

## 1998 FINANCES & GRANTMAKING

THE BLESSINGS OF GOOD FORTUNE HAVE BEEN GREAT INDEED FOR LILLY ENDOWMENT in 1998. From 1937 through 1971 the Endowment's founders made a series of gifts of stock in the family business (Eli Lilly and Company) totaling \$90 million. Only the most daring seers would have guessed that the

value of the Endowment's assets would grow to \$15.8 billion at the end of 1998 (see chart 1), or that the Endowment would award more than \$2.4 billion in grants through 1998. The founders would be pleased that the Endowment has these resources to address the concerns that always have engaged its attention and called for its perseverance.

Charged by its founders to pay particular attention to its home city and state, the Endowment is known for grantmaking in Indiana:

- The Endowment's first grant in 1937 was \$10,500 to the Community Chest, forerunner of the United Way. This year, the Endowment's largest grant – \$50 million – went to the United Way of Central Indiana for its endowment.

- The Endowment's abilities to help communities have been aided by the success of the 8-year-old GIFT (Giving Indiana Funds for Tomorrow) initiative. In 1998 alone, a \$153 million commitment to GIFT will strengthen Indiana community foundations and provide a mechanism for directly funding community projects.

- Long a supporter of Indiana's institutions of higher learning, the Endowment recently has stepped up its commitment to their excellence. The expectation is that this aid will help them be major players in the long haul to raise Indiana's educational attainment level and to increase the opportunities for Hoosier graduates to find productive work in their own state.

The Endowment always has engaged in substantial grantmaking in the field of religion; most of that grantmaking is national in scope. It also engages in grantmaking in education and community development at the national level when compelling opportunities arise that further its historical concerns and values:

- In 1944 the Endowment made a grant of \$5,000 to the fledgling United Negro College Fund; in 1998 a grant of \$41.7 million to the UNCF will support a massive effort to bolster its member institutions.

- The need to develop strong congregations and excellent ministers found expression in two major 1998 grant commitments, totaling more than \$55 million, to improve theological education and encourage theological schools to find ways to attract bright young people into the ministry.

- A 1974 grant of \$250,000 inaugurated the Endowment's commitment to the goals of the National Urban League. A 1998 grant of \$25 million will strengthen its capabilities to promote and recognize academic achievement.



## Grants paid

In 1998 the Endowment paid out \$424.0 million (see chart 2), its highest-ever total and \$171.7 million over the previous high of \$252.3 million in 1997. The 1998 figure put the Endowment's total payout since its founding in 1937 at more than \$2.4 billion.

In the grants-paid category (see chart 4), the Education Division paid \$196.5 million or 46.4 percent of the total; the Community Development Division paid \$138.3 million, or 32.6 percent; the Religion Division paid \$89.2 million or 21 percent.

As in previous years, most of the grants paid went to organizations in Indiana – a total of \$281.5 million or 66.4 percent (see chart 6). Of that total, \$116.9 million or 27.6 percent went to Marion County (Indianapolis) grantees, and \$164.6 million or 38.8 percent was paid to other Indiana grantees.

## Grants approved

During 1998 the Endowment approved \$496.3 million to 927 grantees, 288 of them new to the Endowment (see chart 3).

Education Division grants accounted for the most dollars, \$217.5 million or 43.8 percent of the total. Approvals for Community Development grants totaled \$177.3 million or 35.7 percent, while the Religion Division approvals totaled \$101.5 million or 20.5 percent (see chart 5).

The geographic pattern for the grants-approved category mirrors the grants-paid category: \$123.4 million or 24.9 percent for Marion County, \$195.7 million or 39.4 percent for Indiana grantees outside Indianapolis (see chart 7). The total approvals for Indiana grants amounted to \$319.1 million or 64.3 percent of the total. The non-Indiana grant approvals totaled \$177.2 million or 35.7 percent.

Since 1937 the Endowment has paid more than \$2.4 billion in 18,303 grants to 4,750 grantees. Of that total, Community Development accounts for \$1.1 billion, Education for \$829.5 million, and Religion for \$508.6 million.

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, just before the total of all grants approved.

CHART 4  
Grants Paid by Division in 1998

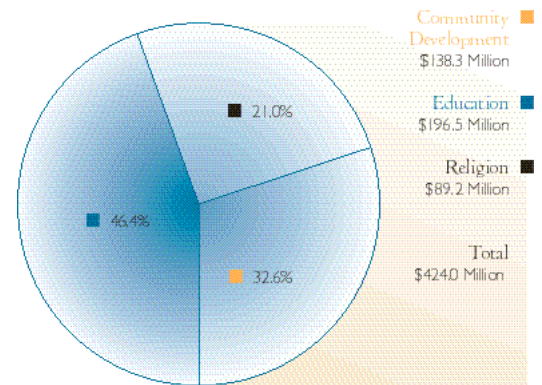


CHART 5  
Grants Approved by Division in 1998

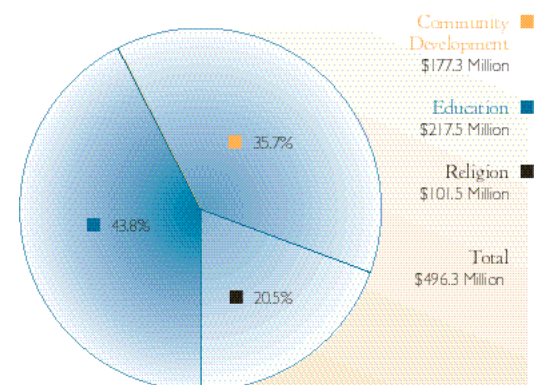


CHART 6  
Grants Paid by Geographic Location in 1998

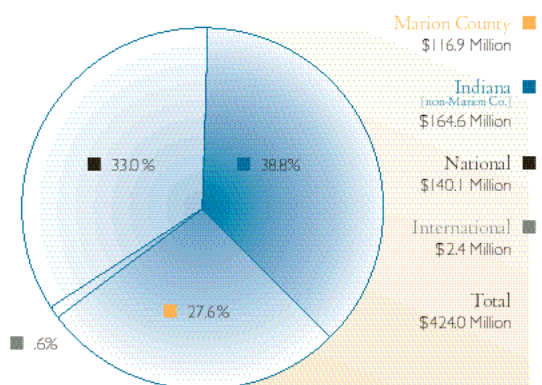
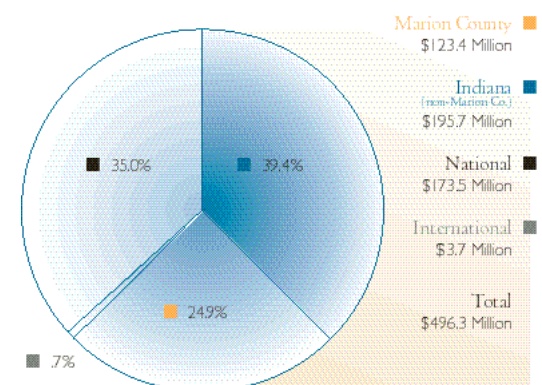


CHART 7  
Grants Approved by Geographic Location in 1998



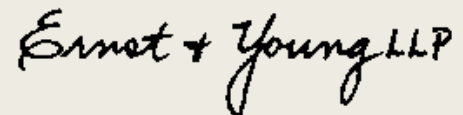
Report of Independent Auditors

Board of Directors  
Lilly Endowment Inc.

We have audited the accompanying statements of financial position of Lilly Endowment Inc. as of December 31, 1998 and 1997, 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 generally accepted auditing standards. 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, 1998 and 1997, and the results of its changes in unrestricted net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.



February 18, 1999

## STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31	1998	1997
<b>ASSETS</b>		
Cash and equivalents . . . . .	\$ 4,903,134	\$ 6,423,063
Investments — at fair value:		
United States government and agency, bank and corporate interest-bearing obligations — approximates cost. . . . .	354,205,741	221,195,795
Eli Lilly and Company common stock (cost — \$89,611,319 at December 31, 1998, and \$90,036,648 at December 31, 1997) . . . . .	15,421,089,456	12,476,059,747
Program-related investment . . . . .	—	3,000,000
Other assets. . . . .	104,393	515,653
	<u>\$15,780,302,724</u>	<u>\$ 12,707,194,258</u>
<b>LIABILITIES</b>		
Amounts appropriated for future grants. . . . .	\$ 174,366,282	\$ 106,891,080
Federal excise tax payable . . . . .	—	228,656
	<u>174,366,282</u>	<u>107,119,736</u>
<b>PRINCIPAL AND UNRESTRICTED NET ASSETS</b>		
Principal (Note 3). . . . .	1,278,388,370	861,092,647
Unrestricted net assets. . . . .	14,327,548,072	11,738,981,875
	<u>15,605,936,442</u>	<u>12,600,074,522</u>
	<u>\$15,780,302,724</u>	<u>\$ 12,707,194,258</u>

See accompanying notes.

## STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS

YEAR ENDED DECEMBER 31	1998	1997
Income:		
Dividends . . . . .	\$ 141,758,494	\$ 134,800,680
Interest . . . . .	17,545,561	7,365,034
Total income . . . . .	159,304,055	142,165,714
Deductions:		
Grants approved . . . . .	495,078,198	228,982,845
Expenses:		
Program support . . . . .	6,599,735	5,558,502
Operational support: . . . . .	3,746,009	3,144,259
Federal excise tax . . . . .	11,170,819	7,869,858
Total grants approved and expenses . . . . .	516,594,761	245,555,464
Increase in unrealized appreciation of marketable securities . . .	2,945,856,903	5,761,233,439
Increase in unrestricted net assets . . . . .	2,588,566,197	5,657,843,689
Unrestricted net assets:		
Balance at beginning of year . . . . .	11,738,981,875	6,081,138,186
Balance at end of year . . . . .	\$14,327,548,072	\$11,738,981,875

*See accompanying notes.*

## STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31	1998	1997
Cash flows used for operating activities:		
Dividends and interest received . . . . .	\$ 159,304,055	\$ 142,165,714
Grants paid . . . . .	(424,602,996)	(253,363,698)
Program support . . . . .	(6,599,735)	(5,558,502)
Operational support . . . . .	(3,640,630)	(3,070,244)
Federal excise tax . . . . .	(11,400,153)	(7,636,862)
Net cash used for operating activities . . . . .	(286,939,459)	(127,463,592)
Cash flows from investing activities:		
Sale of Eli Lilly and Company stock . . . . .	417,721,052	266,914,541
Purchase of interest-bearing obligations . . . . .	(843,887,881)	(497,366,340)
Sale of interest-bearing obligations . . . . .	711,691,738	356,909,246
Investment-related expenses . . . . .	(105,379)	(74,015)
Net cash from investing activities . . . . .	285,419,530	126,383,432
Net decrease in cash . . . . .	(1,519,929)	(1,080,160)
Net cash and equivalents at beginning of year . . . . .	6,423,063	7,503,223
Net cash and equivalents at end of year . . . . .	\$ 4,903,134	\$ 6,423,063

*See accompanying notes.*

## NOTES TO FINANCIAL STATEMENTS

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 DECEMBER 31, 1998
 

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### 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.

#### Securities Gains and Losses

Gains and losses on disposals of Eli Lilly and Company common stock are included in the principal balance, and gains and losses from other securities are included in income. The change in unrealized appreciation of investments is included in the unrestricted net assets balance.

#### 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.

### 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, 1998, the present value of accumulated plan benefits of the Employees' Retirement Plan was \$1,368,111 and the market value of the assets was \$2,554,215. 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 \$695,067 and \$538,888 in 1998 and 1997, 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 \$394,075 and \$371,564 in 1998 and 1997, respectively.

### 3. CHANGE IN PRINCIPAL BALANCE

The principal balance, which is unrestricted, increased in 1998 by \$417,295,723 representing net realized gains from sales of 5,675,000 shares of Eli Lilly and Company common stock. 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 \$557,645,000 before January 1, 2000, to meet the 1998 minimum distribution requirements.