



Ernst & Young LLP
111 Monument Circle
Suite 4000
Indianapolis, IN 46204

Tel: +1 317 681 7000
ey.com

Report of Independent Auditors

The Board of Directors
Lilly Endowment Inc.

We have audited the accompanying financial statements of Lilly Endowment Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lilly Endowment Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

March 19, 2020

Ernst & Young LLP

Statements of Financial Position

As of December 31	2019	2018
Assets		
Cash and cash equivalents	\$ 102,895,606	\$ 55,217,663
Other receivables	4,531,089	4,895,253
Investments—at fair value:		
United States government and agency, bank, and corporate interest-bearing obligations	249,050,902	241,599,420
Eli Lilly and Company common stock (cost – \$81,835,254 at December 31, 2019 and \$82,320,172 at December 31, 2018)	15,056,699,527	13,656,730,979
Diversified equity investments	1,564,553,202	1,125,971,636
Other assets	86,447	8,777,769
	<u>\$ 16,977,816,773</u>	<u>\$ 15,093,192,720</u>
Liabilities		
Amounts appropriated for future grants	\$ 104,554,908	\$ 102,067,651
Federal excise tax payable	1,098,576	-
Deferred tax liability	211,402,789	270,287,504
	<u>317,056,273</u>	<u>372,355,155</u>
Net assets without donor restrictions	16,660,760,500	14,720,837,565
	<u>\$ 16,977,816,773</u>	<u>\$ 15,093,192,720</u>

See accompanying notes.

Statements of Activities

Year Ended December 31	2019	2018
Income:		
Dividends	\$ 336,001,433	\$ 300,912,924
Interest	7,776,108	3,268,693
Total income	343,777,541	304,181,617
Expenses:		
Program grants approved	542,788,367	499,717,526
Program support	9,695,262	9,454,556
Operational support	7,713,393	7,049,275
Federal excise tax related to realized gains	15,198,576	8,130,120
Federal excise tax related to unrealized gains	(58,884,715)	62,636,451
Total expenses	516,510,883	586,987,928
Realized gain on sale of investments	428,463,140	525,419,340
Unrealized gain on investments	1,683,867,433	3,117,160,794
Other income (expense)	325,704	(6,765,934)
Increase in net assets	1,939,922,935	3,353,007,889
Net assets without donor restrictions:		
Balance at beginning of year	14,720,837,565	11,367,829,676
Increase in net assets	1,939,922,935	3,353,007,889
Balance at end of year	<u>\$ 16,660,760,500</u>	<u>\$ 14,720,837,565</u>

See accompanying notes.

Statements of Cash Flows

Year Ended December 31	2019	2018
Operating activities		
Increase in net assets	\$ 1,939,922,935	\$ 3,353,007,889
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Investment expenses	895,548	312,425
Unrealized gain on investments	(1,683,867,433)	(3,117,160,794)
Realized gain on sale of investments	(428,463,140)	(525,419,340)
Changes in assets and liabilities:		
Other receivables	364,164	7,741,741
Other assets	8,691,322	(6,273,095)
Amounts appropriated for future grants	2,487,257	(1,026,972)
Federal excise tax payable	1,098,576	-
Deferred tax liability	(58,884,715)	62,636,451.
Net cash used in operating activities	(217,755,486)	(226,181,695)
Investing activities		
Purchases of investments	(495,438,979)	(483,963,238)
Proceeds from sale and maturity of investments	761,767,956	715,638,701
Investment expenses	(895,548)	(312,425)
Net cash provided by investing activities	265,433,429	231,363,038
Net increase in cash and cash equivalents	47,677,943	5,181,343
Cash and cash equivalents at beginning of year	55,217,663	50,036,320
Cash and cash equivalents at end of year	<u>\$ 102,895,606</u>	<u>\$ 55,217,663</u>

See accompanying notes.

Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies

Description of Organization

Lilly Endowment Inc. (the Endowment) is an Indianapolis based, private philanthropic foundation created in 1937 by J.K. Lilly Sr. and sons Eli and J.K. Jr. 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.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). 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. Subsequent events have been evaluated through March 19, 2020, the date these financial statements were issued. There were no subsequent events that required recognition or disclosure in the financial statements.

Cash and Cash Equivalents

Investments with original maturities of three months or less at the time of purchase are considered to be cash equivalents.

Investments

Investments are stated at fair value in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not for Profit Entities*. Investments comprise equity and fixed income securities, which are recorded at market-quoted fair values. Changes in fair value are recorded in the statements of activities. There are no restrictions on investments.

Realized gains and losses from the sales of Eli Lilly and Company common stock are calculated using the first-in, first-out method of allocating cost.

Facilities and Equipment

Expenditures for facilities and equipment are expensed as incurred. The amounts expensed during 2019 and 2018 are not material to the financial statements.

Grants

The Endowment primarily makes grants to organizations that qualify as public charities under the Internal Revenue Code (the Code). When distributions are made to organizations other than public charities, the Endowment assumes expenditure responsibility as required under applicable federal law. Grants are approved by the Board of Directors or its authorized representatives and are accrued when approved. Amounts appropriated for future grants at December 31, 2019, are expected to be paid to grantees as follows: \$82,504,908 in 2020, \$17,050,000 in 2021 and \$5,000,000 in 2022.

Functional Allocation of Expenses

The Endowment allocates expenses based on nature and function among its various programs and supporting services.

Income Recognition

Income is recognized when amounts are realizable and earned. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

2. Required Distributions

The Code provides that the Endowment generally must distribute for charitable purposes 5% of the average market value of its investment assets. The Endowment must make additional qualifying distributions of approximately \$670,000,000, before January 1, 2021, to meet the 2019 minimum distribution requirements.

3. Other Receivables

Other receivables represent the fair value of future cash flows to be received from the Endowment's split-interest agreement held by third parties. Amounts recorded are subject to subsequent changes in fair value, which are recorded in the statements of activities as other income (expense). These changes totaled income of \$325,704 during 2019 and expense of \$6,940,362 during 2018.

4. Fair Value of Financial Instruments

The Endowment determines fair values based on the framework for measuring fair value under ASC Topic 820, *Fair Value Measurements*. The following table summarizes fair value information at December 31, 2019 and 2018.

Description	Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value (Carrying Value)
December 31, 2019					
Cash equivalents	\$ 87,941,516	\$ 88,024,720	\$ –	\$ –	\$ 88,024,720
Fixed income securities	248,080,064	–	249,050,902	–	249,050,902
Marketable securities	1,121,337,077	16,621,252,729	–	–	16,621,252,729
	1,457,358,657	16,709,277,449	249,050,902	–	16,958,328,351
Other receivables	–	–	–	4,531,089	4,531,089
	\$ 1,457,358,657	\$ 16,709,277,449	\$ 249,050,902	\$ 4,531,089	\$ 16,962,859,440
December 31, 2018					
Cash equivalents	\$ 51,904,169	\$ 51,942,960	\$ –	\$ –	\$ 51,942,960
Fixed income securities	240,676,674	–	241,599,420	–	241,599,420
Marketable securities	966,606,304	14,782,702,615	–	–	14,782,702,615
	1,259,187,147	14,834,645,575	241,599,420	–	15,076,244,995
Other receivables	–	–	–	4,895,253	4,895,253
	\$ 1,259,187,147	\$ 14,834,645,575	\$ 241,599,420	\$ 4,895,253	\$ 15,081,140,248

Transfers between levels, if any, are recorded at the beginning of the reporting period. There were no transfers between Levels 1, 2, and 3 during the years ended December 31, 2019 and 2018.

The fair value for marketable securities is determined based on the regular trading session closing price on the exchange or market in which such securities are principally traded on the last business day of each period presented (Level 1).

Fixed income securities are not based on quoted prices in active markets (Level 2). The fair value is determined by pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Fair values for these fixed income securities are obtained primarily from third-party pricing services.

Other receivables, which is a split-interest agreement, are valued using significant unobservable inputs (Level 3). The need to use unobservable inputs generally results from the lack of an active market or marketplace with respect to the split-interest agreement. The split-interest agreement is recorded at the estimated fair value based on the present value of the Endowment's future cash flows from the related trust. Future cash flows are based on an income approach (present value techniques), the inputs of which include the fair value of the underlying trust assets, the Endowment's interest percentage in the split-interest agreement, annuity percentage per the split-interest agreement, estimated rate of return and discount rate.

5. Liquidity and Availability

None of the financial assets as listed on the statements of financial position, with the exception of other receivables, is subject to donor restrictions, board designations, or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. As part of the Endowment's liquidity management, the Endowment has policies to structure its financial assets to be available for its general expenditures (grant making activities and other expenses). The Endowment uses dividends, interest and sales of investments to cover these expenditures.

6. Federal Excise Taxes

During 2019 and 2018, the Endowment was subject to federal excise taxes imposed on private foundations at 2%, or at 1% if certain conditions are met.

The excise tax is imposed on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on the sale of investments. The Endowment's excise tax rate was 2% for the year ended December 31, 2019 and 1% for the year ended December 31, 2018. Federal excise tax expense on realized amounts was \$15,198,576 and \$8,130,120 for the years ended December 31, 2019 and 2018, respectively. The Endowment made estimated excise tax payments totaling \$14,100,000 and \$16,750,000 during 2019 and 2018, respectively. Due to estimated tax underpayments during 2019, the Endowment recorded a federal excise tax payable of \$1,098,576 at December 31, 2019 in the statements of financial position. Due to estimated tax overpayments during 2018, the Endowment recorded a receivable of \$8,619,880 at December 31, 2018 within other assets in the statements of financial position.

On December 20, 2019, the Taxpayer Certainty and Disaster Relief Act of 2019 (the Act) was signed into law. Among other things, the Act simplified the federal excise tax rate imposed on private foundations to a flat 1.39% rate, which is effective for tax years beginning after December 20, 2019. The Endowment used the 1.39% rate to calculate the deferred tax liability recorded on the statements of financial position for the year ended December 31, 2019, compared to the 2% rate used to calculate the deferred tax liability under federal tax law for the year ended December 31, 2018. The deferred tax liability relates to deferred federal excise taxes on unrealized gains of investments. The Endowment recorded a decrease in the deferred tax liability of \$58,884,715 for the year ended December 31, 2019 and an increase of \$62,636,451 for the year ended December 31, 2018. These changes were driven by the enactment of the Act in 2019 (establishing a fixed tax rate for future years) as well as changes in the amounts of unrealized gains on investments recorded in the statements of activities during 2019 and 2018.

The Endowment is subject to routine audits by taxing jurisdictions. The Endowment believes it is no longer subject to income tax examinations for years prior to 2016 due to three-year statute of limitations.

If incurred, any interest and penalties would be recorded as a component of federal excise tax.