Finances & Grantmaking

2009 proved to be another challenging year due to what many call the most significant economic downturn since the Great Depression. Not only did the value of Lilly Endowment's assets decline, the impact of the recent economic crisis continued to be felt by virtually all the Endowment's grantees and the individuals and families they serve. Throughout the year the Endowment strove to align its grantmaking with the most pressing needs and compelling causes in community development, education and religion—the three priorities established by its founders.

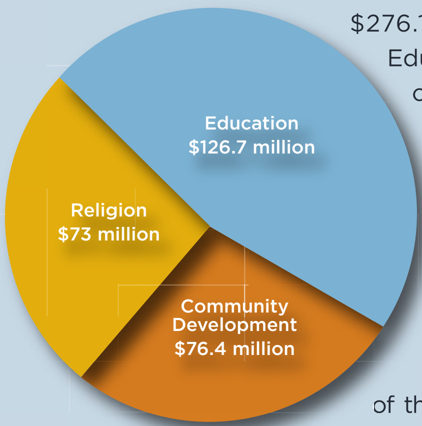
The Endowment's founders witnessed during their lives the kinds of hardship and despair many are facing in these difficult times. We are bolstered by their faith in the future and their care and concern for those less fortunate, which they demonstrated by their creation of this foundation in 1937 during the depths of the Great Depression. Their generosity over the years has resulted in the payment of more than $7.3 billion in grants to 8,033 charitable organizations, most of them in Indiana.

Of that $7.3 billion, $3.04 billion supported education (42 percent), $2.44 billion supported community development (33 percent) and $1.82 billion supported religion (25 percent). At the end of 2009 the Endowment's assets totaled $5.3 billion.

During 2009 the Endowment's Board distributed grant payments of $276.1 million and approved $282.3 million in new grants.

Grants paid

Chart 1: Grants Paid by Division

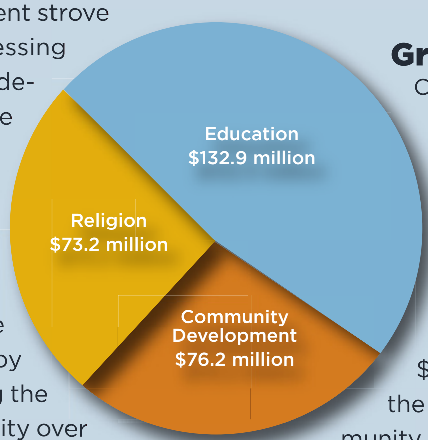


In 2009 the Endowment paid grants of $276.1 million. In this category Education Division grants accounted for $126.7 million or 46 percent of the total; Community Development Division grants added up to $76.4 million or 28 percent; Religion Division grants totaled $73 million or 26 percent.

As in previous years, most of the grants were paid to organizations in Indiana—a total of $210.5 million (76 percent). Of the payment total of $276.1 million, $152.2 million (55 percent) was paid to non-Marion County grantees in Indiana and $58.3 million (21 percent) to Marion County (Indianapolis) grantees. Organizations outside Indiana received $65.6 million or 24 percent, mostly from the Religion Division.

Grants approved

Chart 2: Grants Approved by Division



During 2009 the Endowment approved $282.3 million to 655 grantees, 256 of them new to the Endowment.

Education Division grants totaled the most dollars at $132.9 million or 47 percent of the total. Approvals for the Community Development Division totaled $76.2 million or 27 percent, while approvals for the Religion Division totaled $73.2 million or 26 percent.

Similar to the geographic distribution of the grants paid in 2009, over three-fourths (77 percent) of grants approved went to Indiana organizations. Of the $282.3 million in grants approved, $158.4 million (56 percent) was approved for non-Marion County grantees in Indiana and $58.1 million (21 percent) to Marion County (Indianapolis) grantees. Indiana organizations thus were awarded $216.5 million (77 percent) of grants approved. $65.8 million (23 percent) in grants were approved for non-Indiana organizations.

Board-approved grants are listed in the back of this report and are divided into the Community Development, Education and Religion divisions. Youth Programming and Philanthropic Leadership Education grants are included with the Education and Religion divisions, respectively. Discretionary grants of up to $7,500, authorized by the 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 50-51.

Ernst & Young LLP
Suite 2600
111 Monument Circle
Indianapolis, Ind. 46204

Tel: +1 317 681 7000
Fax: +1 317 681 7216
www.ey.com

Report of Independent Auditors

The Board of Directors
Lilly Endowment Inc.

We have audited the accompanying statements of financial position of Lilly Endowment Inc. (the Endowment) as of December 31, 2009 and 2008, 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. We were not engaged to perform an audit of the Endowment's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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. as of December 31, 2009 and 2008, and the changes in its unrestricted net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

March 8, 2010

Ernst + Young LLP

Statements of Financial Position

As of December 31	**2009**	2008
Assets		
Cash and equivalents	$ 9,027,561	$ 26,662,815
Dividend receivable	66,478,694	–
Other receivables	104,159,049	–
Investments — at fair value:		
Eli Lilly and Company common stock (cost — $84,798,379 at December 31, 2009 and 2008)	4,844,804,411	5,463,463,277
Other equity investments	295,712,381	228,683,724
Other assets	1,346,339	3,607,133
	$ 5,321,528,435	$ 5,722,416,949
Liabilities		
Amounts appropriated for future grants	$ 10,180,100	$ 3,969,750
Deferred federal excise tax liability	43,371,489	–
	53,551,589	3,969,750
Unrestricted net assets	5,267,976,846	5,718,447,199
	$ 5,321,528,435	$ 5,722,416,949

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

Year ended December 31	**2009**	2008
Income:		
Dividends	$ 337,423,715	$ 264,894,950
Interest	199,460	3,286,921
Other	110,396,845	13,267,121
Total income	448,020,020	281,448,992
Deductions:		
Grants approved	286,352,599	314,850,416
Expenses:		
Program support	6,848,841	6,527,047
Operational support	5,824,759	11,720,543
Federal excise tax	46,075,092	3,491,275
Total grants approved and expenses	345,101,291	336,589,281
Gain on sale of Eli Lilly and Company common stock (shares – 0 in 2009 and 1,835,000 in 2008)	–	87,468,985
Unrealized depreciation of marketable securities	(553,389,082)	(2,024,837,469)
Decrease in unrestricted net assets	(450,470,353)	(1,992,508,773)
Unrestricted net assets:		
Balance at beginning of year	5,718,447,199	7,710,955,972
Decrease in unrestricted net assets	(450,470,353)	(1,992,508,773)
Balance at end of year	$ 5,267,976,846	$ 5,718,447,199

See accompanying notes.

Statements of Cash Flows

Year ended December 31	**2009**	2008
Operating activities		
Change in unrestricted net assets	$ (450,470,353)	$ (1 ,992,508,773)
Adjustments to reconcile change in unrestricted net to net cash used in operating activities:		
Investment expenses	220,685	245,945
Loss on mark-to-market adjustments on investments	553,372,810	1,937,027,372
Changes in assets and liabilities:		
Dividend and other receivables	(170,637,743)	–
Other assets	2,260,794	(3,564,366)
Amount appropriated for future grants	6,210,350	(19,977,200)
Deferred federal excise tax liability	43,371,489	–
Net cash used in operating activites	(15,671,968)	(78,777,022)
Investing activities		
Purchases of investments	(1,742,601)	(57,692,851)
Proceeds from sale of investments	–	87,726,554
Investment expenses	(220,685)	(245,945)
Maturities of fixed income securities	–	18,943,105
Net cash (used for) provided by investing activities	(1,963,286)	48,730,863
Net decrease in cash	(17,635,254)	(30,046,159)
Cash and equivalents at beginning of year	26,662,815	56,708,974
Cash and equivalents at end of year	$ 9,027,561	$ 26,662,815

See accompanying notes.

Notes to Financial Statements

December 31, 2009

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.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the Unites States (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 8, 2010, the date these financial statements were issued.

Cash and 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 are comprised of equity and fixed income securities, which are recorded at market-quoted fair values. Changes in fair value are recorded in the statement of activities and changes in unrestricted net assets. 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 paid. The amounts expensed during 2009 and 2008 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. When distributions are made to organizations other than public charities, the Endowment assumes expenditure responsibility as required under applicable federal law. All grants are approved by the Board of Directors and are accrued when approved.

Income Recognition

Income is recognized when amounts are realizable and earned.

Reclassifications

Certain prior year amounts in the statement of cash flows have been reclassified to conform to the current year presentation.

2. New Accounting Pronouncements

The Endowment adopted the FASB interpretation on Accounting for Uncertainty in Income Taxes as of December 31, 2009. This interpretation requires that realization of an uncertain income tax position be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Furthermore, this interpretation prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. The implementation of this interpretation had no impact on the financial statements.

The Endowment adopted the provisions of the FASB Statement on Subsequent Events in 2009. This Statement provides authoritative accounting literature and disclosure requirements for material events occurring subsequent to the date on the statement of financial position and prior to the issuance of the financial statements. The implementation of this Statement had no effect on the financial statements.

The Endowment adopted the provisions of the FASB Staff Position (FSP) relating to Investments on January 1, 2009. This FSP amends the other-than-temporary recognition guidance for debt securities and requires additional annual disclosures of other-than-temporary impairments on debt and equity securities. Pursuant to the new guidance, an other-than-temporary impairment has occurred if an entity does not expect to recover the entire amortized cost basis of the security. In this situation, if the entity does not intend to sell the impaired security and if it is not more likely than not to be required to sell the security before the recovery of its amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings is limited to the portion attributed to the credit loss. The remaining portion of the other-than-temporary impairment is then recorded in other comprehensive income. This FSP has been applied to existing and new securities as of January 1, 2009. The implementation of this FSP had no impact on the financial statements.

3. Required Distributions

The Internal Revenue Code provides that the Endowment generally must distribute for charitable purposes 5% of the average market value of its assets. The Endowment must make additional qualifying distributions of approximately $214,000,000 before January 1, 2011, to meet the 2009 minimum distribution requirements.

4. Other Receivables

Other receivables represent the fair value of future cash flows to be received from the Endowment's split-interest agreements. Amounts recorded are subject to subsequent changes in fair value, which would be recorded in the statement of activities and changes in unrestricted net assets.

5. Fair Value of Financial Instruments

The Endowment determines fair values based on the framework for measuring fair value under ASC 820, *Fair Value Measurements*. The following table summarizes fair value information at December 31, 2009 and December 31, 2008.

Description	Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Fair Value (Carrying Value)
December 31, 2009				
Cash equivalents	$ 4,999,825	$ 4,999,799	$ –	$ 4,999,799
Marketable securities	451,306,332	5,140,516,792	–	5,140,516,792
	456,306,157	5,145,516,591	–	5,145,516,591
Other receivables	–	62,005,783	42,153,266	104,159,049
	$ 456,306,157	$ 5,207,522,374	$ 42,153,266	$ 5,249,675,640
December 31, 2008				
Cash equivalents	$ 9,980,847	$ 9,997,093	$ –	$ 9,997,093
Marketable securities	449,563,732	5,692,147,001	–	5,692,147,001
	$ 459,544,579	$ 5,702,144,094	$ –	$ 5,702,144,094

The fair value for marketable and fixed income securities is determined using quoted market values. The fair value of other receivables is based on observable inputs using quoted market values and a combination of a market and income approach determined based upon future cash flows.

6. Federal Excise Taxes

The Endowment is 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 qualified for a 1% excise tax rate for the years ended December 31, 2009 and 2008. Federal excise tax paid on realized amounts was $2,703,603 and $3,491,275 for the years ended December 31, 2009 and 2008, respectively.

During 2009, the Endowment recorded an additional liability of $43,371,489 for deferred federal excise tax related to unrealized gains on investments.

If incurred, any interest and penalties would be recorded as a component of excise tax. As of December 31, 2009 and 2008, total interest and penalties recognized was $0.