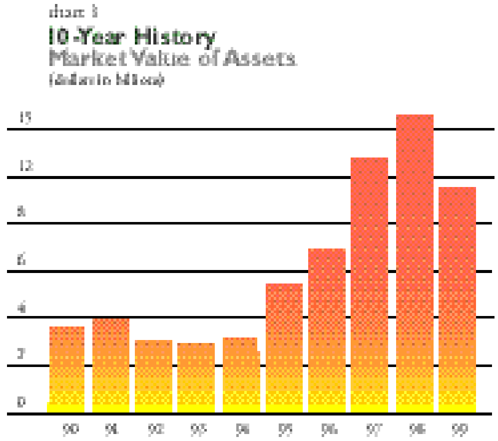
1999 Finances & Grantmaking



Lilly Endowment, its grantees and those they serve continue to benefit from the generosity and foresight of the Endowment's founders. The Endowment's efforts to encourage responsible change would not be possible without the founders' gifts in 1937 of stock in their company, Eli Lilly and Company. The value of those gifts, contributed from 1937 through 1971, has increased over the years, and on the last day of 1999, the market value of the Endowment's assets was $11.5 billion (see chart 1).

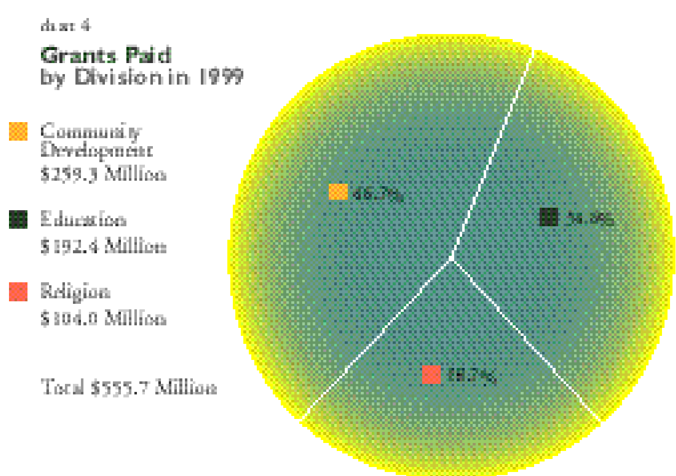
The value of the Endowment's assets is important principally because it affects the Endowment's level of grantmaking. The Endowment, however, does not base its grant budget for a given year on the asset value on the last trading day of the previous year, but on the *average* value of the Endowment's assets throughout that year. While the one-day snapshot of the Endowment's value at the end of 1999 showed a decrease from that at the end of 1998, the average value of its assets during 1999 was higher than the average for 1998. The Endowment's grant payments during 2000, therefore, will exceed the $555.7 million in grants distributed during 1999, which was more than $130 million over the $424 million paid in grants during 1998.

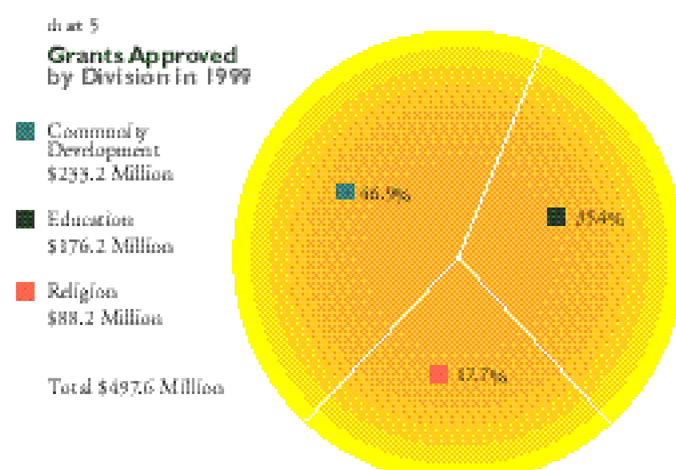
Such good fortune requires some perspective. It took 54 years (1937-1991) for the Endowment's total grant payments to top $1 billion. In just the last three years – 1997-1999 – more than $1.2 billion in grants was paid. Since 1937 the Endowment has distributed grants totaling almost $3 billion in its three major fields of concern: community development, education and religion.

Grants paid. In 1999 the Endowment paid grants of $555.7 million (see chart 2), its highest-ever annual total. The 1999 figure put the Endowment's total grant payment since its founding in 1937 at $2.975 billion.

In the grants-paid category (see chart 4), the Community Development Division paid $259.3 million, or 46.7 percent; the Education Division paid $192.4 million or 34.6 percent of the total; the Religion Division paid $104 million or 18.7 percent.

As in previous years, most of the grants paid went to organizations in Indiana – a total of $360.8 million or 64.9 percent (see chart 6). Of the grant payment total of $555.7 million, $102.7 million or 18.5 percent went to Marion County (Indianapolis) grantees, and $258.1 million or 46.4 percent was paid to other Indiana grantees. Most of these funds came from grants in the Community Development and Education divisions.





Grants approved. During 1999 the Endowment approved $497.6 million to 1,270 grantees, 419 of them new to the Endowment (see chart 3).

Community Development grants accounted for the most dollars, $233.2 million or 46.9 percent of the total. Approvals for Education Division grants totaled $176.2 million or 35.4 percent, while the Religion Division approvals totaled $88.2 million or 17.7 percent. (See chart 5.)

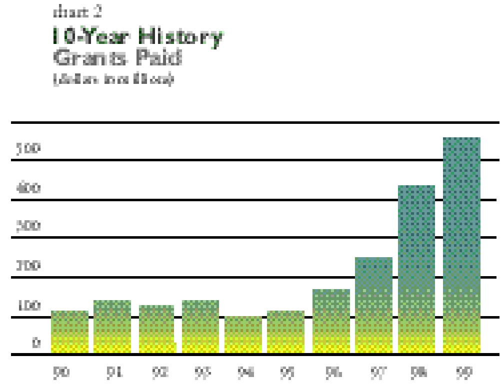
The geographic pattern for the grants-approved category is much like the grants-paid category: $55.2 million or 11.1 percent for Marion County, $274.4 million or 55.1 percent for Indiana grantees outside Indianapolis (see chart 7). The total approvals for Indiana grants amounted to $329.6 million or 66.2 percent of the total. The non-Indiana grant approvals totaled $168 million or 33.8 percent.

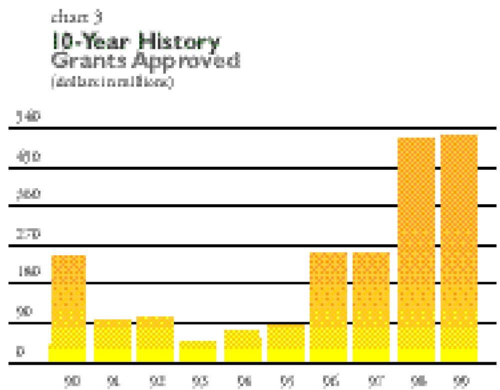
The largest grant approved in 1999 was $50 million to the Hispanic Scholarship Fund. The grant was made to increase educational opportunities for this fast-growing population.

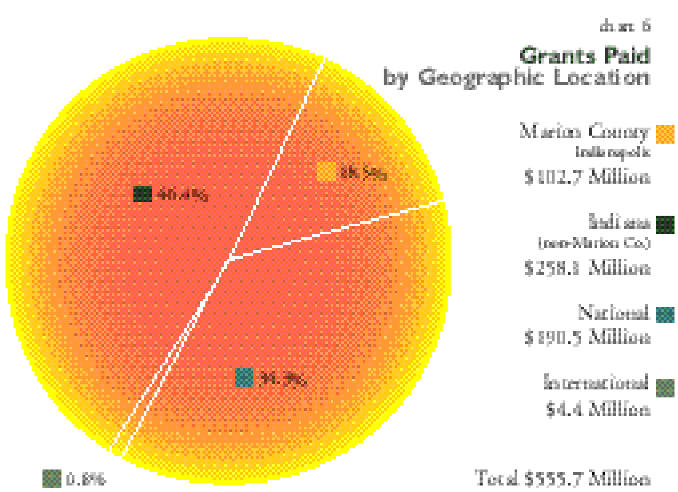
Since 1937 the Endowment has paid $2.975 billion in grants to 5,068 grantees. Of that $2.975 billion total, Community Development accounts for $1.34 billion or 45 percent, Education for $1.022 billion or 34.4 percent, and Religion for $613 million or 20.6 percent.

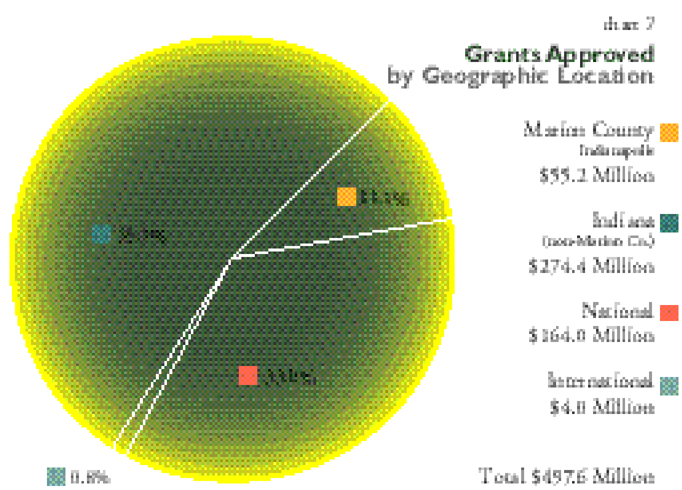
Grant-approval pages are divided into the Community Development, Education and Religion divisions. Youth Programming and Leadership Education grants are included with the Education Division and Religion Division, respectively. Board-approved grants are listed in the back of this report. Discretionary grants of up to $7,500, approved by officers, are listed as a single line item for each division.

The Endowment's match for the charitable contributions of staff, retirees and Board members is reported as a single line item before the total of all grants approved. "Guidelines & Procedures" are outlined on pages 82-83.









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Report of Independent Auditors

Board of Directors
Lilly Endowment Inc.

We have audited the accompanying statements of financial position of Lilly Endowment Inc. as of December 31, 1999 and 1998, and the related statements of activities and changes in unrestricted net assets and cash flows for the years then ended. These financial statements are the responsibility of the Endowment's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lilly Endowment Inc. at December 31, 1999 and 1998, and the results of its changes in unrestricted net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

February 17, 2000

Statements of Financial Position

AS OF DECEMBER 31	1999	1998
ASSETS		
Cash and equivalents	$ 5,304,851	$ 4,903,134
Investments — at fair value:		
United States government and agency, bank and corporate interest-bearing obligations — approximates cost	325,818,284	354,205,741
Eli Lilly and Company common stock (cost — $89,222,314 at December 31, 1999, and $89,611,319 at December 31, 1998)	11,200,980,966	15,421,089,456
Other assets	6,121,222	104,393
	$11,538,225,323	$15,780,302,724
LIABILITIES		
Amounts appropriated for future grants	$ 115,177,272	$ 174,366,282
UNRESTRICTED NET ASSETS	11,423,048,051	15,605,936,442
	$11,538,225,323	$15,780,302,724

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

YEAR ENDED DECEMBER 31	1999	1998
Income:		
Dividends	$ 158,137,028	$ 141,758,494
Interest	25,905,943	17,545,561
Other	219,599	–
Total income	184,262,570	159,304,055
Deductions:		
Grants approved	498,112,027	495,078,198
Expenses:		
Program support	7,071,890	6,599,735
Operational support:	4,440,169	3,746,009
Federal excise tax	5,355,136	11,170,819
Total grants approved and expenses	514,979,222	516,594,761
Gain on sale of investment securities	367,650,552	417,295,723
Increase (Decrease) in unrealized appreciation of marketable securities	(4,219,822,291)	2,945,856,903
Increase (Decrease) in unrestricted net assets	(4,182,888,391)	3,005,861,920
Unrestricted net assets:		
Balance at beginning of year	15,605,936,442	12,600,074,522
Increase (Decrease) in unrestricted net assets	(4,182,888,391)	3,005,861,920
Balance at end of year	$11,423,048,051	$15,605,936,442

See accompanying notes.

Statements of Cash Flows

YEAR ENDED DECEMBER 31	1999	1998
Cash flows used for operating activities:		
Dividends and interest received	$184,157,282	$159,304,055
Grants paid	(557,301,037)	(424,602,996)
Program support	(7,071,890)	(6,599,735)
Operational support	(4,313,898)	(3,640,630)
Federal excise tax	(10,710,143)	(11,400,153)
Net cash used for operating activities	(395,239,686)	(286,939,459)
Cash flows from investing activities:		
Sale of Eli Lilly and Company stock	368,137,007	417,721,052
Purchase of interest-bearing obligations	(1,089,414,606)	(843,887,881)
Sale of interest-bearing obligations	1,117,045,273	711,691,738
Investment-related expenses	(126,271)	(105,379)
Net cash from investing activities	395,641,403	285,419,530
Net increase (decrease) in cash	401,717	(1,519,929)
Net cash and equivalents at beginning of year	4,903,134	6,423,063
Net cash and equivalents at end of year	$ 5,304,851	$ 4,903,134

See accompanying notes.

Notes to Financial Statements

DECEMBER 31, 1999

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Lilly Endowment Inc. (the Endowment) is an Indianapolis-based, private philanthropic foundation created by three members of the Lilly family through gifts of stock in their pharmaceutical business, Eli Lilly and Company. The stock of Eli Lilly and Company continues to be the Endowment's most significant asset. The Endowment supports the causes of religion, education and community development. The Internal Revenue Service has determined that the Endowment is exempt from federal income tax under Section 501(a) of the Internal Revenue Code. It remains a private foundation subject to federal excise tax on net investment income.

Income and Expenses

Interest and dividend income is recorded as received, and operating expenses are recorded as paid. The federal excise tax is accrued. Grants are recorded when approved by the Board of Directors.

Investments

Investments are stated at fair value.

Facilities and Equipment

Expenditures for facilities and equipment are expensed as paid.

Use of Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expense, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 1998 financial statements have been reclassified to conform with the 1999 presentation.

2. EMPLOYEE BENEFIT PLANS

The Endowment maintains an Employees' Retirement Plan which is a noncontributory defined benefit plan covering all employees. As of December 31, 1999, the present value of accumulated plan benefits of the Employees' Retirement Plan was $1,470,235 and the market value of the assets was $2,698,258. The assumed rate of return used in determining the actuarial present value of plan benefits is eight percent. The Endowment's contribution to the plan amounted to $850,559 and $695,067 in 1999 and 1998, respectively.

The Endowment also maintains an Employees' Savings Plan which is a tax deferred annuity defined contribution plan. The Endowment matches employee contributions up to a certain limit as specified in the plan agreement. The Endowment's contribution to the Lilly Endowment Employees' Savings Plan amounted to $411,656 and $394,075 in 1999 and 1998, respectively.

3. CHANGE IN UNRESTRICTED NET ASSETS BALANCE

The unrestricted net assets balance decreased in 1999 by $4,182,888,391 representing unrealized depreciation of marketable securities of $4,219,822,291 and net realized gains of $367,650,552 from sales of 5,078,564 shares of Eli Lilly and Company common stock. The Endowment received 1,436 shares of Eli Lilly and Company common stock from an estate in 1999. The Endowment subsequently sold those shares in 1999. Realized gains and losses are calculated using the first-in, first-out method of allocating cost.

4. REQUIRED DISTRIBUTIONS

The Internal Revenue Code provides that the Endowment generally must distribute for charitable purposes five percent of the average market value of its assets. The Endowment must make additional qualifying distributions of approximately $578,219,000, before January 1, 2001, to meet the 1999 minimum distribution requirements.