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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, 2010 and 2009, 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, 2010 and 2009, 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 14, 2011

Ernst + Young LLP

Statements of Financial Position

As of December 31	**2010**	2009
Assets		
Cash and equivalents	$ 13,361,043	$ 9,027,561
Dividends receivable	66,478,694	66,478,694
Other receivables	65,872,300	104,159,049
Investments — at fair value:		
United States government and agency, bank, and corporate interest-bearing obligations	76,528,262	–
Eli Lilly and Company common stock (cost — $84,798,379 at December 31, 2010 and 2009)	4,753,904,972	4,844,804,411
Diversified equity investments	340,719,931	295,712,381
Other assets	217,787	1,346,339
	$ 5,317,082,989	$ 5,321,528,435
Liabilities		
Amounts appropriated for future grants	$ 6,443,579	$ 10,180,100
Deferred tax liability	85,607,069	43,371,489
	92,050,648	53,551,589
Unrestricted net assets	5,225,032,341	5,267,976,846
	$ 5,317,082,989	$ 5,321,528,435

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

Year ended December 31	**2010**	2009
Income:		
Dividends	$ 272,786,264	$ 337,423,715
Interest	190,048	199,460
Other	2,579,746	110,396,845
Total income	275,555,788	448,020,020
Deductions:		
Grants approved	205,546,854	286,352,599
Expenses:		
Program support	6,750,829	6,848,841
Operational support	5,700,713	5,824,759
Federal excise tax	47,679,233	46,075,092
Total grants approved and expenses	265,677,629	345,101,291
Decrease in unrealized appreciation of marketable securities	(52,822,664)	(553,389,082)
Decrease in unrestricted net assets	(42,944,505)	(450,470,353)
Unrestricted net assets:		
Balance at beginning of year	5,267,976,846	5,718,447,199
Decrease in unrestricted net assets	(42,944,505)	(450,470,353)
Balance at end of year	$ 5,225,032,341	$ 5,267,976,846

See accompanying notes.

Statements of Cash Flows

Year ended December 31	**2010**	2009
Operating activities		
Decrease in unrestricted net assets	$ (42,944,505)	$ (450,470,353)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Investment expenses	230,626	220,685
Loss on mark-to-market adjustments on investments	52,763,377	553,372,810
Changes in assets and liabilities:		
Dividend and other receivables	38,286,749	(170,637,743)
Other assets	1,128,552	2,260,794
Amount appropriated for future grants	(3,736,521)	6,210,350
Deferred federal excise tax liability	42,235,580	43,371,489
Net cash provided by (used in) operating activites	87,963,858	(15,671,968)
Investing activities		
Purchases of investments	(83,399,750)	(1,742,601)
Investment expenses	(230,626)	(220,685)
Net cash used for investing activities	(83,630,376)	(1,963,286)
Net increase (decrease) in cash	4,333,482	(17,635,254)
Cash and equivalents at beginning of year	9,027,561	26,662,815
Cash and equivalents at end of year	$ 13,361,043	$ 9,027,561

See accompanying notes.

Notes to Financial Statements

December 31, 2010

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 United 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 14, 2011, 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 statements 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 2010 and 2009 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.

2. New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update, or ASU, No. 2010-06, *Improving Disclosures about Fair Value Measurements*, or ASU 2010-06. ASU 2010-06 amends ASC Topic 820, *Fair Value Measurements and Disclosures*, to require a number of additional disclosures regarding fair value measurements. Effective January 1, 2010, ASU 2010-06 requires disclosure of the amounts of significant transfers between Level 1 and Level 2 and the reasons for such transfers, the reasons for any transfers in or out of Level 3, and disclosure of the policy for determining when transfers between levels are recognized. ASU 2010-06 also clarified that disclosures should be provided for each class of assets and liabilities and clarified the requirement to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 measurements. Beginning January 1, 2011, ASU 2010-06 also requires that information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements be provided on a gross basis. The adoption of ASU 2010-06 only required additional disclosures and did not have an impact on the Endowment's statements of financial position or statements of activities and changes in unrestricted net assets.

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 $217,000,000, before January 1, 2012, to meet the 2010 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 statements 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. The following table summarizes fair value information at December 31, 2010 and 2009.

Description	Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Fair Value (Carrying Value)
December 31, 2010				
Cash equivalents	$ 11,996,789	$ 11,998,976	$ –	$ 11,998,976
Fixed income securities	76,589,763	76,528,262	–	76,528,262
Marketable securities	458,177,820	5,094,624,903	–	5,094,624,903
	546,764,372	5,183,152,141	–	5,183,152,141
Other receivables	–	27,951,557	37,920,743	65,872,300
	$ 546,764,372	$ 5,211,103,698	$ 37,920,743	$ 5,249,024,441
December 31, 2009				
Cash equivalents	$ 4,999,825	$ 4,999,799	$ –	$ 4,999,799
Fixed income securities	–	–	–	–
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

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 2010 and 2009.

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 on future cash flows. Inputs in this valuation methodology include the initial value of the split-interest agreement, the Endowment's interest percentage in the split-interest agreement, annuity percentage per the split-interest agreement, estimated rate of return, and discount rate.

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 2% excise tax rate for the year ended December 31, 2010, and a 1% excise tax rate for the year ended December 31, 2009. Federal excise tax paid on realized amounts was $5,443,653 and $2,703,603 for the years ended December 31, 2010 and 2009, respectively.

The Endowment recorded an additional liability of $42,235,580 and $43,371,489 for the years ended December 31, 2010 and 2009, respectively, 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, 2010 and 2009, total interest and penalties recognized was $0.