

Frederick M. Bohlen

Executive Vice President and Chief Operating Officer The Rockefeller University

Michał Boni

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