

POLISH-AMERICAN FREEDOM FOUNDATION

2005 ANNUAL REPORT

TABLE OF CONTENTS

1.	Letter from the PAFF Leadership.....	2
2.	Five Years of the Freedom Foundation, Fifteen Years of the Enterprise Fund.....	4
3.	The Foundation's Programmatic Fields.....	5
4.	Sixth Year of Operation.....	6
	Initiatives in Education.....	8
	Development for Local Communities.....	16
	Citizen in a Democratic State of Law.....	23
	Sharing Polish Experiences in the Transformation.....	26
5.	Financial Statements and Report of Independent Auditors.....	28
	Report of Independent Auditors.....	30
	Financial Statements.....	31
	Notes to Financial Statements.....	34
6.	Board of Directors.....	40
7.	Management and Staff.....	41

LETTER FROM THE PAFF LEADERSHIP

2005, the period covered by this Report, was the fifth year since the initiation of programmatic activity by the Polish-American Freedom Foundation, and the fifteenth year after the establishment of the Polish-American Enterprise Fund, the Foundation's originator. The celebration of both anniversaries, which took place in Warsaw in May 2005, provided an opportunity to summarize the achievements of both organizations and to discuss the Foundation's tasks for the years to come.

During the May jubilee conference, various examples of the realization of the PAFF's mission were presented. From the very beginning, this mission has been the strengthening of the civil society, democracy and market economy in Poland, and sharing the Polish experience of the system transformation with other countries of Central and Eastern Europe.

These general objectives had to be narrowed to more specific goals, given PAFF's limited resources and the enormous needs. Therefore, PAFF's Board of Directors decided in 2000 that programs implemented in Poland would be addressed to those groups and communities which require special support during the transformation, mainly those in rural areas and small towns. As a result, two leading themes have evolved in PAFF's operation: to equalize educational opportunities, including efforts to modernize the educational system, as well as to stimulate and support civil initiatives aimed at developing local communities.

Year after year, following the transfers to PAFF's endowment from the Polish-American Enterprise Fund (the current endowment's value is \$ 255,4 million), the scale of our operation has been growing. We allocated nearly \$ 1,5 million to our first pilot projects in 2000, while in 2005 we reached the level of \$ 8,6 million, and our budget for programs in 2006 will exceed \$ 9 million.

Over the last five years we have allocated \$ 31 million to our 24 programs. These funds were transferred to more than 1,500 Polish non-governmental organizations and educational institutions, and to nearly 6,000 scholarship holders.

During 2005, we further developed our original method to implement the Foundation's programs, based on close cooperation with organizations of the third sector. In order to manage each of our programs, we enlist a non-governmental organization with competence and experience. In the case of grants-giving competitions, independent experts' committees decide the allocation of grants, following PAFF's criteria. At the same time, during the reported year, we continued our efforts to make the Foundation's programs even more effective. We tried to achieve this by strengthening connections between initiatives undertaken under different programs, by supporting "replicable" initiatives, by greater emphasis on the development of cooperation networks of local project leaders, and by establishing and developing coalitions of various institutions to support broader public projects.

We continued our special effort to support non-governmental organizations in acquiring EU funds. Many of our partners have succeeded in that endeavor. It is worth noting that managers of two PAFF programs, the Center for Citizenship Education and the Polish Children and Youth Foundation, were granted EUR 10 million for the "Dream School" project that stemmed in large part from our joint experiences.

A good example of our continued activity with broader coalitions was the "Transparent Poland" action which triggered extraordinary response and public interest last year. 800 local governments joined in the action, which was an extension of PAFF's earlier programs. These governments were acting to improve the quality of their own operations and raise the standards of public life. The project ended in March 2006 with certificates being awarded to 403 local authorities, from all over Poland, that had accomplished all their tasks. The "Transparent Poland" action has inspired similar ones in Ukraine, Bosnia, Georgia and Azerbaijan.

In 2005, we further developed some earlier pilot undertakings, such as the "Student Volunteers" program, resulting in the implementation of nearly 1,000 educational projects with 450 rural schools and 1,750 volunteers from Polish universities being involved. Another example of a successful pilot is an initiative supporting the development of grass root leaders, for whom tailored curricula are developed, to be helpful in their continued effort to assist local communities.

In addition to the continuation of most of our earlier programs, we also initiated new ones in 2005. Together with the Comenius Foundation for Child Development, we launched a program to equalize opportunities for the smallest children from rural areas and small towns by raising the level of elementary education and creating pro-developmental environment. Non-governmental organizations, local authorities and local communities participate in the Program. The need for this initiative is confirmed by the fact that less than 20% of rural children in Poland go to kindergartens, while the corresponding ratios for the Czech Republic, Hungary or Finland exceed 80%.

We can also record new results under PAFF's "oldest" programs. Over 30,000 registered users benefit from the largest educational resources of the Interkl@sa Portal in Poland. The NGOs' www.ngo.pl portal has been developing for five years. It is the key component of a unique "Mutual Information Society" program that supports the third sector infrastructure in Poland. The Portal's database stores information from nearly 80,000 Polish and foreign non-governmental organizations. "Act Locally", one of the Foundation's first grants-giving programs, recorded its 1,000th grant in 2005. Such grants were extended to support initiatives to solve local problems and stimulate pro-developmental aspirations in villages and small towns. Our first, long-term and international undertaking has been the Lane Kirkland Scholarship Program. 214 people have received scholarships under this Program. These include young professionals, business, social and political leaders from countries of Central and Eastern Europe. Also, within the scope of the "Region in Transition" Program (RITA), groups of experts and other active individuals interested in different aspects of our transformation were brought to Poland for study visits in recent years. Their number exceeded 1,000 last year.

In August 2005, the Administrator of the Foundation's Representative Office in Poland has been replaced by his successor. We would like to express our warmest thanks to Ryszard Kruk who has been with PAFF from the very beginning. We welcome Grzegorz Jędrzyński, whose professional experience will be of great help to the Foundation.

We have summarized our first five years of operation last year with genuine satisfaction. We have closed the period being convinced that it has provided solid pillars to further development of the Foundation. While entering a new stage of our activity, we address with gratitude our Colleagues, Members of the Board of Directors, who have become so much personally involved in the Foundation's development. We would also like to express our heartfelt thanks to all those who have worked with us to date, implementing joint projects, and who have provided their friendly support to all our endeavors.



John P. Birkelund
Chairman of the Board of Directors



Jerzy Koźmiński
President and Chief Executive Officer

FIVE YEARS OF THE FREEDOM FOUNDATION, FIFTEEN YEARS OF THE ENTERPRISE FUND

A conference, organized on the occasion of the fifth anniversary of the Polish-American Freedom Foundation and fifteenth anniversary of the Polish-American Enterprise Fund, was held in Warsaw on May 2006. One of the objectives was to discuss each organization's contribution to the economic and social transformations in Poland. Guests of honor were the former President of the Republic of Poland and Nobel Prize winner, Lech Walesa, and the Speaker of the Polish Parliament, Włodzimierz Cimoszewicz.

John P. Birkelund, Chairman of both the Fund's and Foundation's Boards of Directors, chaired the Conference. President of the Fund, Robert Faris, and President of the Freedom Foundation, Jerzy Kozłowski, presented a history and activities of their institutions. U.S. Ambassador, Victor Ashe read a letter from the United States President, George W. Bush, who congratulated both institutions for their achievements. Former U.S. President, George Bush, the initiator of the Polish-American Enterprise Fund, also expressed his congratulations via a video show.

During the Conference examples of the Polish-American Enterprise Fund's successful cooperation with various kinds of Polish companies were presented, as well as the Freedom Foundation's achievements in the development of civil society in Poland and its sharing Polish transformation experiences with Poland's neighbors. Among the speakers were Zbigniew Brzezinski, a member of the Board of Directors of both the Fund and the Foundation, and Professor Anna Fornalczyk, a member of the Foundation's Board of Directors.



Representatives of nine Enterprise Funds from Central and Eastern Europe and Asia, operating on the basis of the U.S. Congress SEED Act, took part in ceremonies to commemorate both anniversaries. Also, they held a consulting meeting during which they exchanged experiences and presented plans to set up legacy institutions to continue their Funds' efforts and to further pursue their missions to support reforms in the countries of the Region. A presentation about the Polish-American Freedom Foundation, an institution established by the Polish-American Enterprise Fund, was made during the meeting.

THE FOUNDATION'S PROGRAMMATIC FIELDS

Initiatives in Education



- The "Education on the Internet – Polish Educational Portal Interkl@sa" Program
- The "Notebook for a Teacher" Program
- The "English Teaching" Program
- The "Equal Opportunities" Program
- The "Student Volunteers" Program
- The "Learning Schools" Program (LES)
- The „Entrepreneurship at School" Program
- The „Bridge Scholarships" Program
- The Program „For Children"
- The „Universities of the Third Age" Program (UTA)

Development of Local Communities



- The "Mutual Information Society" Program (MIS@NGO)
- The "Act Locally" Program
- The „PAFF Leaders" Program
- The "Undoing Unemployment" Program
- The "Pro Publico Bono" Award
- The "EURO-NGO" Program
- The "Village in Transition: developing information society" Program (e-VITA)
- The "Financial Management for NGOs" Program (FIMANGO)

Citizen in a Democratic State of Law



- The „Transparent Community – Transparent Poland" Action
- The "Citizen and Law" Program
- The „Supporting Legal Reforms – Computer Training" Program

Sharing of the Polish Experiences in Transformation



- The Lane Kirkland Scholarship Program
- The "Region in Transition" Program (RITA)



SIXTH YEAR OF OPERATION

4

4

SIXTH YEAR OF OPERATION

"INTERKL@SA" MULTIMEDIA CD-ROM

In 2005 the Polish Educational Interkl@sa Portal prepared a multimedia CD-ROM addressed to teachers and students from small towns and villages without permanent Internet access. It contained selected Portal's resources.

The CD-ROM presents the most interesting materials on many subjects. It explains difficult problems in an understandable way, offers lesson scenarios and educational animations visualizing more complicated issues. It also offers "learning through play" solutions. All of these resources are now available to people who don't have Internet access.

Teachers may benefit from the CD-ROM conducting classes outside of Computer Labs. Students may find it helpful while making their homework.

The users truly appreciate the idea of CD-ROM. The results of a survey prove their interest in using the CD-ROM for educational purposes. The results shall be helpful while preparing its subsequent editions.



Initiatives in Education

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

The first and the largest professional, non-commercial educational portal www.interklasa.pl has been successfully operating since 2001. The Portal, addressed to students, teachers, and parents, is a joint undertaking of the Foundation and the Interkl@sa Initiative. A modern technological infrastructure is provided by the Poznań Super-Computer Network Center (Poznańskie Centrum Superkomputerowo-Sieciowe).

The Portal offers access to educational resources, multimedia teaching aids, readings, tests, lesson scenarios (nearly 200), thematic services – e.g. "Frantice" (French language teaching aid), and a Multimedia Library. The Portal organizes numerous educational competitions and, in cooperation with the "European Schoolnet", provides information on school related European projects. The Portal offers additional services, such as e-mail, chat, forum and others. Additionally, it provides access to a Virtual Class (long-distance teaching aid) and an Interactive Schools' Map – a database of nearly 30,000 units in Poland.

The Portal was created as a means of modernizing the educational system and equalizing opportunities of students from different milieus. The results of independent research and the users' comments demonstrate the Portal's usefulness. In 2005 the number of registered users increased by 12,000, exceeding 30,000. The Portal's popularity index is high – approximately 14 million hits a month. It is quite popular among people living in small towns (nearly 60%).

Last year, the Interkl@sa Portal once again was involved in international events – e.g. celebration of European Spring Day. 1,610 schools from all over Poland joined the action. The most interesting reports on local ceremonies were included in the Portal's news service.

Facts and figures:

- 7,000 digital publications
- Over 30,000 registered users
- Over 40,000 newsletter subscribers
- Ratings: nearly 14 million hits a month

Program Manager:

The Foundation for Economic Education

The “Notebook for a Teacher” Program

In 2005, taking advantage of the experiences gained during the implementation of the “Computer for a Teacher” Program (2000-2003), the Foundation initiated a new undertaking to help teachers from small towns and rural areas purchase laptops under a preferential installment plan. Toward the end of 2005, following computer market changes and other factors, it was decided to modify the second stage of the Program. The Program shall take the form of a competition. Its winners – approximately 400 teachers from small towns of population up to 20,000 inhabitants – will be awarded with laptops and licensed software. The offer will be addressed to teachers participating in various PAFF programs. The “Notebook for an Active Teacher” Competition shall be announced in 2006 and will be conducted by the Polish Educational Portal Interkl@sa.

Program Manager:

The National Foundation for Computer Literacy

The “English Teaching” Program

The objective of the Program is to equalize English language learning opportunities for children and youth from outside of large urban areas.

Under past three editions of the Program (2000-2005), Anglo-Saxon Culture and English Language Fan Clubs were established in many schools. Children and youth were given a chance to watch original versions of English language movies and discuss a variety of issues with native speakers. Some schools opened libraries with English press and books. Theater circles, quizzes on Anglo-Saxon writers, culture and history, and festivals of English songs were also organized. Over 70,000 people participated in the projects – that includes students, teachers, parents and other members of local communities.

Numerous training and language camps were organized under the Program. Thanks to cooperation with the Kościuszko Foundation, 40 teachers completed training delivered by American trainers, and 68 students took part in summer language camps organized jointly by the Ministry of National Education and Sports and UNESCO. In addition, 4 students – the winners of the English Teaching Olympics – participated in six week-long classes at the English Language Institute at Pace University, USA. At the beginning of 2005, 227 students from small towns and villages participated in language camps held in Warsaw. By the end of 2005, 1,250 English language teachers – primarily from small towns and villages – attended 38 weekend training workshops on teaching methods.

Three national educational meetings – “English Teaching Markets” – for English language teachers, interested institutions, organizations, schools and publishing houses took place. They were attended by over 1,500 people. The meetings fostered the development of a permanent cooperation network to assist “English Teaching”. The network is supported by the Program’s Bulletin published every quarter.

“FUNNY THEATRE” PROJECT

Łagów is a tiny village of population 1,600 in the Kielce poviat. The Association for the Development of the Łagów Commune was given a grant under the “English Teaching” Program for an educational project aimed at equalizing educational opportunities by making it possible for children and youth to participate in extra English classes.

The implementation of the project began with an informational action. The Association members prepared posters, leaflets, placed ads in local papers and jointly with the day-care room supervisors, disseminated information about the project among parents during parents’ evenings.

32 students aged 7-13 applied for the program. They were divided into two classes based on their knowledge of language. The classes – that involved dramas, plays, competitions, etc. - were held in the Łagów day-care room twice a week. All participating children were able to use teaching materials financed by PAFF – e.g. DVDs, CD-ROMs, audio tapes, books and computer programs for learning English. The children were also given an opportunity to meet native speakers from England and Australia. Six volunteers were involved in the project’s implementation.

Choreography and scenography classes were conducted in parallel with English classes. The school year ended with the “Christmas Tales” show. The show was then given in English to 5 schools of the Kielce poviat. Nearly 900 students, parents, and other community members saw the performance.



4

SIXTH YEAR OF OPERATION

“OIC POLAND” FOUNDATION – HEALTH CARE MANAGERS TRAINING CENTER

Lublin-based “OIC Poland” Foundation is one of 22 educational centers offering post-graduate studies in the field of health care management under the Program. Training participants are managers of health care centers located in villages and small towns of population below 20,000.

Training is conducted in the form of lectures, workshops and laboratory classes with the use of modern multimedia technologies. Trainees participate in decision-making games and analyze case studies. They are provided with all necessary materials.

Through PAFF’s support, library resources were enriched with specialist publications on management, accounting, marketing and health care.

In order to improve the quality of training, the participants were asked to evaluate trainers’ performance, level of training and educational materials. The majority of the respondents stated that knowledge acquired during post-graduate studies significantly improved their professional performance. The respondents highly evaluated the quality of training offered by the “OIC Poland” Foundation.

Between 2000-2005, over 300 health care managers participated in training conducted by the “OIC Poland” Foundation.



Facts and figures:

- 287 educational projects
- 25,000 students and 1,500 teachers directly covered by the Program

Program Manager:

The “Nida” Development Foundation

The “Training for Health Care Managers” Program

In 2000, the PAFF, jointly with the Society of Health Care Managers (STOMOZ), began to implement an initiative to modernize the management of the health care in Poland. Twenty two educational centers delivering post-graduate studies in the field of health care management qualified for the Program. The centers that submitted the most interesting training improvement plans received grants to cover 50% of the training costs. Physicians from small towns and rural areas participating in post-graduate studies were offered scholarships to cover part of the fees.

Specialists from Denmark, the Netherlands, Great Britain, Portugal and the USA shared their experience in managing modern health care systems. The Program participants were presented the structure of health services in large metropolitan areas, such as New York City and Berlin. Four conferences were organized in Warsaw, Toruń, Cracow and Lublin. They were attended by over 1,000 physicians. Presentations by foreign experts were published in five books, both in Polish and English. Development and implementation of a system of accreditation of academic centers with post-graduate studies will be the ultimate result of the Program. The Manager paid particular attention to this in 2005.

Facts and figures:

- 22 training centers participating in the Program
- 407 scholarships for physicians from small towns
- Over 1,000 participants of conferences devoted to the exchange of foreign experiences

Program Manager:

Society of Health Care Managers

The “Equal Opportunities” Program

The objective of the Program, implemented since 2001, is to support local initiatives aimed at equalizing educational opportunities thus helping school students from rural areas and small towns of up to 20,000 inhabitants to enhance their quality of life in the future.

Non-governmental organizations, educational centers and informal groups of young people may apply for grants for the educational projects that foster the improvement of the learning process, stimulate cognitive aspirations, develop pro-active attitudes, and encourage young people to act for the benefit of their local communities.

Results of the past five editions of the Program include implementation of several hundred educational projects, and integration of local communities around the common objective of working for the benefit of children and youth. A few dozen of new non-profits were established, and a number of projects are still implemented even though they are no longer financially supported under the Program.

The Program enables young people to participate in many kinds of activities not offered by schools on a regular basis. A database of projects worth replicating has been created and is constantly updated; it is available at www.rownacszanse.pl.

In 2005, a new form of activity was introduced – Regional Educational Forums, exchanging experiences between project initiators, teachers and educational authorities.

Facts and figures:

- 873 educational projects
- 120,000 people participating in implemented projects
- 1,000 training participants
- 4 educational forums with nearly 1,800 participants

Program Manager:

Polish Children and Youth Foundation

The “Student Volunteers” Program

The Program aims at equalizing educational opportunities of children and youth living in small towns and rural areas. Under the Program, groups of 2-5 student volunteers implement their own, original educational projects to develop children's skills, interests, and knowledge. These projects are implemented during free time – including weekends, winter and summer holidays. Each project focuses on a particular topic, or activity area – e.g. fine arts, sports, computers, theater, foreign languages classes.

The Program fosters pro-active attitudes of both pupils and students volunteers. Additionally, the Program not only helps develop a sense of social responsibility

“YOUNG DISCOVERER CLUB”

“Model Projects” are the best initiatives implemented under past editions of the „Equal Opportunities” Program. These initiatives are an inspiration and example for other local communities. “Young Discoverer Club”, initiated by the Klodzkie Towarzystwo Oświatowe, is one of those exemplary projects.

The purpose of the project is to induce teachers of natural sciences to conduct lessons in an appealing manner. Another objective is to persuade them to offer after-school activities and arouse pupils' interest by encouraging them to undertake their own research and surveys.

In the majority of cases, “Young Discoverer Club” is made up of a dozen or so junior high-school students doing a number of interesting experiments and research under supervision of physics, chemistry, biology or geography teachers. Such activities not only encourage the process of gaining knowledge about different aspects of natural sciences, but also stimulate research interests of the Club members. The Club's work involves active teaching methods – experiments, fieldwork, modeling, constructing, working with maps, and educational games all of which stimulate students' creativity.

Junior high-school students from Klodzko organized a “Festival of Young Discoverers”. Representatives of majority of schools from Dolnośląskie voivodship participated in the event. During the Festival, particular Clubs presented their achievements. Teachers of natural sciences participated in a special seminar. A publication about creating and running Clubs was also prepared. Implementation of the project resulted in the creation of 27 “Young Discoverer Clubs”.



4

SIXTH YEAR OF OPERATION

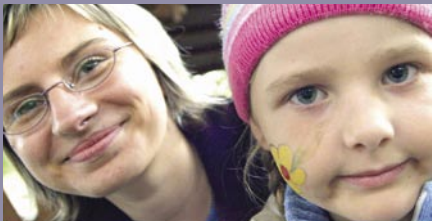
"PASSPORT TO SPRING"

In March 2005, student volunteers organized a celebration of the Spring Day for 1st - 3rd grade pupils attending Elementary School number 52 in Lublin. The objective of the "Passport to Spring" project was to integrate and stimulate children, teach them a number of manual skills, and train student-volunteers to work with children in the future.

Each participant was given his/her own "passport", which entitled him/her to visit each of nine booths prepared by the volunteers and located in different places in school. The booths offered the following attractions: balloon games, painting, "animation scarf", paper crafts, juggling, trampolining, sound boxes, magic cards, and integration dances.

Children were divided into groups. Time-limits were carefully set so that each group could perform all the tasks. Each booth was equipped with colorful stamps used to mark "passports" once the task was realized.

Children enthusiastically performed all the tasks and proudly demonstrated their stamped "passports". Almost 200 children participated in the event.



and solidarity, but also enables volunteers to realize their passion in an appealing formula.

Over 300 projects throughout Poland were realized under the first, pilot edition of the Program implemented in 2004. The total number of volunteers was nearly 1,000. The second edition of the Program, which began in December 2004, was even more popular – 621 projects involving 26,000 pupils and 950 students-volunteers were implemented in over 250 schools. The third edition of the Program begins in 2006. It will be managed by the Polish Association of Pedagogues and Animators "Klanza".

Facts and figures:

- Near 1,000 educational projects
- Near 2,000 students volunteers involved in the Program
- Over 450 schools cooperating with students

Program Manager:

The Association „Voluntary Center“

The “Learning Schools” Program (LES)

The purpose of the Program, launched in 2000 jointly with the Center for Citizenship Education Foundation, is to improve the quality of schools by introducing the principles of “learning organization” into a teachers’ daily practice. Self-evaluation performed in accordance with the guidelines developed under the European Pilot Project Evaluating Quality in School Education is the starting point. The schools’ efforts primarily concern the improvement of quality in a number of key areas: teaching effectiveness, teaching and learning, the school as an institution, and the school and the world outside. The Program is particularly focused on schools from small towns and rural areas.

Those schools that successfully finish the preliminary training and introduce the quality assurance system, join the “LES Club” which currently numbers 486 schools. Membership in the Club is voluntary. Its members develop quality assurance system, help each other perform self-evaluation, train teachers and share experiences and materials. The “LES” Program helps to enhance the autonomy of the faculty and improve the quality of teamwork. It makes it possible for schools to become open to contacts with the world outside their doors.

In 2002, the Program provided the inspiration and basis for the “School with Class” mass campaign undertaken jointly by the Center for Citizenship Education Foundation and the “Gazeta Wyborcza” daily. More than 5,000 schools from all over Poland participated in the initiative. The “Teacher with Class” Program – the implementation of which began in 2005 - is a continuation of this venture. Until now, some 10,000 teachers declared their desire to participate in the program. PAFF is a partner in this initiative.

Facts and figures:

- 486 schools – participants of the “LES Club”
- Nearly 4,800 teachers participating in “LES” training
- Internet database of tools and materials for teachers

Program Manager:

Center for Citizenship Education Foundation

The “Entrepreneurship at School” Program

The Program makes it possible for junior high-school students to acquire skills and put their knowledge regarding starting and running their own business into practice. The Program is implemented by the Junior Achievement Foundation.

Under the Program, students learn how to raise funds, select product, conduct market research, organize production process and sell their services/products. They keep accounts in the same way as in real enterprises. Students are assisted by teachers and business consultants. The purpose of the Program is for young people to be able to work in a team, communicate effectively, present their achievements and identify steps necessary to run a business successfully.

The Program is implemented in several dozen small towns with populations of up to 20,000. It provides for training teachers, conducting workshops for students, as well as participation of student teams in the International Cambridge Examinations and National Competition for the Best Young Mini-Enterprise (the PAFF supports financially the Competition). The winner of the Competition will represent Poland during the European competition organized by the Junior Achievement-Young Enterprise Europe.

Benefiting from the experiences gained in the academic year 2004/05, PAFF and the Junior Achievement Foundation decided to implement a second edition of the Program with participation of several dozen junior high-schools from small towns and villages.

Facts and figures:

- 60 school mini-enterprises
- 64 trained teachers

Program Manager:

The Junior Achievement Foundation

The “Bridge Scholarships” Program

The Program was initiated in 2002. It addressed a serious social problem, i.e. growing disparity between young people from rural areas and their counterparts from large cities in gaining access to university studies. The Program aims at helping talented young people from villages, especially from former state-owned farming estates to undertake studies and cross the threshold between

“LES PRINCIPAL CLUB”

“LES Principal Club” was created in 2005 under the “LES” Program. The purpose of the initiative is to tighten cooperation between the principals of participating schools, help them exchange experiences and establish cooperation with other organizations working in aid of education.

Having exchanged experiences, the Club members – cooperating principals – identified challenges the schools must face. These include: motivating pupils to learn, improving the teaching of dysfunctional children, school-home cooperation in aid of the educational process, teachers’ self-evaluation and the raising of their qualifications.

The initiative is highly successful; the principals truly support and assist each other. One of the members says: “I don’t like feeling lonely in what I am doing. Here I can compare my efforts with others”.

After the first few months, more than 70 principals from all over Poland actively joined the Club.



4

SIXTH YEAR OF OPERATION

NATIONAL COMPETITION FOR THE BEST YOUNG MINI-ENTERPRISE - "MINI-PRODUCT 2005"

115 projects from all over Poland were submitted to the competition. The best 30 mini-enterprises qualified for the finals. The competition enabled young people to validate the effectiveness of their actions and compare their achievements with those of their peers from other schools.

Students participated in workshops on marketing. They learned how to present mini-enterprises in an attractive manner and set up a booth. They were offered individual specialist consultations.

The representatives of business circles and non-profits assessed the performance of young entrepreneurs. The assessment concerned a number of dimensions: the product itself, activity reports, diligence and promptness as regards submitting monthly reports.

The Competition Final was held in Warsaw in June 2005. The "Big Mamma's Store" from the 1st High-School in Bytom won the competition. The "Store" offered costume jewelery made of varnish wastes. The award for the best presentation was given to the "Wojsland" mini-enterprise representing the Agricultural Schools Complex from Wojslawice. The best stand was prepared by the "Artyleria" enterprise representing the 5th High-School in Zielona Góra. The Committee appointed to assess the works of mini-enterprises decided that the best product had been offered by the "Palladyn" enterprise representing the Schools Complex in Lublin.

The Minister of National Education and Sports was the guest of honor at the Finals.



high schools and universities by providing scholarships during the first year of studies. In the following years students may receive financial support under "Study Abroad" project and the "Top Student" competition addressed to those scholarship holders who performed outstandingly well during their freshman year.

The Program is joint undertaking of PAFF, the National Bank of Poland, Bank Pocztowy S.A., Polskie Młyny S.A., the Agriculture Property Agency, as well as a coalition of local non-profits cooperating with the Batory Foundation and the Academy for the Development of Philanthropy in Poland. There have been four editions of the Program implemented to date. The funders managed to allocate PLN 24 million for the Program's implementation including nearly PLN 13 million from the PAFF. In 2005, the Jan Kanty Steczkowski Foundation, established by the Bank Gospodarstwa Krajowego, joined the group of sponsors.

Over 50% of the scholarship holders claim they would not have been able to undertake studies without financial assistance. 24% of those received grade average above 4.0 (out of possible 5) during their freshmen year. Nearly 90% of them manage to receive excellent grades during the following year.

The Program is implemented under media patronage of the "Rzeczpospolita" daily.

Facts and figures:

- 6,000 scholarships in total
- 90% of scholarship-holders continue their studies

Program Manager:

Educational Enterprise Foundation

The Program "For Children"

The objective of the Program initially implemented in 2005, is to equalize educational opportunities of the youngest children from small towns and rural areas. This objective is achieved by creating conditions fostering personal development and improving the quality of early education. The venture is implemented jointly with the Comenius Foundation for Child Development.

The Program is addressed to organizations dealing with the education of young children in a number of selected rural communes from different parts of Poland. These communes participate in the pilot venture called "Improving the Quality of Elementary Education at the Local Level" consisting of a series of 6 thematic workshops. 600 people have participated in these workshops: representatives of local authorities, teachers, parents, representatives of non-profits and other members of local communities. Once the pilot venture is concluded, a guidebook presenting the gained experiences shall be prepared. It will be addressed to the communes interested in implementing such a venture for their own benefit. The participating communes will be granted funds necessary to implement special projects and/or organize special events.

The Manager of the Program will develop a database of organizations working in aid of early education. In addition, a forum for exchanging information shall be created and a brochure presenting model solutions will be published. There will be a national conference presenting diverse offers for children, parents and teachers.

The team of experts cooperating with the Comenius Foundation is currently developing the "Report on the Educational Situation of Children in Poland". The Report – one of the first documents in Poland covering this type of issues – will put forward a description of the current situation of children aged 3-10 along with possible recommendations.

Facts and figures:

- 7 communes participating in the pilot venture
- Database of organizations working in aid of children: www.dlaczego.pl

Program Manager:

The Comenius Foundation for Child Development

The "Universities of the Third Age" Program (UTA)

The objective of the Program, initiated in 2005, is to foster the development of the Universities of the Third Age providing continuing education for seniors. The Program aims not only at improving the quality of the UTA's educational offer, but also at reaching a wider circle of potential beneficiaries in cooperation with non-profits.

One of the primary tasks is to grant support to UTAs offering services outside of large urban areas.

The venture is implemented with two tracks – grant competitions (small and regular grants) and fostering cooperation between UTAs aimed at sharing experiences by means of an Internet site www.utw.pl, and periodic UTAs conferences.

Under the competition held during the first edition of the Program, 19 regular and 27 small grants were awarded. The next competition is planned for January 2006. In October 2005, a National Conference "UTAs in Poland – development possibilities" was organized. It was attended by representatives of 67 UTAs.

The Program is implemented in close cooperation with the PZU Foundation.

Facts and figures:

- 46 projects granted financial support
- www.utw.pl – average 5,000 hits a month

Program Manager:

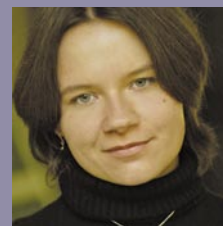
The Foundation for the Jagiellonian University

DOROTA KACZMARSKA – THE BEST OF SCHOLARSHIP - HOLDERS

Dorota comes from Sędziszowo, a tiny village in Świętokrzyskie voivodship. Her father used to work at the state-owned Farm. Dorota had already been awarded a scholarship for best students from rural areas when she was still a high-school student.

Thanks to the support granted under the "Bridge Scholarships" Program, Dorota took up studies in the Faculty of Geology, Geophysics and Environmental Protection at the University of Science and Technology in Cracow. She is one of the most talented students with the grade point average after the first year of studies 5.13. With such an outstanding average Dorota was awarded a scholarship for the following year of studies under the "Top Student" competition.

In addition to the "bridge scholarship", Dorota was awarded yet another scholarship for best students. She admits she would never have taken up studies without financial support. What are her plans for the future? She doesn't know, yet. For the time being, she is considering a number of options – she might just as well decide for professional or academic career. – Things will clear up in the nearest future. Until then, I'll try hard to keep my grades at the same level – says Dorota.



“SENIORS TO SENIORS”

The objective of the project is to involve senior citizens in the activities undertaken to help their local communities. A group of students of the Katowice UTA, affiliated with the Silesian University, learn to advise and assist other seniors about health matters, rehabilitation and disablement, welfare, crisis counseling, and legal matters regarding senior citizens – that includes Family Law, Inheritance Law and Retirement Law. Counseling services are offered at the “Information Desk for Senior Citizens” in the Municipal Council.

Thirty UTA students joined the project. Through lectures and internships they acquired interpersonal and communication skills, learned the basics of gerontology and Family Law necessary to open an “Advisory Center”. Computer workshops were an important element of the training; their participants learned how to benefit from the Internet and existing databases.

The Katowice UTA cooperated with the Warsaw-based “Samaritanus” Foundation – the manager of Senior Activation Centers located in many places. “Seniors to Seniors” advisory offer is addressed to 800 students of the Katowice UTA and 1,000 other senior citizens.



Development of Local Communities

The “Mutual Information Society” Program (MIS@NGO)

The Program has been in operation since 2000. The purpose is to support NGOs’ and civil initiatives by providing easier access to reliable information necessary to successfully implement their initiatives. The Program offers direct access to information and knowledge on legal issues, accounting, interesting projects, training, conferences, and available funds. And, civil initiatives are also promoted among the general public, business circles, the media, as well as public administration.

The “MIS@NGO” system consists of a number of segments – the www.ngo.pl Portal of Polish non-profits being the most important. Other tools include: “Informatorium”, a national Info-line 0-801-646-719, a series of “It is Worth It to Know More” brochures – free manuals for non-profits, and “gazeta.ngo.pl” monthly published in 1,500 copies – a periodical that disseminates important information among the non-profits that lack Internet access.

Databases of non-profits are an important component of the Program that is financed by different institutions. One of these databases include information on public benefit organizations. Several dozen organizations cooperate in implementing the Program, while thousands of non-profits benefit from this joint effort. Last year, in cooperation with the Polish Robert Schuman Foundation, a database of projects financed from the EU pre-accession funds was created.

In September 2005, the 4th National Forum for Non-Governmental Initiatives (OFIP) was supported by the Program. It was attended by representatives of over 500 non-profits.

Facts and figures:

- In 2005 – a record-breaking number of 17,000 hits a day at the www.ngo.pl Portal
- Updating and publication of 10 “It is Worth It to Know More” brochures in 3,000 copies each
- Over 7,000 people benefiting from the “Informatorium” and Info-line in 2005

Program Manager:

Klon / Jawor Society

The “Act Locally” Program

The objective of the Program, operating since 2000, is to support civil initiatives that help solve local problems and stimulate new aspirations among communities in small towns and villages. The grants given through competitions, stimulate the activity of local communities, the members of which define their common needs and undertake common initiatives.

People are different, and so are their needs, traditions, experiences, and available resources. Therefore, the Program supports diverse projects. Each community follows its own way to achieve its goals. Under the first three editions of the Program, 355 projects were funded. The PAFF allocated over \$1 million for that purpose.

Under the fourth edition of the Program – implemented in 2005 – 99 projects were funded by open, national competitions, while 518 grants were given by the agency of Local Grant Organizations (LGOs) covering an area from several of communes to several poviats. 85% of the LGOs’ financial resources were allocated by the PAFF. The remaining 15% were raised from other sources. The LGOs’ total contribution amounted to \$125,000, while the beneficiaries’ own contribution exceeded \$900,000.

This decentralized way of giving grants aroused considerable interest. Information on local competitions reached community members directly. Concentration of 8-10 projects in a relatively small area significantly contributed to citizens’ activation. The supported initiatives included those concerning cultural and educational development, promotion of tourism, entrepreneurship, professional activation, social services for the elderly and handicapped, counteracting social pathology among children and youth, improvement of public safety, restoring the regions’ cultural heritage, and environmental protection. The one thing all of these projects have in common – local activity helps the community members acquire new skills, learn to self-organize and react to new problems.

Facts and figures:

- 973 projects supported under 4 editions of the Program – since 2000
- 618 projects implemented under the last edition
- 5,200 open events
- Over 16,000 volunteers involved in realization of particular projects
- Development of model local initiatives; model examples available at www.dzialajlokalnie.pl

Program Manager:

Academy for the Development of Philanthropy in Poland

THE PORTAL OF POLISH NON-PROFITS WWW.NGO.PL

The Portal has functioned since 2000 under the “MIS@NGO” Program. It is the first Polish professional system of information to serve non-profits and civil initiatives.

The Portal users are granted access to databases containing information on 80,000 Polish and foreign non-profits, including the only Polish database of public benefit organizations. The Portal is an interactive tool, making it possible for its users to run ads free of charge, talk about variety of issues by means of discussion forums, and conduct opinion polls. Many small, local organizations benefit from the “News” service using it to promote their own initiatives and achievements. The Portal’s offer includes IT services for non-profits: Internet domains and free e-mail accounts.

The Portal is quite popular among its users – within the last five years the number of daily hits increased from a few thousand to 17,000. Over 13,000 people subscribed to e-newsletter “wiadomosci.ngo.pl”.

The Portal offers nearly 30 thematic services that provide useful and comprehensive information. That includes advisory services, such as “księgowosc.ngo.pl” (accounting) or “prawo.ngo.pl” (law), and thematic services focused on international cooperation (“zagranica.ngo.pl”) and the EU (“ue.ngo.pl”). Regional services – such as “slask.ngo.pl” – are yet another element of the Portal.

Within the last 5 years the Portal has become an important non-governmental medium not only presenting the positions of non-profits but also actively participating in important public campaigns – e.g. “1% of Income Tax in aid of Public Benefit Organizations”.



4

SIXTH YEAR OF OPERATION

THE SNOW MOUNTAIN COMMUNITY FUND – LOCAL GRANT ORGANIZATION

The Association raises funds to implement the initiatives of its local community. It works in four communes of the Dolnośląskie voivodship: Bystrzyca Kłodzka, Międzyzlesie, Ustronie Śląskie and Łądek Zdrój. The communes are rural. The unemployment index is high and people tend to be quite passive. Aside from local governments, the Fund is the only organization providing support for pro-social initiatives in that region.

Since 1999, the Association has organized local grant competitions (nearly 500 grants) addressed to non-profits, schools and informal groups. It also manages scholarship programs (260 scholarships awarded).

The Snow Mountain Community Fund is one of the most efficient LGOs of the "Act Locally" Program. Under the 4th edition of the Program, the Fund awarded 39 grants (out of 117 submitted applications) amounting to \$26,000. The Fund managed to raise nearly 20% of total grant amount from external sources.

The Fund manages to successfully "network" its grantees. The participants of the Fund's projects take part in joint ventures. "People finally noticed that the impossible was possible. You don't get much from complaining. Once they start doing something specific, something concrete, they begin to believe in themselves" says Dorota Komornicka of the Fund.



The „PAFF Leaders“ Program

The objective of the Program, implemented by the School for Leaders Association, is to support the process of improving skills and raising qualifications of people acting to help their local communities. The Program is addressed to the active managers of projects financed under the following PAFF programs: "Act Locally", "Equal Opportunities", "English Teaching", "EURO-NGO", "Region in Transition" (RITA), and "Village in Transition: developing information society" (e-VITA).

In 2005, 60 leaders of local communities, selected by competition, worked on their personal development plans under the supervision of 13 experienced tutors. That supervision included: identification of one's own weak and strong points, training needs' analysis, defining goals and possible ways to reach them. The skills gained under the Program are to help them implement other local initiatives.

The participants were given the opportunity to receive small grants for projects implemented in aid of local communities thereby using the skills and knowledge gained under the Program. The offer was supplemented by internships at experienced non-profits and advisory support by experts on a variety of issues.

The training program was based on the participants' needs and priorities. It focused on the following areas: team building, project management, organization management, strategic planning, interpersonal communication, involving others, creating local partnership and raising funds.

The second edition of the Program for another 60 leaders began at the end of 2005 and will last until mid-2007.

Facts and figures:

- 120 leaders participating in the Program
- 27 tutors
- www.liderzy.pl Internet service

Program Manager:

The School for Leaders Association

The “Undoing Unemployment” Program

The objective of the Program, implemented since 2001, is to trigger and support local initiatives to actively fight unemployment and its results through outplacement, a methodology adjusted to the needs and capabilities of non-profits and local partners.

The pilot edition of the Program involved 5 projects addressed to diverse professional and social groups: nurses, Polish State Railroad workers, farmers, and young people entering the labor market. The Program not only promoted the outplacement methodology, but also offered training for labor market specialists. A grant competition was organized as one of the Program's

components. Additionally, the Program supports labor market institutions by offering advisory services concerning preparation of projects that involve the outplacement methodology. Between 2004-2005, non-profits were given the opportunity to apply for grants for projects focused on advisory services and/or the outplacement methodology. Nine projects were financially supported and additional 12 were given advisory grants.

The „Outplacement Academy” training, addressed to the labor market specialists willing to broaden their knowledge regarding the outplacement methodology, is an important component of the Program. 186 specialists participated in seven editions of the “Academy” activity implemented between 2004-2005.

Another action realized under the Program was a research project concerning the current situation and role of non-profits in the labor market. The research resulted in the creation of a database of non-profits dealing with the labor market issues (888 records) and 15 reports included in a special publication distributed along with a CD-ROM.

Facts and figures:

- 1,165 beneficiaries of 5 completed pilot projects (2001-2002)
- 186 participants of the “Outplacement Academy”
- Advisory service at www.bezrobocie.org.pl

Program Manager:

Foundation for Social and Economic Initiatives

The “Pro Publico Bono” Award

The “Pro Publico Bono” Competition for the Best Civil Initiative was initiated by Prime-Minister Jerzy Buzek in 1999 and beginning in 2001 the Competition has been conducted under the auspices of the Polish Ombudsman. Since 2000, the Polish-American Freedom Foundation has funded prizes for the Competition.

The purpose of the Competition is to support the development of civil society by awarding the most valuable and creative activities undertaken by non-governmental organizations – on national, regional, and especially local levels – in the fields of education, culture and national heritage, health protection, social and charitable assistance, environmental protection and regional development, public diplomacy and European integration. The Competition’s Chapter, headed by Professor Andrzej Zoll, includes well-known public figures plus the previous year’s Main Awards’ winners. The first honorary President was Jan Nowak-Jeziorański. In evaluating projects, the Chapter pays attention to the social importance of the initiative, its innovativeness, the impact on the development and competitiveness of local communities, the efficiency and transparency of how public funds were spent. Also, the Chapter considers the institutional stability of the nominee, its operation raising no ethical questions, and its cooperation with public administration and other organizations. The competition

MONIKA DOMINIK

Monika Dominik participated in the first edition of the “PAFF Leaders” Program – she increased her skills and knowledge concerning development of local partnership, team management, personal development and leadership. She implemented a project called “Long-Forgotten Games Fair”. Its aim was to bring about an inter-generational exchange of knowledge and experiences concerning leisure time activities in the Bilgoraj poviát.

Monika Dominik is a certified teacher and a specialist in European law and EU projects management. She participated in three other PAFF ventures coordinating projects implemented under the RITA and Act Locally programs; she is also a specialist on EU Funds for the “EURO-NGO” Program. In addition, Monika conducts training on design works for the Regional Training Center of the European Social Fund in Lublin.

Participating in the “PAFF Leaders” Program, Monika Dominik – under supervision of Zdzisław Hofman, the President of the Polish Association of Pedagogues and Animators “Klanza” – worked for 12 months to improve her qualifications. She benefited from these experiences in her social work and she established a Foundation for Citizens’ Activity supporting local development.

The Foundation in Aid of Children “Krzyk” (“Scream”) in Bilgoraj, headed by Monika, implements a number of projects in cooperation with non-profits from the CEE countries (Ukraine and Moldova in particular). These projects – executed under the “RITA” Program – focus on education and organizing leisure time for children and youth.



4

SIXTH YEAR OF OPERATION

THE "SOCIAL AND PROFESSIONAL ACTIVATION OF THE EXPELLED" PROJECT

The project implemented between September 2004–July 2005 in the Kwilcz commune (Wielkopolskie voivodship) was one of the ventures financed under grant competition of the "Undoing Unemployment" Program.

A group of unemployed formerly working for state-owned farms participated in the project. The project was designed to make it possible for them to take up different jobs and avoid social exclusion. It provided for educational actions, support of community actions, preparations for professional retraining, supporting community entrepreneurship. Workshops on the basics of business activity were an important element of the project. The participants were strongly encouraged to attend therapeutic classes, the intention of which was to help the unemployed overcome their sense of helplessness and create social ties. The project beneficiaries learned a number of things about new forms of farming so that they could create new jobs for themselves using their skills and experiences. A group of experts – including psychologists and a professional advisor – were involved in the implementation of the project.

The project – conducted by the Regional Social-Educational Center "For People and Environment" - provided assistance to 83 people. It was supported by local government and the "Barka" Mutual Assistance Foundation.



winners are rewarded with financial support allocated – in majority of cases – for the continuation of their efforts.

In 2005, under the 7th edition of the Competition, the Chapter awarded 19 organizations. The Award Ceremony took place on November 11th in Cracow. It was held under the patronage of Archbishop Stanislaw Dziwisz, Metropolitan of Cracow. The main award for the regional activity was given to the Association for Mobilization of the Inhabitants of Polesie Lubelskie Region in Podedwórze. Three honorary awards were given to: the Academy for the Development of Philanthropy in Poland, Caritas Polska and ABC XXI Foundation. The list of all laureates is available at www.propublicobono.pl.

The 7th edition of the Competition was accompanied by the Civic Congress "Towards Development Based on Values and Dialogue" held on November 12th, 2005 at Warsaw Technical University. The purpose of the Congress, organized by Gdansk Institute for Market Economics Foundation, was to increase citizens' involvement in public affairs and create a platform for discussion and sharing experiences open to people from different milieus. Over 800 people participated in 50 panels and thematic sessions.

Facts and figures:

- 7 editions of the competition
- 133 initiatives awarded

Program Manager:

"Pro Publico Bono" Competition Foundation

The "EURO-NGO" Program

The objective of the Program, implemented since 2003, is to contribute to the efficient functioning of non-profits following Poland's accession to the European Union. Under the Program, a national system, which provides information about the rules and operating mechanisms of the European funds was created. The system is primarily addressed to the leaders of diverse civil initiatives and non-profits, in particular those from small towns and villages.

Within a year, 203 people, (selected to the Program by national competition out of nearly 800 applicants) were trained as advisors – specialists in EU funds. They participated in 100 hours of training with experts in public and EU administration and NGOs. The training concluded with a final exam and the specialists were given certificates confirming their competences.

In 2005, 160 Specialists working in teams offered non-profits advisory services about how to gain access to European funds. Over 3,000 people benefited from these services. In addition, 100 training sessions and 134 informative meetings for non-profits were organized. The Specialists helped to prepare 173 applications for EU funds. Eighty five of those applications were granted funds totaling \$18,4 million. Additionally, 52 partnership projects involving non-profits

and organizations from other sectors were created. So far, 8 of them have been granted subsidies of over \$340,000.

Offering services to non-profits, the "EURO-NGO" Specialists cooperated with the structural funds' liaison officers (organized by the Stefan Batory Foundation) and the Representative Office of Polish NGO's in Brussels.

Another element of the Program introduced in 2005, was the Micro-Grant Competition the purpose of which was to support social consultations concerning the National Development Plan for 2007-2013 and make it possible for non-profits to participate in these deliberations. Under the competition, 32 local initiatives from all over Poland were supported. They included: conferences, seminars and meetings with experts.

Thanks to the experience gained under the Program, 11 regional centers of the "SPLOT" Network simultaneously conduct two programs: "EURO-NGO" and Regional Training Center of the European Social Fund (a public system of support for all potential beneficiaries of the European Social Fund).

Facts and figures:

- Network of over 150 "EURO-NGO" Specialists
- Nearly 10,500 people benefited from the Specialists' advisory services (that includes over 3,000 in 2005)
- Specialists' advisory services provided via the Internet: www.euro-ngo.org.pl

Program Manager:

The Network of Support for NGOs "SPLOT"

The "Village in Transition: developing information society" Program (e-VITA)

This undertaking stems from the experiences of the "VITA" Program, implemented between 2001-2003. Its objective is to promote the use of modern computer technologies in local development. The Program is addressed to small towns and rural communities – in particular, to local authorities, businessmen, non-profits and youth.

The pilot stage of the Program is implemented in six communes selected by competition: Białogard, Cekcyń, Mały Płock, Recz, Stoszowice, Zelów. The Program provides for a pilot introduction of computer infrastructure in 41 institutions of local governments. These institutions (i.e. schools, libraries, Municipal Councils, Municipal Information Centers) were equipped with readily accessible fast Internet connections. In addition, the Program offers training, advisory services and grants for the realization of local projects focused on implementation of new technologies.

The participants learn to use computers and the Internet to find jobs, develop their own business initiatives and implement diverse social projects. Participating

THE ASSOCIATION FOR MOBILIZATION OF THE INHABITANTS OF POLESIE LUBELSKIE REGION

The winner of the 2005 "Pro Publico Bono" Competition in the category of regional organizations

The Association from the Podedwórze commune in the Lubelskie voivodship focuses on preserving national tradition, cultivating Polish identity, broadening cultural awareness, promoting employment and mobilizing the unemployed. By offering "Farm Tourism" and "Preserving Cultural Legacy" courses, the Association attempts to encourage people to look for alternative sources of income outside of traditional farming. The Association conducts "Cultural Legacy in the Region" courses addresses to teachers, students and tourists. It also organizes cultural exchange with Belorussian partners.

The Competition Chapter awarded the Association for its initiative called "The Development of Entrepreneurship in Rural Areas Based on Cultural Legacy and Natural Resources". The venture, which aimed at improving the quality of life of the commune inhabitants, was the result of the "Preserving Cultural Legacy" workshop. It led to the creation of the Regional Education Center that offered a variety of daily courses such as churning butter, washtub laundry and blacksmith's classes.

Between 2003-2004, thanks to the Center's initiative, the Podedwórze school building was renovated. Two ethnographic and 3 handicraft labs were established. In addition, a playground was built on the Center's premises. 25 commune inhabitants participated in training – 15 of them still cooperate with the Center, conducting interesting classes about the region.



4

SIXTH YEAR OF OPERATION

STOSZOWICE COMMUNE

Under the pilot stage of the "e-VITA" Program implemented in six different regions of Poland, modern computer infrastructure networked the most important institutions of local governments, schools, libraries, Municipal Councils, welfare centers. Stoszowice in Dolnośląskie voivodship was one of the communes participating in this venture. The commune is made up of 11 villages with a population of nearly 6,000 inhabitants.

The commune – binding its future to the development of tourism – allocated 10% of its annual budget as the commune's own contribution to the Program. Asked about the reasons behind investing in local IT network Patryk Wild, the borough leader, answered with no hesitation: – We believe that being connected to the Internet creates an opportunity for economic development. We also believe it is an investment that will pay back and help us earn money we need for other investments.

Nearly 80% of the commune's inhabitants will be connected to the Internet (wireless connection) once the project is fully implemented. A 20 km long fibre-optic cable has been laid connecting all the villages and institutions of local government.

The authorities of Stoszowice believe that such a modern IT investment will discourage the migration of rural populations to the cities and even encourage better educated people to settle in the commune. It will also be easier for everyone to contact local authorities and take care of official matters over the Internet as opposed to driving several kilometers to the Commune Council. Broad access to IT services will definitely increase the commune's investment attractiveness and create new jobs as a result of advertising the tourist offer on the Internet.



local governments learn how to prepare projects financed with EU structural funds.

The experiences and knowledge gained through the pilot edition are disseminated among other communities via seminars, publications and the www.witynawiejska.org.pl portal.

PAFF's partners – Rural Development Foundation and Cisco Systems (Cisco Foundation) – contributed significant resources to the Program.

Facts and figures:

- 6 communes participated in the pilot edition of the Program: nearly 1,200 people learned how to use computers
- 22 local projects focused on the implementation of IT technology in aid of the development of rural areas
- 19 Free Internet Access Points in 12 villages

Program Manager:

Rural Development Foundation

The "Financial Management for NGOs" Program (FIMANGO)

The "FIMANGO" Program was initiated in 2001. Its objective was to improve the financial management of non-profits. By the end of 2005, three editions of the Program were successfully implemented. Over 1,000 people, accountants and those responsible for finances in non-profits participated in free training. Most of the trainees were from small towns and rural areas.

The Program participants learned about the current Act on Accountancy, studied public order procedures, learned how to run one's own business, prepare grant applications, cooperate with local authorities and clear accounts with sponsors. Training on e-banking and computer assisted accounting were particularly popular. All the training sessions involved modern, computer technologies.

"Ask the Expert" Internet service is a supplement to the Program. An educational series of 10 manuals for accountants was also published. These publications were supplemented by CD-ROMs with current legal acts and documents' patterns.

The Program has raised considerable interest. Its participants evaluated highly the Program's usefulness. Therefore, its fourth edition was launched at the end of 2005. In 2006, another 300 people shall be trained during 8 training sessions.

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

Facts and figures:

- 1,000 people trained in 40 courses – since 2000
- 442 people trained in 14 courses in 2005
- 10 manuals in 14,000 copies and 2 CD-ROMs in 3,500 copies
- "Ask the Expert" Internet service available at www.frso.pl

Program Manager:

Civil Society Development Foundation

Citizen in a Democratic State of Law

The „Transparent Community – Transparent Poland” Action

The „Transparent Poland” Action is a result of a partnership cooperation of the PAFF, the Foundation for the Development of Local Democracy, „Gazeta Wyborcza” daily, the Agora Foundation, the Stefan Batory Foundation, World Bank, and the Center for Citizenship Education Foundation.

The major objective of the Action is to support and publicize the efforts made by local communities to improve the quality of public life and stimulate citizens’ initiatives in small towns and villages. The Action is addressed to local governments that committed themselves to introduce six principles of “good governing” in their own communes in cooperation with non-profits and other citizens’ groups. These principles are: transparency, zero-tolerance towards corruption, public participation, predictability/constancy, accountability and professionalism.

The realization of the Action began in 2004 with the implementation of the Action’s pilot stage called “Transparent Community”. It was a year-long program for 15 communes and 1 poviát. Participation in the pilot stage consisted of 6 obligatory and a number of non-obligatory tasks connected to the 6 principles. These tasks included: development of a code of ethics for civil servants and councilors, creation of a map of local initiatives, development of material presenting residents with the commune’s budget and financial strategy, preparation of a detailed description of services rendered by local governments, etc. Participating governments reported on the execution of the tasks, presenting the results on a specially designed website. The implementation of the tasks was also verified by the Action’s experts.

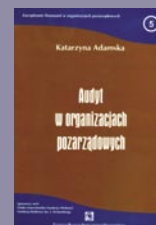
In 2005, 16 local governments that had participated in the pilot stage and 8 Action’s experts acted as consultants for 800 local governments (including Warsaw and most Polish cities) that joined the „Transparent Poland” mass campaign declaring the will to introduce tasks developed under the pilot

“FIMANGO” SERIES

In 2005 two free brochures were published under the “Financial Management for NGOs” series.



Another publication - “Audit in Non-Governmental Organizations” - was reissued.



4

SIXTH YEAR OF OPERATION

MUROWANA GOŚLINA – A TRANSPARENT COMMUNITY AND COUNCIL

Murowana Goślina is one of the largest communes in the Wielkopolskie voivodship. It is made up of 38 villages with a population of some 15,000. It was the only commune from the Wielkopolskie voivodship that had participated in the "Transparent Commune" pilot program in 2004. The following year, the commune joined the "Transparent Poland" mass campaign, the objective of which was to fight corruption, improve the quality of public life and local government's performance so as to ensure professional and user-friendly ways of serving commune inhabitants.

The commune now proudly exhibits a transparent management system. All the Council employees were selected by competition. Tomasz Łęcki, the mayor, has sticker on his car that reads "I don't take bribes". All the civil servants are obliged to know foreign languages.

One of the major achievements of the Council's employees was the preparation and introduction of an ethical code called "Ideological Declaration of the Employees of the Municipal Council". The code standardized the way of serving clients. "We are here to help commune inhabitants and the need of creating such a declaration was ours. We have all gone through special training and it all works perfectly now", claim the employees of the Murowana Goślina Commune Council.

Under the "Transparent Poland" campaign, the Murowana Goślina local government played the role of consultant and expert; it helped other communes from the Wielkopolskie voivodship identify obstacles they may face in implementing particular tasks. Participation in the campaign increased the Council's effectiveness, energized its work and made it more client-friendly.



stage. The new participants were given detailed descriptions of tasks to be selected along with precise instructions. They were also offered the possibility to participate in periodic consultative meetings in their voivodships as well as individual consultations as requested.

Non-profits and local media were also involved in the mass campaign: their duty was to monitor the introduction of particular tasks by participating governments. The Action's official Internet site (www.przejrzystapolska.pl) offered a discussion forum making it possible for everyone to comment on the Action's progress in their commune. All the tasks were to be realized by December 2005. 403 local governments managed to successfully implement all mandatory tasks. In March 2006 they were awarded Participation Certificates.

Facts and figures:

- Nearly 800 local governments participating in the Action; 403 awarded with certificates
- 170 social partners – non-profits and local media
- 132 training sessions and workshops with participation of over 2,000 representatives of local governments

Program Manager:

The Foundation for the Development of Local Democracy

The "Citizen and Law" Program

The objective of the Program, initially implemented in 2002, was to support the development of various voluntary forms of citizens' advice and legal information by means of grants to non-profits offering free, legal information and advice. The Program provides assistance to people in difficult conditions – in particular, people from marginalized social groups and those living in small towns.

Under the first edition of the Program, 22 citizens' projects addressing the issue of legal advice for the general public were given financial support. The projects were implemented by the Citizen Advice Bureaus and University Legal Clinics.

Also, the projects focused on specialist counseling for unemployed, handicapped, violence victims, patients in difficult situations and families threatened with social pathology were granted additional support.

The second, two-year edition of the Program was launched in mid-2005. It consists of two parallel tracks: (a) financial support for non-profits rendering advisory services selected through competition and (b) working out recommendations and pilot implementation of model system solutions making citizens' access to legal assistance easier. This task was assigned to the Expert Committee.

29 projects were granted subsidies. 17 grants (over \$200,000 in total) were awarded for the purpose of offering and increasing the quality of free, specialist legal advisory services addressed to precisely defined circles of recipients – e.g.

the handicapped, mentally retarded, immigrants, victims of crime and violence, patients and ill people, families of missing persons, unemployed, etc. 12 grants (nearly \$150,000 in total) were awarded for the purpose of increasing the quality of free, specialist legal advice addressed to individuals. All the projects provided for cooperation with local authorities, courts, bar associations and schools of higher education. Thus, these projects were likely to help the implementing organizations gain both institutional and financial stability.

The Expert Committee identified major obstacles for individuals to benefit from legal assistance. The Committee pointed at possible ways of eliminating those obstacles. This objective is achieved by five pilot projects: strategic litigation concerning a selected problem regarding citizens' access to legal assistance, developing an effective means of preparing and distributing legal guides for individuals, dissemination of a civil mediation procedure as an alternative method of solving disputes, improvement of the quality of cooperation between non-profits and bar associations to make it easier for the poorest to obtain legal assistance, organization of public debates and research on citizens' access to legal services in Poland. The results of these projects will be disseminated among non-profits that offer advisory services, lawyers and governing bodies of the judiciary.

The Program is implemented under media patronage of "Gazeta Prawna" - a national specialist, legal daily.

Facts and figures:

- 50 projects funded under two editions of the Program
- Nearly 40,000 pieces of free legal advice given
- Almost 200 seminars and workshops, 34 meetings and conferences
- 20 publications of more than 50,000 copies

Program Manager:

The Institute of Public Affairs Foundation

The „Supporting Legal Reforms – Computer Training” Program

Between 2001-2005, the Foundation implemented a Program to support activities for the modernization and increase of effectiveness of the Polish judiciary by organizing a system of computer technology training addressed to judges and the employees of judicial administration. Computer training centers were created in Białystok, Wrocław, Szczecin, Cracow, Gdańsk and Warsaw.

Each computer lab was equipped with a dozen or so terminals and additional hardware - printers, scanners and multimedia projectors. The courses covered the following: IT basics, word editors, professional legal software, the Internet as a communication means and source of information.

Thanks to efficient organization and personal involvement of those who

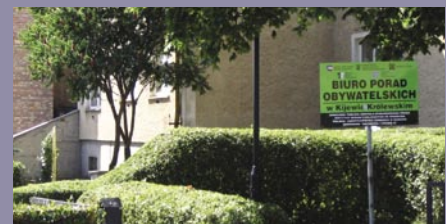
CITIZEN ADVICE BUREAU IN KIJEWÓ KRÓLEWSKIE

The Citizen Advice Bureau in Kijewo Królewskie was created in 2005, in close cooperation with local authorities, thanks to the support received under the "Citizen and Law" Program. The objective of the project implemented by the Association for the Development of the Kijewo Królewskie Commune was to provide broad access to information and assistance to the inhabitants of town and villages of the commune and powiat.

The Office was created to deal with specific social needs: unemployment, poverty, lack of development prospects. To counteract social exclusion and marginalization of the weakest community members, the commune and Association's authorities decided to create an efficient system of information and advice addressed to those in difficult life conditions. "We are here to help people believe they can successfully claim their right" says Jarosław Ciemniowski from the Citizen Advice Bureau in Kijewo.

The Bureau's employees and volunteers attended many training sessions conducted by the Union of Citizens' Advice Bureaus in Warsaw. The Bureau in Kijewo joined the national CAB network. Being part of a larger structure is quite useful. The Bureau is offered substantial support, training of advisors, and independent evaluation of the Bureau's performance.

The Bureau's clients benefit from services in person, by mail, by telephone, fax or the Internet. Most of the project recipients are poor, unemployed people at risk of social exclusion. In 2005, 63 people benefited from the Bureau's advices.



4

MARINA BRUTYAN

She comes from Yerevan in Armenia. She graduated from the Moscow New Law Institute (Yerevan branch) presenting a thesis entitled "Copyrights in the Republic of Armenia and Russian Federation".

She works as a legal adviser for the Armenian charity organization "Karawan 88". Marina had some experience in journalism since she worked for the "Arminfo" news agency.

In 2005/06, under the Kirkland Program, she studied under the supervision of Igor Borkowski, PhD at the Faculty of Social Science Section of Public Communication and Journalism of the Wrocław University. Marina presented her dissertation entitled "Freedom of Speech and Mass Media". Studying in Poland, she worked as a foreign correspondent for the "Arminfo" news agency. She plans to pursue a career in journalism.



SIXTH YEAR OF OPERATION

supervised the training in particular centers, the cost of the courses was much lower than similar training in Poland. The training standards and the number of trained people proved that the method was effective.

Even though the PAFF's financial involvement terminates in 2006, training will continue – their costs are to be covered by the Ministry of Justice, budgets of particular courts, and from other sources.

Facts and figures:

- 6 IT training centers
- Over 6,000 people trained
- 384 IT courses

Program Manager:

Foundation Center for Judges Training "Iustitia"

Sharing Polish Experiences in the Transformation

The Lane Kirkland Scholarship Program

The objective of the Program implemented since 2000, is to share Polish experiences in transformation with students from CEE countries with two semester complementary studies at Polish universities. The Program is addressed to the candidates from Ukraine, Belarus, Russia, Georgia, Moldova, Lithuania, Slovakia and – since 2005 - Armenia. Under individual educational programs, 50 Kirkland scholarship holders focus on a number of topics: management and economy, public administration and business, law, social and political science.

Each edition of the Program begins with an "orientation program", the purpose of which is to provide knowledge about the history of Poland as well as its current political and social situation. After the "orientation program", the Kirkland scholars proceed with their studies at the universities in Warsaw, Cracow, Poznań, Wrocław and Lublin. They prepare dissertations and thesis under the supervision of academic tutors. The scholars participate in integration meetings. They are also offered internships either in governmental or private organizations.

223 students participated in the Program between 2000-2006. This included 112 people from Ukraine, 65 from Belarus, 13 from Russia (the Kaliningrad District), 11 from Lithuania, 9 from Slovakia, 7 from Georgia, 4 from Moldova and 2 from Armenia. They studies included: economy and management – 81 people, law – 42, and public administration - 38. Most of the scholarship-holders were scientists (80 people), representatives of business (43) and civil servants (41).

Once the Program is over for the students, the contact with the alumni is maintained. They are informed on developments in the Program by means of

information bulletins and the www.programkirklanda.engo.pl web site. In 2005, the second Kirkland Alumni Conference was organized in Warsaw. The conference was devoted to the issue of Poland's integration with the European Union. It was attended by 120 Kirkland Fellows.

Facts and figures:

- 223 scholarship-holders from 8 countries
- www.programkirklanda.engo.pl Internet site

Program Manager:

Polish-U.S. Fulbright Commission

The “Region in Transition” Program (RITA)

The Program was initiated in 2001 and is addressed to Polish non-profits and educational institutions that intend to share the Polish experiences of social and economic transformation with other CEE countries.

Under the past five editions of the Programs grants were given in two categories: “We Cooperate Locally” - under which international initiatives implemented jointly with partners from neighboring countries were supported, and “We Share Polish Experiences” - under which Polish non-profits offer to share experiences such as development of civil society, strengthening of the third sector, transformation of local government, development of educational services, and free media.

“Study Tours to Poland” is the initiative that was first introduced in 2003. This segment of the Program is addressed to student leaders and young professionals – especially from Ukraine, Belarus, and the Kaliningrad District of the Russian Federation. The purpose of these visits is to present the visitors with the reality of contemporary Poland and the European Union. They are given the opportunity to meet representatives of business circles and public life; visit universities and talk with their peers; experience the daily routine of non-profits, local governments as well as establish other valuable contacts. 517 people benefited from „Study Tours” hosted by Polish non-profits.

A series of visits organized for 200 experts and representatives of new Ukrainian authorities deserves particular attention. The initiative – introduced in 2005 – followed the Ukrainian Orange Revolution. The purpose of these visits is to help the Ukrainians amend the Ukrainian Law and practice so that they comply with the European standards.

Facts and figures:

- 300 projects financially subsidized
- 517 beneficiaries of „Study Visits”
- www.rita.edudemo.org.pl, www.studytours.pl Internet sites

Program Manager:

The Education for Democracy Foundation

KIRILL GORSHKOV – A MEMBER OF THE “STUDY VISIT” TO POLAND

Kirill Gorshkov comes from the Kaliningrad District of the Russian Federation. He studies Economy at the Baltic Fishing Fleet State Academy. He is an activist of AIESEC. In 2005, he visited Poland and served an internship at the Association Culture Community “Borussia” in Olsztyn.

Kirill recalls: “The most beneficial experience was of observing the works of Polish non-profits, the “Borussia” Association in particular. I learned the organization of work, the methods of formulating goals and defining tasks, the process of preparing and implementing projects, scopes of activities and relations with local authorities. To me – as an activist of a social organization – it was of the uppermost importance. Serving my internship at the “Borussia” Association, I arranged cooperation between the Association and my AIESEC office. Having returned to Kaliningrad, I got involved in promoting the project called “International Voluntary Service to Preserve Monuments in Warmia and Mazury Region” which provided for the participation of young people from Poland, Germany and Russia in preserving cultural inheritance and monuments in that area. I helped to recruit the participants”.

Thanks to the variety of contacts he established during his visit to Poland, Kirill Gorshkov came to Poland again in August 2005 and participated in workshops organized near Olsztyn.






FINANCIAL STATEMENTS AND REPORT
OF INDEPENDENT AUDITORS

5

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying statement of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of the Polish-American Freedom Foundation (the "Foundation") at December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



April 24, 2006

FINANCIAL STATEMENTS

Statement of Financial Position as of December 31, 2005

Assets

ASSETS:

Investments, at fair value	
Equity investments (Note 6)	\$ 167,803,313
Fixed income investments (Note 6)	36,041,000
Cash equivalents (Note 6)	26,598,393
Receivable from investment manager (Note 6)	<u>7,942,705</u>
	238,385,411
Cash (Note 6)	143,344
Fixed assets, net (Note 7)	85,537
Prepaid expenses and other assets	<u>53,259</u>
Total assets	<u><u>\$ 238,667,551</u></u>

Liabilities and Unrestricted Net Assets

LIABILITIES:

Grants payable (Notes 1, 5)	\$ 3,048,236
Accounts payable and accrued expenses	<u>207,846</u>
Total liabilities	<u>3,256,082</u>
UNRESTRICTED NET ASSETS (Notes 2, 4)	<u>235,411,469</u>
Total liabilities and unrestricted net assets	<u><u>\$ 238,667,551</u></u>

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

FINANCIAL STATEMENTS

**Statement of Activities for the Year Ended
December 31, 2005**

CHANGES IN UNRESTRICTED NET ASSETS:

Income:	
Interest and dividend income	\$ 4,346,083
Net realized and unrealized appreciation on investments	10,581,336
Support	<u>2,000</u>
Total income	<u>14,929,419</u>
Expenses:	
Employee compensation and benefits	865,013
Operating expenses	467,526
Occupancy	145,838
Depreciation	<u>23,305</u>
Total operating expenses	1,501,682
Conference expense	<u>89,489</u>
Total expenses	<u>1,591,171</u>
Excess of income over expenses, before grants	13,338,248
Grants (Notes 1, 5)	<u>(9,053,311)</u>
Total increase in unrestricted net assets	4,284,937
Unrestricted net assets, beginning of the year	<u>231,126,532</u>
Unrestricted net assets, end of the year	<u>\$ 235,411,469</u>

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

Statement of Cash Flows for the Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in unrestricted net assets	\$ 4,284,937
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Net realized and unrealized appreciation on investments	(10,581,336)
Depreciation	23,305
Decrease in prepaid expenses and other assets	35,712
Decrease in liabilities	(23,364)
Decrease in grants payable	(205,086)
Net cash used in operating activities	<u>(6,465,832)</u>
Cash flows from investing activities:	
Proceeds from sales/redemption of investments	95,180,130
Cost of investments purchased	(93,079,478)
Cost of fixed assets purchased	(64,167)
Net cash provided by investing activities	<u>2,036,485</u>
Net decrease in cash and cash equivalents	(4,429,347)
Cash and cash equivalents, beginning of year	<u>4,572,691</u>
Cash and cash equivalents, end of year	<u><u>\$ 143,344</u></u>

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

Notes to Financial Statements as of December 31, 2005

1. Organization

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

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

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

2. Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations, the Foundation is required to classify information regarding its financial position and activities into certain classes of net assets. Pursuant to the Grant Agreement (defined in note 4), at December 31, 2005, the entire balance of net assets was classified as unrestricted. Unrestricted net assets are those net assets that are not restricted by donor imposed stipulations.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Equity and fixed income investments are generally valued based upon the closing price as quoted on major exchanges. However, certain securities are valued based upon yields or prices of securities of comparable quality, coupon, maturity and type as well as indications as to values from brokers and dealers. Investments that are determined by a fund manager to be illiquid or and/or lacking a readily accessible market value ("Special Investments"), are valued using current estimates provided by the fund manager. Since Special Investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market existed.

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

Cash and Cash Equivalents

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

Grants

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

Translation of Foreign Currency

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

Donated Services

The Foundation's directors receive no compensation or fees for serving as directors. Such directors donate significant amounts of their time to the Foundation's programs. No amounts have been reflected in the accompanying financial statements for such donated services, inasmuch as no objective basis is available to measure the value of such services. The Foundation's non-executive Polish directors receive a fee for providing advice and assistance to the Foundation. For the year ended December 31, 2005 the total fees paid to all Polish directors amounted to \$36,000.

Depreciation and Amortization

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

Operating Expenses

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

FINANCIAL STATEMENTS

Credit Risk

Credit risk is the possibility that loss may occur from counter party failure to perform according to the terms of a contract. Unless noted otherwise, collateral or other security is not normally required by the Foundation to support financial instruments with credit risk. At December 31, 2005, the Foundation had credit exposure mainly from debt instruments in the Foundation's portfolio. The maximum risk of accounting loss from these financial instruments is represented by their respective balance sheet amounts.

4. Polish-American Enterprise Fund Grant

Pursuant to an agreement signed in 1999 between the Fund and the U.S. Government and in consultation with the Government of Poland, the Fund has returned \$120 million of the Fund's assets to the U.S. Treasury and has contributed \$211 million to the Foundation through December 31, 2005.

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

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

5. Grants and Grants Payable**Grants**

In accordance with accounting principles generally accepted in the United States of America, the Foundation is required to record the total amount of a grant as an expense at the time the grant agreement is signed. As programs develop, the Foundation and the grantee may agree to decrease the amount of a grant to reflect changes in a program not anticipated at the time the grant agreement was signed. For the year ended December 31, 2005, the Foundation signed \$9,096,043 of new grant agreements and reduced the amount of grant agreements signed in prior periods by \$42,732, resulting in a net expense for grants of \$9,053,311 reported in the accompanying statement of activities.

Grants Payable

Each time the Foundation records an expense to reflect the signing of a new grant agreement it also records a grant payable to reflect a liability to fund the full amount of the grant. In practice, the Foundation generally disburses grants to grantees over time, as funds are required to meet the costs of each program. As a result, the amount recorded as an expense for Grants in the statement of activities generally does not equal the amount of grants disbursed by the Foundation in a fiscal period. For the year ended December 31, 2005, the Foundation disbursed \$8,643,395 of grants as compared to \$9,053,311 of grants expense reported in the accompanying statement of activities. Grants payable increased by \$409,916 during 2005. Grants payable in Polish Zlotys were translated into US dollars at the year end exchange rate. As a result, a translation adjustment of \$615,022 decreased grants payable to \$3,048,236 at December 31, 2005.

The following table sets forth the changes in grants payable for the year ending December 31, 2005:

Grants disbursed		\$ (8,643,395)
Grant agreements signed	\$ 9,096,043	
Decrease in amount of grant agreements signed in prior periods	<u>(42,732)</u>	
Grant expense reported in statement of activities		<u>9,053,311</u>
Net change in grants payable		409,916
Grants payable translation adjustment		(615,022)
Grants payable, beginning of period		<u>3,253,322</u>
Grants payable, end of period		<u>\$ 3,048,236</u>

In addition, as of December 31, 2005, the Foundation had approved 17 grants totaling \$10.0 million that were subject to the completion of grant negotiations and the signing of grant agreements to the satisfaction of all parties. Subsequent to December 31, 2005 the Foundation signed 9 of these grant agreements, totaling \$5.2 million.

6. Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

As of December 31, 2005, the Foundation's cash and cash equivalents consisted of \$26.6 million in cash (principally money market funds) that was deposited in various high quality financial institutions in the United States. Substantially all of the cash and cash equivalents balance was held by the Foundation's various investment managers.

FINANCIAL STATEMENTS

Investments

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

	Cost	Fair Value	% of Fair Value
U.S. fixed income mutual funds	\$ 25,781,333	\$ 25,277,306	10.6%
Polish Government treasury bills	10,685,429	10,763,694	4.5%
Fixed income investments	36,466,762	36,041,000	15.1%
<hr/>			
Common stock	44,077,079	54,558,649	22.9%
U.S. equity mutual funds	21,052,519	22,893,980	9.6%
International equity mutual funds	52,272,217	65,146,819	27.3%
Alternative investments	20,466,974	25,203,865	10.6%
Equity investments	137,868,789	167,803,313	70.4%
Cash equivalents	26,598,393	26,598,393	11.2%
Receivable from investment manager	7,942,705	7,942,705	3.3%
	<u>\$ 208,876,649</u>	<u>\$ 238,385,411</u>	<u>100.0%</u>

Investments and cash held in Polish Zlotys were translated into US dollars at the year end exchange rate. As a result, a translation adjustment of \$967,705 decreased investments and cash at December 31, 2005.

The Foundation evaluates investment manager performance on a total return basis, net of custodial, investment management and advisory fees and reports income net of such fees. The total amount of such fees reflected in the statement of activities was \$714,184, which represents 0.3% of the total value of investments under management at December 31, 2005. Of this amount, \$696,491 was reflected in net realized and unrealized appreciation on securities and \$17,693 was reflected in interest and dividend income. Included in the amount reported as interest and dividend income in the Statement of Activities is approximately \$2.5 million that represents amounts distributed from and classified by the Foundation's various mutual fund investments as dividend income. Part of the Foundation's investment in one alternative investment fund consists of \$1,784,795 (0.8% of the total fair value of investments) of Special Investments.

7. Fixed Assets

As of December 31, 2005, fixed assets consisted of:

Computer equipment and software	\$ 98,396
Furniture and equipment	74,506
Automobiles	58,463
Leasehold improvements	<u>3,654</u>
	235,019
Less - Accumulated depreciation	<u>149,482</u>
Net book value	<u><u>\$ 85,537</u></u>

8. Lease Commitments

The Foundation is committed to make minimum annual rental payments for office space under an operating lease which expires December 31, 2008. Lease commitments for the twelve months are approximately \$130,800 per annum for 2006 through 2008.

9. Tax Status

United States

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

Poland

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

BOARD OF DIRECTORS

John P. Birkelund - *Chairman*

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

Victor Ashe

U.S. Ambassador to Poland, ex-officio participating in the work of the Board
of Directors

Marek Belka

Former Prime Minister of Poland, Under-Secretary-General of the United Nations,
Executive Secretary of the United Nations Economic Commission for Europe

Joseph C. Bell

Senior Partner in Hogan & Hartson

Frederick M. Bohlen

Former Executive Vice President and Chief Operating Officer,
The Rockefeller University

Michał Boni

Former advisor to Polish Deputy Prime Minister and Labor Minister,
former Minister of Labor and Social Policy

Zbigniew Brzeziński

Former National Security Advisor to the U.S. President,
Counselor at the Washington Center for Strategic and International Studies (CSIS)

Robert G. Faris

President & Chief Executive Officer of the Polish-American Enterprise Fund

Anna Fornalczyk

Former President of the Polish Office for Competition and Consumer Protection

Aleksander Koj

Professor at the Molecular Biology Institute at the Jagiellonian University,
former Rector of the Jagiellonian University in Cracow

Jerzy Koźmiński

Former Polish Ambassador to the United States, President and Chief Executive
Officer of the Polish-American Freedom Foundation

Krzysztof Pawłowski

Rector of the High School of Business-National Louis University in Nowy Sącz,
former Polish Senator

Nicholas A. Rey

Former U.S. Ambassador to Poland, Member of the Board of Directors
of the Polish-American Enterprise Fund

MANAGEMENT AND STAFF

President and Chief Executive Officer

Jerzy Koźmiński

Vice President,

Administrator of the Representative Office

Ryszard Kruk

Administrator of the Representative Office
(from August 2005)

Grzegorz Jędrys

Treasurer and Chief Financial Officer

Norman E. Haslun III

Secretary to the Board of Directors

C. Douglas Ades

Program Directors

Jacek Michałowski

Radosław Jasiński

Anna Wojakowska-Skiba

Program Officers

Renata Koźlicka-Glińska

Robert Milewski

Chief Accountant

Agnieszka Kwiatkowska

Financial Analyst

Mira Osiecka

Information and Public Relations

Przemysław Zaroń

Program Assistants and Secretariat

Kalina Grzeszuk-Zajączkowska

Agnieszka Łukasik

Katarzyna Świątkiewicz

CONTACT

Polish-American Freedom Foundation

410 Park Avenue 15th Floor
New York, NY 10022, USA
tel. (917) 210-8083

Representative Office in Poland

72 Dobra St.
00-312 Warsaw
tel. (48 22) 828-43-73
fax (48 22) 828-43-72

e-mail: paff@pafw.pl

www.pafw.pl