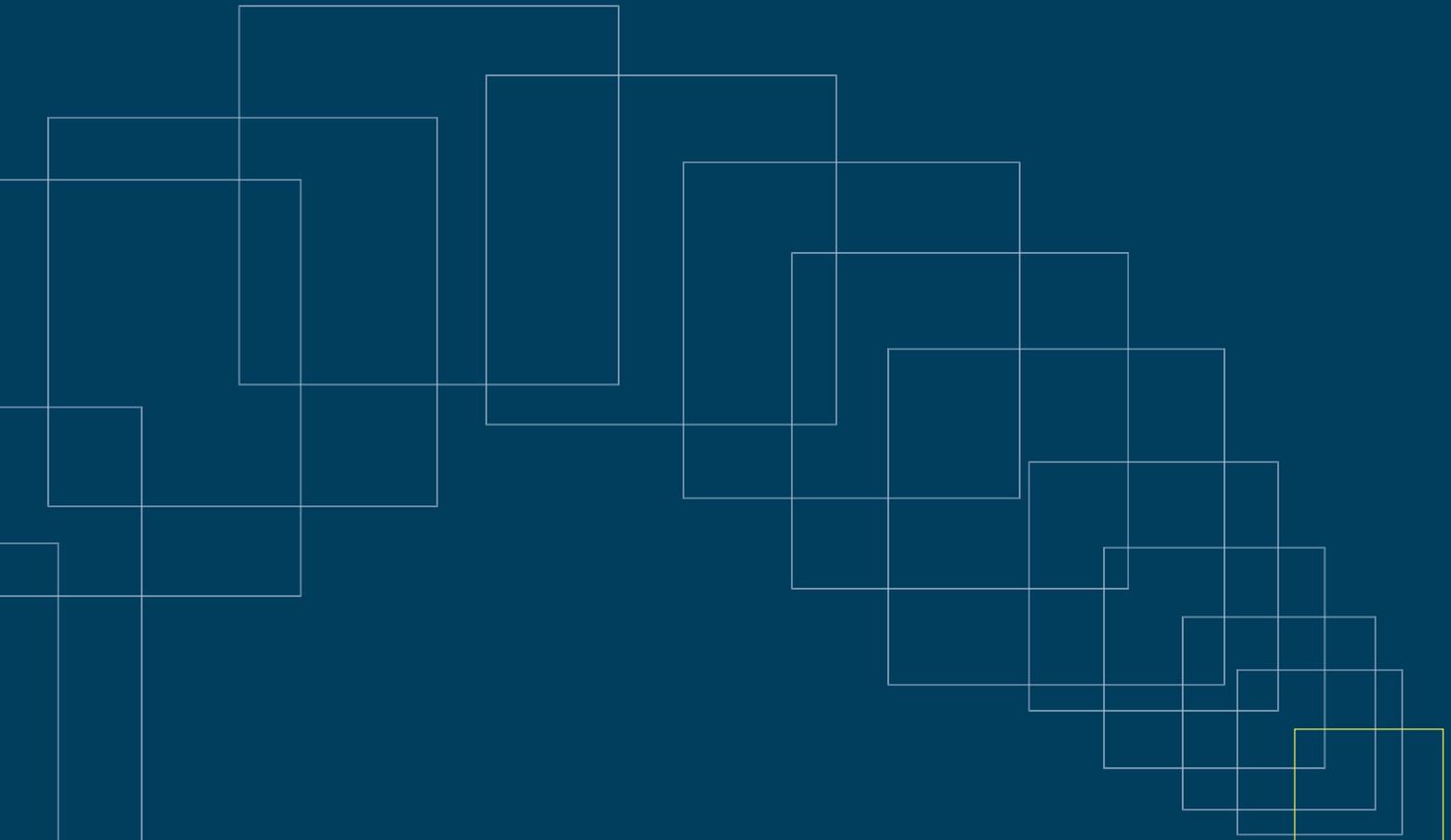


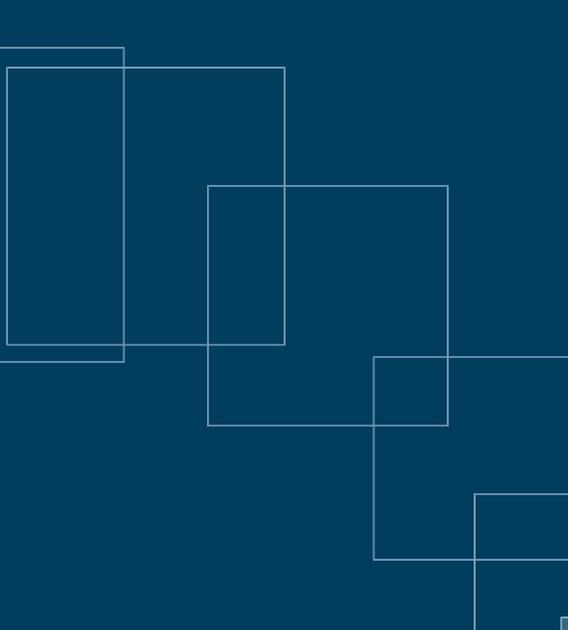


The Wallace Foundation™

Supporting ideas.
Sharing solutions.
Expanding opportunities.™



annual report **2002**

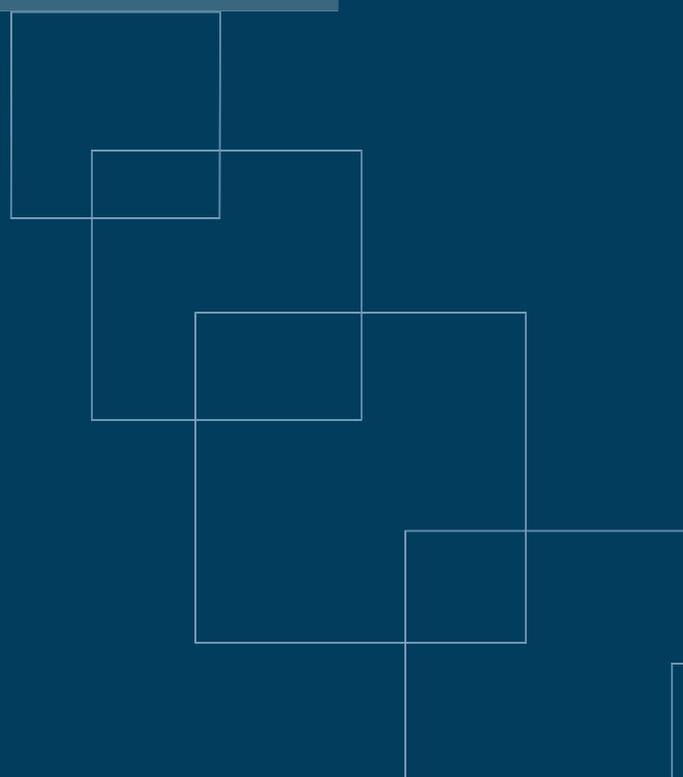


Our Mission is to enable institutions to expand learning and enrichment opportunities for all people. We do this by supporting and sharing effective ideas and practices.

To achieve our mission, we have three objectives:

- Strengthen education leadership to improve student achievement
- Improve after-school learning opportunities
- Expand participation in arts and culture

With this report, we mark the end of a five decade long journey, and the start of a new one. Our new name that debuts on this cover continues to honor our founders, DeWitt and Lila Wallace, while symbolizing our evolution into a unified, national foundation dedicated to supporting and sharing ideas that can expand opportunities for people and communities across America.



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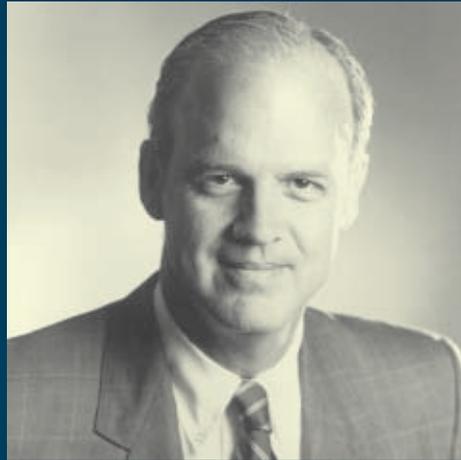
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Chairman's Letter

This is my first letter as chairman of the board of directors, although I've served on the board continuously since March 1992. Being part of, and witness to, the continuing evolution of the philanthropies that DeWitt and Lila Wallace established with the fortune they made from founding Reader's Digest has been a source of continuing personal satisfaction.

2002 was a particularly eventful period in this evolution. First, George V. Grune, who served as chairman of the Wallace Funds since 1985, retired in June. Under his stewardship, we moved from our beginnings as a family foundation with assets of \$320 million, to a national foundation with about \$1.1 billion in assets, an able and diverse professional staff, and much more highly refined philanthropic objectives. I am honored to have the opportunity to carry on that work as chairman.

Second, we welcomed Susan J. Kropf, president and chief operating officer at Avon Products, Inc., as our newest board member in June. Susan's more than 30 years of corporate experience and leadership at Avon make her an invaluable addition to our board and we look forward to her contributions.

Third, the recapitalization of Reader's Digest in December enabled us to monetize the value of our controlling interest in Reader's Digest stock which we received as a bequest from the Wallaces. This was a significant and final step in the extended process of diversifying the foundation's assets out of founder's stock that began in 1990.

Finally, as the cover of this annual report signals, we have legally merged our two separate foundations (the DeWitt Wallace-Reader's Digest Fund and the Lila Wallace-Reader's Digest Fund) and renamed the new organization The Wallace Foundation. This name change, and other symbolic changes to come in the months ahead, mark the culmination of our evolution from family foundation to national foundation.

While our name has changed, our guiding vision inherited from the Wallaces and refined through our work in education, communities and the arts remains constant. As you'll read in the following pages, we believe foundations can play a critical role in generating real solutions to national challenges. The changes we've made this past year—to our board, our asset mix and our organizational structure and identity—will strengthen our ability to continue this work in the years ahead.



Walter V. Shipley, Chairman



Coming Together

President's Essay

2002 was a watershed year for our foundation. We began to see the first fruits of our decision three years earlier to reorganize in order to broaden our impact beyond the reach of our grant dollars. And we completed a nearly five decade-long journey: from a collection of family philanthropies with modest endowments, to a single, unified, independent national foundation with a new name that debuts on the cover of this annual report: The Wallace Foundation.

Three years ago, we created multi-disciplinary staff teams to enable us to better work with our partners to foster innovation, and to capture and share knowledge that practitioners and policymakers could use to bring about beneficial change. In the past year, this integrated approach has begun to produce credible, usable knowledge, more smartly disseminated, and more responsive to the needs and realities of the areas in which we work.

- The education leadership initiative we launched in 2000 to strengthen the ability of principals and superintendents to improve student learning is producing important lessons for the field. We continue to work directly with 15 partner states and 12 school districts committed to improving the conditions for leadership. That work has made possible new tools for many others working in education. A newly-published synthesis, *Leading for Learning*, based on hundreds of interviews with practitioners, describes a number of action pathways school leaders can take to advance student learning. A body of research commissioned by Wallace sheds surprising light on the nature and extent of

the principal shortage—findings that could help states and districts develop a better balance of practices and policies to attract effective leaders to the schools that need them most.

- Our support for and research into effective after-school programs have reaped timely new knowledge and practical guidance for the field on how to start and maintain high-quality programs that can make a real difference in the lives and learning of children. “Quality” is just an abstraction unless we know what it looks like. Now, thanks to a newly-published evaluation of 60 such programs around the country we’ve funded over the past five years, we have a clearer picture of enormous relevance to policymakers struggling with how to allocate scarce public and private resources so that learning opportunities beyond the school day reach the children who could most benefit. We have also begun the search for answers to an even bigger question: can this knowledge be applied successfully within the decentralized structure in which after-school programs typically operate? We think so, and to find out, we are currently investing in an ambitious experiment in Providence, RI, to see if leadership, aligned around the interlocking goals of quality and access, can lead to a far more robust system that will permit more children in high-need areas to benefit from effective after-school programs. This focus on quality is, in many communities, a radical departure from business as usual, and may well require tough, even painful choices in the allocation of resources. But finding ways to deliver both quality *and* broad access is essential, we believe, if after-school learning programs are to sustain public support.
- In the arts, the work of our partner cultural organizations and state arts agencies has begun to inform the policies and practices of cultural institutions and funders interested in building public participation and making art part of people’s everyday lives. That growing influence owes directly, we believe, to the synergy between our investments in practice-based innovations of leading arts organizations on the one hand; and the research by RAND, the Urban Institute and others we have sponsored and are sharing with the rest of the field through convenings, a growing library of publications, and our Arts4AllPeople website (www.arts4allpeople.org). Looking ahead, we are supporting an extensive study by RAND of the full range of benefits of the arts, from student learning to community development, so that policymakers and practitioners can make more informed decisions. This new knowledge couldn’t be timelier as arts institutions everywhere contend with deep budget cutbacks and search for ways to secure their future as valued, supported community institutions.

You can read more about this work in our three areas of concentration in the articles that follow.

One organization, one way of working

All of this work is emblematic of our longer journey: from a philanthropy that was mainly about creating direct benefits by funding good organizations, to a national foundation equally committed to helping catalyze social benefits beyond the reach of our limited dollars. That journey began in the mid-1950s when DeWitt and Lila Wallace, the founders of Reader's Digest, set up a collection of small family foundations, with modest assets. After their deaths in the mid-1980s, these became the Lila Wallace-Reader's Digest Fund and the DeWitt Wallace-Reader's Digest Fund, later known as, simply, the Wallace Funds.

During the 1990s, the Funds made grants of nearly \$1 billion in more than 100 different program initiatives, ranging from teacher recruitment to adult literacy, arts, libraries and parks. As the decade drew to a close, despite the good we had accomplished, we were not satisfied that we were reaping the maximum social return we could achieve from the dollars we were investing. Often we saw programs created with our grants wither when our funding ended—suggesting they might not have served a compelling need, or had not been cost-effective. Even those that seemed successful rarely contributed to widespread or fundamental change in the major public systems in which we were working.

In service of that more challenging goal of transforming the systems and institutions that affect everyday life, we reorganized ourselves administratively in 2000 to function as a single organization. Yet we remained two legally distinct entities. In 2002, as our chairman Walter Shipley writes in his letter (see p. 3), we sold our controlling interest in The Reader's Digest Association that was the original and generous bequest of our founders. And we have now completed the merger of the two foundations bearing their names into a single entity: The Wallace Foundation.

Along with a new name, a new logo debuts in this annual report. It reaffirms and sustains our heritage by highlighting the name of our founders. Take a closer look at the three prisms that surround the name "Wallace." They hint at the light of knowledge that we hope is the product of our work with all of our partners. And they convey a sense of outward movement that expresses our aspiration to have a broad impact in the fields we work and on society.

The symbolic expressions of our identity have changed—but our ambition has not. In everything we do, we want to be a resource dedicated to helping create, support and share ideas and insights, tools and effective practices, that can have a transformative effect on major public systems and, ultimately, on people's lives.

Foundations and knowledge: perfect together

This implies what may seem like a strange notion: the foundation as co-generator or enabler of knowledge that flows from new practices in the field. We tend to think of foundations mainly as sources of money. In fact, the greatest contributions made by foundations come about through a combination of innovation, knowledge and public engagement. The amount of funding is rarely the sole or most important reason for lack of progress on fundamental problems. Just as often, progress is blocked by uncertainty about what works, insufficient evidence that change is possible, inadequate strategies for mobilizing change, and bureaucratic resistance.

No one would deny that change often takes money. But when measured against the hundreds of billions of dollars that drive the public systems such as schools that we are working to improve, foundation dollars are minuscule. At best, we can only hope to have direct impact on a tiny portion of these sprawling, complex systems. Useful, timely knowledge is the real currency for creating social change.

In part because we are independent of the market, foundations are well-positioned to be non-ideological “honest brokers” of solutions—helping foster the development of new approaches, then sharing them with the people and institutions who could benefit. This is how we see our role.

New demands need new ideas and new tools

The new demands facing nonprofits and governments give new urgency to this approach. As Lester Salamon writes in his 2002 book, *The State of Nonprofit America*: “Nonprofit America has confronted a difficult set of challenges over the recent past. Fiscal stress, increased competition, rapidly changing technology, and new accountability expectations have significantly expanded the pressures under which these organizations must work, and this has affected the public support these organizations enjoy and their ability to attract and hold staff.”

In this environment of greater accountability and fiscal pressure, new tools and new solutions—ideas for change—are needed. The problem is not only about money, (though that will surely always matter). It’s about finding ways to work differently, and work better. If we can do this, we will help fit the missing pieces into the puzzles that face our society.

To succeed, we in the field of philanthropy must meet new challenges:

- How can we work effectively with our grantees to help find solutions to pressing social problems, balancing risk and reward, flexibility and focus?
- How can we use multiple means to capture the ideas and experiences of our grantees and others in ways that are authentic and authoritative, but also intelligible to non-specialists?
- How can we become better at listening to the “marketplace” so that we are not imposing ideas, but meeting genuine needs?
- How can we credibly measure the impact of our investments, balancing the need for evidence with the understanding that, often, the most important things may defy ready measurement?
- And how do we become more effective at sharing what we, our grantees, and our research partners, have learned, by engaging with those in the world of policy and practice?

These are hard questions that go to our ability to deliver benefits to society. But like it or not—and I happen to like it—I believe we are in a rare period of soul-searching about how effectively we as foundations are living up to the broad national demand to use scarce resources wisely.

Making the connections

Lewis S. Thomas, the distinguished biologist and writer, offers the observation in *The Lives of a Cell* that the search for truth is about linking seemingly disparate things. He writes that “often the problem consists of discovering the connections between unrelated pieces of information.” I would add that change requires not just finding the connections among ideas, but between ideas and those who can bring them to life.

Foundations can be strong connecting forces. But we are also connectors with a purpose. We seek to help develop effective solutions to pressing problems with partners and in places that appear to be poised for change, with people who are committed to driving that change.

We invest in learning in order to create the possibility for change in other places that may never get our money because we would never have enough to go around.

And our ultimate hope is to leave a public record that makes this democracy, our democracy, a stronger place.



M. Christine DeVita, President

cation

Connecting Leadership to Learning

The goal: strengthen
education leadership to
improve the learning of
all children.

With the passage in 2002 of the federal “No Child Left Behind” Act, the nation has formally committed itself to educational opportunity and excellence for all children. Never in our history has that lofty goal been seriously attempted, much less accomplished. Virtually overnight, schools and districts find themselves accountable to new measures aimed at assuring that every child, without exception, learns to high standards.

That goal, laudable as it is, follows decades of national and state reform efforts whose results have been mixed at best. Some of those efforts aimed at expanding resources for disadvantaged children. Others focused on improving teaching, or revamping curricula, or shifting governance away from districts to schools. Yet the harsh truth remains that many children, particularly in poor areas, still are not receiving an adequate education. Why?

The common answer is that the problem is complex. There is wide variation in the capacity of schools and school systems, and the

people who work in them, to perform at higher levels. Financial resources and political support are unevenly distributed. Learning expectations for different groups of children in our society continue to vary. Competing special interests and troublesome inequities persist. Governance structures are seen by many as outdated and ineffective.

Three years ago, as The Wallace Foundation considered future directions and opportunities in the education field, we thought we saw another reason why so little progress had been made. Largely missing in the many reform prescriptions was an apprecia-

tion for the role of effective leaders and strong leadership. We therefore decided to focus our work in education exclusively on improving leadership as a way to help drive large-scale, systemwide school renewal so that all children learn at high levels.

This focus on leadership was an unusual, largely untested position three years ago. However, with states now requiring measurable results not just in individual classrooms or schools but entire districts, principals and superintendents are being held accountable as never before for improving student performance. The quest for leaders with the right skills and experiences, and for the right incentives and resources to change underperforming systems, is becoming a higher priority. The Wallace Foundation seeks to support and inform this emerging field of “leadership for learning.”



Our Current Work

Over the last three years, we have pursued a multi-faceted strategy that seeks to go beyond classroom-by-classroom or school-by-school approaches to reform and instead focuses on the school district itself as a political system. At the same time, it takes into account the enormous power of states to determine the environment in which school districts operate. Our strategy thus consists of the following elements:

1. Supporting partnerships between 15 selected states¹ (through our program called SAELP, State Action for Education Leadership Project), and 12 districts² within those states (through LEAD, Leadership for Educational Achievement in Districts), aimed at improving leader performance and the conditions for leadership
2. Addressing the paralyzing lack of knowledge about how leadership can influence student performance
3. Rallying public support and engaging influential partners to make the necessary policy and practice changes to attract and sustain effective leaders, and
4. Supporting innovative leadership ideas and practices by school districts and other grassroots organizations through our Ventures in Leadership program

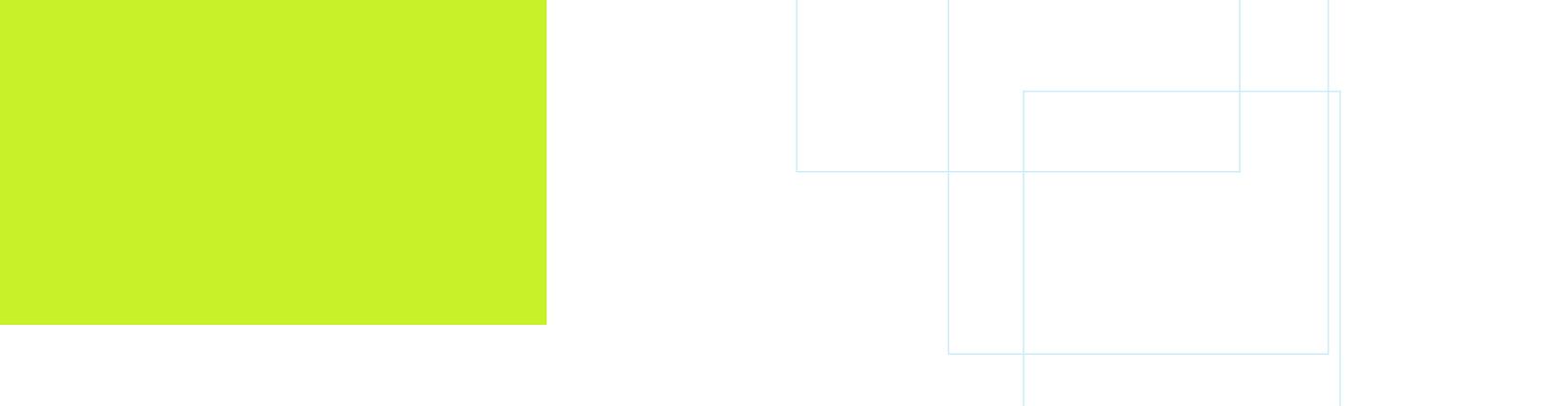
¹ Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, Kentucky, Massachusetts, Missouri, Montana, New Jersey, Oregon, Rhode Island, Vermont and Virginia.

² Atlanta, GA Public Schools; Eugene, OR School District; Fairfax County, VA Public Schools; Fort Wayne, IN Community Schools; Hartford, CT Board of Education; Jefferson County Public Schools, Louisville, KY; New York, NY Community School District Ten; Providence, RI School District; St. Louis, MO Public Schools; Springfield, IL School District; Springfield, MA Public Schools and Trenton, NJ Public Schools.

1. State-District Demonstration Sites (LEAD and SAELP)

This strategy links regulatory reform at the state level with innovative, practical reforms at the school district level to improve school leadership. 2002 marked the launch of LEAD in the 12 districts selected to participate. Each district is eligible for further funding for up to five years, depending on the results achieved. (See p. 49 for a list of the grants awarded to each LEAD district.) Over the life of the initiative, the districts will be expected to take a comprehensive approach to leadership improvement, including better recruitment, retention, preparation strategies, and the crucial matter of creating the conditions and incentives needed for successful leadership.

A major thrust of LEAD is to ensure that leadership preparation programs are better suited to the actual job requirements and conditions of school leaders. The work of school leadership has changed—but the professional preparation offered at most universities is outdated and inflexible. In this start-up year of LEAD, many participating districts chose to focus on strategies aimed at



attracting a stronger, more diverse pool of candidates for the principalship; improving the professional preparation of school leaders with a heavy emphasis on mentoring, coaching and internships; and strengthening the ability of school leaders to improve student learning.

Springfield, MA, became the first district in that state to get permission to create and manage its own principal certification program independent of a university. The Eugene (OR) School District 4J started a principal preparation program at the University of Oregon, with faculty drawn from both the district and the university. The district recruited 28 teachers—14 of whom are women, and four are minorities—to participate. The Fort Wayne (IN) Community School District is seeking to increase the quality and diversity of its school leadership by operating five leadership academies. An Exploratory Leader Academy was established in 2002 for teachers considering a career in leadership but not yet ready to leave the classroom. Participants will divide their time between teaching and participation in an administrative internship. Of the 40 people who applied, three were minorities and 14 were women.

In 2002, we began an audit of existing leadership preparation programs used by the 12 districts. The Southern Regional Education Board (SREB) is providing technical assistance to the LEAD districts and their college/university partners on new ways to train principals. The Board is also working with the SAELP teams in the states where the LEAD districts are located to identify state-level policy barriers to redesigning principal preparation programs. By the end of 2003, we hope to have identified model redesigns based around the needs of principals serving low-income students.

All 12 LEAD superintendents participated last year in three half-week executive development residencies at the John F. Kennedy School of Government at Harvard to gain new insights and knowledge about their own leadership roles and responsibilities. Two more superintendent residencies are planned at Harvard in 2003.

State level reforms make up the other core element of our field work. SAELP is designed to help the 15 participating states identify the legislative and regulatory changes needed to ensure that school districts are able to develop, recruit, prepare, and retain school leaders capable of improving student performance. It operates on two levels:

- A National Consortium³ of the membership organizations representing all of the key policymaking groups: governors, chief state school officers, state legislatures, state boards of education and state education commissions. The Consortium operates as a central coordinator of individual state action and as a mechanism through which new ideas and effective strategies can spread.
- Local teams in each of the 15 SAELP states composed of representatives from the same policy groups. Each team has developed a plan that identifies various state policy initiatives needed to ensure school leaders can focus on student achievement. Each team works in concert with a LEAD district and/or other school district demonstration sites to ensure its policy initiatives are solving practical problems faced by school districts.

Critical challenges ahead include solidifying the work begun, improving coordination in LEAD-SAELP, and assuring that the benefits spread nationally.

³ The National Consortium consists of the Council of Chief State School Officers (CCSSO), the National Governors Association, the National Conference of State Legislatures, the National Association of State Boards of Education, and the Education Commission of the States. CCSSO serves as managing agent of the program.

2. Knowledge Development

We need to learn much more about what “leadership for learning” looks like: what educational leaders should do to turn around failing and mediocre schools; and what conditions in the labor market and in school systems impede their work and must be changed. In truth, most school leaders are trained as administrators, not leaders of complex, changing enterprises. Through our early investments, we have begun to fill in some of the knowledge gaps to help leaders focus these complex systems more effectively on student performance:

- The Southern Regional Education Board has developed a set of critical success factors for principals and new curriculum modules for leadership academies.
- The Institute for Learning at the University of Pittsburgh is creating research-based tools to help principals and superintendents improve classroom practices.
- New research from the RAND Corporation, New York State’s Education Department and the University of Washington—and a Wallace Foundation policy brief synthesizing those three documents—provides a more refined understanding of whether there is, in fact, a principal shortage, which districts are most affected, and what strategies would be most appropriate in addressing it.
- A new publication, *Leading for Learning*, provides a framework showing the relationship between a variety of actions leaders can take, and efforts to improve student achievement.
- New York State has issued a document, *Creating a Framework for the Preparation of School Leaders*, which will influence new certification requirements at state universities.

3. Raising Awareness

Since the importance of leaders in improving student performance has been relatively unrecognized, we have worked on several fronts to raise awareness of the issue. Foundation representatives and grantees are presenting with greater frequency at various conferences. Since 2000, we have sponsored three national conferences on leadership. The most recent, in Fairfax, VA last August, garnered coverage by C-SPAN and attracted some 400 education leaders and thinkers from 33 states as well as representatives from 12 charitable foundations. Starting in 2003, we are funding a series of seminars by the Hechinger Institute on Education and the Media to inform and engage reporters and editors located in and around LEAD districts and SAELP states on the issue of education leadership.

4. Supporting Experimental Ideas

Since it began in 2001, our Ventures in Leadership program provided nearly 130 grants ranging from \$5,000 to \$50,000 to districts, universities and other community and non-profit organizations in 44 states and the District of Columbia. The awards have supported a wide variety of innovative projects related to attracting, training and sustaining principals and superintendents. The program concluded in December 2002.

The Challenge Ahead:

Making Leadership Count

The goals we've set are ambitious. We are mindful of the many obstacles and challenges in successfully connecting leadership to the learning of all children. We are seeking to create lasting reform in an arena of fast-moving developments in the standards movement and federal education policy, shifting state policies and budgets, and abrupt governance changes in large urban school systems. In that challenging environment, we need to consolidate and strengthen the work begun in our state-district demonstration sites, put the new knowledge we are developing to use in those sites, and sharpen our strategic design for change beyond those sites.

Specifically, our agenda in the months and years ahead includes:

- ensuring that the new leader preparation programs being developed in LEAD districts are high quality and based on the best available knowledge of how leaders can improve student performance;
- putting the focus more squarely on improving the conditions and incentives needed to attract the best candidates to leadership positions and support their success;
- reforming the governance structure in each district to develop a climate supportive of leadership for learning;
- finding ways to better coordinate the work of states and districts to break down the barriers blocking needed policy changes affecting school leaders;
- examining new approaches to assessing the performance of principals and superintendents;
- sponsoring further research and case examples that make clear the connections between quality leadership and improved student performance; and
- continuing to build public support for the role school leaders can play in improving student achievement, and creating vehicles to involve local business, government, community and school leaders more directly in this work.

These are challenging tasks. But we are encouraged by early signs of progress. Education is the bedrock upon which America was founded and America cannot afford to waste a single child. In the words of W. E. B. Du Bois: "Of all the civil rights for which the world has struggled and fought for 5,000 years, the right to learn is undoubtedly the most fundamental."

focus on:

Improving the Conditions for Leadership

If any lessons have emerged from our early work on how best to address the challenge of assuring high quality education leadership to support the learning of all kids, it's these:

- Leadership is necessary if we are to realize the goal of success for all children—but it is by no means sufficient.
- To attract the leaders we need to the schools and districts that need them most, the primary focus should be on **conditions**.

The first lesson means that to achieve the universal learning goals we as a nation have committed to, there is no magic bullet—whether it's more money, better teaching, better curriculum, or better leadership. What's needed is to re-focus the resources, policies, practices, and priorities of the entire system of public education on learning, first and foremost. Leaders have an essential role and responsibility in making this happen. But it is a mistake to expect them to accomplish it alone, or within systems where leaders must constantly fight avoidable distractions and obstacles to their success.

The second lesson is the flip side of the first. We need high quality leaders capable of orchestrating systemwide change. But we'll never attract enough of them to spend their careers in the schools and districts that most desperately need them until and unless we put far more energy on creating the conditions and incentives necessary to support their success. That includes the obvious, such as salaries. But it also includes more flexible hiring practices, greater support from the public for leadership connected to learning, and changes in funding to support more effective preparation and development of school leaders.

These two basic truths—that leadership is necessary but not sufficient for school improvement, and that reforms aimed at improving leadership will succeed only if they focus far more on getting the conditions and incentives right—are becoming

increasingly clear from our work with states and districts, and from a growing body of evidence from Wallace-sponsored research. They are less obvious than they might sound at first, and less commonly understood or embraced than might be expected in the education field. Yet without those realizations, the risks are high that efforts to improve leadership to support better learning will rest on inflated expectations, and will lead to ineffective strategies that waste precious resources.

A new framework for leadership

A new framework providing practical tools to help make leadership more effective, and three newly-issued research publications on the labor market for principals, shed considerable light on why this is so:

Leading for Learning: Reflective Tools for School and District Leaders, published with Wallace support by researchers at the Center for the Study of Teaching and Policy at the University of Washington, offers principals and superintendents an action framework based on the idea that successful “leading for learning” means “creating powerful, equitable learning opportunities for students *and adults*, and motivating them to take advantage of these opportunities.” That, in turn, requires school and district leaders to commit to five areas of action that together make it more likely that all students can be offered a powerful and equitable education.

The five action areas for leaders listed in the framework are:

- 1. Establish a focus on learning—by persistently and publicly focusing their own attention and that of others on learning and teaching.** That could mean, for example, that principals visit classrooms regularly, and superintendents collect data about student learning and communicate frequently with parents, the community and the media.
- 2. Build professional communities that value learning—by nurturing work cultures that value and support their members’ learning.** That might mean district leaders supporting schedule changes permitting regular staff discussions in schools about learning and teaching.
- 3. Engage external environments that matter for learning—by building relationships and securing resources from outside groups that can foster students’ or teachers’ learning.** Superintendents might seek to develop allies at the state level to increase flexibility and resources, and principals might engage neighborhood groups to focus on improving learning.
- 4. Act strategically and share leadership—by mobilizing effort along multiple “pathways” that lead to student, professional, or system learning, and by distributing leadership across levels and among individuals in different positions.** To make this happen, district leaders might, for example, work with teacher leaders and unions to provide teachers with the necessary time and resources to collaborate with and act upon school and district improvement plans.
- 5. Create coherence—by connecting student, professional, and system learning with one another and with learning goals.** Among other things, principals might locate professional development activities in classrooms and use teacher evaluations as vehicles for focusing on learning goals.

The action framework for school leaders envisioned in *Leading for Learning* involves, at its heart, a wholesale change in *conditions* in schools and districts: both for leaders and learners. Successful leadership that puts learning ahead of all other competing priorities depends on a host of possible actions not only by principal and superintendents, but by many others inside and outside the system. It means establishing a climate for learning that permeates and transforms the entire system. It's equally clear that "leadership" in a system focused on learning cannot be the sole province of particular job-holders, nor will it succeed or last if it depends entirely on the actions of a single "superhero" principal or superintendent.

Attracting the right leaders

Meanwhile, three newly-published Foundation-sponsored research reports analyzing the current status of the labor market for principals lend further support to the need to focus on improving the conditions and incentives for successful leadership.

Those studies, by the RAND Corporation, the University of Washington's Center for Reinventing Public Education, and the State University at Albany (SUNY), came to nearly identical conclusions:

- There is, in fact, no statistical evidence of a shortage of certified candidates for the principalship, whether you look at state-by-state data or nationwide.
- What might seem like a shortage of candidates applying for these jobs, especially in high-need districts and schools, is in reality the outward symptom of a very different set of problems that are deterring untold numbers of potential candidates from entering the school leadership field: stressful working conditions, inadequate job incentives, ineffective hiring practices, and increasingly formidable expectations for success.

The implications of those findings couldn't be more urgent. Many states and districts continue to stress policies aimed solely at adding more certified people to the pipeline, such as opening or expanding training programs, or beefing up internal recruitment and mentoring programs. But policies aimed primarily at bolstering the supply of people certified to hold leadership positions will almost certainly fall short of their objectives until states and districts pay far more attention to establishing the conditions for success in every school, particularly the most troubled.

What might those conditions for successful schools, and successful leadership, look like? In the words of a recent report by Manpower Demonstration Research Corporation, what's required is **focus:**

- School boards focused on policy rather than everyday operations
- Superintendents and boards focused on a shared vision of reform goals
- Central offices focused on revamping basic operations to support schools
- Instruction and curriculum focused on student achievement based around specific, measurable goals
- Resources and incentives focused on raising achievement in the lowest-performing schools.

Such systemwide focus remains the exception. Yet without it, even the most able principals will likely spend their careers struggling against ever-lengthening odds to meet ever-increasing public expectations for student achievement. And finding fewer and fewer takers for these often-thankless jobs, districts and entire states will continue to cry “shortage.”

The national mandate to “leave no child behind” has placed the need for quality school leadership into bolder relief than at any time in our history. States and districts are gradually coming to recognize that it takes skilled leaders to orchestrate the changes needed to support better learning for every child. This new research makes a case that it will take improved conditions and incentives to draw enough high quality leaders into the fray to ensure that all children succeed.

Leading for Learning: Reflective Tools for School and District Leaders, and its companion piece, *Leading for Learning Sourcebook: Concepts and Examples* (Center for the Study of Teaching and Policy, University of Washington, 2003) can be downloaded for free from the Center’s website (www.ctpweb.org); or from The Wallace Foundation website (www.wallacefoundation.org).

A Matter of Definition: Is There Truly a Shortage of School Principals? can be ordered in print for \$10, or downloaded for free, from the Center on Reinventing Public Education, University of Washington website: www.crpe.org.

Who is Leading Our Schools?: An Overview of School Administrators and Their Careers, by RAND Education, is available in print for \$28.50 by contacting Distribution Services at RAND: (310) 451-7002; or fax (310) 451-6915; or email: order@rand.org. Copies can be downloaded for free at <http://www.rand.org/publications/MR/MR1679/>.

The Attributes and Career Paths of Principals: Implications for Improving Policy, by University at Albany, SUNY, is available electronically at www.teacherpolicyresearch.org. Hard copies can be ordered by writing to:

James Wyckoff
Center for Policy Research
Milne 300
University at Albany
135 Western Avenue
Albany, NY 12222

Copies of *Beyond The Pipeline: Getting The Principals We Need, Where They Are Needed Most*, a policy brief by The Wallace Foundation synthesizing the findings of the three principal labor market studies, can be downloaded at www.wallacefoundation.org. Print copies can also be ordered for free at that website, or by writing to:

The Wallace Foundation
Two Park Avenue, 23rd Floor
New York, NY 10016

The goal: to make public participation central to the mission of arts and cultural institutions

Connecting People to Art, Art to People

arts

Much of our work over the last dozen years with hundreds of arts and cultural institutions has aimed at deepening our understanding of how to successfully build arts participation. What has been especially eye-opening are the multiple benefits from participation building. Arts groups across the country are discovering that putting service to people first not only strengthens their value in the eyes of their communities, but enhances their organizational strength and bolsters their artistry.

Clearly, connecting people to art, and art to people, matters. The Wallace Foundation's work in the arts arena rests on the belief that while increasing the supply of available cultural opportunities is important, much more attention also has to be paid to the demand side—emphasizing, first and foremost, service to people.

Since 1990, we have invested some \$330 million during three distinct phases aimed at broadening, deepening and diversifying opportunities for people to participate in the arts:

- From 1990–95, The Wallace Foundation invested in discrete arts projects, exhibitions, performances, and educational programs. This phase created national attention for the Foundation's work in the arts while sponsoring worthwhile projects at over 1,500 arts organizations.



- From 1996 to 1999, we sharpened our focus by making investments in nearly 300 organizations. Our goal was to further the work begun in the initial phase, and to deepen our understanding of the practices and strategies of leading arts groups that were doing the best job of expanding arts participation, enhancing artistic quality and strengthening financial health.
- Since 2000, our focus has been on creating and promoting new standards of practice for cultural organizations and funders that enhance broad participation in the arts on a scale beyond the reach of our direct support.

An Emphasis on Demand

Our financial contributions to the arts are modest in relation to the overall size of the sector. In scores of local communities where we directly support arts groups, our investments make possible hundreds of exhibitions, performances, concerts and educational programs that are enjoyed by thousands of individuals each year. To extend the benefits of that work beyond the reach of our grant dollars, we seek to identify field leaders whose innovations are so powerfully effective that they become adopted as standard practices and strategies in many other organizations. The creation of partnerships and networks of leaders with a shared vision and commitment to expanding the benefits of the arts further magnifies the value of our investments.

Our Current Strategy Includes Four Components:

- 1. Leadership and Excellence in Arts Participation (LEAP)**—investments in leading arts groups to speed the invention and development of best practices for building arts participation
- 2. State Arts Partnerships for Cultural Participation (START)**—support of leading state arts agencies to create standards, practices and capacities that enhance public participation in the arts
- 3. Arts4AllPeople**—partnerships and communications strategies that spread the use of our knowledge beyond the range of our direct investments, and
- 4. Independent research**—efforts to capture and publish practical lessons and knowledge from our work for those seeking to build participation in the arts

1. LEAP

Since it began in 1999, LEAP has invested nearly \$31 million in 39 cultural organizations that are setting exemplary standards for building arts participation. Thirteen of those grants were provided in 2002, and further rounds are anticipated in 2004.

LEAP organizations have become influential in their communities, and among their peers nationally, in establishing arts participation as a priority. LEAP grants enable these leaders to increase public participation in their programs by:

- Expanding and improving public programs
- Conducting consumer research
- Enhancing communications with patrons and partners
- Building organizational capacity to sustain people-centered work beyond the life of the grant.

Beyond their direct impact, the Foundation seeks to multiply the value of investments in LEAP grantees so that they influence the practices of the nation's 30,000 cultural groups. Through LEAP, we first identify and provide funding to field leaders, arts organizations that are successful in bringing more powerful, beneficial effects of arts participation to more people. We then extract and share success stories from LEAP organizations that can help guide other organizations in similar participation building efforts. Partnerships with opinion leaders and other funders ensure the spread of that new knowledge and practice to many more arts groups than we will ever support directly.

For example, \$50,000 of a recent investment in Arena Stage in Washington, DC was used to test "yield management" approaches used by airlines as a strategy for more efficient pricing of theater tickets. In its first year, the strategy generated \$750,000 in added revenue that was used to cross subsidize programs for young people and the elderly. Other nonprofit theater organizations are adopting this novel approach to price management.

2. START

The goal of START, launched in 2001 with grants totaling \$9.6 million to 13 exemplary state arts agencies, is to establish funding standards and practices that enhance broad and engaged participation. Our START investments have begun to influence the structure of state agency grant and investment programs, their relationship to the organizations and communities they serve, and to the state houses and governors that authorize their work. For example, the Ohio Arts Council is using its START grant to apply the findings of an extensive study called SOAR (“State of the Arts Report”) which analyzed and described that state’s arts resources and environment, and people’s perceptions of the arts. (The SOAR report can be downloaded at the Council’s website at www.oac.state.oh.us.) The result is a better array of investment and program strategies that respond more powerfully to the needs of different types of organizations and communities. Similar kinds of efforts aimed at enhancing standards and practices for local participation in the arts are underway in other START agencies.

3. Arts4AllPeople

Our multi-faceted strategies for sharing knowledge about what works in participation building marked several milestones this past year.

New publications

The Wallace-sponsored library of participation-building publications, containing practical lessons and strategies derived from evaluations of the work of our grantees, continues to draw wide readership among practitioners, policymakers and arts funders:

- *Reggae to Rachmaninoff: How and Why People Participate in Arts and Culture*, presents research and fresh survey data demonstrating that arts participation is happening in greater numbers and among a wider cross-section of people than previously thought. The study, which draws on evidence from the Urban Institute’s evaluation of Wallace’s Community Partnerships for Cultural Participation initiative, reveals numerous strategic opportunities for arts institutions to build participation, and links arts participation to other forms of civic participation.

- *Arts & Culture: Community Connections*, one of several Urban Institute policy briefs that spotlight themes in *Reggae to Rachmaninoff*, focuses on the strong connection between cultural and civic participation, and provides evidence on how commonplace community connections, such as social and family connections or connections to religious institutions, can create new opportunities for cultural organizations to build participation.
- *Participation in Arts and Culture: The Importance of Community Venues*, a second brief drawn from *Reggae to Rachmaninoff*, offers arts organizations practical policy guidance based on the key finding that more people participate in arts and cultural events in open-air spaces, schools, places of worship, and other nontraditional venues than in conventional arts venues.

- *Cultural Collaborations: Building Partnerships for Arts Participation*, analyzes the possibilities and pitfalls of different types of participation-building partnerships among cultural and arts organizations.

Additional publications and policy briefs on various aspects of participation building are planned over the next 18 months. All Wallace publications are available at www.wallacefoundation.org, or www.arts4allpeople.org.

Arts4AllPeople Website

Our *Arts4AllPeople* website (www.arts4allpeople.org) is a web-based community of people and organizations committed to promoting new ideas and practices to promote arts participation. Visitorship continues to build steadily and now surpasses 6,000 visitors per month. Electronic distribution of Foundation-sponsored participation-building publications and training materials has exceeded direct mail distribution. The site also features nearly a dozen success stories detailing how leading arts

and cultural institutions around the country are building participation and increasing ties to the communities they serve.

Convenings

Meetings of LEAP grantees, held in Newark and Los Angeles in 2002, were by far our largest and most successful to date. Co-sponsors for the 2002 events were the Durfee Foundation in Los Angeles and the Geraldine R. Dodge Foundation in Newark. Attendance included more than 500 arts leaders, including Wallace grantees, local arts groups and representatives from over 30 private and public funders. These conferences have proven to be highly effective in spreading arts participation practices.

Putting People First

4. Research on Arts Benefits

Leading arts organizations and funders have repeatedly told us that they need credible evidence to help persuade more community leaders, legislators and donors to join in efforts to build participation. They need, first, evidence that addresses what the realistic, tangible benefits are from greater arts participation, and second, how and why those benefits occur.

In response, we organized in 2002 a highly-unusual National Arts Benefits Partnership, consisting of more than a dozen leading arts funders, to collaborate on a first-of-its-kind study of the benefits and effects of arts participation. The study by RAND will provide:

- A synthesis of what is known about the effects of arts participation
- Insights into the link between different kinds of arts activities and different effects
- Implications for policy and practice
- A platform for building improved understanding of the benefits of participation

The history of support of the arts over the past 30 years concentrated on expanding the supply of cultural opportunities. The future of arts support, which The Wallace Foundation is helping to create, rests on increasing the public value and effectiveness of arts groups through improved capacity, practices and relationships that tangibly enhance service to people. Better service to people is a worthy end, in and of itself. As an organizing principle for the entire sector, it assumes even greater importance. It is our belief, and our experience, that success in serving people is the most powerful driver for nurturing richer artistic expression, financially robust organizations, and healthier communities.

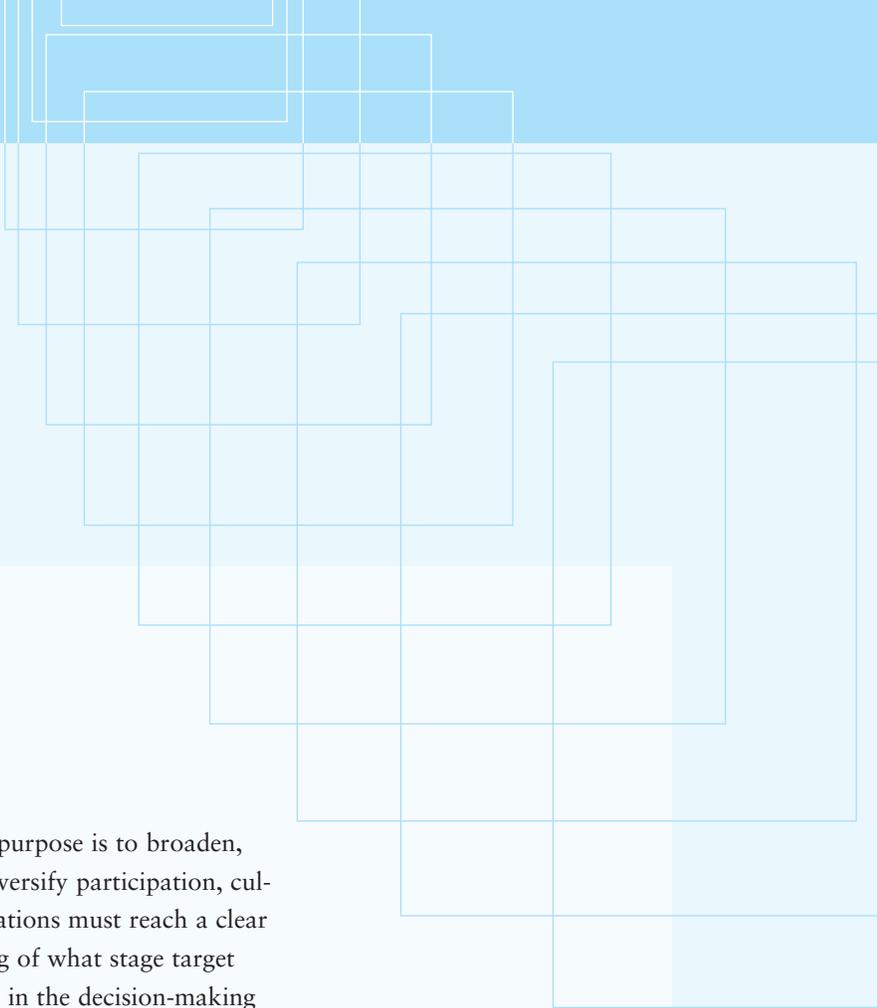
focus on:

Tackling Participation: Choosing The Right Strategies

Building arts participation has more than one meaning and successful participation building requires wise choices by cultural organizations among a variety of possible strategies and resource allocations.

Through our work with dozens of leading arts institutions, as well as a growing body of research designed to capture practical lessons from that work, fresh insights have emerged about the many ways that participation occurs, the complex influences on people's decisions to participate and, most importantly, the different strategies available to arts institutions to influence those decisions. This enriched understanding is opening the way for arts professionals in all disciplines to make smarter, cost-effective choices about building participation while strengthening their institutions' ties to people and communities.

A RAND report published with Wallace Foundation support, *A New Framework for Building Participation in the Arts*, offers arts and cultural organizations a first-ever model for setting participation goals and strategies based on: the distinct forms that participation can take; understanding target audiences; the complex reasons why people decide to participate or not; and understanding the likely barriers or obstacles to participation and how they can be most effectively surmounted. Many of the 39 cultural organizations that have received Wallace support through our LEAP initiative (Leadership and Excellence in Arts Participation) are now demonstrating how this methodical, research-based approach can lead to tangible results, and wiser use of resources.



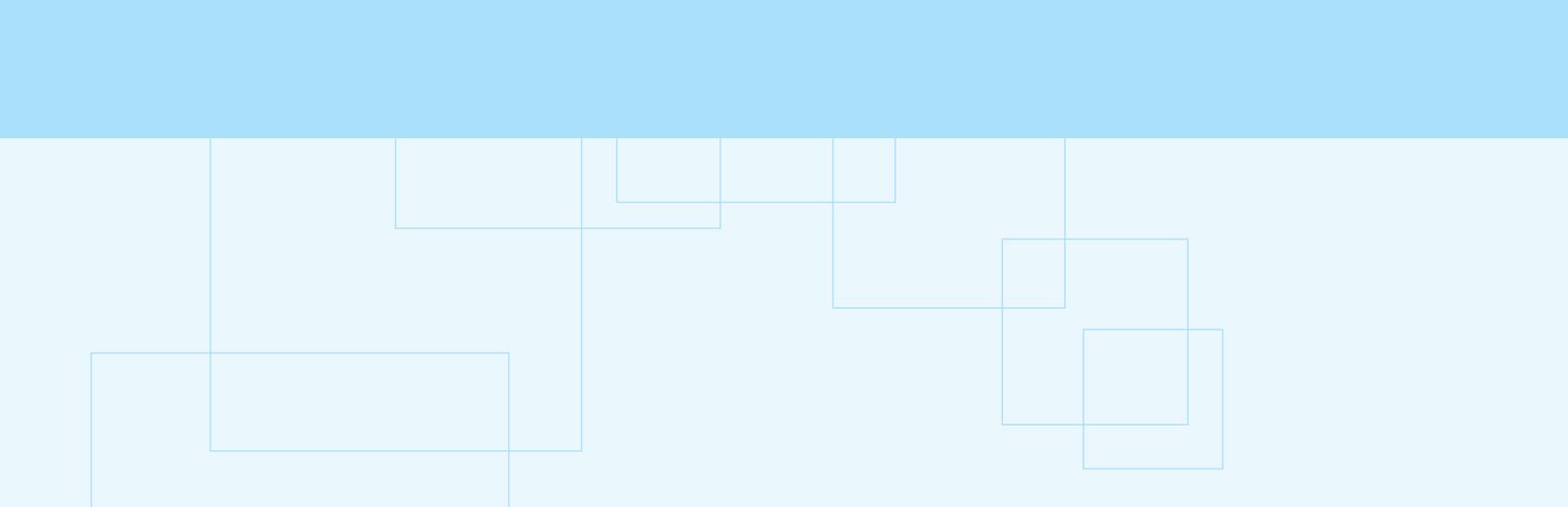
Aligning Strategies With Goals

Choosing the appropriate tactics to overcome the likely barriers to participation depends, first, on being clear about goals. Building participation is not necessarily about increasing audience size or selling more tickets. It can take a number of forms, each with its own set of obstacles and most promising strategies to overcome them:

- **Broadening** participation means reaching more of the same types of people already being served by an organization.
- **Deepening** participation means increasing the intensity or frequency of involvement of the people already being served.
- **Diversifying** participation means involving a group or groups of people other than those currently participating.

Whether the purpose is to broaden, deepen, or diversify participation, cultural organizations must reach a clear understanding of what stage target audiences are in the decision-making process, and the particular strategies most likely to be effective in influencing those decisions. Certain influences, such as demographics or a person's background and personality, are beyond the control of arts organizations. But the remaining stages in the decision-making process—which the RAND report labels as *perceptual*, *practical*, and *experiential*—can be influenced. And each contains its own likely barriers to participation which can be overcome, provided the strategies are right:

- **The perceptual stage:** at this initial decision-making stage, the inclination to participate in the arts in general, or in particular arts forms, is shaped by an individual's perceptions of the costs and benefits of the arts, and is further influenced by



attitudes held by social groups the person identifies with. For example, an individual may or may not find art or a particular art form appealing or connect to its meaning. Or, he or she may feel uncomfortable or out of place in the arts institution, or consider it elitist.

- **The practical stage:** at this second stage, the decision to participate turns on practical issues. Potential barriers to participation at this level may include: finding time, finding a companion to share the experience, cost, transportation, the convenience of the hours of operation, or negative perceptions about the safety of an organization's location.
- **The experiential stage:** if such practical barriers can be overcome, an individual's reactions to the experience—the fulfillment and personal meaning they gain from it—will influence, positively or negatively, subsequent decisions about whether and how to participate. Obstacles at this stage can include: lack of enjoyment of their prior experience with the art form, or inadequate knowledge to appreciate the experience.

By learning where target individuals and groups are in this decision-making continuum, the odds of choosing the best strategies to achieve specific participation goals are greatly improved. And once an arts organization understands the stages of decision-making in participation building, barriers to individual participation can become both predictable and avoidable, as the following examples among our LEAP grantees illustrate.

Overcoming the Obstacles

If the goal is to *broaden* participation, the appropriate focus will likely be on *practical* considerations that can reduce barriers to reaching more of the same types of people already participating: those who are inclined, but not yet participating. An organization might therefore address the need for more space, extended or different hours, increased marketing, introductory discounts or a new supply of programs.

Some examples: the Seattle Repertory Theater's "Under 25? Only \$10" program increased youth attendance by 102 percent, and youth subscription packages nearly doubled.

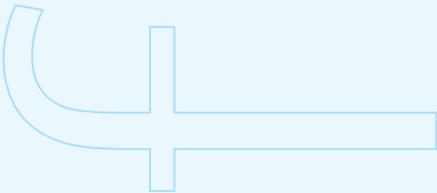
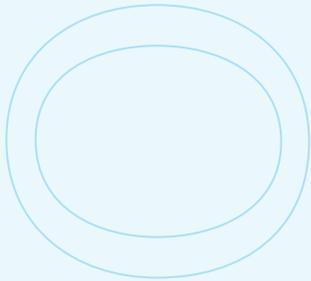
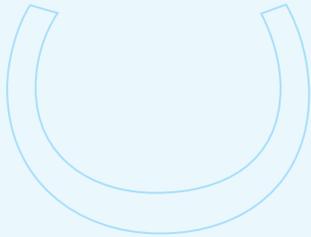
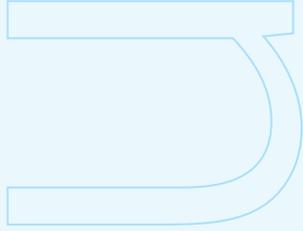
The Seattle Art Museum provided bus transportation for four African American churches to help them attend an exhibition, “Long Steps Never Broke A Back: African Art in America.” The museum adopted this strategy after learning at a Wallace Foundation gathering of LEAP grantees about the success of a similar strategy by the Museum of Fine Arts, Houston.

To *deepen* the participation of those already inclined to participate, the barriers or challenges tend to be *experiential*—that is, providing individuals with more enriching connections to the artists and art being presented and to an arts organization, for example, through workshops, artist residences or other expanded activities.

With Wallace Foundation support, the Children’s Theatre Company in Minneapolis has sought to deepen the artistic experiences of its existing teen and family audiences by expanding show-related programs and activities through a series called *Around!* in which cultural, artistic and educational activities take place “around” the themes and content of plays. Twelve such *Around!* programs were held in 2002, and plans call for expanding to 132 events by 2006.

To *diversify* participation, it is generally important to overcome *perceptual* barriers to establish new relationships with people not traditionally served by a particular arts organization and not inclined to participate for individual or group-identity reasons. Appropriate strategies would focus on helping such individuals recognize a value in participating in the arts and in the organization’s programs. They may even need help to overcome negative perceptions about the arts or the particular organization.

The Chicago Symphony Orchestra, another of our LEAP grantees, has worked on a number of fronts to overcome an elitist, distant image, build stronger ties with that city’s black and Hispanic communities, and draw more diverse audiences to its classical offerings. One of its most successful bridge-building activities is the Musicians Residency Program which arranges for members of the orchestra and the Symphony Chorus to hold weekly classes at partner community sites in some of the city’s poorest neighborhoods. The Symphony has reached some 10,000 people with its residency program and has presented 25 community concerts drawing 9,000.



Daniel Barenboim, the Symphony’s world-renowned conductor and a native Argentinian, has made a special point of reaching out to the city’s Spanish-speaking neighborhoods. At a rainy outdoor concert in the predominantly Mexican-American Pilsen neighborhood, Barenboim addressed the audience entirely in Spanish and promised that this would not be the orchestra’s last visit to Pilsen. He lingered afterwards to shake hands, sign autographs and greet children. “It was so moving to see so many coming out on such a terrible night,” he told a television crew. “I was very glad to speak my mother language with everybody, and that everybody felt I was their family, and they were mine.”

“I keep wondering how many people there are out there that we’ve somehow scared away,” says Henry Fogel, president of the Symphony. “I’m not a complete fool. I don’t believe that 100 percent of people would love classical music even if it were presented properly. But I do believe we could seriously increase the number of people to whom classical music meant something if we could get them past some of the barriers.”

Principles for Successful Participation Building

These arts organizations and scores of others around the country are discovering the benefits of successful participation building: enhanced support from the community, greater organizational stability, and enriched quality of artistic offerings. Their experiences, along with research by RAND harvesting the lessons being learned, suggest several guiding principles for enhancing participation and building stronger ties between arts organizations and the communities they serve:

1. Engaging people must be vital to all aspects of an arts organization's work.

The importance of building participation should extend to the entire range of an organization's goals: financial stability, artistic quality, and community service.

2. Participation-building strategies should stem from an understanding of the stages and dynamics of individual behavior and decision-making, not from generalities about group demographics that are beyond an organization's control.

The decision to participate is not just a matter of education or income levels. People face a series of considerations when deciding whether or not to participate. At any point, a variety of factors can influence the outcome of that decision.

3. Barriers to individual participation are predictable, and avoidable.

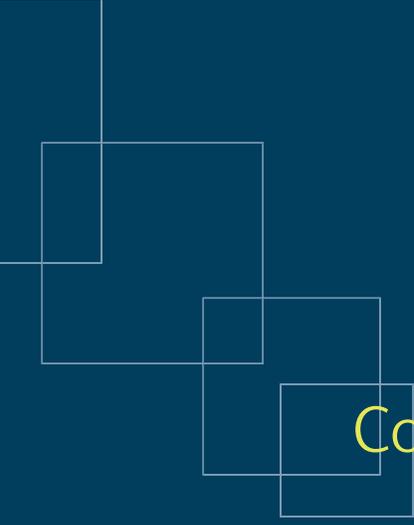
Obstacles to participation can be avoided, and the chances of success increased, by using targeted strategies based on a clear understanding of the needs of various participants.

4. Participation building succeeds best when fully integrated and aligned with an organization's core mission, goals and strategies.

All aspects of an arts organization's operations—from the activities of trustees and custodians to the hours of operation and the program offerings—have a positive or negative impact on people's decisions to participate. Success therefore demands a shared commitment among all staff, trustees, volunteers, and

funders to treat people as an essential resource and avoid creating unintentional barriers to participation.

A New Framework for Building Participation in the Arts and other research publications can be downloaded at the Arts4AllPeople website (www.arts4allpeople.org), or from The Wallace Foundation website (www.wallacefoundation.org.)



Connecting Kids to Out-of-School Learning

The goal: provide more children with opportunities for meaningful participation in high quality learning activities beyond school.

unities

For millions of children, out-of-school time is idle time. For many, it is also a time of danger. For all, it is a time not just of heightened risk, but also untapped opportunities for learning and enrichment.

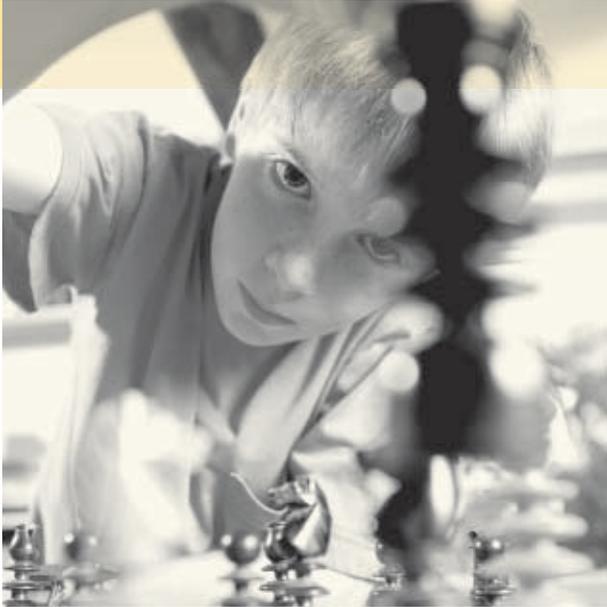
The goal of our Communities work is to ensure that as many children as possible, particularly from low and moderate-income families, have meaningful participation in high quality programs outside of school that contribute to their learning achievement and developmental growth. A related initiative—Parents and Communities for Kids (PACK)—focuses specifically on improving learning outcomes for children ages 6-10 through activities outside traditional school, and on promoting parent engagement. Since its launch in December 2001, PACK has been supporting related activities by sponsoring organizations in four cities: New Haven, Detroit, St. Paul, and Boston.

After more than a decade of investments in many effective out-of-school learning programs, we've learned some important lessons: that

quality matters; that quality is affordable; and that variety in program offerings is essential in order to achieve maximum benefits for the most children. Studies strongly suggest that participation in high quality activities affects school attitude and behavior, and success later on in careers.

But at the heart of our work is a core conviction: that what's urgently needed is for communities to build systems that ensure that scarce after-school resources are directed only at programs and activities that are committed to delivering real quality. Then they must ensure that the children who need those out-of-school learning activities most not only have access to them, but attend those programs often enough to get positive benefits.

The value of out-of-school learning activities has gained unprece-



dented national attention, along with increased public funding. In 2002, funding for the federal 21st Century Community Learning Centers program rose to \$1 billion and was placed under state control (though the federal budget crunch threatens to pare funding sharply in 2003). States and cities are adding their own resources to out-of-school programs.

Still, in communities with the greatest needs, sufficient opportunities often do not exist, nor do most low- or moderate-income families have adequate access to high quality pro-

grams. The U.S. General Accounting Office estimated that in some urban areas, only 25% of the demand for out-of-school time learning programs would be met in 2002. Our present challenge is to use what we have learned to ameliorate the lives of those with limited opportunities. How can we best equip cities to meet the learning needs of children and families—and sustain these programs long term?

Quality, access and results

By working with select cities to develop new systems and document the results, our goal is to show how public and private investments in high quality out-of-school opportunities can be redirected to promote learning for children. We will seek to create better connections among such service providers as libraries, museums, parks and after-school programs, and bring to bear the organized resources of communities—from mayors' offices to businesses and public schools. Family literacy, youth development and after-school programs—areas in which The Wallace Foundation has already established a decade-long track record of investments—will be the focus of this work. But its unique contribution will be the redesign of local systems so that the public and private resources that support out-of-school learning are more prudently used.

In 2003, we are launching this new initiative in our first site, Providence, RI, focusing on improving the systems of service delivery. We will also begin building partnerships with key national organizations so the lessons from the local work can set the standard in all 50 states.

In short, our goal is to add essential but often missing ingredients to the mix of community-based learning opportunities:

- A clear and consistent focus on high quality programs
- Broad and equitable access and meaningful participation
- Concrete results for the children who most need learning activities in the after-school hours

A focus on systems

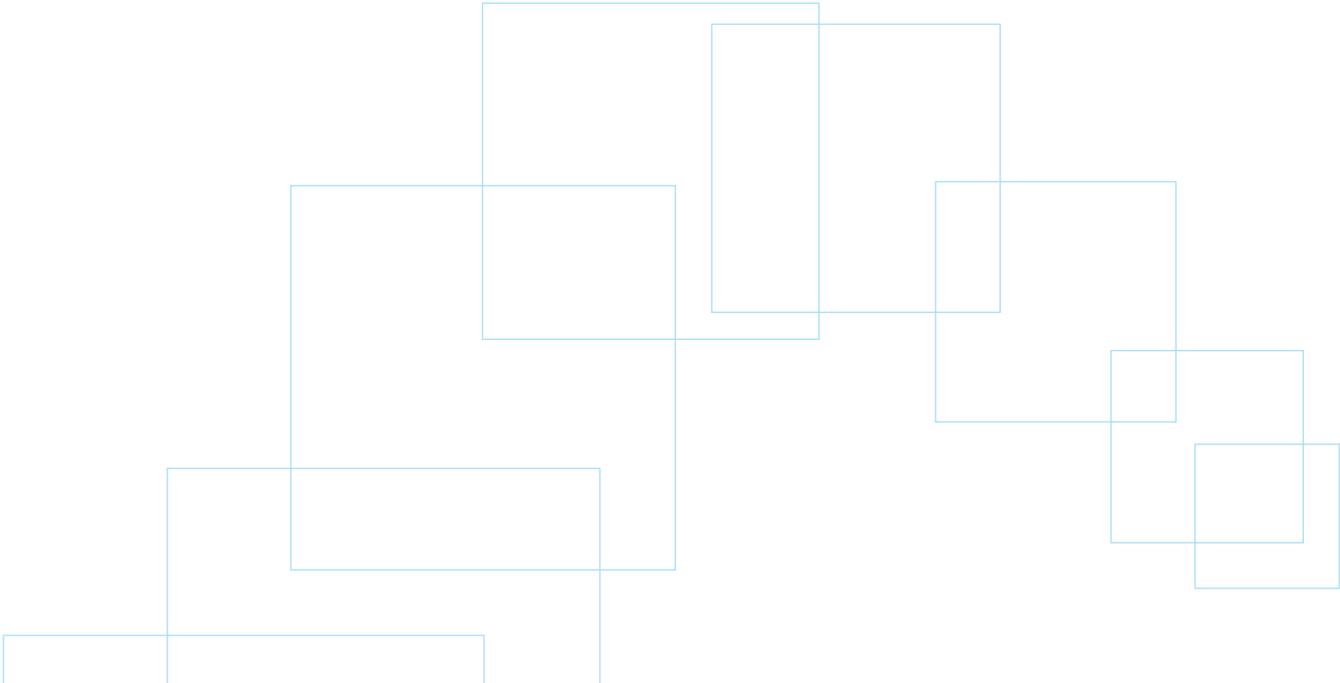
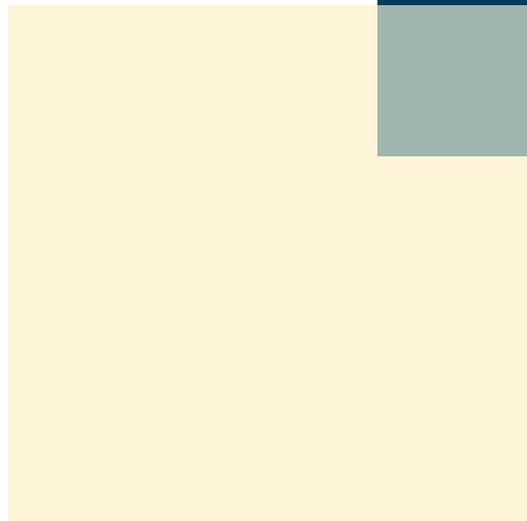
The point is not just to create additional high quality programs. The long-term impact of this work will come from the creation of more effective systems that will sustain out-of-school learning programs in communities when our funding ends.

What do we mean by “system?” And why is it so important?

In each city, the system is the interaction among key stakeholders in out-of-school programs. The system includes representatives of three sectors: public (local and state government), private (foundations and business) and community (youth serving organizations, schools and others). We will invest in system-building efforts that will result in efficient expenditure of resources, increased participation, high quality, and improved accountability.

In many, if not most communities, these systems for providing high quality, well-coordinated and adequately funded out-of-school learning opportunities are ineffective at providing both quality *and* access. Key constituents, such as businesses or schools, are often left out of the decision-making mix. There is no designated entity that looks across the city to ensure standards, tools, resources and policies necessary for effective delivery of learning programs. Our aim is to change local systems so that they achieve both quality and participation, and are cohesive, efficient, and set a standard for communities nationwide. In order to accomplish that, we will create partnerships that are organized, and we will include the movers and shakers from each sector of the out-of-school learning structure: schools, business, government and politics, community and religious organizations. We will work to bring local institutions together into an effective team to serve the community.

Such partnerships are not easy to create or sustain. They require that diverse partners understand and respect each other's distinct goals and mutually commit to achieving them. They also require a shared vision and collective goals.



Our Current Work

Our planning this past year has included extensive meetings with local leaders in several possible host cities to assess local needs and capacities. To deepen our knowledge, the Urban Institute gathered data and mapped the current supply of community learning services in each site to help establish baseline information and determine the degree to which information, resources and participants are being shared among various local program providers.

These initial investigations validate the need to go beyond business-as-usual program funding, and focus instead on reinventing the decentralized local systems that control, and all too often mismanage, the out-of-school sector. While some strong and successful program models exist, our fact-finding concluded that: programs tend to be fragmented; connections between schools and community organizations are weak; connections among likely supporters (funders, providers, schools, community, government, business, cultural institutions) are often haphazard or nonexistent; resources are either insufficient or inefficiently used; overall program quality needs to be improved; and too few children are being served.

In Providence, and in other cities we may select later on, we will lead the development of business plans in cooperation with community leaders to understand, in each city, what produces a quality experience for children, what will keep them coming back, and what will sustain local out-of-school programming.

We will also establish a leadership committee in each target city composed of key local leaders who will be responsible for implementing the business plan. We recognize that no one sector alone can support out-of-school time learning with meaningful impact and that the benefits of our investments will only last if the real leaders in each community are at the table. In most cases, the leadership committee will include representatives from leading foundations, local government and business, schools and political leaders—people who are necessary if we are to succeed in building solid local coalitions for out-of-school learning.

Our plans also call for developing national partnerships to extend the learning and the benefits beyond our target cities. We have begun discussions with several potential national partners who would help us bring knowledge, best practices and resources to our target cities; provide a means for sharing lessons more broadly; and form the core of a National Advisory Panel to advise us as this work develops.

Another strategy for beginning to call national attention to this project will be a series of convenings we are planning in 2003 for our grantees and other experts. We will use these opportunities to begin to build a national knowledge base about effective strategies for creating and sustaining systems of high quality out-of-school programs. We will compile data from our own experience and from what is happening across the country.

To further add to the field's knowledge base, the RAND Corporation is conducting a study on "*Effective Out-of-School Learning: Evidence and Practical Knowledge.*" The research will include an emphasis on strengthening program quality, increasing access to programs and deepening family engagement. We expect the findings to enhance the field's understanding of the pathways through which practitioners and policymakers can increase the participation of children and families in out-of-school learning activities.

This new Communities work is ambitious, but it is critical that we focus on improving not just individual programs, but entire *systems*, to accomplish our goals. The out-of-school learning field is not yet cohesive. Programs, funding streams, cultures and philosophies are quite diverse. A systemwide strategy that puts quality first and takes fully into account local needs, policies, and resource gaps, is essential for sustainable, large-scale change.

Our intention over the next several years is to create thoughtful programs in our target cities that are agile, cohesive, and provide nationally relevant lessons. We will gain efficiency by merging the interests of presently disparate and disconnected groups and stakeholders. The national challenge we face is enormous. Rather than throwing piece-meal solutions at it, communities need to confront it with coordination, efficiency and shared vision.

focus on:

Putting Quality First in After-School Programs

It's been a roller-coaster ride for the nation's after-school programs. In January 2002, the federal "No Child Left Behind" Act converted the 21st Century Community Learning Centers program from a federal to a state-run program. Federal funding rose to new heights of nearly \$1 billion.

Long-time proponents of after-school programming hailed this as an unprecedented vote of confidence from Washington in the value of these non-school learning experiences in helping children succeed both in school and in later life.

A year later, federal budget cuts of up to \$400 million now loom. And a newly released federally-sponsored report has compounded that vulnerability by raising fresh concerns about the overall quality and impact of existing after-school programs.

What's been missing in this turbulent period is reliable information for policymakers, and useful tools for practitioners, to assure that scarce resources are not wasted and that we reach more kids with maximum aca-

demical and social benefits. Providing vital information of this sort is exactly what a national foundation like ours is well-positioned to do.

Since 1997, our Extended-Service Schools (ESS) initiative has supported the creation of 60 after-school programs in 20 low-income communities. Beyond the immediate benefits to the communities where these programs are located, our larger ambition has been to capture and spread knowledge to help guide many more communities in starting and sustaining high quality, affordable programs. We hope to provide solid documentation of what works, and how children can benefit from high quality programs. Wallace-sponsored research on the ESS initiative, conducted by

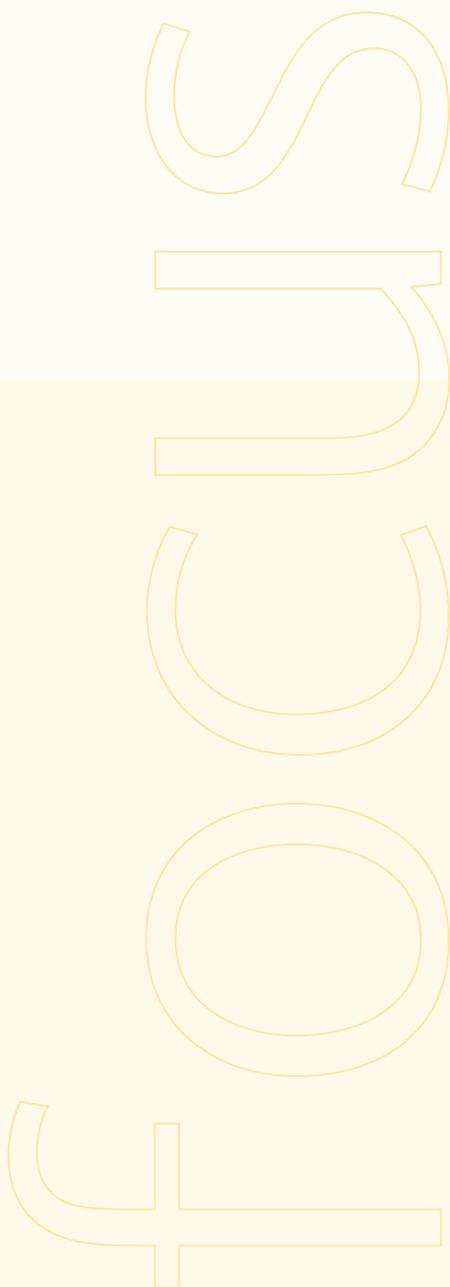
Public/Private Ventures (P/PV) and Manpower Demonstration Research Corporation (MDRC), has led to two recent publications aimed at boosting the quality and cost-efficiency of after-school programs. The first, *Getting Started with Extended-Service Schools: Early Lessons from the Field*, is a practical guide for planning and starting up quality programs: who needs to be at the table, what are the likely costs, and practical considerations such as arranging for custodial help and recruitment of students. This handbook was timed specifically to help state and local officials get off on the right foot in managing the outpouring of fresh 21st Century Community Learning Centers funding in 2002.

The second publication, also produced in 2002, *Multiple Choices After School: Findings from the Extended-Services Schools Initiative*, takes the analysis several steps further. It provides a solid research basis for

shifting the current policy discussion away from merely increasing the supply of after-school programming, to an emphasis on both quality *and* access.

Jean Baldwin Grossman, lead researcher of the ESS evaluation, and Karen Pittman, executive director of the Forum for Youth Investment, shared key findings in a Wallace-sponsored National League of Cities audio conference in October 2002 titled “Making After School Count” that drew more than 500 listeners in 36 states.

Specifically, **Multiple Choices After School** provides evidence for the following conclusions:



▪ **High quality is crucial to the success of after-school programs.**

Quality after-school programs matter because young people can gain new academic skills and build positive supportive relationships when they participate in a wide range of challenging and interesting activities.

What does high quality look like?

1. Programs are well attended.
2. They offer a variety of activities: academic, arts enrichment, community service and/or sports.
3. Staff include skilled youth development leaders who know, and can deliver, the kinds of activities that provide opportunities for children to develop in different areas.
4. Activity leaders create a positive social environment, where both adult-youth and peer relationships are warm and intellectually challenging.

▪ **High quality is affordable.**

Cost per youth across ESS sites ranged from a low of \$8 to as much as \$36, suggesting there is no one “right” cost of an after-school program. Cost depends on the choice and variety of programs, the staff-to-youth ratio, investments in outreach and fund-raising, local conditions, the availability of in-kind donations, along with the number of children served. Planners need to consider what

the program and community gain from a higher expenditure, and what programs may sacrifice, in quality or otherwise, by keeping expenditures at the low end.

■ **High quality programs provide an array of social, development and academic benefits to youth and families.**

Quality after-school programs positively affect student attitudes and behaviors in school and thus, their ability to achieve learning goals. Eighty to 90 percent of ESS parents surveyed said their children obtained new skills and became more confident learners; 85 percent said their children enjoyed school more and improved their school attendance; 70 percent of ESS students said learning that “hard work pays off” was a direct benefit of attending after-school programs.

Effective after-school programs also help students stay out of trouble. Seventy to 80 percent of ESS parents surveyed said that the programs help their children stay out of trouble and learn to settle arguments without fighting. And after-school participants were less likely to start drinking or skipping school.

Finally, effective after-school programs help families. Half of the parents surveyed said that their child’s participation in after-school activities helped them manage jobs better, adjust work schedules and take advantage of classes or job training. Eighty to 90 percent of parents said they were less worried about their child’s safety after school and learned to appreciate their child’s talents. Three-quarters of the parents said that the program helped their child get along with family members better.

■ **Programs need not be strictly “academic” to be beneficial.**

Beyond question, homework help has an important and appropriate place in the mix. But for older children and high need students especially, no single program type will fit all situations. Strictly academic or remedial after-school programs do not always attract or retain the students who need them most. The researchers found that there are a wide range of programs that can provide critical thinking skills, such as sports, recreation, arts enrichment and book clubs, and attract participants.

As Grossman wrote in an October 23, 2002 op-ed article in *Education Week*: “The best programs we saw offered a range of interesting, engaging activities—not just homework help and tutoring—and were based on

the children’s current interests, such as sports or cooking. These programs pull low-achieving students in the door with the enticement of learning in a fun way, and get them to stay for a rich mix of academic and non-academic learning that they would likely avoid if the enticements weren’t part of the package.”

Multiple Choices After School: Findings from the Extended-Service Schools Initiative, and Getting Started with Extended-Service Schools: Early Lessons from the Field, can both be ordered or downloaded at our website: www.wallacefoundation.org.

Program Expenditures & Commitments

Education

Our long-range education goal is to change the performance of school and district leaders so that their work enables all students to learn, and to create the conditions necessary to allow those leaders to succeed. The three strategies below provide an organizing structure for our current investments in this work: a State-District Strategy; Capacity-Building Investments; and Experiments & Innovations.

1. STATE-DISTRICT STRATEGY: This strategy consists of two related initiatives:

State Action for Education Leadership Project (SAELP), is designed to help 15 states identify the legislative and regulatory changes needed to ensure that school districts are able to develop, recruit, prepare, and retain school leaders capable of improving student performance. A National Consortium led by the Council of Chief State School Officers received funding to coordinate SAELP in 2001.

Leadership for Educational Achievement in Districts (LEAD), in its second round of funding, renewable up to five years, provides support to high-need districts located in SAELP states to produce new policies and practices that will enable leaders to improve student achievement.

Organization / IRS name, if different (City & State)

The following 12 LEAD districts received approval for funding in 2002:

	Approved 2002	Paid 2002	Future Payments
Atlanta Public Schools / Board of Education—City of Atlanta (Atlanta, GA)	\$1,001,000	—	1,001,000
Community School District Ten / The Board of Education of the City of New York (Bronx, NY)	2,358,000	721,000	1,637,000
Eugene School District 4J / Lane County School District 4J (Eugene, OR)	1,436,000	—	1,436,000
Fairfax County Public Schools (Fairfax, VA)	1,562,000	—	1,562,000
Fort Wayne Community Schools (Fort Wayne, IN)	1,483,000	—	1,483,000
Hartford Public Schools / Hartford Board of Education (Hartford, CT)	1,516,000	—	1,516,000
Jefferson County Public Schools (Louisville, KY)	2,500,000	1,000,000	1,500,000
Providence School Department (Providence, RI)	901,000	1,338,000	901,000
Springfield Public Schools / Springfield School Volunteers, Inc. (Springfield, MA)	1,501,000	—	1,501,000
Springfield School District 186 (Springfield, IL)	1,121,000	700,000	1,121,000
St. Louis Public Schools (St. Louis, MO)	1,730,000	1,102,000	1,730,000
Trenton Public Schools / Trenton Board of Education (Trenton, NJ)	862,000	—	862,000

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Support for LEAD Districts

Education Development Center, Inc. (Newton, MA)

To plan and coordinate ongoing technical assistance to the 12 LEAD districts, to coordinate activities across sites, and to integrate the individual work into a national network.

3,825,000

1,625,000

2,200,000

John F. Kennedy School of Government at Harvard University /

President and Fellows of Harvard College (Cambridge, MA)

To develop and implement a leadership program for superintendents that addresses the multiplicity of skills and capacities required of superintendents to successfully manage educational systems and facilitate meaningful reform.

—

1,581,000

—

Other related expenses—meetings, consultants

80,190

80,190

—

2. CAPACITY-BUILDING INVESTMENTS:

To reinforce the work of the state and district initiatives by building public awareness, developing a knowledge base and supporting promising new work to improve practice.

The investments that fall under these three activities are as follows:

Raise Awareness through Public Engagement

The Hechinger Institute on Education and the Media /

Teachers College, Columbia University (New York, NY)

To plan for a possible series of seminars for education journalists within the 12 LEAD districts and 15 SAELP states, the production of a manual for covering education leadership, and a possible publication profiling the work of the LEAD districts.

20,000

20,000

—

The Hechinger Institute on Education and the Media /

Teachers College, Columbia University (New York, NY)

For a series of regional seminars, follow-up activities, and a publication to help education writers and editors develop the analytical tools they need to provide informed coverage of education leadership.

485,000

485,000

—

LEADERS Count Report

For two editions of a biannual newsletter to disseminate knowledge into the field.

39,850

39,850

—

National Conference on Education Leadership (Fairfax, VA)

For conference, consultants, media

211,269

211,269

—

Other related expenses—meetings, consultants

97,316

97,316

—

Develop a Knowledge Base

University of Washington, Center for the Study of Teaching and Policy (Seattle, WA)

To develop and disseminate a conceptual framework that will critically examine and analyze how leadership influences students' learning. This document will offer field leaders and policymakers a guide for strengthening education leadership and informing the field about how leadership improvement can improve students' learning.

100,000

100,000

—

Support Promising Work to Improve Practice

The Big Picture Company (Providence, RI)

To test and develop an innovative program for recruiting and preparing principals.

—

441,000

—

Southern Regional Education Board / Board of Control for Southern Regional Education (Atlanta, GA)

To identify partner universities who will support SREB's efforts to redesign education leadership preparation and build local capacity to tap into a stronger and more diverse pool of leaders.

901,000

901,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

3. EXPERIMENTS & INNOVATIONS:

To support creative, grassroots thinking and practices that connect leadership to improved learning.

Ventures in Leadership—to support innovative solutions to leadership problems by providing grants of up to \$50,000 to nonprofit organizations through an online application and approval system.

Alliance for Education (Seattle, WA)

To connect 10 principals with successful corporate leaders in order to expand mutual understanding about organizational transformation and leadership; in turn, these principals will provide ‘peer coaching’ to new, beginning, and experienced principals.

35,000

35,000

—

Anchorage School District (Anchorage, AK)

To train principals to evaluate the link between state standards and classroom curriculum, instruction and student assessment data.

—

30,000

—

ASPIRA, Inc. of New Jersey (Newark, NJ)

To recruit, train, and prepare a cadre of Latino teachers in targeted school districts to pursue and assume vice-principal and principal positions within the state.

40,000

40,000

—

Badgett Regional Center for Educational Enhancement, Inc. (Madisonville, KY)

To identify a core group of potential female leaders, prepare them to be superintendents and create a support network that will help them collaborate with one another and with state and national leaders.

35,000

35,000

—

Bismarck Public School District #1 (Bismarck, ND)

To implement an administrative internship program and leadership academy for Bismarck Public School teachers who are interested in exploring a career as an elementary or secondary program or building administrator.

43,000

43,000

—

Bridgeport Public Schools / City of Bridgeport (Bridgeport, CT)

To develop a cadre of strong instructional leaders focused on leading urban schools by engaging principals and assistant principals in reflective discussion modules and monthly visits, and by identifying master principals.

40,000

40,000

—

Caddo Parish School Board (Shreveport, LA)

To provide a comprehensive and intensive field-based internship program enabling prospective principals to link educational theory to the realities of life as a school administrator.

38,000

38,000

—

Cambridge College Institute of Open Education Inc. (Cambridge, MA)

To design an innovative Doctor of Education program to increase the number of women and minorities in school administration and to train them to work collaboratively to research and improve student achievement in their own schools.

50,000

50,000

—

Castleton State College / Vermont State Colleges (Castleton, VT)

To launch an innovative certification program for principals based on ISLLC requirements, allowing them to continue working while earning their degree through a combination of seminars, internships and mentoring.

45,000

45,000

—

Center for Collaborative Education, Metro Boston, Inc. (Boston, MA)

To create a learning network for 35 new principals working in small secondary urban schools by engaging them in summer institutes, monthly study groups, visits to exemplary small schools, and critical friends partnering.

40,000

40,000

—

The Center for Educational Leadership / Purdue University (Hammond, IN)

To conduct an intensive study of 15 graduates of CEL who are now serving as principals in high poverty neighborhoods in order to identify standards for school administrators that are most closely associated with improved student performance.

—

40,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Clare-Gladwin Regional Education Service District (Clare, MI)

To work with education leaders in five other counties to plan a leadership academy focused on sharing expertise and resources, planning professional development, and serving as a role model for the school system.

45,000

45,000

—

Duquesne University Leadership Institute / Duquesne University of the Holy Ghost (Pittsburgh, PA)

To produce the first monograph of selected presentations from the American Association of School Administrators' annual Women Administrators' Conference.

30,000

30,000

—

Florida State University (Tallahassee, FL)

To design the curriculum for a university-based advanced training institute for school principals, modeled after the Master's of Business Administration program.

49,000

49,000

—

Fordham University (Bronx, NY)

To maintain a learning network of New York City superintendents as a means to provide professional support, to discuss and test exemplary district- and school-based programs, and to share expertise on the craft of the superintendency.

35,000

35,000

—

Forward in the Fifth, Inc. (Berea, KY)

To develop a leadership curriculum for school principals in Kentucky that focuses on school-family relations to enable principals to improve their communication to parents, especially those from low-income neighborhoods.

—

35,000

—

Garrison Union Free School District (Garrison, NY)

To develop and launch an interactive web-based program for administrators seeking resources and support as instructional leaders in order to create a forum for the exchange of ideas and information for administrators in this rural setting.

—

35,000

—

Governors State University (University Park, IL)

To develop an Urban School Administrator-Technology Leadership Cohort program.

50,000

50,000

—

Hattiesburg Area Education Foundation Trust, Inc. (Hattiesburg, MS)

To establish regular meetings between school leaders from six rural districts and local business leaders in order to create a structure for problem solving across districts, engage businesses in school improvement plans and disseminate lessons learned.

—

25,000

—

The Heritage School (New York, NY)

To create a model of distributive leadership for a small, alternative high school to enable teachers, administrators, parents and students to work together in grade level teams to design curricula and plan cultural visits.

30,000

30,000

—

Howard University (Washington, DC)

To expand the work of the University's Center for Research on the Education of Students Placed at Risk by funding a principals' forum on curriculum instruction, alternative student assessment strategies and networking activities.

—

41,000

—

Institute for Development of Educational Activities, Inc. (Dayton, OH)

To engage school leaders in learning communities to enable them to understand the application of systems thinking to school and community leadership.

50,000

50,000

—

Institute for Student Achievement Inc. (Lake Success, NY)

To create a network of principals, assistant principals, and lead teachers within the Institute's small learning communities model to explore how inquiry-based instruction impacts low-achieving high school students.

45,000

45,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

James B. Hunt, Jr. Institute for Educational Policy and Leadership (Chapel Hill, NC)

To provide participants in Wallace’s State Action for Education Leadership Project with targeted access to policymakers and other influential people. The goal is to promote effective state-level education leadership policies, with a special emphasis on the state leadership role inherent in the No Child Left Behind Act.

50,000

50,000

—

John H. Reagan High School (Houston, TX)

To create a leadership program that will provide teacher leaders with opportunities to practice working collaboratively with their peers.

29,700

29,700

—

Kent Intermediate School District (Grand Rapids, MI)

To engage a cross-section of district superintendents and school board members through a series of group learning activities that focus on strengths assessment, organizational thinking and learning, and stakeholder collaboration.

40,000

40,000

—

La Familia Counseling Service / Southern Alameda County Committee for Raza Mental Health (Hayward, CA)

To develop an action-based model preparing principals and select teaching staff at three schools serving the students of low-income, immigrant parents to organize and lead effective school/parent/community leadership teams.

40,000

40,000

—

The Learning Exchange, Inc. (Kansas City, MO)

To train and support six charter public school boards and leaders in a results-based model of school governance and leadership.

45,000

45,000

—

Lehigh University (Bethlehem, PA)

To conduct topical research on learning theory, as it is applied to school leadership, teaching and curriculum, and use this research to create and pilot a training seminar for principals and assistant principals.

40,000

40,000

—

Maine Center for Educational Services (Auburn, ME)

To work with board members and superintendents to design, pilot and assess a series of educational events for Maine school board members and their superintendent partners.

45,000

45,000

—

Markesan School District (Markesan, WI)

To develop collaborative study teams that focus on the leadership concepts of Steven Covey and Robert Greenleaf in order to increase the leadership capacity of the district’s principal, assistant principals, and teachers.

50,000

50,000

—

McAlester Public Schools (McAlester, OK)

To provide instructional leadership training for rural teachers and administrators that focuses on data-driven decision making and team leadership practices.

37,000

37,000

—

Medical College of Wisconsin (Milwaukee, WI)

To develop a series of “Leadership in Science Education” workshops for 70–80 principals and superintendents to help them identify barriers and solutions to providing effective support for science education.

40,000

40,000

—

Mississippi Bend Area Education Agency (Bettendorf, IA)

To develop school leaders who can redesign educational systems to focus on student achievement and continuous improvement by aligning structures and processes to their mission.

45,000

45,000

—

The Montgomery Institute (Meridian, MS)

To develop and implement a Regional Academy for Educational Leadership that will help build the critical mass of educators and community members needed to create successful schools.

35,000

35,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

National Association of Elementary School Principals (Alexandria, VA)

To create an online learning community of elementary and middle school principals to promote dissemination of best practices and inform policymakers of the complex working conditions of educational leaders.

—

35,000

—

National Association of State Boards of Education (Alexandria, VA)

To convene fifteen chairs of State Boards of Education in order to focus collaboration around major issues related to school improvement and district leadership.

50,000

50,000

—

New England School Development Council (Marlborough, MA)

To conduct case studies of school boards and board members within a cross-section of New England communities to identify barriers to school board service and alternative methods of attracting leading citizens to that service.

40,000

40,000

—

New Leaders for New Schools / New Leaders (New York, NY)

To recruit, prepare, and support 40 outstanding individuals to become principals in urban public schools through a unique, selective recruiting and admissions process and an intensive training program.

40,000

40,000

—

Newport News Public Schools (Newport News, VA)

To develop a career-long professional development system prototype at three high-need schools that focuses on peer mentoring, school visits and distributive instructional leadership models.

50,000

50,000

—

The North Carolina Center for the Advancement of Teaching / The Development Foundation of the North Carolina Center for the Advancement of Teaching, Inc. (Cullowhee, NC)

To provide seminars on strategies to improve students' academic success for school leadership teams from 11 schools in rural, low socio-economic areas.

45,000

45,000

—

North Carolina Partnership for Excellence, Inc. (Morrisville, NC)

To provide high performing systems and principal leadership training to administrators and teachers in low performing school systems, stressing leadership at all levels and promoting students as leaders.

50,000

50,000

—

Northern Arizona University / Board of Regents of the Universities and State College of Arizona (Flagstaff, AZ)

To recruit and train outstanding Navajo Nation Native American teachers. Intended to prepare them to become school administrators and leaders and to build on an ongoing, long-term relationship with the Ganado Unified School District.

35,000

35,000

—

Norwalk Public Schools (Norwalk, CT)

To create a Leadership Development Institute for principals and district administrators focusing on targeted professional development and a continual process of self-reflection and assessment to improve leadership for student achievement.

40,000

40,000

—

Old Dominion College Research Foundation /

Old Dominion College Research Laboratories (Norfolk, VA)

To develop performance standards for prospective principals that can serve as a basis for redesigning the education leadership program at Old Dominion University.

35,000

35,000

—

Partnership for New Jersey, Inc. (New Brunswick, NJ)

To replicate and improve upon the Citizens for Better Schools' New Superintendents Initiative through the increased involvement of corporate leaders.

45,000

45,000

—

Peekskill City School District (Peekskill, NY)

To provide ongoing leadership retreats and training for district administrators, union leaders and board of education trustees as a means to develop a shared leadership model of governance.

48,000

48,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Plainfield Public School District (Plainfield, NJ)

To implement a state-approved, comprehensive accountability system for the collection and analysis of student data to enable administrators to set policy and make decisions based on the specific needs of individual schools.

—

35,000

—

Platte County School District #1 (Wheatland, WY)

To standardize the process by which principals are evaluated, assess their performance more systematically and hold them to more consistent measures for promoting student achievement.

—

35,000

—

Polk School District (Cedartown, GA)

To restructure school administration into leadership teams consisting of the principal, assistant principal, teachers and departmental chairpersons in order to shift the focus of decision-making policy towards curriculum, instruction and student achievement.

—

35,000

—

Portland Schools Foundation (Portland, OR)

To develop ten partnerships between business leaders and principals in high poverty schools to strengthen school-community relations and increase opportunities for strategic assistance to individual schools.

—

40,000

—

President and Fellows of Harvard College (Cambridge, MA)

To conduct research about the role of teacher union leaders in addressing, supporting and sustaining education reform and the set of skills required to successfully do so.

50,000

—

50,000

Regents of the University of California (Santa Cruz, CA)

To provide intensive support to 42 first and second year principals in 14 school districts, and to work with their supervisors and central offices to build district cultures and structures that are conducive to their success.

45,000

45,000

—

River Valley Charter School Foundation, Inc. (Newburyport, MA)

To increase parent involvement and create parent leaders by engaging them in a series of seminars about education and leadership development.

16,000

16,000

—

Santa Barbara County Schools (Santa Barbara, CA)

To strengthen the ability of new and aspiring principals and superintendents to close the achievement gap in underperforming schools through a network of professional coaches focusing on instructional leadership skills.

40,000

40,000

—

Sapientis, Inc. (Washington, DC)

To launch a leadership training program for Sapientis members to provide them with the skills to advocate for high quality, equitable education for public school students in Puerto Rico.

25,000

25,000

—

School District of Lancaster (Lancaster, PA)

To develop and sustain training institutes, peer coaching and study groups for administrators and teacher leaders. Intended to shift the focus of school leadership from management to instruction and create a strong “bench” of future administrators.

—

35,000

—

School District of Ypsilanti (Ypsilanti, MI)

To enable school administrators and teacher leaders to refine the assessment tools they use to determine whether students meet state curriculum standards.

—

35,000

—

Scranton City School District (Scranton, PA)

To provide teachers and new and experienced administrators with a series of in-district, job-embedded professional development activities which include study groups, mentoring, and peer coaching.

50,000

50,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Seminole County Public Schools (Sanford, FL)

To develop and implement a research-based Leadership Academy and online communications vehicle for assistant principals to help recruit new leaders and provide them with instructional and technology leadership skills.

50,000

50,000

—

Silvio O. Conte Community School / Pittsfield Public School Department (Pittsfield, MA)

To restructure the school into smaller learning communities, each supervised by a teacher leader who makes decisions jointly with the school principal. Intended to monitor more closely student achievement and groom teacher leaders to be future school principals.

—

24,000

—

South Dakota State University (Brookings, SD)

To provide professional support to inexperienced administrators in rural schools through on-site visits, workshops and distance learning to develop a system by which university personnel can effectively support new administrators.

—

40,000

—

Southeast Webster Community School District (Burnside, IA)

To implement Southern Regional Education Board Consortium leadership strategies and best practices among current and aspiring administrators within the state of Iowa.

45,000

45,000

—

Spartanburg School District 3 (Glendale, SC)

To bring together principals, assistant principals, lead teachers, and key business people to learn about improving student achievement through data-based decision making.

37,000

37,000

—

Springs Valley Community Schools (French Lick, IN)

To create bi-monthly service-learning opportunities for local and county school administrators from a poor rural community.

6,000

6,000

—

Spurwink Institute (Portland, ME)

To build on a seminar series for school principals by developing eight, interactive ‘supervision of learning’ sessions, a CD, and associated online resources that will enable principals to develop and practice supervision skills.

30,000

30,000

—

Teachers 21, Inc. (Newton, MA)

To pilot a school improvement model in a low-performing urban district by working with teachers, principals and the superintendent to enhance districtwide cohesion, expand leadership capacity, and improve teacher quality and student performance.

45,000

45,000

—

The University of Buffalo Foundation, Inc. (Buffalo, NY)

To expand the existing knowledge about the work of successful school leaders in high poverty communities and to specifically identify the underlying factors of those who have been successful in improving student performance.

50,000

50,000

—

University of Hawaii Foundation (Honolulu, HI)

To form a partnership among the University of Hawaii, the State of Hawaii Department of Education, and the Hawaii business community to recruit more high quality candidates to become public school principals.

35,000

35,000

—

University of Michigan—Flint / The Regents of the University of Michigan (Flint, MI)

To build a coalition of the principals and superintendents of seven urban school districts characterized by high poverty, high needs and high diversity.

50,000

50,000

—

University of Pittsburgh—School of Education (Pittsburgh, PA)

To convene a Colloquium for Former Urban Superintendents to learn how they dealt with critical issues during their tenure and to publish those findings, including recommendations for improving student learning.

40,000

40,000

—

University of South Florida (Lakeland, FL)

To work with the Polk County School District to plan and conduct an Administrators Institute intended to retool and strengthen the leadership skills of current school administrators.

45,000

45,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

The University of Texas at Austin (Austin, TX)

To examine the types of support school district leaders require to implement standards-based reforms in their schools.

—

40,000

—

University of Wisconsin—Madison (Madison, WI)

To document the practices of four principals from schools in high poverty neighborhoods who have raised academic achievement in their schools. The multi-media case studies will be integrated into the leadership preparation program and disseminated to the field.

—

40,000

—

Up-Island Regional School District of Martha's Vineyard (West Tisbury, MA)

To create ongoing study team sessions that focus on how teacher leaders and administrators become school change agents, as defined by the leadership philosophy of Michael Fullan.

21,300

21,300

—

Wake Education Partnership (Raleigh, NC)

To expand the Wake Leadership Academy by creating leadership seminars for the Master's of School Administration degree program and a Future Leaders program for teachers aspiring to become principals and instructional leaders in literacy and science.

50,000

50,000

—

Wayne State University (Detroit, MI)

To investigate the role of principals in supporting first-year African American teachers in urban schools.

50,000

50,000

—

Western Michigan University (Kalamazoo, MI)

To launch a leadership academy for prospective principals in conjunction with superintendents in local school districts.

—

50,000

—

Young Inspiration, Inc. (Uniontown, PA)

To create a mentoring network for minority teachers aspiring to principalship positions in the Uniontown/Pittsburgh area.

45,000

45,000

—

CONCLUDING INVESTMENTS

School Counseling Reform

Center for Applied Research and Educational Improvement / University of Minnesota (Minneapolis, MN)

Evaluation to document and assess how Wallace-supported university-based programs transform their counselor preparation programs, and how partner school districts respond to the initiative and to new counselors.

460,000

460,000

—

Teacher Development

Policy Studies Associates (Washington, DC)

Evaluation to gather lessons from Wallace's support to the Yale-New Haven Teachers Institute for adaptation of the Institute's National Demonstration Project, a professional development model for classroom teachers. Evaluators are assessing the experiences of participating teachers, the recruitment process, partnerships between universities and school districts, benefits and costs.

130,000

130,000

—

University of California, Berkeley / The Regents of the University of California (Berkeley, CA)

To publish an article highlighting the efforts of Wallace grantees to strengthen the practices of classroom teachers. The approaches examined by UC Berkeley include teachers' review of student work and peer discussions about ways to improve student learning.

60,000

60,000

—

Other—Refunds of unexpended grant monies

—

-27

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Arts

Our current arts programs seek to create new standards for cultural organizations and funders to enhance participation. The main components of this work are: Leadership and Excellence in Arts Participation; State Arts Partnerships for Cultural Participation; and Arts4AllPeople.

Leadership and Excellence in Arts Participation (LEAP)—to provide strategic operating support for cultural organizations that best exemplify new standards of practice for building arts participation.

Artworks!, Partners for the Arts & Community, Inc. / ArtWorks (New Bedford, MA) To broaden its current base of constituents through expanded marketing, extended gallery hours, and new school tours.	300,000	100,000	200,000
Asian Art Museum / Asian Art Museum Foundation of San Francisco (San Francisco, CA) To strengthen the Museum's ability to serve its key target audiences through AsiaAlive, a new educationally-based audience development initiative, when the Museum opens its new facility in 2003.	600,000	200,000	400,000
Bill T. Jones/Arnie Zane Dance Company / Foundation for Dance Promotion (New York, NY) To develop programs designed to broaden and diversify participation of audiences in Harlem, and to deepen involvement of key participants in New York, Boston, and Minneapolis.	300,000	100,000	200,000
The Children's Theatre Company (Minneapolis, MN) To broaden the age range of the Company's audience to reach and engage more fully children ages 13–18, and to deepen its audience's overall theater-going experience.	700,000	233,000	467,000
Jacob's Pillow Dance Festival / Jacob's Pillow Dance Festival, Inc. (Lee, MA) To develop and implement programs intended to build a deeper sense of engagement and connection among its current audience base and to broaden participation.	450,000	150,000	300,000
Louisiana Philharmonic Orchestra (New Orleans, LA) To broaden its base of support by attracting and cultivating participation among non-traditional, non-subscriber audiences.	450,000	150,000	300,000
The Loft Literary Center / Loft Inc. (Minneapolis, MN) To address barriers to participation in the arts through new and expanded programs, including: free groups for readers and writers, workshops, and enhanced web content.	300,000	100,000	200,000
El Museo del Barrio / Amigos del Museo del Barrio (New York, NY) To create the first sustained, institution-wide marketing and public relations initiative to fully integrate performing arts into the Museum's programmatic offerings.	350,000	117,000	233,000
The Newark Museum / The Newark Museum Association (Newark, NJ) To enhance substantially its audience-building capacity through two new, broad-based arts participation programs intended to engage Latino and Chinese communities.	750,000	250,000	500,000
The Prince Music Theater / American Music Theater Festival Inc. (Philadelphia, PA) To produce an annual series of live performance and films geared towards intergenerational audiences. Intended to expand participation by young audiences and their families.	300,000	100,000	200,000
San Francisco Performances, Inc. (San Francisco, CA) To expand the number of residencies from four to seven and the number of multi-week dance runs in order to increase opportunities to experience dance.	350,000	117,000	233,000
San Francisco Symphony (San Francisco, CA) To enhance its Student Forum program, develop personalized web services, and market its festival programs to attract new, younger audiences (under the age of 36).	800,000	266,000	534,000

Organization / IRS name, if different (City & State)

	Approved 2002	Paid 2002	Future Payments
Washington Center for the Book / Seattle Public Library Foundation (Seattle, WA) To extend the reach of its highly successful annual event, If All of Seattle Read the Same Book, into the city’s cultural communities by presenting reading and discussion programs with authors of diverse cultures and ethnicities.	350,000	117,000	233,000
Other related expenses —meetings	1,338	1,338	—
<i>State Arts Partnerships for Cultural Participation (START)—to help exemplary state arts agencies adopt new, more effective guidelines, programs and funding practices aimed at encouraging broader public participation in the arts. The following state arts agencies (SAAs) received START funding in 2002:</i>			
Arizona Commission on the Arts (Phoenix, AZ)	—	167,000	167,000
California Arts Council (Sacramento, CA)	—	200,000	200,000
Connecticut Commission on the Arts (Hartford, CT)	—	—	333,000
Kentucky Arts Council / Kentucky State Treasurer (Frankfort, KY)	—	167,000	166,000
Massachusetts Cultural Council (Boston, MA)	—	300,000	300,000
Minnesota State Arts Board (St. Paul, MN)	—	367,000	367,000
Mississippi Arts Commission (Jackson, MS)	—	—	467,000
Montana Arts Council (Helena, MT)	—	167,000	166,000
New Jersey State Council on the Arts (Trenton, NJ)	—	300,000	300,000
North Carolina Arts Council (Raleigh, NC)	—	334,000	333,000
Ohio Arts Council (Columbus, OH)	—	366,000	367,000
South Carolina Arts Commission (Columbia, SC)	—	267,000	266,000
Washington State Arts Commission (Olympia, WA)	—	166,000	167,000
Arts Midwest (Minneapolis, MN) To coordinate technical assistance and training efforts among the START grantees in order to strengthen state arts agency staff effectiveness, improve data collection and analysis and enhance constituent communications. In addition, Arts Midwest will utilize the national network of regional arts organizations to foster the spread and adoption of new SAA policies, programs and standards that support greater participation in the arts.	1,350,000	345,600	1,004,400
RAND / RAND Corporation (Santa Monica, CA) To document state arts agencies’ efforts to increase local participation in, and support for, arts and culture; identify “best practices” as defined by the field and confirmed by analysis; and describe the most promising methods for diffusing those practices within and across all states and territories. The findings will be disseminated to the arts community and general public through a series of short topical briefings, monographs, and a final report, available in print and on the web.	550,000	550,000	—
Other related expenses —meetings	403	403	—
<i>Arts4AllPeople—a national campaign to promote new ideas and practices that help broaden arts participation.</i>			
RAND / RAND Corporation (Santa Monica, CA) To gather and assess the evidence on the benefits of arts participation and publish a major, high-visibility report on its findings. The study will use credible evidence and useful analysis to replace widespread assertions that the benefits of arts participation are unreliable and self-serving.	500,000	500,000	—
Other related expenses —consultants, website hosting and maintenance, meetings, publication printing and dissemination	137,017	137,017	—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

CONCLUDING INVESTMENTS

Community Partnerships for Cultural Participation

Dade Community Foundation Inc. (Miami, FL)

To enhance arts participation in area neighborhoods through targeted technical assistance, planning and implementation grants that create neighborhood collaborations, and expanded public programs in the traditional and contemporary arts.

— 25,000 —

Urban Institute (Washington, DC)

To conduct an evaluation of Wallace’s Community Partnerships for Cultural Participation initiative.

225,000 225,000 —

Other related expenses—publications, printing and distribution

19,000 19,000 —

Community Arts Partnerships (CAP)

California State University, Monterey Bay / Foundation of California State University, Monterey Bay (Seaside, CA)

To form partnerships with four organizations to establish a Reciprocal University for the Arts, in which the community serves as a primary focus and resource for university curriculum. Performances, exhibitions, projects and university curricula will be produced based on the premise that art and artists can play a transformative role in community life.

— 144,293 —

Columbia College Chicago / Columbia College (Chicago, IL)

To increase connections among the college, community organizations and community youth. Program benefits will be leveraged to create institutional change within the college and collaborating community organizations.

— — 90,475

Columbia College Chicago / Columbia College (Chicago, IL)

To plan and implement the Institute for Community Arts Partnerships (ICAP) program to enhance the impact of Wallace’s CAP initiative. ICAP will involve annual meetings of the grantees, peer-to-peer mentoring projects, targeted technical assistance, web-based listservs and teleconferences and publications of case studies and conference proceedings. ICAP’s development will be guided by a committee comprised of CAP grantees, national leaders from the fields of higher education, service learning and community development, and Wallace staff.

— 150,000 —

Cooper Union / Cooper Union for the Advancement of Science and Art (New York, NY)

To collaborate with two organizations in metropolitan New York to provide high quality studio arts education to ethnically diverse community youth. Customized to meet the needs of all three partners, the program will focus on photography, printmaking, and pre-college/pre-professional visual arts training.

— — 119,090

Institute of American Indian Arts Foundation (Santa Fe, NM)

To develop a Native American Youth Outreach Program through collaborations with community organizations in Albuquerque, NM and Denver, CO.

— 149,690 —

Maryland Institute, College of Art (Baltimore, MD)

To expand access to the visual arts for several hundred Baltimore children at four community-based after-school programs. The college will offer art mentoring programs and a variety of special art projects that meet the children’s, MICA’s and the communities’ interests, while laying the groundwork of ongoing arts programs in target communities.

— 112,500 —

Xavier University of Louisiana (New Orleans, LA)

To expand current visual arts instruction programs for low-income youth at two community-based centers. The university will collaborate with two New Orleans universities and link with the New Orleans Museum of Art, the Arts Council of New Orleans and Yellow Pocahontas Mardi Gras Indians. The program will enhance community service learning curricula at the three universities while establishing significant linkages between community organizations and more traditional arts organizations.

— 80,745 —

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Leading Dance Centers

Dance Saint Louis (St. Louis, MO)

To support extended residencies in Missouri for four dance companies.

Writers' Awards—provides financial support to accomplished writers to enable them to devote time to create new works and partner with community-based organizations to foster wider appreciation for literature. The following writers received awards:

Chavez, Denise E. (Las Cruces, NM)

Crawford, Stanley G. (Dixon, NM)

Diaz, Junot (Syracuse, NY)

Doty, Mark Alan (New York, NY)

Gilbert, Jack (Northampton, MA)

Jin, Ha (Lawrenceville, GA)

Kushner, Tony (New York, NY)

Powell, Patricia Esmie (Cambridge, MA)

Williams, Terry Tempest (Castle Valley, UT)

Communities

The goal of our Communities investments is to improve children's learning during non-school hours by building the capacity and strengthening the relationships among institutions that provide learning opportunities for families and children.

Our work will focus on ensuring that the greatest number of children participate in the highest quality learning programs when they are not in school. Working in select cities, our goal will be to develop ways to create better connections among such service providers as libraries, museums, parks and after-school programs to achieve high quality, widely-accessible out-of-school learning opportunities for children. The following organizations received funding to conduct initial research and planning:

RAND / RAND Corporation (Santa Monica, CA)

To gather and critically assess evidence to produce a practical document on how institutional and family support can significantly improve informal learning opportunities, program effectiveness and participation.

Urban Institute (Washington, DC)

To produce a practical document that will identify and examine the relationships among institutions that provide informal learning programs in selected cities. This "community map" will create a picture of the informal learning networks in these cities, including the flow of information, people and money among the institutions that provide the informal learning activities.

Other related expenses—meetings

400,000

400,000

149,558

149,558

17,307

17,307

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Parents & Communities for Kids (PACK)—to improve educational achievement for children between the ages of six and 10 through activities that take place outside of the traditional school day.

Community Foundation for Greater New Haven (New Haven, CT)

To improve learning for children and families in three neighborhoods in Greater New Haven and the surrounding region by building the capacity of families, organizations and the community to participate in and support family learning.

—

375,000

1,125,000

Community Foundation for Southeastern Michigan (Detroit, MI)

To improve the educational and social performance of children in southeast Michigan by increasing the involvement of parents and other adults in the lives of these children.

—

250,000

1,250,000

Hubert H. Humphrey Institute for Public Affairs / University of Minnesota (Minneapolis, MN)

To improve educational achievement for Hmong children and their families by creating a culture of learning on the West Side of St. Paul.

—

390,776

1,109,224

United Way of Massachusetts Bay (Boston, MA)

To energize and support black and Latino parents' active involvement in achieving academic success for their children, through the "Engaging Parents in their Children's Success" initiative.

—

350,000

1,100,000

Other related expenses—meeting

5,408

5,408

—

CONCLUDING INVESTMENTS

Extended-Service Schools

Public/Private Ventures (Philadelphia, PA)

For an evaluation, in partnership with Manpower Demonstration Research Corporation, of the Wallace Extended-Service Schools initiative. Evaluators are considering what is necessary to plan and launch an ESS program on the community level; how high-quality services are designated; what attracts young people to programs and sustains their interest; and the costs and ways to finance programs.

287,414

287,414

—

Other related expenses—teleconference

10,283

10,283

—

Public Libraries as Partners in Youth Development

Chapin Hall Center for Children / The University of Chicago (Chicago, IL)

Evaluation of after-school youth services provided by nine public library systems participating in Wallace's Public Libraries as Partners in Youth Development initiative. The study is examining the nature of services, the extent and intensity of participation, and costs related to the effort.

249,000

249,000

—

Other related expenses—meeting

1,059

1,059

—

Adult Literacy—Wallace is supporting the following libraries to improve their services to adult learners and to study the impact of those improvements on learner persistence:

The Friends of the Oakland Public Library (Oakland, CA)

—

92,050

—

Santa Clara County Library / Friends of the Reading Program (Milpitas, CA)

—

72,819

—

Manpower Demonstration Research Corporation (New York, NY)

Evaluation of the Wallace Adult Literacy program.

557,000

557,000

—

Organization / IRS name, if different (City & State)

Approved
2002

Paid
2002

Future
Payments

Urban Parks

Buffalo Olmsted Parks Conservancy / Buffalo Friends of Olmsted Park, Inc. (Buffalo, NY)

To enhance public use of three major parks designed by Frederick Law Olmsted. The Conservancy will create reforestation plans for each park, develop friends groups to help implement the reforestation plans and increase public use and stewardship.

—

150,000

—

Forest Park Forever, Inc. (St. Louis, MO)

To make capital improvements, launch public programs for school children and community groups, and create an endowment to ensure sustainability of physical improvements and public programming.

—

50,000

—

Parkway Partners / Parkway Partners Program (New Orleans, LA)

To implement improvements to three existing neighborhood parks and develop a new park on the Press Street Corridor in order to increase and enhance public use of parks.

—

—

250,000

Other

Association of Black Foundation Executives, Inc. (New York, NY)

To support this affinity group of the Council on Foundations which seeks to apply philanthropy as a powerful tool for positive, enduring social change in black communities.

5,000

5,000

—

Council on Foundations Inc. (Washington, DC)

To support the national nonprofit membership organization for grantmakers.

44,200

44,200

—

The Foundation Center (New York, NY)

To support the national clearinghouse for information on private grantmaking.

100,000

100,000

—

Grantmakers for Children, Youth & Families (Washington, DC)

To support this national membership organization for grantmaking foundations for children, youth and families.

20,000

20,000

—

Grantmakers for Education (Portland, OR)

To support this national membership organization of private, corporate, community and public foundations interested in programs in pre-collegiate, higher and adult education.

5,000

5,000

—

Grantmakers in the Arts (Seattle, WA)

To support this affinity group of the Council on Foundations which brings together staff and trustees of private and corporate foundations to discuss issues of mutual concern, share information and exchange ideas about programs in the arts and cultural field.

40,000

40,000

—

Independent Sector (Washington, DC)

To support this nonprofit coalition of organizations for giving, volunteering and nonprofit initiatives.

25,000

25,000

—

National Community Building Network (Oakland, CA)

To support this national membership organization that provides a forum for community practitioners, researchers, funders and others engaged in neighborhood transformation to share common interests, insights into barriers they encounter and field-tested strategies for rebuilding communities.

675

675

—

New York Regional Association of Grantmakers, Inc. (New York, NY)

To support this association of nonprofit organizations for advancing New York City's nonprofit sector.

26,400

26,400

—

Nonprofit Coordinating Committee of New York, Inc. (New York, NY)

To support this association of nonprofit social service, education, arts, health care and philanthropic organizations dedicated to advancing New York's nonprofit sector.

2,500

2,500

—

Miscellaneous grants

112,504

112,504

—

TOTALS

\$37,721,691

25,611,137

32,147,189

Funding Guidelines & Restrictions

The Wallace Foundation is a national foundation that supports programs in the United States. Grants are awarded to nonprofit public charitable organizations that are tax exempt under Section 501(c)(3) of the Internal Revenue Code.*

Because the Foundation programs are carefully focused to achieve certain goals and employ specific strategies, most grants are awarded as part of Foundation-initiated programs. The Foundation usually solicit proposals from grantees identified through a careful screening process. Given this, unsolicited proposals are rarely funded.

Nevertheless, organizations wishing to send a one- to two-page letter of inquiry describing the project, the organization, the estimated total for the project and the portion requiring funding (please do not send videotapes or email inquiries), should write to:

THE WALLACE FOUNDATION
GENERAL MANAGEMENT
TWO PARK AVENUE, 23RD FLOOR
NEW YORK, NY 10016 USA

The Foundation will acknowledge receipt of letters. If more information or a proposal is desired, the Foundation will request it within four weeks.

*Please note that the Foundation does not award grants for religious or fraternal organizations, international programs, conferences, historical restoration, health, medical or social service programs, environmental/conservation programs, capital campaigns, emergency funds or deficit financing, private foundations or individuals.

Financial Statements

The Wallace Foundation financial statements for 2002 are presented on the following pages. The merger of the DeWitt Wallace–Reader’s Digest Fund and the Lila Wallace–Reader’s Digest Fund was completed on April 18, 2003. Our presentation represents the combined financial results of these two entities as if the merger had been completed in 2002. Separate audited financial statements for each of the Funds are available upon request.

December 31, 2002

Balance Sheet

Assets

Cash equivalents and cash	\$ 9,842,285
Investments:	
The Reader’s Digest Association, Inc. (note 3)	191,136,211
Other investments (note 4)	946,442,819
Receivables and prepaid expenses	11,615
Fixed assets, net of accumulated depreciation of \$1,340,472	563,284
	<u>\$ 1,147,996,214</u>

Liabilities and Net Assets

Liabilities:	
Accrued expenses and other payables	\$ 3,849,416
Grants payable (note 5)	31,584,426
Total liabilities	35,433,842
Net assets—unrestricted	1,112,562,372
	<u>\$ 1,147,996,214</u>

See accompanying notes to financial statements.

Statement of Activities

Year ended
December 31, 2002

Revenues

Investment income:

Dividends	\$ 11,987,628
Interest	21,945,468
	<u>33,933,096</u>

Investment fees

Net investment income	(2,973,116)
	<u>30,959,980</u>

Other income (note 7)

779,200

31,739,180

Expenses

Grants and related activities 38,626,513

Operating expenses 8,224,719

Current Federal excise tax (note 6) 2,234,801

49,086,033

Investment (losses) gains

Unrealized loss, net (note 6) (231,685,817)

Realized gains (note 3) 80,571,136

Net investment losses (151,114,681)

Decrease in net assets **(168,461,534)**

Net Assets

Beginning of year 1,281,023,906

End of year **\$ 1,112,562,372**

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended
December 31, 2002

Cash flows from operating activities

Decrease in net assets \$ (168,461,534)

Adjustments to reconcile decrease in net assets to net cash provided by operating activities

Unrealized loss on investments 233,429,457

Realized gains on investments (80,571,136)

Depreciation 191,824

Deferred Federal excise tax benefit (1,743,640)

Change in assets and liabilities

 Decrease in accrued investment income 1,710,068

 Decrease in receivables and prepaid expenses 624,853

 Increase in accrued expenses and other payables 1,947,630

 Increase in grants payable 13,015,376

Net cash provided by operating activities 142,898

Cash flows from investing activities

Sales of investments 1,951,056,977

Purchases of investments (1,950,763,828)

Capital expenditures (41,580)

Net cash provided by investing activities 251,569

Net increase in cash equivalents and cash 394,467

Cash equivalents and cash at beginning of year 9,447,818

Cash equivalents and cash at end of year \$ 9,842,285

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2002

(1) NATURE OF OPERATIONS

DeWitt Wallace-Reader Digest Fund, Inc. and Lila Wallace Reader's Digest Fund, Inc. were created and endowed by DeWitt and Lila Wallace, co-founders of The Reader's Digest Association, Inc. (RDA). On April 18, 2003, the Lila Wallace-Reader's Digest Fund, Inc. merged into the DeWitt Wallace-Reader's Digest Fund, Inc. Upon completion of the merger, DeWitt Wallace-Reader's Digest Fund, Inc. was renamed The Wallace Foundation. The financial statements presented under the name The Wallace Foundation are combined financial statements of the two Funds as if the merger had been completed in 2002.

The Foundation's resources are allocated mostly to foundation-initiated grants that further the Foundation's mission and have a national or regional impact.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts of the Foundation are maintained on the accrual basis of accounting.

(b) Tax-Exempt Status

The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is a private foundation as defined in Section 509(a) of the Code.

(c) Investments

Investments are stated at fair value. The valuation of investments is based upon quotations obtained from national securities exchanges; where securities are not listed on an exchange, quotations are obtained from other published sources. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

(d) Fixed Assets

Fixed assets consist of furniture, fixtures, equipment and leasehold improvements. All assets are depreciated on a straight-line basis over the estimated useful lives of the assets or the term of the lease, whichever is shorter.

(e) Grants

Grants are reported as an expense and liability of the Foundation when approved by the Foundation's Board of Directors unless conditions imposed on the grantee have not yet been fulfilled. Such conditional grants are recorded when the conditions have been satisfied.

(f) Cash Equivalents

Cash equivalents represent short-term investments with maturities of three months or less at the time of purchase, except for those short-term investments managed by the Foundation's investment managers as part of their long-term investment strategies.

(g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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.

(3) THE READER'S DIGEST ASSOCIATION, INC.

At December 31, 2002, the fair value of the holdings of RDA consisted of the following:

Common stock	\$	190,841,153
Preferred stock		295,058
	\$	<u>191,136,211</u>

On December 13, 2002, as a result of an RDA recapitalization, the Foundation sold 4,597,701 shares of RDA Class B voting common stock for \$21.75 per share and received net proceeds of approximately \$100 million. This transaction resulted in a net realized gain of approximately \$86.4 million. In addition, the Foundation exchanged its remaining 1,618,381 shares of RDA Class B voting common stock for 1,974,424 shares of RDA voting common stock. The Foundation also exchanged its existing 10,664,063 shares of RDA nonvoting Class A common stock for an equal number of shares of RDA voting common stock.

(4) OTHER INVESTMENTS

At December 31, 2002, the fair value of other investments consisted of the following:

Fixed income	\$	439,183,721
Equities		444,380,682
Short-term investments		116,283,432
Accrued investment income		1,869,855
Payable for investments purchased, net		<u>(55,274,871)</u>
	\$	<u>946,442,819</u>

Additionally, on December 31, 2002, the Foundation had unfunded commitments in private equity investments of \$19.4 million.

Short-term investments include money market funds, commercial paper and cash managed by the Foundation's investment managers as part of their long-term investment strategies.

(5) GRANTS PAYABLE AND CONDITIONAL GRANTS

At December 31, 2002, grants scheduled to be paid in future years are as follows:

Year	Amount
2003	\$ 26,883,936
2004	3,124,656
2005	1,679,032
	<hr/>
	31,687,624
Less discount to present value	103,198
	<hr/>
	\$ 31,584,426

The present value discount rates used were the U.S. Treasury yields as of December 31, 2002 of 1.22% and 1.60% for one-year and two-year notes, respectively.

Additionally, at December 31, 2002, the Foundation was committed, subject to the satisfaction of certain conditions by the grantees, to make grants of \$459,565 in 2003.

(6) FEDERAL EXCISE TAX

As a private foundation, the Foundation is normally subject to a Federal excise tax equal to 2% of its net investment income for tax purposes. However, under Section 4940(e) of the Code, this tax is reduced to 1% if certain conditions are met. The Foundation's current taxes are estimated at 2% of net investment income, as defined.

The Foundation records a liability for deferred Federal excise tax at the 2% rate on the total unrealized appreciation in the fair value of investments. The Federal excise tax will be paid as realized gains are reported for tax purposes. No deferred tax liability exists at December 31, 2002 because the cost of investments exceeds the fair value of investments, at that date. The unrealized loss on investments is reported net of the deferred Federal excise tax benefit of \$1,743,640 in 2002, in the statement of activities.

(7) OTHER INCOME

In July 2002, the Foundation received \$779,200 from a claim made under the Foundation's Directors and Officers Liability insurance policy for reimbursement of legal fees.

(8) FINANCIAL INSTRUMENTS

Investments are stated at fair value. The carrying amount of cash equivalents and cash, receivables and prepaid expenses, grants payable and accrued expenses and other payables approximates fair value because of the short maturities of these financial instruments.

The Foundation permits several of its investment managers to invest, within prescribed limits, in financial futures (primarily U.S. Treasury futures) and options for hedging purposes and for managing the asset allocation and duration of the fixed income portfolio. At December 31, 2002, the Foundation held U.S. Treasury and eurodollar futures contracts with notional amounts of approximately \$91 million. The contracts are valued daily using the mark-to-market method.

The Foundation's investments include options written for which premiums of approximately \$2,891 were received through December 31, 2002. The options expire through June 2003. The collateral on deposit with a third party to meet margin requirements for futures contracts and options, included in short-term investments, was approximately \$680,000 at December 31, 2002.

(9) LEASE COMMITMENTS

The Foundation is a party to a lease agreement. The lease on the Foundation's current office space expires in February 2006. The Foundation's total contractual lease commitment is provided below.

Year	Amount
2003	\$ 653,000
2004	653,000
2005	653,000
2006	109,000
	<u>\$ 2,068,000</u>

Total rent expense was \$730,428 for the year ended December 31, 2002.

(10) PENSION PLANS

The Foundation provides a defined contribution tax deferred annuity retirement plan for all eligible employees, whereby the Foundation contributes 15% of a participant's eligible earnings on an annual basis. In addition, the Foundation provides a supplemental executive retirement plan for the benefit of certain eligible employees. Total pension expense for the year ended December 31, 2002, was \$631,274.

About our Founders



Throughout their professional careers and in later years, DeWitt and Lila Wallace dedicated themselves to improving other people's lives.

Giving freely of their time and of the wealth amassed from the hugely successful magazine they co-founded, both dedicated themselves to lives of service through their support of the arts, education, and a range of community causes.

Early in life, Lila Bell Acheson worked in Minneapolis to help establish a YWCA for industrial workers. DeWitt Wallace, who had the idea of publishing a magazine of condensed general interest articles, found a kindred spirit in this teacher-turned-social worker. In 1921, they were married and moved to New York City to nurture their new magazine, *Reader's Digest*. The first edition was published in 1922. Some 80 years later, the "little magazine" the Wallaces dreamed up is the world's most widely read periodical, reaching 95 million readers a month in 19 languages in more than 60 countries. Once their livelihood was secured, Lila and DeWitt were able to turn to their first love, helping people, with vastly more money than they had before.

Lila's love of the arts extended from the visual to the performing arts, and over her lifetime her name became associated with support for many of the nation's great arts

and cultural institutions. She believed that the arts belong to and should be made accessible to all people. Indeed, the first major party after a restoration that the Wallaces funded of the Metropolitan Museum of Art's Great Hall included all the workers who had taken part in it. Lila also prized the outdoors and helped organizations construct bird habitats in New York. She established a variety of philanthropic funds in 1956 and continued her philanthropic work until her death in 1984.

DeWitt's philanthropic passions lay in promoting educational and youth development opportunities. He once said, "America isn't paying sufficient attention to its classrooms... My father and my grandfather were devoted to education and they each did something that made a difference. But I can do more. I have the good fortune... to be a wealthy man. So I should be able to make a bigger difference." He established his own fund in 1965 and became a legendary giver, donating generously and spontaneously to a large number of organizations. Among them was the periodical room in the New York Public Library where, as a beginning editor, he'd condensed articles by hand. In his words, "there are better uses for money than its mere accumulation."

Drawing on the original vision of DeWitt and Lila Wallace, The Wallace Foundation remains true to the words DeWitt wrote at age 17 as his life's goal: "to serve my fellow man."

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