

2001 Finances and Grantmaking

Fortune has smiled on the ability of Lilly Endowment to make grants that honor the wishes of its founders – and to help build momentum in the areas of its greatest concerns. On Dec. 31, 2001, the assets of the Endowment stood at \$12.8 billion, down from \$15.6 billion at the end of 2000 (see chart 1). In 2001 the Endowment was pleased to approve \$777 million in grants and make grant payments of \$594.1 million.

We are forever grateful to the Endowment’s founders who contributed gifts of stock in their pharmaceutical company, Eli Lilly and Company, from 1937 to 1971. The value of that stock has increased over the years to its present value and has allowed the Endowment to pay a total of more than \$4.1 billion in grants.

Chart 1
10-Year History
Market Value of Assets
(dollars in billions)

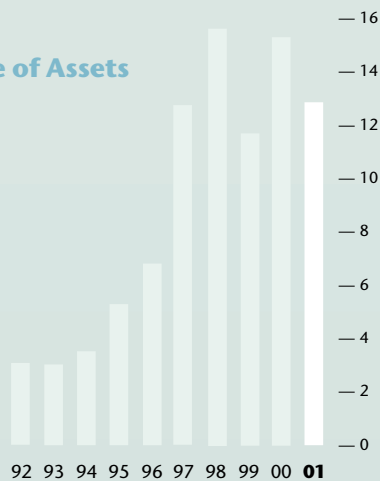


Chart 2
10-Year History
Grants Paid
(dollars in millions)

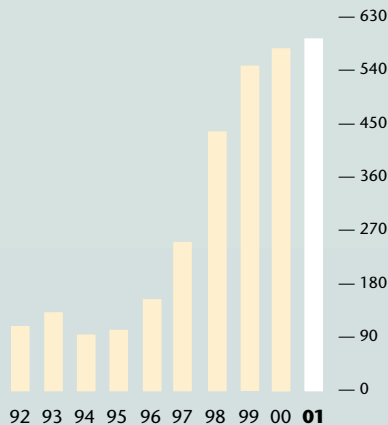
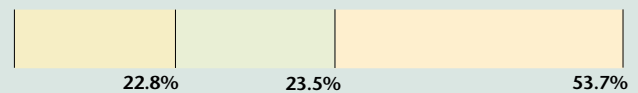


Chart 3
Grants Paid by Division (2001)

Religion	\$135.2 Million
Community Development	\$139.6 Million
Education	\$319.3 Million
Total	\$594.1 Million



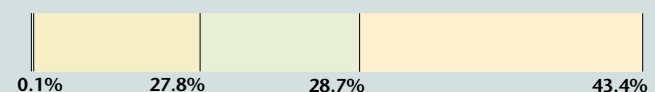
Grants paid

In 2001 the Endowment paid grants of \$594.1 million (see chart 2), its highest-ever annual total. The 2001 figure put the Endowment’s total grant payment since its founding in 1937 at \$4.148 billion.

In the grants-paid category (see chart 3), the Education Division paid \$319.3 million or 53.7 percent; the Community Development Division paid \$139.6 million, or 23.5 percent; the Religion Division paid \$135.2 million or 22.8 percent of the total.

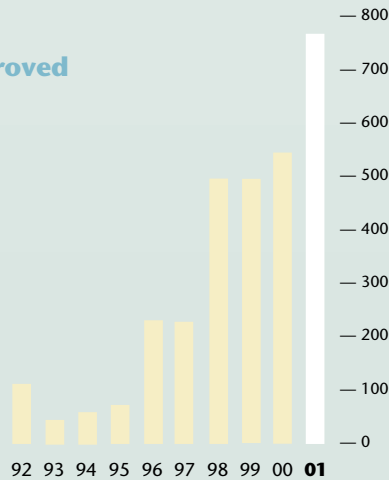
Chart 4
Grants Paid by Geographic Location (2001)

International	\$1.0 Million
National	\$170.3 Million
Marion County (Indianapolis)	\$165.1 Million
Indiana (non-Marion Co.)	\$257.7 Million
Total	\$594.1 Million



As in previous years, most of the grants paid went to organizations in Indiana – a total of \$422.8 million or 71.2 percent (see chart 4). Of the grant payment total of \$594.1 million, \$165.1 million or 27.8 percent went to Marion County (Indianapolis) grantees, and \$257.7 million or 43.4 percent was paid to other Indiana grantees. Most of these funds came from grants in the Community Development and Education divisions.

Chart 5
10-Year History
Grants Approved
(dollars in millions)



Grants approved

During 2001 the Endowment approved \$777 million to 722 grantees, 251 of them new to the Endowment (see chart 5).

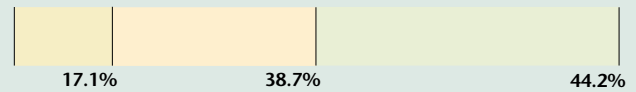
Community Development Division grants accounted for the most dollars, \$343.4 million or 44.2 percent of the total. Approvals for Education Division grants totaled \$300.5 million or 38.7 percent, while the Religion Division approvals totaled \$133.1 million or 17.1 percent (see chart 6).

The geographic pattern for the grants-approved category is much like the grants-paid category: \$191.4 million or 24.6 percent for Marion County, \$422.2 million or 54.4 percent for Indiana grantees outside Indianapolis (see chart 7). The total approvals for Indiana grants amounted to \$613.6 million or 79 percent of the total. The non-Indiana grant approvals totaled \$163.4 million or 21 percent.

The largest grant approved in 2001 was \$25,647,959 to the Purdue Research Foundation. The grant was made to support Purdue Discovery Park.

Chart 6
Grants Approved by Division (2001)

Religion	\$133.1 Million
Education	\$300.5 Million
Community Development	\$343.4 Million
Total	\$777.0 Million

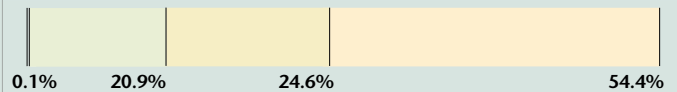


Perspective

Since 1937 the Endowment has paid \$4.148 billion in grants to 5,654 grantees. Of that \$4.148 billion total, Community Development accounts for \$1.668 billion or 40.2 percent, Education for \$1.591 billion or 38.4 percent, and Religion for \$889 million or 21.4 percent.

Chart 7
Grants Approved by Geographic Location (2001)

International	\$1.0 Million
National	\$162.4 Million
Marion County (Indianapolis)	\$191.4 Million
Indiana (non-Marion Co.)	\$422.2 Million
Total	\$777.0 Million



Board-approved grants are listed in the back of this report and are divided into Community Development, Education and Religion divisions. Youth Programming and Leadership Education grants are included with the Education Division and Religion Division, 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 82-83.

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, 2001 and 2000, 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. 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, 2001 and 2000, and the results of its changes in unrestricted net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 21, 2002

Statements of Financial Position

AS OF DECEMBER 31

	2001	2000
Assets		
Cash and equivalents	\$ 188,244,035	\$ 7,106,070
Investments – at fair value:		
United States government and agency, bank and corporate interest-bearing obligations – approximates cost	–	342,884,235
Eli Lilly and Company common stock (cost – \$88,320,126 at December 31, 2001, and \$88,744,027 at December 31, 2000)	12,626,153,546	15,241,441,620
Other assets	–	305,883
	\$ 12,814,397,581	\$ 15,591,737,808
Liabilities		
Amounts appropriated for future grants	\$ 258,303,503	\$ 75,547,280
Federal excise tax payable	7,125	124,381
Unrestricted net assets	12,556,086,953	15,516,066,147
	\$ 12,814,397,581	\$ 15,591,737,808

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

YEAR ENDED DECEMBER 31	2001	2000
Income:		
Dividends	\$ 182,146,500	\$ 173,367,536
Interest	22,587,125	28,588,204
Total income	204,733,625	201,955,740
Deductions:		
Grants approved	777,955,880	542,173,736
Expenses:		
Program support	7,660,973	7,445,266
Operational support	6,713,660	4,380,994
Federal excise tax	4,450,809	5,958,230
Total grants approved and expenses	796,781,322	559,958,226
Gain on sale of Eli Lilly and Company common stock (shares – 3,020,000 in 2001 and 4,655,000 in 2000)	249,911,837	408,593,312
Increase (decrease) in unrealized appreciation of marketable securities	(2,617,843,334)	4,042,427,270
Increase (decrease) in unrestricted net assets	(2,959,979,194)	4,093,018,096
Unrestricted net assets:		
Balance at beginning of year	15,516,066,147	11,423,048,051
Increase (decrease) in unrestricted net assets	(2,959,979,194)	4,093,018,096
Balance at end of year	<u>\$ 12,556,086,953</u>	<u>\$ 15,516,066,147</u>

See accompanying notes.

Statements of Cash Flows

YEAR ENDED DECEMBER 31

	2001	2000
Cash flows used for operating activities:		
Dividends and interest received	\$ 204,733,625	\$ 201,955,740
Grants paid	(595,199,657)	(581,803,728)
Program support	(7,660,973)	(7,445,266)
Operational support	(6,596,108)	(4,253,502)
Federal excise tax	(4,568,065)	(478,164)
Net cash used for operating activities	(409,291,178)	(392,024,920)
Cash flows provided by investing activities:		
Sale of Eli Lilly and Company stock	250,335,738	409,071,599
Purchase of interest-bearing obligations	(981,692,170)	(1,303,868,151)
Sale of interest-bearing obligations	1,321,903,127	1,288,750,183
Investment-related expenses	(117,552)	(127,492)
Net cash provided by investing activities	590,429,143	393,826,139
Net increase in cash	181,137,965	1,801,219
Cash and equivalents at beginning of year	7,106,070	5,304,851
Cash and equivalents at end of year	<u>\$ 188,244,035</u>	<u>\$ 7,106,070</u>

See accompanying notes.

Notes to Financial Statements

December 31, 2001

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.

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.

Investments

Investments are stated at fair value.

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. 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 \$579,000,000, before January 1, 2003, to meet the 2001 minimum distribution requirements.