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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, 2011 and 2010, 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

March 12, 2012

Ernst + Young LLP

Statements of Financial Position

As of December 31	**2011**	2010
Assets		
Cash and equivalents	$ 11,564,601	$ 13,361,043
Dividend receivable	66,478,694	66,478,694
Other receivables	36,616,322	65,872,300
Investments — at fair value:		
United States government and agency, bank, and corporate interest-bearing obligations	101,465,103	76,528,262
Eli Lilly and Company common stock (cost — $84,798,379 at December 31, 2011 and 2010)	5,638,478,614	4,753,904,972
Diversified equity investments	370,827,472	340, 719,931
Other assets	198,557	217,787
	$ 6,225,629,363	$ 5,317,082,989
Liabilities		
Amounts appropriated for future grants	$ 8,691,831	$ 6,443,579
Deferred tax liability	102,933,600	85,607,069
	111,625,431	92,050,648
Unrestricted net assets	6,114,003,932	5,225,032,341
	$ 6,225,629,363	$ 5,317,082,989

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

Year ended December 31	**2011**	2010
Income:		
Dividends	$ 274,274,499	$ 272,786,264
Interest	236,771	190,048
Total income	274,511,270	272,976,312
Deductions:		
Grants approved	215,120,639	205,546,854
Expenses:		
Program support	6,732,770	6,750,829
Operational support	5,697,142	5,700,713
Federal excise tax	22,800,301	47,679,233
Total grants approved and expenses	250,350,852	265,677,629
Increase (decrease) in unrealized appreciation of marketable securities	866,232,666	(52,822,664)
Other (deductions) income	(1,421,493)	2,579,476
Increase (decrease) in unrestricted net assets	888,971,591	(42,944,505)
Unrestricted net assets:		
Balance at beginning of year	5,225,032,341	5,267,976,846
Increase (decrease) in unrestricted net assets	888,971,591	(42,944,505)
Balance at end of year	$ 6,114,003,932	$ 5,225,032,341

See accompanying notes.

Statements of Cash Flows

Year ended December 31	**2011**	2010
Operating activities		
Increase (decrease) in unrestricted net assets	$ 888,971,591	$ (42,944,505)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Investment expenses	250,244	230,626
(Gain) loss on mark-to-market adjustments on investments	(866,232,666)	52,763,377
Changes in assets and liabilities:		
Dividend and other receivables	29,255,978	38,286,749
Other assets	19,230	1,128,552
Amount appropriated for future grants	2,248,252	(3,736,521)
Deferred federal excise tax liability	17,326,531	42,235,580
Net cash provided by operating activites	71,839,160	87,963,858
Investing activities		
Purchases of investments	(73,385,358)	(83,399,750)
Investment expenses	(250,244)	(230,626)
Net cash used for investing activities	(73,635,602)	(83,630,376)
Net (decrease) increase in cash	(1,796,442)	4,333,482
Cash and equivalents at beginning of year	13,361,043	9,027,561
Cash and equivalents at end of year	$ 11,564,601	$ 13,361,043

See accompanying notes.

Notes to Financial Statements

December 31, 2011

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 (IRC). 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 12, 2012, 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 2011 and 2010 are not material to the financial statements.

Grants

The Endowment primarily makes grants to organizations that qualify as public charities under the IRC. 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 No. 2010-06, *Improving Disclsoures about Fair Value Measurements*, 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, 2011, ASU 2010-06 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.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, or ASU 2011-04. ASU 2011-04 amends ASC Topic 820, to provide guidance on how fair value measurement should be applied where existing GAAP already requires or permits fair value measurements. In addition, ASU 2011-04 requires expanded disclosures regarding fair value measurements. ASU 2011-04 became effective for the Endowment on January 1, 2012. Early adoption was not permitted. The adoption of ASU 2011-04 is not expected to have a material impact on the Endowment's statements of financial position or statements of activities and changes in unrestricted net assets.

3. Required Distributions

The IRC 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 $238,000,000, before January 1, 2013, to meet the 2011 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, 2011 and 2010.

Description	Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Fair Value (Carrying Value)
December 31, 2011				
Cash equivalents	$ 8,997,970	$ 8,997,260	$ –	$ 8,997,260
Fixed income securities	101,617,540	11,249,091	90,216,012	101,465,103
Marketable securities	506,532,503	6,009,306,086	–	6,009,306,086
	617,148,013	6,029,552,437	90,216,012	6,119,768,449
Other receivables	–	5,940,659	30,675,663	36,616,322
	$ 617,148,013	$ 6,035,493,096	$ 120,891,675	$ 6,156,384,771
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

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, 2011 and 2010.

The fair value for marketable securities is determined using quoted market values. Fair values of fixed income securities are based on quoted market prices, where available. These fair values are obtained primarily from third-party pricing services. United States government securities represent Level 1 securities, while Level 2 securities primarily include corporate securities. For fixed income securities that are not based on quoted market values, the value is determined by pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. 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 years ended December 31, 2011 and 2010. Federal excise tax paid on realized amounts was $5,473,770 and $5,443,653 for the years ended December 31, 2011 and 2010, respectively.

The Endowment recorded an additional liability of $17,326,531 and $42,235,580 for the years ended December 31, 2011 and 2010, respectively, for deferred federal excise tax related to unrealized gains on investments.

The Endowment is subject to routine audits by taxing jurisdictions. The 2008 through current tax returns are open under the statute of limitations.

If incurred, any interest and penalties would be recorded as a component of excise tax. As of December 31, 2011 and 2010, total interest and penalties recognized was $0.