



Lilly Endowment Inc. Annual Report 1999

Board of Directors

Thomas H. Lake
Honorary Chairman

Mary K. Lisher

Eugene F. Ratliff

Thomas M. Lofton
Chairman

N. Clay Robbins*

Otis R. Bowen

Herman B Wells
Director Emeritus

William G. Enright

Earl B. Herr Jr.

Eli Lilly II

Officers

Thomas H. Lake
Honorary Chairman

Thomas M. Lofton
Chairman

N. Clay Robbins
President

David D. Biber
Secretary and Treasurer

Craig Dykstra
Vice President
Religion

William M. Goodwin
Vice President
Community Development

Ralph E. Lundgren*
Vice President
Education

Sara B. Cobb*
Vice President
Education

About Lilly Endowment

Lilly Endowment Inc. is an Indianapolis-based private philanthropic foundation created in 1937 by three members of the Lilly family – J.K. Lilly Sr. and sons J.K. Jr. and Eli – through gifts of stock in their pharmaceutical business, Eli Lilly and Company.

In keeping with the wishes of the three founders, Lilly Endowment exists to support the causes of religion, education and community development.

Gifts of stock in Eli Lilly and Company remain the financial bedrock of the Endowment.

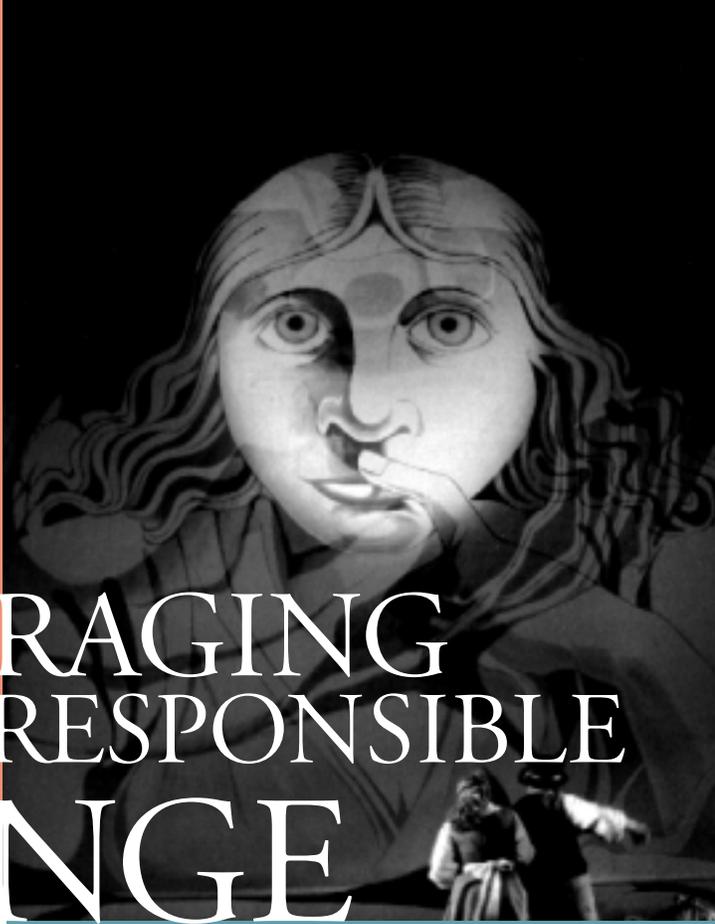
We are, however, a separate entity from the company, with a distinct governing board, staff and location.

The Endowment affords special emphasis to projects that benefit young people and that promote leadership education and financial self-sufficiency in the nonprofit, charitable sector.

The Lilly family's foremost priority was to help the people of their city and state build a better life. Although the Endowment also supports efforts of national significance and an occasional international project, we remain primarily committed to our hometown, Indianapolis, and home state, Indiana.

Leadership changes

*During 1999 N. Clay Robbins, Endowment president, was elected to the Board of Directors, effective May 21. The Board also elected Sara B. Cobb, program director in the Education Division since 1997, to the division's vice presidency. She replaced Ralph E. Lundgren, who retired June 30 after 26 years of distinguished service to the Endowment.



ENCOURAGING RESPONSIBLE CHANGE



2 Executive Message

Focusing on community development, education and religion for more than six decades, Lilly Endowment has endeavored to uphold trusted traditions while meeting the challenges of a dynamic society.

44 Finances & Grantmaking

46 Financial Statements

52 Community Development Division Grants

71 Education Division & Youth Programming Grants

76 Religion Division & Leadership Education Grants

82 Guidelines & Procedures

EXECUTIVE MESSAGE

Change. We are bombarded with it.

The exploding technologies in this cyberspatial, e-everything world have profound effects on individual and institutional lives. It is a dot.com globe that poses opportunities undreamed of a decade ago, even five years ago.

In the context of all this change, many organizations find themselves reacting rather than acting. They navigate from crisis to crisis, seldom taking the time or energy to pause and take stock of the big picture. Many yearn to have the time to look around, ask questions, convene important stakeholders, hear different views, perform the relevant research, study the larger landscape, consider collaborations and thoughtfully design promising strategies to further their causes. We believe these opportunities are essential for effective, responsible and humane change. Private foundations can play a key role in providing the resources for such opportunities.

Two contrasting, yet complementary, convictions have directed the Endowment's grantmaking throughout its 62-year history: first, that tradition is an important guide for current action and, second, that fundamental rethinking is often necessary to respond fully to new challenges and circumstances. We take inspiration from our founders, who sought to balance those convictions in their own business (Eli Lilly and Company), their personal charitable activities and their establishment of Lilly Endowment in 1937. We try to honor that heritage by seeking to achieve that balance in our own time.

Although the Endowment in 1999 made many grants that furthered traditional organiza-

tions and programs, the stories in this annual report focus especially on several grants that encourage responsible change in our abiding areas of interest: religion, education, and community development. We have supported responsible change – particularly in Indianapolis and Indiana, the hometown and home state of our founders, who wanted to “give back” to Indiana some of the good fortune they had enjoyed. The stories in this report, however, show that we continue to have substantial grantmaking interests outside our state's boundaries.

Higher education and the economy: the technology connection

A persistent problem in Indiana is the lack of college-educated citizens who find productive work in the state. Indiana ranks 48th of the 50 states in the percentage of adults with a baccalaureate degree. The Endowment has addressed this multifaceted problem for the past four years mainly by turning to Indiana's public and private colleges and universities. The Endowment asked them to devise and execute creative programs – encouraging collaboration with others – to respond to this challenge. Nearly \$250 million has been awarded to these institutions since 1996.

In 1997 a grant was made to the Indiana Fiscal Policy Institute to determine the dimensions of the state's human capital retention problem. Another startling fact emerged from this research:

Indiana ranks 50th of the states and the District of Columbia in the percentage of its workforce in professional and specialty occupations. The reason in a nutshell: Not enough of these jobs are available in Indiana. Dissemination of this research, of course, raised the profile of the absolute need for the leadership of all sectors of Indiana society to work together to develop bold responses to this challenge.

One step the Endowment took was to invite the leaders of Rose-Hulman Institute of Technology (ranked by *U.S. News & World Report* as the nation's top undergraduate engineering school) and Indiana University (enjoying a national reputation for effective use of technology) to present to the Endowment their visions of what developments would most advance the work of their institutions – and most advance a strategic objective of the state of Indiana. We did not prescribe what they should do. The invitation gave them the time to “take the aerial view,” to look at ways not only to make their institutions better, but also to make Indiana a better state. The result: two grants of nearly \$30 million each to develop exciting new technology-based initiatives that eventually should result in attractive economic opportunities for professional-level individuals in Indiana.

Education from the grass roots up

Now more than ever, education is a necessity, not a luxury, and it starts long before college. To address Indiana's persistent educational challenges, Indiana communities must develop cultures that appreciate deeply the importance of education. This effort will require inspired, dedicated, grass-roots leadership.

Throughout the past decade the Endowment, through the GIFT (Giving Indiana Funds for Tomorrow) initiative, has encouraged the development of local, mostly county-based community foundations in Indiana. More than 90 such foundations dot the state's 92 counties, with total assets of approximately \$1 billion.

During the third and fourth phases of GIFT, these foundations convened local citizens to

determine what community needs would be met most effectively by a grant from the Endowment. Local foundations endorsed the proposals of their fellow citizens, and, when GIFT IV closed in the fall, the Endowment had made \$149.5 million in grants to improve the foundations themselves and to aid specific projects in their communities – from the Scouts to local art museums, town parks to community centers, volunteer fire departments to housing programs, libraries to animal shelters. In this process, community foundations deepened their knowledge of their communities' needs and resources and developed their own abilities to convene their communities to discuss key issues.

Because we are so impressed with the increasing maturity and effectiveness of the community foundations, we turned to them to address what may be Indiana's most critical problem: the educational attainment of its citizens. In September the Endowment launched CAPE (Community Alliances to Promote Education), a potentially \$50 million competitive initiative. In CAPE's first phase, we invited the community foundations that were interested to apply for one of 15 planning grants of up to \$50,000 for each county served. Preparing the proposals requires them to



Janice Rodriguez, a business honors student in Bloomington, anticipates a May graduation from Indiana University. The Hispanic Scholarship Fund will be able to help more students like her across the country.

convene local citizens and seek out the necessary research to determine their community's most compelling education needs and to describe how they would use the planning funds to devise strategies to address the needs.

By the end of the year, most foundations had accepted this challenge with a passion. They placed "ads" in newspapers soliciting citizens' opinions on education. They called together school superintendents, professors, businesspersons, workers in social service and youth-serving agencies, teachers, librarians and others for spirited conferences and discussions. People who had never before met together about education, did.

Community foundations that receive planning grants will have until September 2000 to submit implementation proposals. The implementation grants will offer up to \$5 million for each county served.

Once again, the Endowment offered no prescriptions for the proposals. The foundations were to determine the most urgent education needs of their own communities and develop the most effective solutions. We did ask them to consider how the educational accomplishments of their residents compared to those of other communities, not only in Indiana, but also throughout the country and world. We are confident their proposals will be well thought-out, have real chances

for success, and offer routes to responsible change in their hometowns and counties.

Changing the education environment for Hispanics and Native Americans

Another change affecting the whole country is reflected in two demographic facts: The Hispanic population is the fastest growing population in the country, and too few go on to higher education and receive degrees. Out to help improve that situation is the Hispanic Scholarship Fund, which received a \$50 million grant from the Endowment. The funds are being used not only for current and future scholarships, but also to help build a regional infrastructure around the country that will be "on the ground" to support Hispanics' aspirations for higher education.

Equally compelling is the case of the American Indian College Fund (AICF), which supports 30 tribal colleges, almost all on reservations across the country. These accredited, mostly two-year colleges are in deplorable physical condition, even though the oldest is only 31 years old. It is difficult to imagine how students manage to learn in rickety doublewide trailers, in rooms with little heat or air-conditioning, in makeshift buildings with leaky roofs.

But they do learn, and for many it is the only opportunity they have to do so. Far too many Native American students who attend traditional colleges face difficult cultural, economic and academic challenges. At the tribal colleges, however, many students advance academically in a nurturing culture that supports their aspirations and helps them discern how they can best contribute to their communities and the larger society.

The Endowment was pleased to make a grant of \$30 million to AICF to help improve physical conditions at these colleges.

The small science building at Sitting Bull College in North Dakota typifies the massive need for physical improvements to the nation's 30 tribal colleges.



Winds of change in ministry and spirituality

Change also has swept across the religious landscape in this country. Much has been made of the shrinking memberships at mainline Protestant denominations, the emergence of megachurches and the wave of new interest in spirituality.

The Endowment continues to engage the country's finest scholars to search out promising approaches to ministry being developed in mainstream Protestant, Roman Catholic and historically black churches.

Recent grantmaking emphasizes efforts to support and encourage current ministers, to attract a new generation of talent into the ministry and to build healthy, vibrant congregations.

One way to develop good ministers is to support the institutions that educate them. In one of the Religion Division's largest grant programs, 77 theological schools and seminaries have devised ways to use new information technologies to improve the quality of teaching and learning. Faculty and staff took the time to study the problem, meet with each other all across the country, find new colleagues, identify best practices and forge new collaborations – all of which may do as much as the technology itself to strengthen their schools and enhance their students' education. The \$23.5 million, multiyear initiative has put these schools on solid technological footing that will enrich the learning of their students and better prepare them to lead healthy congregations.

Assessing the state of the ministry – called by some a “troubled profession” – will be the task of researchers at Duke University and their colleagues across the country. With a \$3.4 million Endowment grant, they will embark on what may be a transformational study of the American ministry. Researchers and participants will conclude with a clearer picture of what excellence in ministry involves and how it emerges. They also expect to identify strategies for attracting to and retaining in the ministry more of our country's most talented and promising young people. This challenge will require thoughtful change to current approaches.



The Rev. Matthew Harrison and his parishioners at Zion Lutheran Church in Fort Wayne, Ind., are participants in the first Clergy Renewal Program for Indiana Congregations.

A time for reflection

Sometimes people need time to sit back and reflect on their goals and their futures – and on where they are. This practice can lead to refreshed individuals who in turn can reenergize their organizations and communities. But time is money, and reflection can be expensive.

The Endowment has supported programs of personal renewal for professionals in three areas where the days are hectic, the demands are overwhelming, and the drain on personal energy and experience is constant. They are teachers, clergy, and artists/arts administrators.

In this annual report, you will read about the experiences of several of the 23 Indiana pastors who participated in the inaugural Clergy Renewal Program for Indiana Congregations – and about how their own renewal is expected to reinvigorate their congregations.

We have been so gratified with the response to our local program that in December we announced the National Clergy Renewal Program, which will award as many as 100 grants of up to \$30,000 each to congregations all across the country to enable their pastors to engage in periods of renewal.

Responding to natural disasters and human despair

There are times, of course, when the “affairs of men and nature” cast all notions of reflection and purposeful renewal out the window. Following a long tradition of helping in times of natural disaster and human despair, the Endowment awarded \$2.5 million to the American National Red Cross to alleviate the suffering of refugees from Kosovo. Also, the Salvation Army received a \$2 million grant and the Red Cross received another \$300,000 for disaster relief in the flood-ravaged Carolinas after Hurricane Floyd. A grant of \$500,000 to the Salvation Army helped provide emergency services after the Oklahoma tornadoes.

But the Endowment also had an opportunity to help others be better prepared. We awarded a grant of \$4.9 million to the United Way of America, to be used to provide direct aid to local United Ways and agencies affected by 1999 hurricanes and to build the capacity of United Way systems throughout the country to sustain human service delivery after disasters. Several United Way systems now will have the time and resources to plan thoughtfully how to prepare for responding as effectively as possible to future disasters.

And sometimes the opportunity arises to recognize the profound change wrought by others who have gone before. The Endowment was privileged to approve a \$2 million grant to the American Battle Monuments Commission for the World War II memorial in Washington to honor the men and women who served during the war and to acknowledge the commitment and achievement of the entire nation.

Remembrance

Two sad changes we must note before we close this Executive Message: the death of Herman B Wells on March 18, 2000 (shortly before this report went to press) and the death Oct. 10, 1999, of Thomas H. Lake.

Mr. Wells, 97, was elected to the Endowment’s Board in 1973, a personal choice of Eli Lilly. Mr. Wells, president of Indiana University

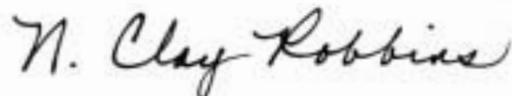
from 1937 to 1962 and chancellor of the university until his death, was a legendary Indiana figure whose influence in higher education was felt around the world. He built his university into one of the giants in higher education. The chancellor was a beloved figure, and the Endowment benefited immeasurably from his wisdom, wit, intelligence and charm.

Mr. Lake, 80, honorary chairman of the Endowment since 1992, joined the Endowment’s Board of Directors in 1966, served as its chairman from 1977 to 1992 and as its president from 1977 to 1984. A pharmacist from the coal-mining town of Saltsburg, Pa., Mr. Lake joined Eli Lilly and Company after his U.S. Army service from 1941 to 1945. He rose to the presidency of the company in 1973 and retired from the company in 1976. His leadership in the community was universally respected, and he quietly but firmly guided the work of the Endowment for more than 20 years. Endowment staffers will remember always his bright blue eyes, his cheery humming as he strolled through the halls, and the birthday cards he bought and signed for each staff member.

Mr. Lake was truly a “quiet giant” in the affairs of his city and state. Although he did not seek the limelight, his support was essential to all that the Endowment accomplished during his tenure. His guidance of Lilly Endowment has left a permanent legacy of excellence. We miss him terribly.



Thomas M. Lofton, Chairman of the Board



N. Clay Robbins, President