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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, 2002 and 2001, 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, 2002 and 2001, 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 10, 2003

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31

2002

2001

Assets

Cash and equivalents	\$ 7,728,743	\$ 188,244,035
Investments – at fair value:		
Eli Lilly and Company common stock (cost – \$87,960,793 at December 31, 2002, and \$88,320,126 at December 31, 2001)	10,045,751,054	12,626,153,546
Other assets	551,753	–
	\$ 10,054,031,550	\$ 12,814,397,581

Liabilities

Amounts appropriated for future grants	\$ 336,533,494	\$ 258,303,503
Federal excise tax payable	–	7,125

Unrestricted net assets	9,717,498,056	12,556,086,953
	\$ 10,054,031,550	\$ 12,814,397,581

SEE ACCOMPANYING NOTES.

STATEMENTS OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS

YEAR ENDED DECEMBER 31	2002	2001
Income:		
Dividends	\$ 196,703,747	\$ 182,146,500
Interest	7,588,750	22,587,125
Total income	204,292,497	204,733,625
Deductions:		
Grants approved	635,327,514	777,955,880
Expenses:		
Program support	9,068,589	7,660,973
Operational support	8,804,712	6,713,660
Federal excise tax	3,903,247	4,450,809
Total grants approved and expenses	657,104,062	796,781,322
Gain on sale of Eli Lilly and Company common stock (shares – 2,560,000 in 2002 and 3,020,000 in 2001)	194,265,827	249,911,837
Decrease in unrealized appreciation of marketable securities	(2,580,043,159)	(2,617,843,334)
Decrease in unrestricted net assets	(2,838,588,897)	(2,959,979,194)
Unrestricted net assets:		
Balance at beginning of year	12,556,086,953	15,516,066,147
Decrease in unrestricted net assets	(2,838,588,897)	(2,959,979,194)
Balance at end of year	\$ 9,717,498,056	\$ 12,556,086,953

SEE ACCOMPANYING NOTES.

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31

	2002	2001
Cash flows used for operating activities:		
Dividends and interest received	\$ 204,292,497	\$ 204,733,625
Grants paid	(557,097,523)	(595,199,657)
Program support	(9,068,589)	(7,660,973)
Operational support	(8,696,203)	(6,596,108)
Federal excise tax	(4,462,125)	(4,568,065)
Net cash used for operating activities	(375,031,943)	(409,291,178)
Cash flows provided by investing activities:		
Sale of Eli Lilly and Company stock	194,625,160	250,335,738
Purchase of interest-bearing obligations	(1,633,995,112)	(981,692,170)
Sale of interest-bearing obligations	1,633,995,112	1,321,903,127
Investment-related expenses	(108,509)	(117,552)
Net cash provided by investing activities	194,516,651	590,429,143
Net increase (decrease) in cash	(180,515,292)	181,137,965
Cash and equivalents at beginning of year	188,244,035	7,106,070
Cash and equivalents at end of year	<u>\$ 7,728,743</u>	<u>\$ 188,244,035</u>

SEE ACCOMPANYING NOTES.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

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 \$470,000,000, before January 1, 2004, to meet the 2002 minimum distribution requirements.