The function of the imagination is not to make strange things settled, so much as to make settled things strange. — *G. K. Chesterton*

Private foundations have the ability to encourage organizations to dream about how they could accomplish their missions more successfully by doing what they do better or differently. They also have the resources to help these dreams come to life. We believe that all this can start by asking the simple question, "What if?"

Since J.K. Lilly Sr. and his two sons, J.K. Jr. and Eli, founded Lilly Endowment nearly 70 years ago, the Endowment often has asked this question of the organizations it funds. We have learned that asking it can unleash astounding creativity.

In community development, education and religion – Lilly Endowment's three traditional areas of interest – many of the challenges on which the Endowment focuses are persistent and complex. To make real progress in addressing these challenges, change is required. It is essential, therefore, that the organizations with whom we work have the ability and encouragement to imagine how to "make settled things strange" and the resources to accomplish just that. Such accomplishments are described in this report.

executive message

Sustaining philanthropic vision

Nearly 16 years ago the Endowment asked Indiana citizens, "What if you could build a local foundation that could be a philanthropic force in your community for years to come?" A major objective of the initiative, which was called GIFT (Giving Indiana Funds for Tomorrow), was to help the foundations build self-reliance and the capacity to help their communities chart their destinies to a greater extent. It took off in a flash. Through a series of asset-building grants, matching grants, special project grants and much technical assistance from the Indiana Grantmakers Alliance, GIFT expanded to the point that, where only a few viable community foundations existed in Indiana in 1990, now, due to the generosity of thousands of Indiana citizens, all 92 counties are served by a community foundation.

The results have far exceeded expectations, and most of the community foundations are on their way to becoming sustainable organizations. To help them advance toward full sustainability, the Endowment launched the Sustaining Resource Development (SRD) program for Indiana community foundations. Through SRD the Endowment encouraged and supported the community foundations' efforts to design and implement three-year strategic fund-raising and development plans.

To assist in these efforts, educational sessions were conducted around the state by the Indiana University Center on Philanthropy and the Indiana Grantmakers Alliance. These sessions emphasized that a successful development program must be intentional and persistent and have the wholehearted engagement of the community foundation's board. As the plans were completed throughout 2005, the Endowment awarded more than 80 grants of up to $250,000 each to fund as much as half of each plan's budget. This report tells the story of how these grants are helping foundations around the state develop the capacity to generate on an ongoing basis the funding they require to fulfill their missions to serve their communities.

We also report on an exciting collaboration among the Children's Museum of Indianapolis (the world's largest children's museum), the National Geographic Society, and the Environmental Systems Research Institute. Supported by a nearly $1.4 million Endowment grant, the collaboration will result in a major traveling exhibit entitled MAPS: Tools for Adventure, whose purpose is to address the significant geographic illiteracy in the United States. Some 5 million people are expected to see the exhibit during its five-year tour of the country, which will begin in Indianapolis at the Children's Museum in the fall of 2006.

Enhancing education

Building intellectual capital

In our education grantmaking, the Endowment over the past decade or so has begun a number of programs to address the issue of low educational attainment among Indiana citizens more than 25 years old. We have tried to address the issue in several ways. The Endowment's CAPE (Community Alliances to Promote Education) initiative has supported a variety of community-based education efforts with focuses ranging from pre-kindergarten to lifelong learning. In 2005 we approved 49 new and second-

phase CAPE grants totaling more than $53 million, bringing the Endowment's total investment in CAPE since 2000 to nearly $240 million.

To help Hoosiers and their institutions have confidence that they can have world-class aspirations, the Endowment since 1999 also has made a series of 17 major grants to institutions of higher education to achieve levels of distinction in important academic arenas. In 2005 Butler University was added to the list, with a $22 million grant for the Butler Business Accelerator program, which will give its students and faculty real-life educational experience in helping mature Indiana businesses understand what they need to do to grow and prosper.

For several years the Endowment also has supported the Lilly Endowment Community Scholarship program. Since 1998, 2,481 Indiana high school graduates have received these full-tuition scholarships to any Indiana college of their choosing. We also have made many grants to Indiana colleges and universities to foster better internship and job placement programs and to encourage more giving from board members, faculty, staff, students, alumni and parents.

This year we report on what Indiana colleges and universities have done in response to the question we asked in 2004, "What if you had additional funds to recruit and retain intellectual capital better on your campuses?" Their responses reflect wonderful creativity in addressing a range of issues that affect intellectual capital, the necessary resource for success in a global, knowledge-based future that is coming at us faster and faster.

A second major grant of $12.3 million to the Hispanic Scholarship Fund (HSF) also is highlighted in this report. In keeping with the Endowment's long-held interest in promoting minority higher education throughout the country, this grant builds on the $50 million grant made to HSF in 1999 to address the critical need to increase the number of Hispanics who attend and graduate from college.

congregational resources
Local and national

In our religion grantmaking throughout the country, we remain committed to two important objectives: 1) to encourage, educate and support a new generation of talented pastors and strengthen current pastors in their capacities for excellence in ministry and 2) to help congregations be vibrant, healthy communities of faith. To further these objectives eight years ago, in 1997, we asked the Maryland-based Alban Institute, "What if we had a center in Indianapolis that could help make local congregations healthier and stronger, and what if that center developed its programs based on what the congregations told it they needed?" This report tells the story of how the Indianapolis Center for Congregations is doing just that for hundreds of congregations. It also describes a valuable outgrowth of the center – a major Web-based resource for congregations everywhere called the Congregational Resource Guide, which can be found at www.congregationalresources.org.

In personnel matters, we are pleased to report that Craig Dykstra is now our senior vice president for religion and that Diane M. Stenson has been named assistant treasurer.

We, of course, would be remiss if we did not mention the catastrophic hurricanes that devastated the Gulf Coast this year. The human and physical toll that the storms extracted is unimaginable. The Endowment was gratified to be able to donate a total of $30 million – $10 million each to the Salvation Army and American Red Cross for disaster relief in the first days after the storms and $10 million a few weeks later to the United Way of America to support and help rebuild the United Way system in the affected areas. Shortly after the Gulf Coast hurricanes, tornadoes bashed southern Indiana communities, and we were able to give $1 million each to the Indianapolis chapter of the Red Cross and the Salvation Army. As always, we are confident in the generosity and resilient spirit of the American people as they face challenges both near and far.

Thomas M. Lofton
Chairman

N. Clay Robbins
President