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REPORT '05



Facing Facts

USING DATA TO PLAN FOR CHANGE

Page 9

Five cities are planning wide-scale improvements in arts education or out-of-school learning opportunities, using sophisticated market research and neighborhood mapping to assess what people really want and where the greatest unmet needs lie.

USING DATA TO IMPROVE PERFORMANCE

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The Louisville school district tracked how its principals spend their day and have used the findings to develop an innovative solution to help school leaders shift their priorities more toward teaching and learning.

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STAYING A STEP AHEAD

As chairman of The Wallace Foundation and as a former leader in the business world, I've been pleased to witness the growing use of data-driven planning and tools such as market research to assess demand and pinpoint needs among the cities, school districts, arts organizations and youth-serving groups that Wallace is supporting. In this year's annual report, you'll read accounts of how a number of such institutions are gathering facts to diagnose problems, understand the trade-offs and pitfalls, make wise choices among various options, plan with confidence, and lift their performance.



This fact-based way of conducting business is natural enough in the corporate world where success and even survival in an increasingly fast-paced, global and interconnected economy depends on staying a step ahead of change. It's not a hard sell within well-run corporations to invest in the research necessary to enable their leaders and boards to develop strategies and new products that respond to shifting demographics or changing tastes, needs or demands.

Governments, school districts and nonprofit institutions exist today in a climate that is every bit as changeable and challenging as the corporate world. Public demand for more and better services for less money has never been greater. Yet in the public sector where institutions are largely dependent on tax dollars, it is often much harder to make the case for investing scarce resources on this kind of planning or data-gathering in order to set a course to reach desired goals.

Foundations like ours can perform a real service by providing the means to conduct this type of research so that public institutions can stay a step ahead of change and better serve people. Data-driven planning and operations prove their value every day in the business world. Our hope is that the trend-setting cities and school districts that are testing this way of doing business with our support will demonstrate its value to many others around the country and help "facing facts" become standard procedure in the public sector as well.

At Wallace, we are no less susceptible to change than other organizations, and 2006 will mark some transitions in our Board of Directors. We say a fond farewell to Laraine S. Rothenberg, Esq., who completes her three terms of office as a director in June. We have benefited greatly from Laurie's experience and advice over the years, and she will be sorely missed. We also welcome two new directors to our board: Lawrence T. Babbio Jr., vice chairman and president of Verizon, and Augusta S. Kappner, president of Bank Street College of Education. We look forward to adding their insights and expertise to our work.

Along with our strong board, our dedicated and talented staff is our most important asset. They ensure that our foundation is well managed. Through their collaborations with our grantees and other partners, they work to ensure that our strategies are both well conceived and well implemented. Working together, our board and staff endeavor to face the facts about challenging issues, develop innovative solutions, and help spread effective ideas and practices that improve learning and enrichment opportunities for people across the country.

A handwritten signature in black ink that reads "Walter V. Shipley". The signature is written in a cursive, flowing style.

Walter V. Shipley, Chairman

NAVIGATING THROUGH TURBULENCE

“The greatest danger in times of turbulence is not the turbulence,” wrote the late Peter Drucker. “It is to act with yesterday’s logic.”

That wonderful observation captures for me the challenges of our moment in history and underscores the timeliness of the theme we’ve chosen for this annual report: *Facing Facts*. Some of the more important facts we as a nation face today are these:



America’s population is becoming more diverse, with non-whites projected to make up 37 percent of our workforce by 2020.

The nature of our economy has shifted dramatically in the last generation. The service sector has grown steadily over the last 25 years and now consists of some 110 million workers, vastly outpacing the manufacture of goods as a source of new jobs. In 2005, the service sector accounted for nearly 60 percent of the nation’s gross domestic product, up from less than 50 percent in 1980, while the production of goods slipped from more than 40 percent to barely 30 percent of GDP during that period.

Migration patterns within our country have also changed the face of many states, cities and surrounding suburbs. Whether in border states of the Southwest, midwestern states like Illinois, or formerly homogeneous suburbs ringing northeastern cities, institutions from schools to libraries to symphony orchestras find themselves serving increasingly diverse populations in terms of language, heritage and demographics.

All of these trends are placing new demands on our public and private institutions, including those whose mission is to provide learning and enrichment opportunities to children and families.

Of course, the history of America is the history of change. We have experienced successive waves of immigration, population shifts and economic innovations. Each time, we have emerged stronger and enriched. We can successfully adapt to such changes again, but not if we act with “yesterday’s logic.” We need to recognize that today’s changes present new and different challenges. And it seems more important than ever that we base our responses on the best available evidence.

Success will require new thinking about how to strengthen our public and private institutions and a commitment to work across organizational boundaries to make the most effective use of public and private resources to better serve all people. There are at least three ways that private foundations such as ours can contribute to this effort.

FIRST, FOUNDATIONS CAN HELP GET THE FACTS.

In this annual report, we highlight the work of some of our grantees who are finding innovative ways to respond to today’s new challenges based on a rigorous commitment by their leadership to gathering pertinent facts. These include cities that are planning wide-scale, lasting improvements in arts learning or out-of-school opportunities, basing their choices on tools such as market research and community mapping to accurately assess demand for services and illuminate local conditions. And they include school districts and arts organizations that are figuring out creative ways to improve their own performance. In each case, the first essential step has been to get current, relevant facts upon which to make decisions. Without reliable data on existing conditions, one can’t begin either to correctly diagnose a problem or identify options to address it.

SECOND, FOUNDATIONS CAN HELP UNDERWRITE EXPERIMENTATION.

It's one thing to gather relevant facts. Acting on them by making changes in long-standing practices often involves risks or trade-offs. It takes political courage for city leaders to shift scarce after-school resources from one area to another because data that reveal the distribution of services indicate previously unrecognized pockets of need. Developing a new way of training principals to improve student performance might or might not be effective and could divert resources from more traditional programs. Trying a new strategy to engage more people in the arts might or might not result in any long-term gains for cultural organizations. Foundation funding can make it possible for these public and private institutions to take such risks on new ways of doing business before they invest significantly in these ideas. And it can help ease the transition from a system that worked in the past to one better suited to current realities.

THIRD, FOUNDATIONS CAN MONITOR AND REPORT ON RESULTS.

Because foundations do not actually operate the programs they fund and because they invest in many different programs across an area, foundations are in an excellent position to produce and share credible analyses about the effectiveness of these new approaches. This is an especially important area where foundations can create public value with their strategies far beyond the reach of their direct grant-making.

This tripartite approach of gathering and analyzing relevant data as a basis for decisionmaking, funding innovative solutions for today's challenges, and monitoring and reporting on the effectiveness of new strategies is central to the way we go about all of our work. You'll see these elements reflected in the Year in Review section in which we describe highlights of our work in education leadership, building appreciation and demand for the arts, and expanding learning opportunities beyond the school day. And we apply the discipline of facing facts not only to our grantees, but also to ourselves. We are among a small but growing number of foundations that have developed annual internal performance benchmarks to assess our own effectiveness in developing and sharing effective ideas and practices.

Foundations alone cannot create the future we wish to see for our country. But if we can more effectively work in partnership across sectors — government, business and nonprofit — we can, as Peter Drucker might say, help discover the “new logic” needed to better meet the demands of our turbulent times.

A handwritten signature in black ink that reads "M. Christine DeVita". The signature is fluid and cursive, with a large, sweeping initial "M" and a stylized "DeVita".

M. Christine DeVita, President



A teacher and student in an after-school program at John Philip Sousa Middle School in Washington, D.C.



Greg Roberts (left), pictured here with his staff, is coordinating efforts to plan an out-of-school learning system for Washington, D.C.

FACING FACTS:

USING DATA TO PLAN FOR CHANGE AND IMPROVE PERFORMANCE

A city wants all its children to experience the arts, in and out of school.

Another wants to expand after-school learning opportunities citywide, especially for kids who need them most.

A school district striving to help students do better wants to be sure that principals spend their time on what matters most: improving learning.

A museum seeks a more diverse audience that better mirrors the community it serves.

In each case — whatever the goal — facing facts is key to success.

In the following section, you will read about how gathering and using data is playing a critical role in helping a variety of Wallace-supported organizations to accurately diagnose challenges, and then plan and implement effective, wide-reaching solutions that benefit people.

Instead of acting on anecdote or impulse, these organizations — which include states, cities, school districts and a variety of arts institutions and community groups — are using systematic fact-gathering methods such as market research to determine what people really want and need, community mapping to pinpoint local shortages in services, and a variety of data to track performance and ensure continuous improvement.

As one leader put it, “There’s nothing going on in our organization that doesn’t start with, include or end with research.” ■



Third- and fourth-graders at Obadiah Knight Elementary School in Dallas create and illustrate digital storybooks in an arts program.

CLOSE-UP

FACING FACTS:

USING DATA TO PLAN FOR CHANGE

Public and private leaders planning a citywide arts-learning system for Dallas are on the hunt for a missing link.

In this and other cities, there's no shortage of evidence that parents and other adults place a high value on children's ability to experience the arts — in the classroom and outside it. Nationwide, research has found that three out of four adults, asked how they would spend limited funding for the arts, considered opportunities for children a top or high priority.¹ In Washington and Providence, two cities that are planning to improve their systems of out-of-school learning with Wallace support, market research has shown that the arts and culture lead the list of how parents would like their kids to spend non-school time. (*See chart, p. 13, for Washington data.*)

National studies offer compelling evidence of arts' benefits, especially for young people. RAND's 2004 report *Gifts of the Muse*, commissioned by Wallace, indicates the arts' potential to enrich children's learning experiences and make them lifelong appreciators of the arts. It also describes the benefits children receive in an arts-rich school environment that provides hands-on artistic experiences and integrates the arts into other subjects.

But in Dallas and many other cities, something has been missing — something critical to ensuring that well-laid city plans become realities. A local survey found that only 25 percent of Dallas's children have contact with arts and cultural institutions as part of their education, and the majority of those are among the city's most affluent. Given the widespread support for arts education and the evidence of arts' benefits, the question remains: Why doesn't Dallas yet have a system that would deliver those experiences for many more children?

"What is the gap between a natural inclination to say 'yes' to arts education, the belief that it's important to kids, and the fact that it isn't happening?" asked Giselle Antoni, executive director of Big Thought, the Dallas-based nonprofit that is currently managing the planning process to develop such a system.

In Dallas, and in five other cities working on plans with Wallace's support to provide more enriching learning opportunities for children in and out of

school, leaders are relying on the power of data and research to help fill in this missing link between worthy aspirations and actual results.

These cities, which also include New York, Washington, Boston, Chicago and Providence, are using market research, community mapping and other methods to plan and support lasting improvements in arts education, out-of-school learning or both. Instead of looking for quick fixes or rushing to fund programs without a solid understanding of people's needs and how to meet them, these cities are taking more careful steps: they are gathering and using data to learn what improvements people really want, what factors have held back progress, what trade-offs are associated with specific solutions, and what it will take to produce positive change.

- New York City, like Dallas, is engaged in planning a more coherent system of arts learning both in and out of school. An innovative *Blueprint for Teaching and Learning in the Arts*, which provides a citywide sequential course of study including benchmarks

for student achievement, forms the bedrock of the planning effort. The goal is to create much stronger connections between that curriculum and the content of arts experiences available to kids outside the school day. In a separate but related Wallace-supported initiative, New York has been planning and implementing a system to deliver higher-quality, more broadly accessible out-of-school learning opportunities. That effort began with market research to determine family needs and community mapping to assess the distribution of out-of-school learning programs. (See “A Geography Lesson,” p. 14.)

- In Providence, plans for developing a citywide system of out-of-school learning also included market research to determine the needs and concerns of parents and kids. Safety emerged as a top concern in choosing a program, cited by 94 percent of parents. In response, the city is implementing an innovative network of “AfterZones” that place varied, high-quality after-school programs within easy reach of several neighborhoods.

- Data are driving the thinking and planning of Boston, Chicago and Washington leaders who are developing citywide improvements in out-of-school learning opportunities. In each of those cities, analyses of which groups of kids have the highest needs, and a review of current barriers to having more of them participate in high-quality programs, lie at the heart of the planning process.

Regardless of the end goal, all these cities share a common belief: good planning starts with good data.

“There’s nothing going on in our organization that doesn’t start with, include or end with research,” said Giselle Antoni of Big Thought. “It’s such a powerful tool to design programs that really help people, and to know for sure you’re doing that, not just intuitively or anecdotally.”

DALLAS: GETTING THE FACTS BY ENGAGING THE COMMUNITY

In Dallas, planning a more effective arts-learning system hinges critically on

Big Thought’s research program, whose results will guide implementation beginning this year. The data will provide answers about the supply and demand for arts education throughout the city, what children and families want from arts education, and how successful current programs are at meeting those needs. It will help determine the cost of high-quality arts education and how it can be funded in a sustainable way. And it will assess the city’s information-technology and communication capacities, which are crucial in developing a comprehensive arts-learning system that coordinates offerings both inside and outside of school.

“This research will fill in that picture so we know what to do,” Antoni said. “You’re not just shooting broadly and hoping you hit the target; you have a specific way of honing in on the action that is most likely to be effective.”

Following a highly inclusive process that Big Thought has previously used to develop smaller-scale arts-learning programs for Dallas schools, the data



Artist Leo Hassan teaches African drumming and storytelling in an after-school program at Dallas's Moseley Elementary.

A Washington after-school program offers “homework time” with help from teachers, a feature highly valued by parents and students in market research.



collection will also give a central role to community members with an interest in arts education. Parents will interview parents about what they hope their children will learn about the arts. Teachers will talk with colleagues about how arts can flourish in the classroom. Program providers will compare notes about which arts-learning strategies best connect with kids. All of these people will evaluate the data collected and use their knowledge to help interpret it. They will then help to propose programs and solutions to a steering committee, which will make the final decisions about what kind of system to implement.

Through the planning process, the community will learn about itself and “own” the resulting information and insights.

“Often, when you have researchers come in, they write a wonderful report and are willing to share their knowledge. But when it’s all said and done, that knowledge lives with them — they were the ones who collected the data and went into the classrooms,” said Jennifer Bransom, Big Thought’s director of program accountability. “In the studies we’re looking at now, the knowledge will rest in our community.”

It may be more time-consuming to involve so many people in the research and planning, but Big Thought sees it as a promising way to develop a system that Dallas will believe in and sustain over time. And it may be

what helps Dallas find that “missing link” that can move it from knowing how good an arts-education system *could* be, to actually offering such a system’s many benefits to all children and families.

COMING ATTRACTION:

THE COST OF QUALITY IN OUT-OF-SCHOOL LEARNING

What does a high-quality out-of-school learning program cost? Cities across the country face growing demand for such programs, yet they lack reliable facts about costs that are essential for making difficult decisions about how to spend scarce resources. One key problem is that there is no agreed-upon standard among researchers and practitioners for calculating such costs. As a result, past surveys show a fifteen-fold variation in the amount paid for a child’s participation in a program, from less than \$450 per year to more than \$7,000.

A new Wallace-commissioned study from The Finance Project and Public/Private Ventures will provide cost benchmarks for high-quality programs, so that cities and providers will have an evidence-based guide to the likely costs for providing a range of out-of-school options such as homework help, sports activities or arts instruction.

The study, slated for publication in fall 2007, will be presented in a “blue book” format — similar to car-buying guides that break down a vehicle’s price by individual options — and will itemize the cost of specific program features. In making clear the alternatives of offering certain services, it will help cities and providers plan out-of-school learning systems according to a data-based analysis of the true cost of quality. ■

**BOSTON, CHICAGO AND WASHINGTON:
TARGETING THE SPECIAL NEEDS OF
SPECIFIC AGE GROUPS**

In other cities where Wallace is supporting efforts to plan system-level change to expand learning opportunities, compelling data have helped planners identify particular groups of children whose needs are being inadequately met.

In Boston, the focus of planning is to tap the power of out-of-school programs to help raise the academic performance of the city's most struggling elementary-school students. Leading the effort is Boston After School & Beyond, a non-profit intermediary organization formed in 2004, which has accumulated compelling data that point squarely at the unmet needs of younger children: 14 elementary schools had failed to meet performance standards and, within those schools, about 80 percent of students had scored below the state's minimum proficiency levels. Two-thirds of that underperforming group had not participated in any after-school activities.

"We know from a variety of sources that there's a fairly identifiable cohort of students who are driving the low results for these schools," said Stephen M. Pratt, president of Boston Beyond. "Rather than taking a generalist strategy, let's take an approach that focuses on the kids who are driving that low performance."

Pratt and his staff will focus their research and program design on these underachieving elementary students and will concentrate especially on children in the first through third grades, who are at a critical point in developing reading and math skills. As a next step in its data-gathering process, Boston Beyond plans to survey families city-wide about what they want from out-of-school programs and what barriers keep them from participating. It will focus on the responses from homes with children

COMING ATTRACTION:

GETTING THE FACTS ON WHAT PARENTS AND KIDS REALLY WANT

In out-of-school learning programs, where attendance is typically voluntary, the pressure is on programs to be appealing and to provide quality experiences. How do children and their parents define quality? What program features do they look for? What aspects of a program encourage children to attend often enough that they truly receive its benefits? And how can cities make sure they offer the services that children and families need and want?

New York City and Providence, two cities that are planning and implementing citywide improvements in out-of-school-time opportunities, discovered that the key to getting such facts is market research. Both cities, with Wallace support, have effectively used market research to get a clearer fix on the perspectives of children and parents, helping them to create a blueprint for educational, fun and rewarding programs that kids will actually attend.

Wallace has commissioned Market Street Research to produce a "how-to" manual that can help other cities conduct and analyze market research on out-of-school services. Expected to be published by the end of 2006, this tool will give cities and providers practical guidance on conducting surveys and focus groups. It will also help readers to draw conclusions from the results, both for planning purposes and to continually monitor whether existing programs are well-matched to the needs of kids and families. ■

who fall within the target group and use that data to guide plans for citywide program development.

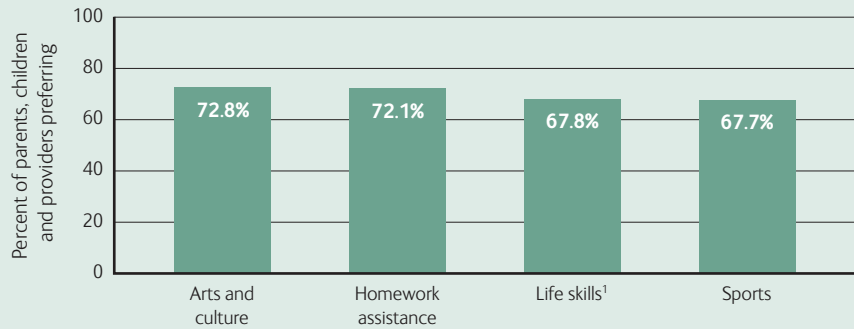
"Many of these kids we're talking about who are struggling are only marginally engaged with or totally disengaged from the school," Pratt said. "By coming up with attractive out-of-school options for these kids, we can glue them back into the life of the school."

Similarly, data led Chicago to target a particular age group: teens. The goal is to use high-quality after-school programs as a means to keep teenagers in school and increase the city's graduation rates. One-third of students who entered ninth grade in 1999 left school before age 18. Three-quarters of high school students do not participate in any out-of-school activities on an average day, and more than a third have no contact with after-school programs all week long.

The city's plans center on making available better out-of-school programs for high school students — not simply *more* programs, but programs that are accessible, attractive and interesting so that teenagers will attend often enough to reap the benefits. Essential to this goal will be increasing the city's understanding of what teens want from their out-of-school programs, and where programs should be located so that students can easily and safely attend after school.

Fortunately, Chicago already had a trove of data about teenagers' perspectives on out-of-school time, collected in annual surveys by the Chapin Hall Center for Children at the University of Chicago. Nearly half of students surveyed in 2005 who don't participate in after-school programs said there were no safe places, such as parks or community centers, where they live. Only 34 percent said they knew of out-of-school

TOP PREFERENCES FOR OUT-OF-SCHOOL ACTIVITIES IN WASHINGTON, D.C.



Source: OST Service Needs Assessment: Washington D.C. Middle School Students, Market Street Research, Inc., 2006.
¹ Including, for example, social skills, manners, personal hygiene and home economics.

programs in their neighborhoods. The data also showed that one-third of teens who don't participate say there are no competing obligations preventing them from doing so — suggesting that general disengagement and disinterest may be strong barriers to participation.

Chicago planners hope to use this data and other research to produce a multi-dimensional, data-based portrait of out-of-school services, which will in turn

help them to develop a citywide system of programs that teenagers know about, have an interest in, and participate in frequently.

Planning an improved out-of-school-learning system in Washington, D.C., has also drawn attention to the unmet needs of a specific group: middle school students. Twenty-seven percent of these children live below the poverty line. Less than 41 percent of students in

public middle and junior high schools met or exceeded the “basic” level in reading, and just 36 percent met or exceeded the “basic” level in math. Nearly 90 percent of the city's 27 public schools serving grades 6 through 8 failed to meet annual yearly progress goals mandated by *No Child Left Behind*, and middle schools throughout the district suffer from significant truancy problems.

The data that Washington has collected during this planning process, being led by the nonprofit Children and Youth Investment Trust Corporation with strong support from the mayor, school superintendent and other city leaders, turned up surprising and, in some cases, alarming results. The Trust discovered that Washington had no shortage of programs citywide. But the programs weren't distributed in a way that made them accessible to the kids who most needed them. Of the city's 27 schools that serve the middle school population, 12 housed no after-school programs at all. Those schools were located in neighborhoods where children were at the greatest risk.

Washington teens learn fine wood-working in an out-of-school job skills program.



Data also found a high correlation between the lack of out-of-school programs and the presence of other serious youth problems. A recent city crime study identified 14 “hot spots” within Washington for juvenile crime. When these were overlaid with a map of available out-of-school programs, the result was

unmistakable: in neighborhoods with the highest rates of youth crime, there were almost no after-school programs for kids.

“We had done some data collection before, but not at this level,” said Greg Roberts, the Trust’s executive director. “We didn’t realize what the data was

telling us until we actually collected it. Until then, we just had inferences and gut feelings.”

Roberts explained that having concrete data helped to illuminate Washington’s need for more wisely allocated, quality out-of-school services — not just to the Trust’s planners, but also to program

A GEOGRAPHY LESSON: NEW YORK CITY MAPS ITS OUT-OF-SCHOOL LEARNING PROGRAMS



NYC Mayor Michael Bloomberg (left) and Department of Youth and Community Development Commissioner Jeanne Mullgrav (center), discuss a community map showing the distribution of out-of-school learning services.

Maps are helping point the way as New York City planners chart the future course of out-of-school learning. Community maps developed as a key part of the city’s planning process have provided a revealing geography lesson: neighborhoods with the most rapidly growing populations of children who most need after-school services often contained the fewest city-funded programs.

With this data, New York’s planners created as complete a picture as possible of the city’s out-of-school services, though a dearth of information about private programs led them to focus on city-funded offerings. When translated into maps, the data yielded startling findings and a clear need for action.

The maps showed lots of programs on the Lower East Side, some created a century ago when the neighborhood was an epicenter of immigration. But there were fewer in outer-borough areas such as Staten Island. And a giant swath of Queens, which has experienced some of the city’s greatest

growth in immigrant population, had practically no out-of-school resources.

The city set out to recalibrate its publicly funded offerings so that they matched up better with changing neighborhood needs. Planners mapped a complex and wide range of data to determine need, from census results to information about low-achieving schools to the concentrations of children of single parents.

“The Bloomberg Administration’s governing philosophy is focused on using research and data to guide our funding and policy decisions,” said Jeanne B. Mullgrav, commissioner of the Department of Youth and Community Development. “The out-of-school-time planning process elevated this strategy to a new level of prominence.”

“As a city agency,” she continued, “DYCD strikes a balance when allocating limited public resources. While we aim to provide engaging activities for all youth, the data and research tell us that certain communities have greater needs. As a result, we continually seek to reach the city’s most vulnerable youth, where the funding will have the strongest impact.”

With the community maps enabling them to visualize the problem, they worked with the city Department of Education to open up 515 schools as sites for out-of-school activities — many of them located in areas that desperately needed services — and worked with community-based organizations to place programs in those sites. The result is a more equitable distribution of programs that New York can continually refine as neighborhoods and needs change.

“The maps became very compelling in showing that equity is a reasonable value and that we were not achieving it,” said Bonnie Rosenberg, the project manager at City Hall for the Wallace-supported out-of-school learning initiative. “We knew we could do better than that.” ■



Washington's citywide out-of-school learning system will focus on providing a wide variety of options to children in grades 6 through 8, a high-risk population.

providers, funding sources and the community at large.

“For a lot of people, it was an ‘a-ha’ moment,” he recalled. “People said things like, ‘You mean in Lincoln Heights, one of the biggest crime areas of the city, we don’t have programs?’ It made them realize that we need to look at this. People began to see that we need data to be strategic.”

Washington is also using market research to learn what people wanted most from out-of-school time and what factors may prevent families from participating. Findings from a survey conducted by Market Street Research and published in March 2006 revealed that the most popular offerings among parents and kids were arts and culture programs and homework help: each was rated highly by more than 72 percent of participants. But life skills, sports and community-service activities, and “rites of passage” programs, which help children make the transition

to young adulthood, also garnered support from three-fifths or more of the families surveyed.

The research confirmed some long-held assumptions but also produced some unexpected findings about what concerns parents and kids about these programs. It found that nearly half of parents were worried about the safety of their kids getting to and from programs. More surprisingly, nearly 70 percent also expressed fears about safety at the program sites themselves.

Roberts places high value on this data as the Trust proceeds with citywide planning for better out-of-school services. “It brought a business-planning perspective to this work, which is not prevalent in this field,” he said. “Not a lot of data, research or evaluation is actually done. Some of it is done in individual programs and individual neighborhoods, but not system-wide or citywide, using data systems and market research to drive decision-making.”

Washington’s use of data won’t end with the planning phase. It will continue after the improved out-of-school learning system is implemented. In what the Trust sees as one of its most important innovations, it plans to create a comprehensive system to connect data from eight city agencies that serve children, school data on academic achievement and attendance, and information about children’s participation in out-of-school programs. This system will offer unprecedented insights into how the city is serving children, giving the Trust’s planners the knowledge they need to revise and refine the system over time, achieving maximum benefits for kids.

“If you’re going to do system-wide out-of-school services, you have to be engaged in this exercise,” Roberts said. “If you don’t have data, you just can’t do this job.” ■

Footnotes

1. Source: Belden Russonello & Stewart, 2004: A national survey of 1,200 adults commissioned by The Wallace Foundation.



Louisville
Principal Phillip
Poore guides
a Cochran
Elementary
student through
a set of multiple-
choice questions.

CLOSE-UP

FACING FACTS:

USING DATA TO IMPROVE PERFORMANCE

For most of his seven-year tenure at Cochran Elementary, Principal Phillip Poore was like many school leaders around the country: so bogged down with managerial tasks that he found it difficult to concentrate on improving instruction and raising student achievement.

“I knew that’s what I was supposed to be doing, and that’s what I wanted to be doing,” Poore recalled. “But it just couldn’t happen.”

Before the start of each school year, Poore would think up ways to improve learning at Cochran, which is part of the 97,000-pupil Jefferson County School District in Louisville, KY. He pictured himself visiting every classroom at least once a day. He envisioned meeting with fourth-graders who were struggling in science and math. He would sit with teachers, one-on-one, and help them to find ways to reach every one of their students. In short, he imagined himself as a leader of learning.

If only there was time.

Reality would hit each September. It took the form of unannounced drop-ins from parents, or a stream of kids sent to him for disrupting class, or early-morning bus crises. There was the brimming voicemail box, meetings with kitchen staff and phone calls from

community groups that wanted to use the gym.

Poore suspected these non-instructional matters were absorbing at least half his time. The truth was even worse, as newly gathered facts would show. He and other principals in the district, it

Smart use of data
has catalyzed a
stunning about-face
in the way principals
are using their time.

turned out, were spending nearly 70 percent of their time on management tasks — and only 30 percent on work that would improve instruction and student learning.

In the past two years, however, the district’s smart use of data — both to

accurately diagnose the problem and arrive at a creative, fact-based solution — has catalyzed a stunning about-face in the way he and other principals are using their time. With Wallace support, the district launched a three-school pilot program that created a new school-level position called the School Administrative Manager, or SAM. These managers, who ideally have business backgrounds, are meant to relieve principals of most management tasks and allow them to focus, first and foremost, on instruction.

Two years into the pilot study, the three participating principals have seen a complete reversal in the way they spend their time. Seventy percent of their week is now devoted to instruction. (*See graph, p. 19.*) And early indicators show that the change in the way they work may be paying off for students: each school in the study posted test-score gains in 2005 of at least double the rate of prior years, and Poore’s school eliminated the gap between the academic performance of its white and minority students.



Louisville principal Phillip Poore and his school administrative manager, Allen Markja, review a detailed log of how Poore spends his working hours.

Jefferson County’s innovative solution to its elementary principals’ time-use problem is a textbook example of how data can point the way to improving the performance of individuals and the institutions they serve.

Organizations in all three areas of Wallace’s work — improving education leadership, bringing the arts to more people, and enhancing out-of-school learning opportunities — are increasingly placing facts at the center of their goal-setting and decision-making, using data to set the bar higher for themselves, and to keep it there.

- Delaware, one of two dozen states in Wallace’s education leadership initiative, is testing an innovative way to evaluate school principals based on what these leaders actually do on the job to improve student learning, and

to hold them accountable to firm goals for improving their performance. (See story, p. 22.)

Organizations are using data to set the bar higher, and to keep it there.

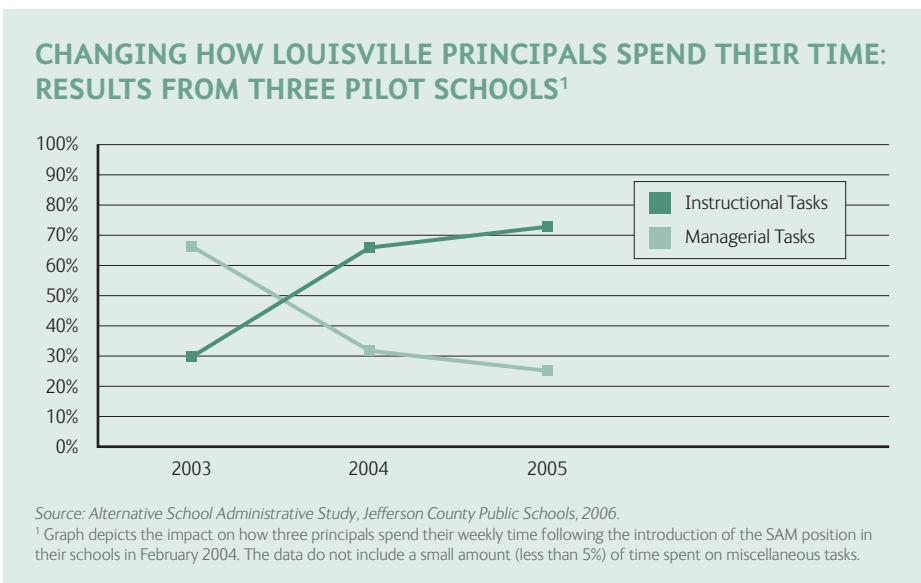
- When Washington, D.C., implements its new citywide system to improve out-of-school learning opportunities for middle school students, it will aggregate multiple data streams — from the school district, city youth agencies, out-of-school providers and demographic resources — into a single

system that will yield the first coherent, detailed picture of how well Washington serves its most at-risk youth population.

- The Seattle Art Museum, which received Wallace support to develop ways to bring the arts to more people, collected attendance data and conducted surveys and focus groups to increase visitor diversity. The museum stepped up its outreach to target minority communities and held exhibits that would appeal to an increasingly multicultural city. The result: exhibits between 2002 and 2004 attracted between 14 and 34 percent minority visitors, up from a range of 8 to 10 percent in the three years prior.
- The University of Iowa’s Hancher Auditorium, another partner in Wal-

lace’s arts participation work, discovered through its 2002-2003 audience data that only 7.7 percent of its audience was under 18 years old. To attract more young people and cultivate future audiences, the auditorium designed “Spot: The Hancher Family Arts Adventure.” Now in its second season, Spot offers programs for parents and children, including a dance version of *The Velveteen Rabbit* and a concert by family-oriented musician Dan Zanes. These have helped Hancher increase its under-18 audience to more than 11 percent, a significant step toward its 2007 goal of 15 percent. In addition, 520 children registered on a new Hancher website to be “Spot kids,” and the auditorium can now communicate with these young people on a regular basis.

In each of these cases, data have provided a revealing mirror for measuring organizational and individual performance and progress over time toward specific goals. Having the facts is critical. Lynne Wheat, the Jefferson County



Public Schools’ director of administrator recruitment and development, put it this way: “It’s not optional — that’s the way you continue to move forward.”

A WEEK IN THE LIFE OF A PRINCIPAL: A TALE TOLD BY DATA

Using data to effectively diagnose and address challenges was already part of the culture of the Jefferson County

schools under the leadership of Superintendent Stephen Daeschner. He keeps a thick binder in his office that holds reams of information about the performance of every one of the 129 schools he oversees, and he dispatches teams of reviewers periodically to each school to discuss those facts with principals.

So when the district set out in 2003 to refocus the attention of its school

Principal Cheryl Rigsby is spending more time with her teachers and students since a school administrative manager joined her staff.



leaders on improving learning, it was a natural first step to find out what a “week in the life” of an elementary-school principal looked like. While many educators had gut feelings that principals’ days were being consumed by management tasks that pulled them from what mattered most — teachers, classrooms and students — they needed to know, quantitatively, how principals used their time.

To find out, retired school leaders “shadowed” 21 Jefferson County elementary-school principals for five consecutive days in 2003, recording their activities at five-minute intervals. They categorized the principals’ work as primarily “instructional” (helping students with class assignments, giving feedback to teachers, modeling lessons); or primarily “managerial” (such as disciplining students, meeting with parents about non-learning matters, or handling building maintenance). The resulting baseline data, which showed that principals were spending nearly three-quarters of their time on non-learning matters, drove home the need for change.

“You’re not planning your day; you’re just experiencing it,” said Cheryl Rigsby, another of the principals in the pilot study, who now has a School Administrative Manager working with her at Fern Creek Elementary. “You don’t ever get to the important stuff you need to be doing. The most important part of my job as an instructional leader is academic performance.”

Jefferson County’s use of administrative managers to solve the problem of principals’ time is highly unusual but not without precedent in education, where varied methods of teaming an instructional leader with a business-savvy administrator have met with success in the past. The Chicago and New York City school systems (and previously, San Diego’s) are led by superintendents or chancellors who do not have instruc-

COMING ATTRACTION:

A NEW TOOL TO ASSESS SCHOOL LEADERS AND THEIR TEAMS

School leaders are more accountable than ever for improving student learning. But districts still lack a comprehensive system to determine how effective principals and their leadership teams really are. The most common measures assess basic competencies and skills — what principals know. But what leaders actually do is what counts most.

Wallace has commissioned researchers at Vanderbilt University to develop a leadership-assessment tool that will be among the first to evaluate how school leadership teams, rather than just individual principals, are performing and whether their actions are improving learning. It will also allow districts to determine what additional training or skills those leaders might need to do their jobs better.

The Vanderbilt system will mirror, and build considerably upon, efforts that states and districts such as Delaware have made to focus leadership assessment on behaviors. Specifically, the tool will give weight to evidence of school performance and student success, as well as whether leaders are exhibiting behaviors that enhance that performance — such as an ability to act on the diverse needs of students, and to collect and analyze data to make informed judgments.

The new tool, expected to be published in 2008, will help districts better understand whether leaders are changing the way their schools perform, which can, in turn, lead to student success. ■

tional backgrounds but have brought in senior-level leaders who do. Many schools in the United Kingdom have employees called bursars, who function similarly to Jefferson County’s SAMs, removing the burden of management to allow head teachers to focus on instruction. And, of course, many schools have assistant principals, office assistants and business managers who are intended to allow principals more time for instructional leadership. But the addition of those positions, in and of itself, has often failed to address the principal’s need to change daily practice.

OLD HABITS DIE HARD

Data helped the Jefferson County schools clarify their problem and illuminate a path to a promising solution. But the district and its principals were about to learn that when it comes to

changing long-held practices and habits, one-shot or infrequent fact-gathering is not enough.

Principals at the three pilot schools were initially thrilled at the prospect of having another person on hand to help them out. Some thought that when the SAMs started work, sweeping change would just *happen*. But the presence of an extra administrator in the school office didn’t automatically shift the principals’ focus to improving instruction. Somewhat to their own surprise, the principals found themselves clinging to old management tasks. Compared with the more daunting, longer-range challenge of improving learning for all students, these workaday tasks were comfortable, familiar and offered more immediate gratification.

“There has to be massive change on the part of the principals themselves,”



Principal Cindy Adkins now uses 70 to 80 percent of her time to improve instruction instead of working on more routine management tasks.

said Wheat, herself a former Jefferson County principal. “People didn’t realize that from the beginning.”

Data once again proved crucial in bringing about the desired behavior changes — and the system that provided the necessary information was designed by one of the new SAMs. The principals and managers realized that unless the principals had regularly updated information about how they were spending their days, it would be much more challenging for them to shift their emphasis from management to instructional leadership. They couldn’t wait a full year for the “shadow” data recorders to return in order to find out whether they were really changing the use of their time. This led one of the SAMs, Cochran Elementary’s Allen Markja, to develop a system to record and analyze the principals’ time use not just yearly, but on a daily, weekly or monthly basis.

This more frequent tracking provided principals with what they needed to trigger a change in their behavior: a real-time way of seeing what they were doing and whether they were, in fact, making progress in changing their old ways.

“When you write what you do every day and get reports back telling you how

you spend your time, you can reflect,” said Cindy Adkins, principal of Blue Lick Elementary and the third principal in the pilot program. “You might say, ‘This month I didn’t spend as much time working with students. What am I going to do about that?’”

“That constant look at how I use my time and what is going on in my building has helped me change my behavior for real, which has been amazing,” she said.

CHANGES IN THE CLASSROOM

The differences have been tangible. The most recent “shadowing” of the three principals, conducted in November 2005, found further progress in tipping the balance of principals’ time. The three school leaders in the study now devote 72 percent of their time overall to improving student learning, and recent data show that on some days they reach 80 to 90 percent.

Data gathered by the district also reveal that students, parents and teachers now perceive the principals differently. In 2004, about half of fifth-graders at the three pilot schools said discipline was their principal’s main job, while only 6 percent said it was to “supervise

instruction.” A year later, 49 percent of students chose instruction as their answer. The number of teachers in the pilot schools who said that the principal often helps them with lesson planning jumped from 64 to 91 percent in the same time period, and 78 percent reported that their principal was more engaged with instruction.

Like any responsible users of data, the district wants to see whether these gains, including the apparent rise in student test scores, show staying power before reaching firm conclusions about how well the program works in boosting learning. However, the initial year-to-year results have sparked excitement within the district and interest elsewhere. Adding to its appeal is the relatively low price tag: SAMs in Louisville earn an average of \$30,000 per year, about one-third the average salary of the district’s principals.

“These three schools are set,” said Mark Shellinger, who designed the SAM project and has been tracking its progress, and who is himself a former principal. “You have the ideal structure in place: a way for principals to be reflective on a regular basis, and constant change in practice that is meeting student need.”

As a result of these early findings, the Kentucky Department of Education will fund SAMs in three rural schools in fall 2006. Several other Kentucky districts are considering the model, and Jefferson County plans to introduce it to five more schools. As word of the model's effectiveness has spread to other states and districts in Wallace's leadership

initiative, there are plans to pilot the program in Delaware and Atlanta, GA, in the 2006-2007 school year.

The three principals involved in the Jefferson County pilot study know that for them, the SAMs project has been a landmark in their lives as instructional leaders. "This particular study has

taught me more about my own behavior than any data I've ever received," Adkins said. "I've always received academic data and used that to plan our next steps for improvement. But I've never had the opportunity to take a look at what I do all day, every day, so that I can improve my performance as an instructional leader." ■

IN DELAWARE: ASSESSING WHAT SCHOOL LEADERS DO, NOT JUST WHAT THEY KNOW

Principals across the country are being held more accountable than ever for their students' academic achievement. Too often, however, existing assessments of leader performance focus more on what they know rather than what they actually do to promote learning. How can states and districts more accurately measure what matters most in how principals behave? And how can they use the findings to help principals who are falling short in key leadership behaviors to improve?

Delaware, one of two dozen states in Wallace's education leadership initiative, is testing a new system for assessing the performance of school leaders that focuses principals' attention on improving their own performance in ways that boost student achievement. Its method, being pilot-tested in two districts and slated to be placed in all 19 of the state's districts by the 2007-2008 school year, offers several advantages over many other existing methods for assessing principals:

- It matches 21 desired on-the-job behaviors with statewide standards for good leadership.
- It makes principals responsible for student achievement, using test scores and other data to show whether school leaders are having an impact on learning.
- The principal works with the superintendent to define personal goals for improvement based on school and district objectives.
- Perspectives on the principal's work come from a variety of sources, including a self-evaluation, the superintendent and the teachers the principal oversees.
- Principals must show their progress with observed, measurable evidence.
- Struggling leaders are not just cast aside but given an opportunity to improve through such means as professional development, coaching or with the help of networks of their colleagues.

Delaware began the pilot test in fall 2005, and state education officials say they need to evaluate the assessment system's performance for two full school years before they can tell how well it's working. But early signs appear promising.

"It's making principals look at data, set goals and provide specific evidence that they're doing a good job," said Jacquelyn O. Wilson of the University of Delaware's School of Education. "It looks at things that are specific to a principal and a school, which helps principals begin to think about their problems and how to fix them."

"I think it's going to be very powerful in helping principals to do their job." ■



*Cindy Adkins,
principal of Blue
Lick Elementary
in Louisville,
listens and gives
advice to one of
her students.*



A summer dance program supported by Wallace at the New Jersey Performing Arts Center in Newark aimed at drawing more young people into the arts.

THINKING SYSTEMATICALLY ABOUT LEARNING OPPORTUNITIES

Wallace’s overall goal is expressed in our mission statement: we support and share effective ideas and practices that enable institutions to expand learning and enrichment opportunities for all people. Our current work toward this objective is occurring on three fronts:

- Building appreciation and demand for the arts,
- Improving education leadership to lift student achievement, and
- Enhancing learning opportunities beyond the school day.

At its heart, our approach is to achieve broad and lasting benefits for people through the power of ideas. Working with our partner sites — most often, cities, states and school districts, as well as arts organizations and other nonprofit institutions — we seek to help develop and test useful new ideas “on the ground.” We gather credible evidence about what is effective and why. And we use a range of communications activities to share that knowledge with individuals and institutions that can bring those effective ideas and lessons to life in ways that expand opportunities for people on a large scale.

In 2005, Wallace and its partner sites made significant strides in planning for and implementing elements of this larger vision of expanding learning opportunities for people in school, outside the school day, and through

lifelong engagement with the arts. Working closely with our research partners, we also added to the storehouse of knowledge about how others might realize this objective of more learning opportunities. *(See pp. 32-33 for a list of new Wallace-commissioned publications available on our website, www.wallacefoundation.org.)*

Most significantly, we placed particular emphasis in 2005 on thinking more systematically about how to create lasting benefits for people. Whether in public education, out-of-school learning or the arts, we believe that by deepening understanding about how policies and practices at all levels connect and can become more mutually reinforcing, we can make much more progress in ensuring that scarce resources are allocated in ways that drive accountability, high quality and more participation in

learning opportunities both in and out of school. And as described in the previous section, the smart use of data to document demand and the distribution of learning opportunities and services is playing an increasing role in helping cities think much more systematically about enhancing those opportunities in all three of our focus areas.

Here are some of the year’s top highlights:

BUILDING APPRECIATION AND DEMAND FOR THE ARTS

For well over a decade, Wallace has pursued a range of strategies and supported efforts by scores of arts institutions around the country to pioneer effective practices to bring the arts to more people. Building on that long legacy of support, we adopted a refined, two-pronged



Middle school students create a glass mosaic in Dallas, one of two cities developing plans with Wallace support to bring high-quality arts learning to many more children.

strategy in 2005 aimed at expanding both present *and* future audiences:

The Wallace Excellence Awards, now in its second year, provides grants to exemplary arts organizations that have demonstrated a commitment to identify, develop and share practices and ideas to reach more people. In 2005, 14 arts organizations received awards that recognize past achievement and encourage continued commitment to building present audiences. (See pp. 40-41 for a complete list of 2005 awardees.)

A sampler of participation-building plans of Wallace Excellence Awardees:

- The Alvin Ailey American Dance Theater will use its grant to expand offerings to young people and to bring more performances to underserved communities around the country.

- The San Francisco Symphony will concentrate on building audiences among the Bay Area’s Chinese American and Latino populations by holding concerts in community venues, creating multilingual press releases and having receptions based around cultural celebrations.

- The Walker Art Center in Minneapolis will seek to increase the engagement of teenagers, audiences of color and low-income individuals and families. It is the first museum in the country to devote full-time staff to teen programs that now serve more than 70,000 teens a year, 7 percent of its total audience.

The second prong of our strategy to build appreciation and demand for the arts is our new Arts for Young People initiative. RAND’s landmark study *Gifts of*

the Muse, commissioned by Wallace, tells us that the single most powerful predictor of adult participation in the arts is engagement in high-quality arts experiences as a child. So we have begun to explore whether we can help cities develop system-wide approaches to creating more arts-learning opportunities for young people, both in and out of school. In 2005, we awarded planning grants to two cities, New York and Dallas, each with strong track records of commitment in expanding arts learning. Each city is now exploring how it could best create a more coordinated approach to bringing high-quality arts learning to more children and better connect arts learning in school with opportunities outside of school.

- New York City is developing a plan to help the Department of Education improve and implement the city’s ground-

breaking *Blueprint for Teaching and Learning in the Arts*. The highly unusual plan provides a comprehensive, rigorous, standards-based approach for teaching the arts at all levels in all schools. Meeting this goal will depend not only on strengthening the cooperation and support between cultural institutions and the schools but also on overcoming barriers such as staffing, scheduling, lack of space and teacher preparation that inhibit schools from offering appropriate, sequential arts education to their students. The fact-gathering and planning Wallace is supporting is focused on assessing the current state of arts education in the city both during and outside the school day; finding out how effectively providers throughout the city are offering arts learning to young people and determining where improvements are needed; and planning for how the school system, cultural institutions and other community-based providers of arts learning can more effectively work together toward the ultimate goal of many more young people experiencing the arts.

- Dallas is seeking to strengthen and make more cohesive the three areas that currently define the city’s arts-learning approaches in and out of school: arts integration (that is, using arts content to teach core curriculum subjects), standards-based

arts instruction, and out-of-school arts-learning opportunities. In each, the goal of the planning Wallace has supported is to pave the way for understanding and defining high-quality arts learning, assessing current levels of service and identifying gaps,

ARTS PUBLICATION HIGHLIGHTS

- *Gifts of the Muse*, by RAND, analyzed the wide range of public and individual benefits produced by the arts and pointed to positive arts involvement early in life as a key predictor of a person’s future appreciation of the arts. The report received wide media and field attention. Spurred by its key findings, 14 university-based performing arts centers invested their own funds to study how the benefits of the arts can influence arts appreciation and hence, ticket-buying and donations.
- *Motivations Matter*, by the Urban Institute, provided first-ever national data about what motivates people to attend particular kinds of arts events, from theater to attending museums or craft shows; what they expect from each experience; and the extent to which expectations are met. The survey’s findings offer arts providers and funders a much sharper statistical picture of what people want from different arts experiences. It offers a basis for particular kinds of arts providers to embrace or avoid strategies as they seek out new audiences. ■

Dallas is planning to provide children in all neighborhoods and schools more access to high-quality arts programs, such as this Dallas Black Dance Theatre program at Moseley Elementary.



reallocating resources as needed to reach the widest range of students, and strengthening the connections among the three areas to promote efficiency and optimal arts learning.

EDUCATION LEADERSHIP: FROM “SUPER-HEROES” TO LEADING FOR LEARNING

Since 2000, the sole focus of our education work has been on improving leadership, an often-neglected factor in school reform that a Wallace-commissioned report, *How Leadership Influences Student Learning*, nonetheless concluded is second only to classroom instruction among school-related factors in its potential to boost student learning. (To download the complete report and an executive summary, visit our Knowledge Center at www.wallacefoundation.org.)

Over this five-year period, the work we’ve supported in selected states and districts¹, combined with research we’ve commissioned, has yielded important lessons for the field. First and foremost, we’ve learned that we need to develop and share more effective, job-relevant ways to train principals, superintendents and other leaders at the state, district and school levels. And we need to ensure that our sites, and others around the country, can attract and place these better-trained leaders in the schools that need them most.

We also know that training alone is not enough. It’s crucial to ensure that our school leaders have the necessary on-the-job support, including the requisite authority, working conditions and incentives, that will enable them to succeed and not get “eaten alive” by a system that too often works against effective leadership and good results for all children.

Nearly all of our funded states and districts have identified and begun to address these issues of training and conditions:



Bronx principal Camille Wallin, a graduate of the New York City Leadership Academy, which has developed an innovative approach to principal training, works on reading with an elementary student.

EDUCATION LEADERSHIP PUBLICATION HIGHLIGHTS

- *Buried Treasure: Developing a Management Guide from Mountains of School Data*, by the Center on Reinventing Public Education, offers practical guidance on how school leaders can select the richest nuggets from the data typically collected about district performance and use them to help drive student improvement.
- *When Learning Counts: Rethinking Licenses for School Leaders*, also by the Center on Reinventing Public Education, provides a new framework for aligning state licensure requirements for principals more squarely with current job demands to improve student learning.
- *Education Governors for the 21st Century*, by the James B. Hunt, Jr. Institute for Educational Leadership and Policy, describes key traits of “education governors” and suggests how today’s state leaders can advance their education improvement agendas.
- *The Principal Internship: How Can We Get It Right?*, by the Southern Regional Education Board, assesses more than 60 existing internship programs and suggests strategies to make them more job-relevant. ■

- Delaware; Iowa; New York City Region One; Louisville, KY; and Springfield, MA, are making better connections between new leadership standards and the training leaders receive.
- Delaware; Atlanta, GA; Louisville, KY; Springfield, IL; and Springfield, MA, are changing the roles and responsibilities of principals to focus more on improving instruction.
- Providence, RI; Springfield, IL; Trenton, NJ; Delaware; New Jersey; Virginia and Ohio are engaging governors, mayors, school boards and/or union officials as partners in leadership improvement efforts.

Finally, it's essential that the policies and practices at all levels of public education — state, district and school — be well-coordinated and mutually reinforcing. Finding ways to develop and sustain a “cohesive leadership system” in our innovation sites and sharing that information broadly in the field is a top priority as the work goes forward.

Applying these and other lessons, our current efforts center on three closely interrelated elements of a cohesive leadership system:

- **Standards and requirements:** identifying and codifying standards of effective leadership and using appropriate means to assess the quality of leadership. Through 2005, 22 of Wallace's 24 funded states have adopted statewide standards of leadership and training, and 21 have enacted one or more new laws related to leader development, such as certification and licensure rules, mentoring programs and requirements for professional development.
- **High-quality training:** an area that research suggests often falls short in providing solid, job-relevant learning and experience. More than 12,000

current and prospective leaders have taken part in Wallace-funded training programs to date, and the number of participants in 2005 alone reached nearly 3,100, up by one-third over the previous year.

- **Leadership policies and conditions:** for example, establishing data systems to help ensure that people, time and money are directed at supporting school leaders' efforts to improve instruction. Georgia, Michigan, New Mexico, New York, Ohio and Louisville are developing new data systems for leaders.

Also last year, we funded two universities — Harvard and the University of Virginia — to develop executive-training programs for teams of senior state and district education leaders from our funded sites beginning in the

summer of 2006. Over the five-year life of our grants, we expect the two programs to be able to provide leadership training to well over 500 state and district leaders from a dozen states and up to 48 districts. Both universities already have highly regarded existing leadership programs. They will build on the strengths of those programs and ensure that the best thinking from education, business and public policy schools are used to develop these new leadership programs for senior education leaders. Both universities plan to offer a combination of campus-based work focused on solving real problems identified by the teams and on-the-ground training and coaching in participants' home states. Both will use technology to keep the teams engaged and promote learning between training sessions. And both have plans for sustaining the programs beyond the initial Wallace investment.



Children navigate Narragansett Bay in an after-school program in Providence, RI, where market research is guiding city efforts to provide enriching activities responsive to kids' and parents' wishes and needs.

What difference has this leadership improvement work made for kids in our funded states and districts to date? Though we don't claim causality, two-thirds of our state sites and more than half of the districts have demonstrated steady improvement in student achievement over the last several years. The rest produced mixed results in different grade levels or subject matters.

OUT-OF-SCHOOL LEARNING: CREATING A FULL DAY OF OPPORTUNITY

Learning does not, and cannot, stop when the school day ends. For years, Wallace has supported a range of providers of out-of-school learning and enrichment opportunities, including libraries, parks and museums. Previous Wallace initiatives such as the Extended-Service Schools program have helped pioneer new approaches to offering a range of school-based learning opportunities outside the school day. While such learning opportunities can powerfully affect young people's personal, academic and eventual professional success, too often they do so in isolation from each other, with little or no coordination with the curricula of public schools in their cities.

The goal of Wallace's current out-of-school learning initiative has been to support systemic, citywide efforts to increase and sustain participation in high-quality programs, especially for kids who currently lack such opportunities and could most benefit from them. We then work to capture and share the resulting lessons from the planning and implementation efforts so that other interested cities can benefit from that knowledge.

Since 2003, our efforts have centered on two cities — New York City and Providence — where the mayors and other top public and private leaders have demonstrated exceptional commitment to the cause of making learning opportunities

OUT-OF-SCHOOL LEARNING PUBLICATION HIGHLIGHTS

- RAND's *Making Out-of-School Time Matter* offers policymakers, practitioners and others a comprehensive summary of what is known about after-school services, including issues of demand, quality and participation.
- A Wallace brief, *Quality That Lasts: Building a Framework for the Future of OST*, offers early lessons and principles that can help guide policymakers and program providers on how to make more high-quality out-of-school learning opportunities available to kids on a sustained basis. ■

available to many more kids beyond the school day.

Both cities have put in place cutting-edge data systems that allow them to accurately track citywide participation rates for the first time. Already, New York City families can access the new database of out-of-school learning programs and information on the city's website and 311 information hotline. Both cities have also adopted and begun to apply widely accepted program quality standards. And both have taken steps to better coordinate funding from various sources and make more efficient use of resources.

These changes are beginning to translate into new, high-quality programming. In New York, the city contracted with 200 providers to offer more than 550 quality-focused programs in high-need areas. Providence's "AfterZones" program was pilot-tested in 2005 in two neighborhoods and is coordinating the programs of a range of after-school providers to bring a variety of high-quality offerings to hundreds of middle-school students. In 2005, largely as a result of this pioneering work, Providence, a relatively poor immigrant city, was named one of the 100 best communities for young people by America's Promise — The Alliance for Youth, an advocacy organization founded by former U.S. Secretary of State Colin Powell.

Based on this early progress, in 2005 we decided to invite three additional cities — Boston, Chicago and Washington, D.C. — to participate in this initiative. Each city had demonstrated a high level of commitment to developing more coherent, citywide systems of out-of-school learning. With planning grants we awarded, each is now developing detailed plans on how best to achieve the goals of quality programming for different ages, populations and needs; allocate resources based on program quality; actively engage city leadership; and base planning on data.

Looking ahead, we will continue to work closely with our partners in each of our three focus areas to plan and test new approaches to the challenges we've identified. We will capture the results of that work, commission research to fill in knowledge gaps, and share what we're learning with many others. In this way, we hope to provide useful ideas and practices to policymakers and practitioners across the country who are looking for ways to improve how our schools, cultural institutions and community organizations provide learning and enrichment opportunities for people. ■

Footnotes

1. See pp. 36-37 in our Program Expenditures & Commitments tables for a complete list of the 24 states and districts within those states receiving funding under our education leadership initiative.



A teenager shelves videos and books at the New York Public Library as part of Wallace's Learning in Libraries initiative.

NEW PUBLICATIONS IN WALLACE'S KNOWLEDGE CENTER

www.wallacefoundation.org

BUILDING APPRECIATION AND DEMAND FOR THE ARTS

THE DIVERSITY OF CULTURAL PARTICIPATION: FINDINGS FROM A NATIONAL SURVEY

Francie Ostrower, The Urban Institute, 48pp. Explores the varying motivations and expectations people have when attending different types of arts events and offers new insights into participation and audience-building.

MOTIVATIONS MATTER: FINDINGS AND PRACTICAL IMPLICATIONS OF A NATIONAL SURVEY OF CULTURAL PARTICIPATION

Francie Ostrower, The Urban Institute, 12pp. Summarizes a comprehensive national survey that tailors data about audience motivations to different arts disciplines, offering researchers and arts providers a more precise way to understand the challenge of increasing participation.

CREATING PUBLIC VALUE THROUGH STATE ARTS AGENCIES

Mark H. Moore and Gaylen Williams Moore, Arts Midwest, 128pp. Offers state arts agency managers practical guidance on measuring and communicating their agencies' public value, cultivating widespread support and setting realistic goals.

THE REALITY UNDERNEATH THE BUZZ OF PARTNERSHIPS

Francie Ostrower, Stanford Social Innovation Review, 9pp. Outlines advantages and pitfalls that can result when arts organizations use partnerships to increase participation, and offers lessons that can help produce effective collaborations.

GIFTS OF THE MUSE: REFRAMING THE DEBATE ABOUT THE BENEFITS OF THE ARTS

Kevin F. McCarthy et al., RAND Corporation, 104pp. Examines the full range of ways in which the arts can benefit both individuals and the public good and offers evidence that early experiences are critical to a person's lifelong engagement with the arts.



EDUCATION LEADERSHIP

WHEN LEARNING COUNTS: RETHINKING LICENSES FOR SCHOOL LEADERS

Jacob E. Adams Jr. and Michael A. Copland, Center on Reinventing Public Education, University of Washington, 65pp. Assesses principal licensure standards and concludes that most states' requirements are inadequately focused on what leaders need to improve learning. Also proposes an improved framework for licensure.

EDUCATION GOVERNORS FOR THE 21ST CENTURY

Ferrel Guillory, James B. Hunt, Jr. Institute for Educational Leadership and Policy, 24pp. Describes the traits of an education-focused governor and offers guidance on how state leaders can advance their educational goals through strategic alliances.

DEVELOPING SUCCESSFUL PRINCIPALS: REVIEW OF RESEARCH

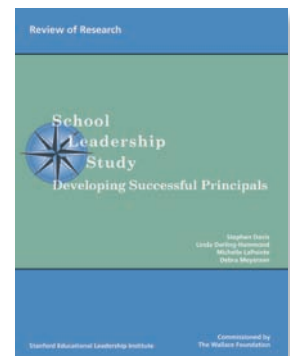
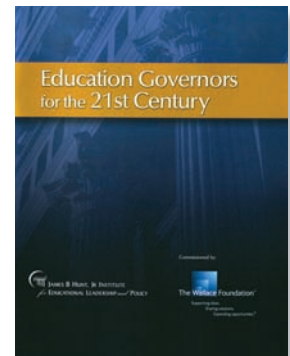
Stephen Davis et al., Stanford Educational Leadership Institute and The Finance Project, 27pp. Analyzes available evidence on the strengths, shortcomings and promising approaches in principal-preparation programs.

THE PRINCIPAL INTERNSHIP: HOW CAN WE GET IT RIGHT?

Betty Fry et al., Southern Regional Education Board, 40pp. Evaluates more than 60 internship programs and urges policymakers, universities and school districts to create apprenticeships that better prepare aspiring principals for the jobs they will face.

BURIED TREASURE: DEVELOPING A MANAGEMENT GUIDE FROM MOUNTAINS OF SCHOOL DATA

Mary Beth Celio and James Harvey, Center on Reinventing Public Education, University of Washington, 76pp. Presents a "management guide" that can help district leaders find and use the nuggets of data that can best inform school improvement and reveal problems or opportunities.



OUT-OF-SCHOOL LEARNING

SUPPORTING STUDENT SUCCESS: A GOVERNOR'S GUIDE TO EXTRA LEARNING OPPORTUNITIES

National Governors Association, 32pp. Advises state leaders on how to link out-of-school learning with statewide education reform, increase accountability for quality after-school services, and bring in new business and community partners.

QUALITY THAT LASTS: BUILDING A FRAMEWORK FOR THE FUTURE OF OST

The Wallace Foundation, 4pp. Offers early lessons that can inform program providers and policymakers as they plan for wide-scale, lasting changes in out-of-school learning opportunities.

MAKING OUT-OF-SCHOOL TIME MATTER: EVIDENCE FOR AN ACTION AGENDA

Susan Bodilly and Megan K. Beckett, RAND Corporation, 127pp. Surveys what is known about demand, quality, participation and capacity-building in out-of-school learning and identifies areas in significant need of further evidence-based research.

ADULT LITERACY

ONE DAY I WILL MAKE IT

Kristin E. Porter et al., MDRC, 77pp. Discusses what public libraries must do to improve adult literacy-program participation, such as breaking down barriers to participation by providing more comprehensive support services.

PHILANTHROPIC ISSUES

HOW ARE WE DOING? ONE FOUNDATION'S EFFORTS TO GAUGE ITS EFFECTIVENESS

M. Christine DeVita, The Wallace Foundation, 5pp. Describes the early lessons and implications from Wallace's development and use of an annual self-assessment tool allowing the Foundation to take comprehensive stock of progress toward its goals.

OTHER PUBLICATIONS OF CONTINUING INTEREST

A NEW FRAMEWORK FOR BUILDING PARTICIPATION IN THE ARTS

Kevin F. McCarthy and Kimberly Jinnett, RAND Corporation, 2001, 112pp.

STATE ARTS AGENCIES 1965-2003: WHOSE INTERESTS TO SERVE?

Julia F. Lowell, RAND Corporation, 2004, 40pp.

HOW LEADERSHIP INFLUENCES STUDENT LEARNING

Kenneth Leithwood et al., Center for Applied Research and Educational Improvement and Ontario Institute for Studies in Education, 2004, 87pp.

GOOD PRINCIPALS ARE THE KEY TO SUCCESSFUL SCHOOLS

Gene Bottoms et al., Southern Regional Education Board, 2003, 29pp.

BEYOND THE PIPELINE: GETTING THE PRINCIPALS WE NEED, WHERE THEY ARE NEEDED MOST

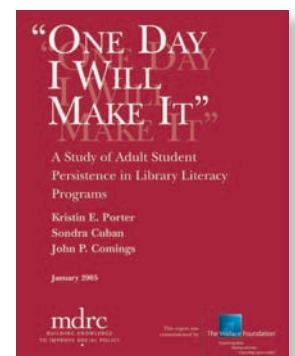
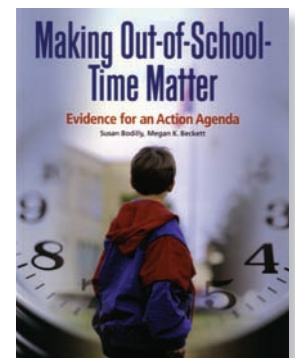
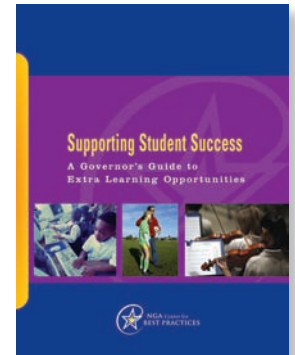
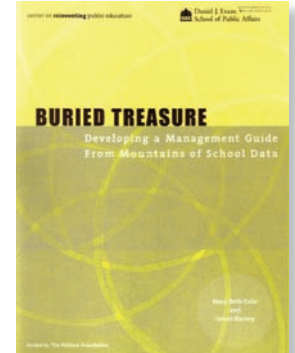
The Wallace Foundation, 2003, 12pp.

ROLLING UP THEIR SLEEVES: SUPERINTENDENTS AND PRINCIPALS TALK ABOUT WHAT'S NEEDED TO FIX PUBLIC SCHOOLS

Steve Farkas et al., Public Agenda, 2003, 72pp.

ALL WORK AND NO PLAY? LISTENING TO WHAT KIDS AND PARENTS REALLY WANT FROM OUT-OF-SCHOOL TIME

Ann Duffet et al., Public Agenda, 2004, 55pp.



PROGRAM EXPENDITURES & COMMITMENTS

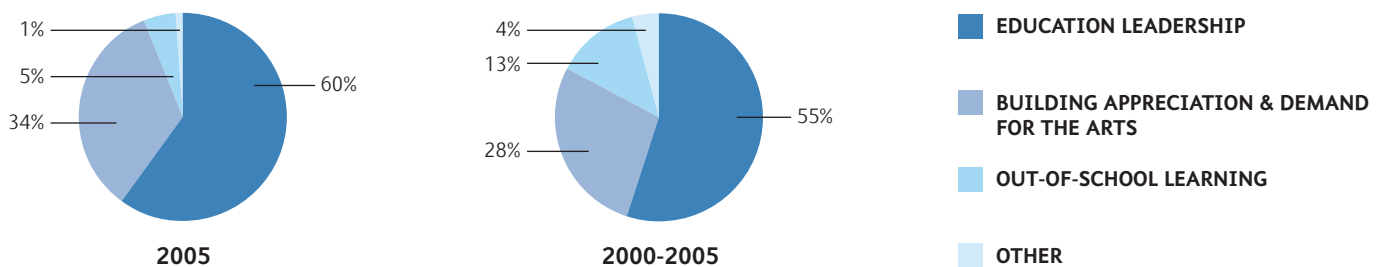
The tables in the following pages describe and list the expenditures and commitments made in 2005 to advance Wallace’s work in its three focus areas of education leadership, out-of-school learning and building appreciation and demand for the arts. In each of these areas, our approach and expenditures are grouped under two main strategic categories: Develop Innovation Sites, and Develop and Share Knowledge.

- **DEVELOP INNOVATION SITES** — We invest in, and work closely with, selected sites to help them plan and test out new approaches to addressing the change goals to which we have mutually agreed. These sites can provide us and the broader field with insights into what ideas are or are not effective and what conditions support or impede progress.
- **DEVELOP AND SHARE KNOWLEDGE** — In concert with our innovation site work, we develop and spread lessons that can improve practice and policy using research and a range of communications strategies. These activities both enhance the work in our funded sites and hold the potential to expand opportunities for people and institutions nationwide.

In 2005, the Board approved new grants and related expenses of \$66.3 million, an increase of 8 percent over 2004. Since 2000, new approved grants total \$299 million.

ALLOCATION BY FOCUS AREA

Grant allocations among our three focus areas vary from year to year depending on whether we are maintaining an existing program, implementing a new strategy, or planning for a future effort. Beginning in 2000, the majority of our grants have been allocated to improving education leadership. In 2005, the allocation to arts increased as a result of our new two-pronged strategy to bring the arts to many more people through the Wallace Excellence Awards and our new Arts for Young People initiative. The 2005 allocation for out-of-school learning decreased as our investments consisted mainly of early planning grants to three new innovation sites.



Our long-range education goal is to significantly improve student achievement across the country by strengthening the preparation and performance of education leaders, and by improving the key policies and conditions at all levels — school, district and state — necessary for leaders to improve student achievement, including: having and using reliable data to allocate resources (people, time and money); ensuring that roles and responsibilities clearly focus on learning; and enacting supportive governance policies.

1. DEVELOP INNOVATION SITES

Our site work consists of two closely coordinated strands of activity: support for a select number of states to help them determine the kinds of legislative and regulatory changes needed to ensure that districts can develop, prepare and retain leaders capable of improving student performance; and support for high-need districts within those states to test a variety of strategies aimed at improving the training of leaders and at creating working conditions that allow them to succeed.

Organization / IRS name, if different (City, State)	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
THE FOLLOWING RECEIVED FUNDING FOR STATE-DISTRICT SITE WORK IN 2005 (GROUPED BY STATE):			
ARIZONA			
STATE OF ARIZONA DEPARTMENT OF EDUCATION / Arizona Department of Education (Phoenix, AZ)	600,000	600,000	–
CONNECTICUT			
CONNECTICUT STATE DEPARTMENT OF EDUCATION (Hartford, CT)	200,000	200,000	–
HARTFORD PUBLIC SCHOOLS / Hartford Board of Education (Hartford, CT)	1,000,000	500,000	500,000
DELAWARE			
DELAWARE DEPARTMENT OF EDUCATION (Dover, DE)	295,000	295,000	–
GEORGIA			
UNIVERSITY SYSTEM OF GEORGIA FOUNDATION, INC. (Atlanta, GA)	220,000	220,000	–
ATLANTA PUBLIC SCHOOLS / Atlanta Independent School System (Atlanta, GA)	1,000,000	1,000,000	–
ILLINOIS			
ILLINOIS STATE UNIVERSITY (Normal, IL)	700,000	700,000	–
SPRINGFIELD SCHOOL DISTRICT 186 (Springfield, IL)	1,000,000	1,000,000	–
INDIANA			
INDIANA DEPARTMENT OF EDUCATION (Indianapolis, IN)	225,000	225,000	–
FORT WAYNE COMMUNITY SCHOOLS (Fort Wayne, IN)	1,000,000	1,000,000	–
IOWA			
IOWA DEPARTMENT OF EDUCATION (Des Moines, IA)	185,000	185,000	–
KANSAS			
STATE OF KANSAS DEPARTMENT OF EDUCATION (Topeka, KS)	215,000	215,000	–
KENTUCKY			
KENTUCKY DEPARTMENT OF EDUCATION (Frankfort, KY)	190,000	190,000	–
JEFFERSON COUNTY PUBLIC SCHOOLS (Louisville, KY)	1,000,000	1,000,000	–
LOUISIANA			
STATE OF LOUISIANA DIVISION OF ADMINISTRATION (Baton Rouge, LA)	600,000	600,000	–

	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
MASSACHUSETTS			
MASSACHUSETTS DEPARTMENT OF EDUCATION (Malden, MA)	700,000	700,000	–
SPRINGFIELD PUBLIC SCHOOLS / Springfield School Volunteers, Inc. (Springfield, MA)	1,000,000	1,000,000	–
MICHIGAN			
WESTERN MICHIGAN UNIVERSITY (Kalamazoo, MI)	215,000	215,000	–
MISSOURI			
MISSOURI DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION (Jefferson City, MO)	200,000	200,000	–
ST. LOUIS PUBLIC SCHOOLS (St. Louis, MO)	1,000,000	1,000,000	–
MONTANA			
MONTANA OFFICE OF PUBLIC INSTRUCTION (Helena, MT)	50,000	50,000	–
NEW JERSEY			
NEW JERSEY DEPARTMENT OF EDUCATION (Trenton, NJ)	200,000	200,000	–
TRENTON PUBLIC SCHOOLS / Trenton Board of Education (Trenton, NJ)	1,000,000	1,000,000	–
NEW MEXICO			
STATE OF NEW MEXICO DEPARTMENT OF FINANCE AND ADMINISTRATION (Santa Fe, NM)	600,000	600,000	–
NEW YORK			
STATE OF NEW YORK DEPARTMENT OF EDUCATION (Albany, NY)	300,000	–	300,000
NYC REGION ONE LEARNING SUPPORT CENTER / New York City Department of Education (Bronx, NY)	1,000,000	1,000,000	–
THE NEW YORK CITY LEADERSHIP ACADEMY, INC. (New York, NY)	5,000,000	5,000,000	–
OHIO			
STATE OF OHIO DEPARTMENT OF EDUCATION (Columbus, OH)	300,000	900,000	–
OREGON			
OREGON DEPARTMENT OF EDUCATION (Salem, OR)	700,000	700,000	–
EUGENE SCHOOL DISTRICT 4J / Lane County School District 4J (Eugene, OR)	1,000,000	1,000,000	–
RHODE ISLAND			
RHODE ISLAND STATE DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION (Providence, RI)	210,000	210,000	–
PROVIDENCE SCHOOL DEPARTMENT / Providence School Department and The Education Partnership (Providence, RI)	1,000,000	1,000,000	–
TEXAS			
COMMUNITIES FOUNDATION OF TEXAS / Communities Foundation of Texas, Inc. (Dallas, TX)	300,000	300,000	–
VERMONT			
VERMONT DEPARTMENT OF EDUCATION (Montpelier, VT)	50,000	50,000	–
VIRGINIA			
VIRGINIA DEPARTMENT OF EDUCATION (Richmond, VA)	220,000	220,000	–
FAIRFAX COUNTY PUBLIC SCHOOLS (Fairfax, VA)	1,000,000	1,000,000	–
WISCONSIN			
STATE OF WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION (Madison, WI)	215,000	215,000	–

SUPPORT FOR THE STATE-DISTRICT WORK — The following organizations received funding to provide a range of support for Wallace’s state-district work. The first five organizations listed below comprise the National Consortium, which has provided support to Wallace-funded states and districts over the last five years, and received additional funding in 2005 to support designated Wallace states to develop and share national data on specific topics that inform the states’ work on improving the conditions and training of education leaders:

	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
COUNCIL OF CHIEF STATE SCHOOL OFFICERS / Council of Chief State School Officers, Incorporated (Washington, DC)	250,000	250,000	–
EDUCATION COMMISSION OF THE STATES (Denver, CO)	170,000	170,000	–
NATIONAL ASSOCIATION OF STATE BOARDS OF EDUCATION (Alexandria, VA)	210,000	210,000	–
NATIONAL CONFERENCE OF STATE LEGISLATURES (Denver, CO)	200,000	200,000	–
NATIONAL GOVERNORS ASSOCIATION CENTER FOR BEST PRACTICES (Washington, DC)	170,000	170,000	–
EDUCATION DEVELOPMENT CENTER, INC. (Newton, MA) – To develop a leader training quality assessment instrument, provide technical assistance to selected Wallace-funded districts, and design and manage the Education Leadership Action Network (ELAN), a project-based site that is part of www.wallacefoundation.org .	1,000,000	750,000	250,000
JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP AND POLICY FOUNDATION INC. (Chapel Hill, NC) – To support its annual governors’ education summits and to help ensure that leadership issues are prominent during each of the summits hosted by the Institute over the next two years.	500,000	500,000	–

EXECUTIVE LEADERSHIP PROGRAM FOR EDUCATORS — This new initiative seeks to address the scarcity of high-quality training opportunities for senior state and district leaders and their teams whose decisions affect who can become a principal and the working conditions of school leaders. With these new investments, Wallace can also improve the work and the coordination of our state-district sites by providing senior leaders with the necessary training to increase their ability to lead significant change.

The following received planning grants to develop business plans for providing executive-leadership education for state and district leaders:

COLUMBIA UNIVERSITY (New York, NY)	68,000	68,000	–
HARVARD UNIVERSITY / President and Fellows of Harvard College (Cambridge, MA)	55,000	55,000	–
INDIANA UNIVERSITY (Bloomington, IN)	75,000	75,000	–
UNIVERSITY OF CALIFORNIA, BERKELEY (Berkeley, CA)	75,000	75,000	–
UNIVERSITY OF MICHIGAN (Ann Arbor, MI)	75,000	75,000	–
UNIVERSITY OF VIRGINIA (Charlottesville, VA)	70,000	70,000	–
VANDERBILT UNIVERSITY (Nashville, TN)	71,000	71,000	–

The following received implementation grants to establish Executive Leadership Programs for Educators:

HARVARD UNIVERSITY / President and Fellows of Harvard College (Cambridge, MA)	5,000,000	–	5,000,000
UNIVERSITY OF VIRGINIA (Charlottesville, VA)	5,000,000	–	5,000,000

2. DEVELOP AND SHARE KNOWLEDGE

These investments are designed to reinforce the state-district work by developing a knowledge base and by building broader awareness of the lessons being learned through our site-based work and research efforts.

	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
COUNCIL OF CHIEF STATE SCHOOL OFFICERS / Council of Chief State School Officers, Incorporated (Washington, DC) – To work with the Education Commission of the States and the National Governors Association to create and support six “leadership issue groups.” The goal is to gather state and district educators and leading experts to focus on six issues that have emerged as crucial to advancing leadership, and then capture and spread useful knowledge to strengthen the work in our sites and disseminate the lessons broadly throughout the field.	–	2,200,000	2,200,000
INSTITUTE FOR LEARNING AT LEARNING RESEARCH AND DEVELOPMENT CENTER / University of Pittsburgh (Pittsburgh, PA) – To develop two sets of tools and structured training processes that will help to spread effective instructional leadership practices.	–	575,000	–
THE PUBLIC AGENDA FOUNDATION, INC. (New York, NY) – To relaunch its influential Reality Check tracking surveys that will include leadership questions and help build understanding of how leaders in the field view the efforts to improve the quality of leadership and its impact on student achievement.	225,000	225,000	–
SOUTHERN REGIONAL EDUCATION BOARD / Board of Control for Southern Regional Education (Atlanta, GA) – To revise several of its leadership training modules and add new ones as needed to better focus on how leadership improves school and classroom practice; and to strengthen the work of states in that region and promote the development and spread of effective leadership ideas within its membership and beyond.	1,750,000	875,000	875,000
STANFORD UNIVERSITY / The Board of Trustees of the Leland Stanford Junior University (Stanford, CA) – To produce a series of in-depth publications that identify and assess the most promising practices for training and continuing education that strengthen principals’ effectiveness.	–	250,000	245,000
UNIVERSITY OF MINNESOTA / Regents of the University of Minnesota (Minneapolis, MN) – To gather and publish evidence of what leadership activities matter most for teaching and learning, and how and why those practices result in instructional improvement in some contexts and not others.	–	1,000,000	1,250,000
VANDERBILT UNIVERSITY (Nashville, TN) – To develop a set of instruments to assess the effectiveness of leadership and emphasize its role in improving student achievement.	1,500,000	400,000	1,100,000
OTHER RELATED EXPENSES – consulting fees; meeting expenses	99,476	99,476	–

OUT-OF-SCHOOL LEARNING

Our goal is to provide low- and moderate-income children with the academic and developmental benefits of meaningful participation in high-quality learning opportunities outside the school day, and to spread the lessons to other cities.

1. DEVELOP INNOVATION SITES

Our core initiative is designed to support top public and private leaders in select cities in their efforts to redesign local systems of out-of-school learning so that the best possible use is made of public and private funds, with priority placed on achieving high standards of quality and increased participation by youth citywide. Planning for this work began in 2003 in two cities, New York and Providence. In 2004, we provided implementation grants to those two cities. To expand the reach and impact of this work, we provided planning grants to three additional cities in 2005 — Washington, D.C., Boston and Chicago — each with demonstrated commitment to improving out-of-school learning opportunities.

BOSTON AFTER SCHOOL & BEYOND, INC. (Boston, MA) – To conduct a preliminary assessment of local conditions in out-of-school learning opportunities and develop an approach for a more comprehensive planning period; and to identify strategies to engage students more effectively in out-of-school learning by strengthening the alignment of school and community resources.	775,000	675,000	100,000
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	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
CHAPIN HALL CENTER FOR CHILDREN AT THE UNIVERSITY OF CHICAGO / The University of Chicago (Chicago, IL) – To conduct a preliminary assessment of local conditions in out-of-school learning opportunities and develop an approach for a more comprehensive planning period; and to map and analyze the existing supply of teen-oriented out-of-school learning programs and identify the geographic and programmatic areas in which teens are not being served.	760,000	660,000	100,000
DC CHILDREN AND YOUTH INVESTMENT TRUST CORPORATION (Washington, DC) – To conduct a preliminary assessment of local conditions in out-of-school learning opportunities and develop an approach for a more comprehensive planning period; and to define goals and target outcomes for out-of-school learning for the middle-school population and engage more active and sustained participation among public and private sector leaders.	750,000	650,000	100,000
THE EDUCATION PARTNERSHIP, INC. (Providence, RI) – To establish the Providence After-School Alliance, a public-private partnership whose mission is to create a coherent, citywide system that substantially increases children's participation in high-quality out-of-school learning opportunities.	–	1,000,000	3,000,000
THE MAYOR'S FUND TO ADVANCE NEW YORK CITY (New York, NY) – To implement the city's out-of-school time business plan created with Wallace support, the goal of which is to build a coherent system that provides more opportunities for children to participate in high-quality out-of-school learning programs.	–	4,000,000	8,000,000
OTHER RELATED EXPENSES – consulting fees	90,000	90,000	–

2. DEVELOP AND SHARE KNOWLEDGE

The following two organizations received funding to collaborate on a comprehensive study of the costs of high-quality out-of-school time programs:

THE FINANCE PROJECT / The Finance Project Toward Improved Methods of Financing Education and Other Children's Services, Inc. (Washington, DC)	336,000	168,000	168,000
PUBLIC/PRIVATE VENTURES (Philadelphia, PA)	264,000	132,000	132,000
OTHER RELATED EXPENSES – consulting fees; expenses for OST national symposium	193,599	193,599	–

BUILDING APPRECIATION AND DEMAND FOR THE ARTS

Our current arts programs seek to make the arts a part of many more people's lives using strategies aimed at building both current and future audiences. The main components of this work are: the Wallace Excellence Awards to arts organizations that have placed high priority on serving more people and that have developed innovative strategies for doing so; and Arts for Young People, whose goal is to work with selected cities to find ways to connect arts learning in and out of school to engage many more young people in the arts.

1. DEVELOP INNOVATION SITES

WALLACE EXCELLENCE AWARDS — These grants to exemplary arts organizations are to attract broad attention to effective practices, encourage continued commitment to maintaining those practices, and keep the issue of participation-building high among practitioners and thought leaders. Fourteen organizations received awards in 2005. Eleven have matching requirements and went to larger arts organizations that will use the funds to expand endowments or establish revolving cash reserves to support continuing participation-building activities. Three smaller arts organizations — Ballet Hispanico, Chicago Children's Choir and El Museo Del Barrio — received grants with no matching requirement in order to help them further exemplary programs aimed at reaching new audiences such as teens or underserved ethnic populations whom we consider essential to the nationwide goal of audience expansion.

ALVIN AILEY AMERICAN DANCE THEATER / Alvin Ailey Dance Foundation (New York, NY)	1,500,000	750,000	750,000
BALLET HISPANICO / Ballet Hispanico of New York (New York, NY)	200,000	100,000	100,000

	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
BROOKLYN MUSEUM OF ART / Brooklyn Institute of Arts and Sciences dba The Brooklyn Museum (Brooklyn, NY)	2,000,000	1,000,000	1,000,000
CHICAGO CHILDREN'S CHOIR (Chicago, IL)	200,000	100,000	100,000
CHICAGO SYMPHONY ORCHESTRA (Chicago, IL)	2,000,000	1,000,000	1,000,000
THE CHILDREN'S THEATRE COMPANY / Children's Theater Company and School (Minneapolis, MN)	1,500,000	750,000	750,000
EL MUSEO DEL BARRIO / Amigos del Museo del Barrio (New York, NY)	200,000	100,000	100,000
JAZZ AT LINCOLN CENTER, INC. (New York, NY)	2,000,000	1,000,000	1,000,000
THE LOFT LITERARY CENTER / Loft Inc. (Minneapolis, MN)	500,000	250,000	250,000
THE NEWARK MUSEUM / The Newark Museum Association (Newark, NJ)	1,500,000	750,000	750,000
SAN FRANCISCO PERFORMANCES, INC. (San Francisco, CA)	750,000	375,000	375,000
SAN FRANCISCO SYMPHONY (San Francisco, CA)	2,000,000	1,000,000	1,000,000
WALKER ART CENTER, INC. (Minneapolis, MN)	2,000,000	1,000,000	1,000,000
WASHINGTON CENTER FOR THE BOOK / Seattle Public Library Foundation (Seattle, WA)	1,500,000	750,000	750,000

ARTS FOR YOUNG PEOPLE — To help build future audiences for the arts, we are working with schools, arts institutions, community organizations, policymakers and funders in selected cities to provide more opportunities for arts learning citywide. In 2005, we provided planning grants to lead organizations in two cities — New York and Dallas — to become innovation sites for this work. Both cities have met early tests for likely success including: an actively involved school district, the presence and active commitment of providers of high-quality arts education, and an organization capable of bringing together the school districts and the arts organizations so that the needs of many more young people are met.

BIG THOUGHT (Dallas, TX) – To bring together educational, civic and cultural leaders in Dallas to develop a plan that will aim at improvements in quality, access and sustainability of high-quality arts education services.	1,060,000	500,000	560,000
EMCARTS INC. (New York, NY) – To provide a range of support for Wallace staff, Big Thought in Dallas and the New York City Department of Education's Office of Arts and Special Projects, including: conducting research on possible sites; designing and facilitating planning activities; convening representatives of key local arts-education organizations across the two cities; serving as the hub of communications within and beyond the program participants; documenting the planning process and the results; and assisting with continued strategy development.	1,010,000	230,000	780,000
FUND FOR PUBLIC SCHOOLS (New York, NY) – To lead a planning process with the Center for Arts Education, a nonprofit, public/private partnership, that will result in an increased number of New York City public school students who have consistent access to high-quality arts education.	1,050,000	500,000	550,000

2. DEVELOP AND SHARE KNOWLEDGE

CULTURAL POLICY CENTER AT THE UNIVERSITY OF CHICAGO / University of Chicago (Chicago, IL) – To produce a report that will offer compelling case studies of how a selection of arts organizations have built participation, why those strategies were effective, and how obstacles were overcome.	–	170,000	–
PROJECT ZERO / President and Fellows of Harvard College (Cambridge, MA) – To publish a report synthesizing knowledge on high-quality arts learning over children's school-age years with practical guidance on implementation.	600,000	–	600,000
RAND CORPORATION (Santa Monica, CA) – To produce a study on how local systems of arts education can deliver high-quality arts-learning opportunities.	500,000	–	500,000
OTHER RELATED EXPENSES – expenses for fall national arts convening; consulting fees	237,830	237,830	–

CONCLUDING INITIATIVES

PARENTS AND COMMUNITIES FOR KIDS (PACK)

This initiative seeks to improve educational achievement for children between the ages of 6 and 10 through activities that take place outside of the traditional school day. The following organizations received PACK funding in 2005:

	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
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.	–	350,000	–
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	–
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.	–	339,832	–
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.	–	450,000	–

LEARNING IN LIBRARIES

Responding to fiscal need and great strategic opportunity, Wallace is providing multi-year grants to New York City's three library systems, and a complementary grant to the Urban Libraries Council, to elevate the role of libraries as learning places during non-school hours, enhance their ability to support the new citywide school curriculum, increase coordination among the three systems, and capture and disseminate the lessons so that many other urban library systems can benefit. The following received a third year of Learning in Libraries funding in 2005 to enhance learning and enrichment activities provided to youth year-round and to strengthen core institutional functions:

BROOKLYN PUBLIC LIBRARY / Brooklyn Public Library Foundation, Inc. (Brooklyn, NY)	–	750,000	–
THE NEW YORK PUBLIC LIBRARY / New York Public Library Astor Lenox & Tilden Foundations (New York, NY)	–	750,000	–
QUEENS LIBRARY FOUNDATION, INC. (Jamaica, NY)	–	700,000	800,000
URBAN LIBRARIES COUNCIL (Evanston, IL) – To support the work of the Brooklyn Public Library, the New York Public Library and the Queens Public Library through training, technical assistance, communications and coordinating activities.	–	319,200	–

SERVICES TO THE FIELD

BOARDSOURCE (Washington, DC) – To support this major resource organization that provides practical governance information, tools and best practices, training and leadership development for board members of nonprofit organizations worldwide.	25,000	25,000	–
BUSINESS-HIGHER EDUCATION FORUM (Washington, DC) – To support this membership organization of leaders from American businesses, colleges and universities, museums and foundations.	25,000	25,000	–
THE COMMUNICATIONS NETWORK / Communication Network (Silver Spring, MD) – To support this nonprofit membership organization that provides the philanthropic community with leadership, guidance and resources in order to promote strategic communications as an integral part of effective philanthropy.	10,000	10,000	–

	APPROVED 2005	PAID 2005	FUTURE PAYMENTS
COUNCIL ON FOUNDATIONS INC. (Washington, DC) – To support the national nonprofit membership organization for grantmakers.	50,000	50,000	–
THE FOUNDATION CENTER (New York, NY) – To support the national clearinghouse for information on private grantmaking.	115,000	115,000	–
GRANTMAKERS FOR CHILDREN, YOUTH & FAMILIES (Silver Spring, MD) – 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 membership organization for private and public grantmakers that support early childhood, K-12 and higher education; and to sponsor its fall conference in New York City.	50,000	50,000	–
GRANTMAKERS FOR EFFECTIVE ORGANIZATIONS (Washington, DC) – To support this national membership organization that is dedicated to promoting learning and encouraging dialogue among funders committed to building strong and effective nonprofit organizations.	50,000	50,000	–
GRANTMAKERS IN THE ARTS (Seattle, WA) – To support this nonprofit membership organization that 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.	50,000	50,000	–
INDEPENDENT SECTOR (Washington, DC) – To support this nonprofit coalition of organizations for giving, volunteering and nonprofit initiatives and to support its work with the Senate Finance Committee.	50,000	50,000	–
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 and to contribute to its Strategic Development Fund.	50,000	50,000	–
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.	10,000	10,000	–
OMG CENTER FOR COLLABORATIVE LEARNING (Philadelphia, PA) – To support the work of the Evaluation Roundtable in 2005-2006, specifically for convening a meeting of the Roundtable.	20,000	20,000	–
SPONSORS FOR EDUCATIONAL OPPORTUNITY, INC. (New York, NY) – To support this mentoring program that provides college undergraduates of color with orientation, training, coaching and substantive internships in the business and philanthropic sectors.	25,000	25,000	–

ADDITIONAL GRANTS

ACADEMY FOR EDUCATIONAL DEVELOPMENT, INC. (Washington, DC) – To conduct a study of effective foundation board practices.	102,000	102,000	–
THE CENTER FOR EFFECTIVE PHILANTHROPY (Cambridge, MA) – To conduct a grantee perception survey and benchmark Wallace's performance against other foundations.	–	11,288	–
NATIONAL PUBLIC RADIO, INC. (Washington, DC) – To support NPR coverage of education, arts and after-school programs and its flagship news programs.	–	1,100,000	–
MISCELLANEOUS GRANTS – matching gifts	15,454	13,854	4,500
OTHER – refunds of unexpended grant money	–	-7,397	–

TOTALS	67,397,359	56,663,682	41,039,500
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FUNDING GUIDELINES & RESTRICTIONS

Our mission is to support and share effective ideas and practices that enable institutions to expand learning and enrichment opportunities for all people. To achieve this, we are focusing exclusively on three major areas:

- Strengthening educational leadership in ways that significantly improve student achievement.
- Helping selected cities make high-quality out-of-school learning opportunities available to many more children.
- Making the arts a part of many more people's lives by working with arts organizations, schools and other providers of arts education and experience to build both present and future arts audiences.

In each of these areas, our approach is to select and invest in innovation sites willing to test promising new approaches, while commissioning and sharing independent research that could benefit the work in those sites as well as many others who are interested in pursuing similar changes but who may never receive our direct funding. The specific strategies we are using in each of these three areas are described elsewhere in this report.

In most cases, we identify and evaluate prospective grantees through the issuance of Requests for Proposals or other careful screening processes. While we believe this approach strengthens the effectiveness of our investments, it also means that unsolicited proposals are rarely funded.

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

The Wallace Foundation
General Management
5 Penn Plaza, 7th Floor
New York, NY 10001

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.

Whether or not your organization receives our funding, we welcome your continued interest in our work. We provide free access to a range of knowledge products containing ideas and practices that you may find useful. Please visit our Knowledge Center and sign up for our newsletter at www.wallacefoundation.org/WF/userRegistration.htm. ■

FINANCIAL STATEMENTS



INDEPENDENT
AUDITORS'
REPORT

The Board of Directors
The Wallace Foundation:

We have audited the accompanying balance sheets of The Wallace Foundation (Foundation) as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Wallace Foundation as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP
May 10, 2006

BALANCE SHEETS

ASSETS	DEC 31, 2005	DEC 31, 2004
CASH EQUIVALENTS AND CASH	\$ 8,509,074	\$ 5,372,460
INVESTMENTS (note 3)	1,434,798,736	1,357,972,055
PREPAID EXPENSES AND RECEIVABLES	173,623	981,559
FIXED ASSETS , net of accumulated depreciation of \$327,155 in 2005 and \$1,733,034 in 2004	3,818,228	327,962
	\$ 1,447,299,661	\$ 1,364,654,036
 LIABILITIES AND NET ASSETS		
ACCRUED EXPENSES AND OTHER PAYABLES	\$ 2,073,864	\$ 1,399,285
GRANTS PAYABLE (note 4)	39,835,144	29,085,768
DEFERRED LIABILITIES, NET (note 5)	6,073,763	3,601,751
TOTAL LIABILITIES	47,982,771	34,086,804
NET ASSETS – UNRESTRICTED	1,399,316,890	1,330,567,232
	\$ 1,447,299,661	\$ 1,364,654,036

See accompanying notes to financial statements.

STATEMENTS
OF
ACTIVITIES

REVENUES	YEAR ENDED 2005	YEAR ENDED 2004
INVESTMENT INCOME		
DIVIDENDS	\$ 21,326,045	\$ 19,317,471
INTEREST	10,156,120	8,451,585
	31,482,165	27,769,056
INVESTMENT FEES	(7,083,400)	(4,932,199)
NET INVESTMENT INCOME	24,398,765	22,836,857
STOCK CONTRIBUTIONS RECEIVED	148,759	—
	24,547,524	22,836,857
 EXPENSES		
GRANTS AND RELATED ACTIVITIES	68,285,241	59,577,870
OPERATING EXPENSES	9,829,469	9,004,347
CURRENT FEDERAL EXCISE TAX (note 6)	1,663,279	470,372
	79,777,989	69,052,589
 INVESTMENT GAINS		
UNREALIZED GAINS, NET (note 6)	26,996,681	123,650,065
REALIZED GAINS, NET	96,983,442	25,512,807
NET INVESTMENT GAINS	123,980,123	149,162,872
INCREASE IN NET ASSETS	68,749,658	102,947,140
 NET ASSETS		
BEGINNING OF YEAR	1,330,567,232	1,227,620,092
END OF YEAR	\$ 1,399,316,890	\$ 1,330,567,232

See accompanying notes to financial statements.

STATEMENTS
OF
CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	YEAR ENDED DEC 31, 2005	YEAR ENDED DEC 31, 2004
INCREASE IN NET ASSETS	\$ 68,749,658	\$ 102,947,140
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES		
RDA PREFERRED STOCK RECEIVED	(148,759)	—
UNREALIZED GAINS ON INVESTMENTS	(27,528,451)	(125,997,886)
REALIZED GAINS ON INVESTMENTS	(96,983,442)	(25,512,807)
LOSS ON DISPOSAL OF FIXED ASSETS	98,050	—
DEPRECIATION	227,349	193,560
DEFERRED LANDLORD'S INCENTIVE	1,940,242	—
DEFERRED FEDERAL EXCISE TAX EXPENSE	531,770	2,347,821
CHANGE IN ASSETS AND LIABILITIES:		
DECREASE IN ACCRUED INVESTMENT INCOME	342,862	688,158
DECREASE IN PREPAID EXPENSES AND RECEIVABLES	807,936	389,073
INCREASE IN ACCRUED EXPENSES AND OTHER PAYABLES	674,579	405,204
INCREASE IN GRANTS PAYABLE	10,749,376	3,643,258
NET CASH USED IN OPERATING ACTIVITIES	(40,538,830)	(40,896,479)
CASH FLOWS FROM INVESTING ACTIVITIES		
SALES OF INVESTMENTS	1,474,612,370	1,163,202,707
PURCHASES OF INVESTMENTS	(1,427,121,261)	(1,118,646,084)
PROCEEDS FROM DISPOSAL OF FIXED ASSETS	7,400	—
PURCHASES OF FIXED ASSETS	(2,220,137)	(127,911)
LEASEHOLD IMPROVEMENTS FROM LANDLORD'S INCENTIVE	(1,602,928)	—
NET CASH PROVIDED BY INVESTING ACTIVITIES	43,675,444	44,428,712
NET INCREASE IN CASH EQUIVALENTS AND CASH	3,136,614	3,532,233
CASH EQUIVALENTS AND CASH AT BEGINNING OF YEAR	5,372,460	1,840,227
CASH EQUIVALENTS AND CASH AT END OF YEAR	\$ 8,509,074	\$ 5,372,460

See accompanying notes to financial statements.

DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS

The Wallace Foundation is the successor to DeWitt Wallace-Reader's Digest Fund, Inc. and Lila Wallace-Reader's Digest Fund, Inc. which were created and endowed by DeWitt and Lila Acheson Wallace, co-founders of The Reader's Digest Association, Inc. (RDA). On April 18, 2003, Lila Wallace-Reader's Digest Fund, Inc. merged into DeWitt Wallace-Reader's Digest Fund, Inc. Upon completion of the merger, DeWitt Wallace-Reader's Digest Fund, Inc. was renamed The Wallace Foundation (Foundation).

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 marketable securities is based primarily upon quotations obtained from national securities exchanges. Investments in limited partnerships are reported at fair value based on information provided by the general partner. The general partner determines the fair value based on quoted market prices, if available, or other valuation methods, including independent appraisals. Dividend income is recorded on the ex-dividend date and interest income is recorded on the 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. Computers and office equipment is depreciated over three years. Furniture and leasehold improvements are depreciated over the life of the lease.

e. Grants

Grants are reported as an expense and liability of the Foundation when approved by the Foundation's Board of Directors. Payments due in more than one year are discounted to present value based on risk-free rates of return.

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. INVESTMENTS

At December 31, 2005 and 2004, the fair value of investments consisted of the following:

	2005	2004
FIXED INCOME	\$ 170,967,801	\$ 172,210,165
EQUITIES	1,227,343,723	1,141,226,939
SHORT-TERM INVESTMENTS	48,081,507	47,807,148
ACCRUED INVESTMENT INCOME	1,010,947	1,353,809
PAYABLE FOR INVESTMENTS PURCHASED, NET	(12,605,242)	(4,626,006)
	\$ 1,434,798,736	\$ 1,357,972,055

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. Equities include \$344 million and \$259 million in limited partnerships that invest in hedge funds, real estate and private equities as of December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the Foundation had unfunded commitments in private equities of approximately \$81 million and \$41 million, respectively.

4. GRANTS PAYABLE

At December 31, 2005, grants scheduled to be paid in future years are as follows:

YEAR	AMOUNT
2006	\$ 25,109,500
2007	8,680,000
2008	5,250,000
2009	2,000,000
	41,039,500
LESS: DISCOUNT TO PRESENT VALUE (BASED ON INTEREST RATES FROM 2.33% TO 4.47%)	(1,204,356)
	\$ 39,835,144

5. DEFERRED LIABILITIES

At December 31, 2005 and 2004, deferred liabilities consisted of the following:

	2005	2004
FEDERAL EXCISE TAX (note 6)	\$ 4,133,521	\$ 3,601,751
5 PENN PLAZA LANDLORD INCENTIVES	1,940,242	-
	\$ 6,073,763	\$ 3,601,751

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 December 31, 2005 and 2004 current taxes are estimated at 1% of net investment income.

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. The unrealized gains on investments are reported net of the deferred Federal excise tax expense of \$531,770 and \$2,347,821 for the years ended December 31, 2005 and 2004, respectively, on the statements of activities.

7. FINANCIAL INSTRUMENTS

Investments are stated at fair value. The carrying amount of cash equivalents and cash, prepaid expenses and receivables, accrued expenses and other payables, and grants payable 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, and to sell securities not yet purchased for hedging purposes and for managing the asset allocation and duration of the fixed income portfolios. At December 31, 2005 and 2004, the Foundation held U.S. Treasury and eurodollar futures contracts with notional amounts of approximately \$40 million and \$73 million, respectively. The contracts are valued daily using the mark-to-market method.

The collateral on deposit with a third party to meet margin requirements for futures contracts and options, included in short-term investments, was approximately \$123,000 and \$159,000 at December 31, 2005 and 2004, respectively.

8. LEASE COMMITMENTS

On November 21, 2005, the Foundation ended its office rental lease at 2 Park Avenue. Under the Foundation's new lease for office space at 5 Penn Plaza, rent will commence in March 2006 and continue for a 15-year period.

The Foundation's total contractual lease commitments are as follows:

YEAR	5 PENN PLAZA
2006	\$ 650,000
2007	780,000
2008	827,000
2009	836,000
2010	883,000
2011 AND THEREAFTER	10,242,000
	\$ 14,218,000

During the years ended 2005 and 2004, rent expense for 2 Park Avenue, including escalations, was \$747,738 and \$791,671, respectively.

9. 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 years ended December 31, 2005 and 2004 was \$599,150 and \$642,379, respectively.

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 magazine they co-founded, *Reader's Digest*, both led lives of service through their support of a range of causes, especially in the arts and education.

Early in life, Lila Bell Acheson, an English teacher-turned-social worker, helped establish a YWCA for industrial workers in Minneapolis. DeWitt Wallace, an avid reader and son of a Greek scholar and college president, worked as a young man in a St. Paul public library and dreamed of publishing a magazine of condensed general-interest articles. Married in 1921, Lila and DeWitt moved to New York City and published the first edition of *Reader's Digest* in January 1922. From an initial circulation of 5,000, the "little magazine" started by the Wallaces quickly caught on, and over time it became the foundation of a worldwide publishing organization. Once their livelihood was secured, they were able to turn to their first love, helping people.

A lover of arts as well as nature, Lila's name became associated with support for many of the nation's great arts and cultural institutions. Among her many acts of philanthropy, she funded the restoration of the Metropolitan Museum's Great Hall and to this day, the hall has fresh flowers through a fund she established for that purpose. France awarded

her that nation's Legion of Honor for her help in restoring the house and gardens in Giverny where the painter Claude Monet lived.

DeWitt's philanthropic passions lay in supporting education and a range of youth opportunities. Among the many beneficiaries of his giving were Macalester College, where he studied; Outward Bound, a rugged outdoor learning program that he himself participated in at age 88; and the New York Public Library where, as a beginning editor, he condensed articles by hand. Of his lifelong interest in education, 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."

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

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The Wallace Foundation®

Supporting ideas.
Sharing solutions.
Expanding opportunities.®

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- Build appreciation and demand for the arts

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