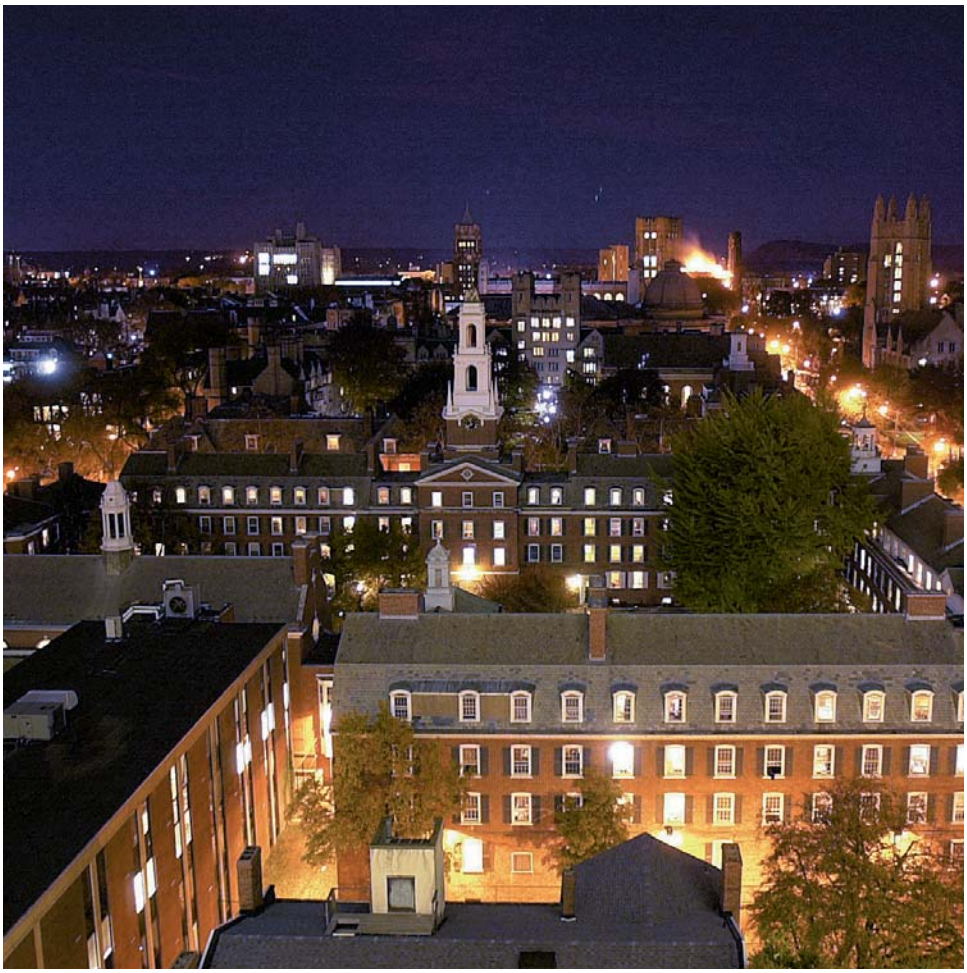


Yale University Financial Report

2003–2004

Highlights

Five-Year Financial Overview ($ in millions)	Fiscal years 2004	2003	2002	2001	2000
Operating Budget Bottom Line (see page 19)	$ 0	$ 0	$ 0	$ 0	$ 0
Financial Position Highlights (see page 26):					
Total assets	$15,968.5	$14,257.4	$13,358.8	$13,268.7	$12,370.0
Total liabilities	1,993.2	2,029.3	1,624.1	1,393.6	1,416.2
Total net assets	$13,975.3	$12,228.1	$11,734.7	$11,875.1	$10,953.8
Endowment:					
Total investments	$12,740.9	$11,048.9	$10,522.6	$10,733.3	$10,092.3
Total return on investments	19.4%	8.8%	0.7%	9.2%	41.0%
Spending from endowment	4.5%	4.5%	3.8%	3.4%	3.9%
Facilities:					
Land, buildings and equipment, net of accumulated depreciation	$2,095.2	$1,986.1	$1,853.2	$1,582.5	$1,354.5
Disbursements for building projects	202.1	207.6	328.2	282.0	191.3
Debt:					
For facilities improvements	$1,572.7	$1,543.9	$1,193.8	$994.3	$1,028.3
For student loans and other	-	29.0	29.5	29.5	45.6
Statement of Activity Highlights (see page 27):					
Operating revenue	$1,677.9	$1,553.7	$1,466.6	$1,352.9	$1,262.1
Operating expenses	1,675.9	1,543.1	1,427.0	1,334.9	1,282.0
Increase (decrease) in net assets from operating activities	$2.0	$10.6	$39.6	$18.0	($19.9)

Five-Year Enrollment Statistics	2004	2003	2002	2001	2000
Student Fees:					
Yale College term bill	$37,000	$35,370	$34,030	$32,880	$31,940
Freshmen Enrollment:					
Freshmen applications	17,735	15,466	14,809	12,887	13,270
Freshmen admitted	2,014	2,009	2,038	2,084	2,135
Admissions rate	11.4%	13.0%	13.8%	16.2%	16.1%
Freshmen enrollment	1,353	1,300	1,296	1,352	1,371
Yield	67.9%	65.6%	64.7%	66.4%	65.0%
Total Enrollment:					
Yale College	5,308	5,307	5,270	5,335	5,340
Graduate and professional schools	5,933	5,853	5,762	5,579	5,512

Message from the Vice President for Finance and Administration

Strengthening Yale as a world-class leader in teaching and research, and in helping develop leaders for all walks of life, requires world-class talent, tools and innovation in every aspect of our operations. Whether it is through our ability to provide the technologies that support breakthrough research, or through the recruitment and retention of outstanding women and men in every part of the University, we must all contribute to Yale's mission in an increasingly demanding and competitive world. Our report this year highlights some of the dynamic changes underway within Finance & Administration which are aimed at contributing even more to Yale's mission.

Overall, the University's financial position strengthened during the past year. Endowment assets grew by $1.7 billion to $12.7 billion, representing a 19.4% return for the year. New endowment contributions of $114 million were received or pledged. Investment for new buildings and the capital maintenance of current buildings continued at a high level of $202.1 million and we expect this trend to continue. Our operating budget for the year was balanced, as planned.

Debt plays a significant role in the University's financial equilibrium model, financing capital investment where appropriate. The University's debt remained at $1.57 billion during the year. We are integrating sound debt policy into our operating and capital plans to ensure efficient debt deployment and an acceptable debt burden in future years. Current debt to expendable resources and debt costs to operating revenue ratios are at comfortable levels to allow for additional investment through leverage, and these ratios are carefully monitored.

We are facing increased challenges to our operating budget in the current fiscal year (2004-05). The challenges stem particularly from higher energy and health care costs, as well as our decision to fund a high level of capital replacement and maintenance costs. Our investment in faculty recruitment and retention continues to be robust. To ensure that these key objectives continue to be met, strong measures are being taken to contain costs and achieve greater efficiency in our key processes. While these measures have reduced initial projections, we currently anticipate a deficit of approximately $15 million for the year.

Our objective is to return to a balanced operating budget in fiscal year 2005-06 and retain this position long-term. Some of the many actions to accomplish this are outlined in the attached report. In an era when the ambitions of our academic programs will be as great as ever and when we cannot assume the economic environment to be as robust as it was in the decade of the '90s, we know that we need to work smarter and more effectively to provide the quality of service that faculty and students deserve.

We believe a critical factor in our success will be the developing partnership and spirit of cooperation between the women and men in management and those represented by Yale's unions. We completed negotiations between the University and Local Unions 34 and 35 in September 2003 and now have a contract that will extend over the next six years. We are going to make the most of this time. All parties are committed to improving communications and trust. We are meeting regularly to work toward tangible goals, and we are jointly identifying opportunities to improve productivity, customer service and employee satisfaction. We are also committed to providing opportunities for the fine men and women within the University through better career development, leadership training and cross-disciplinary career experiences.

Finally, let me emphasize how much we appreciate the invaluable contribution of money, time and ideas that the Alumni and Friends of Yale are making as we continue to embrace change to make Yale the best it can be.

John E. Pepper, Jr.
Vice President for Finance and Administration

Saving Time, Saving Money, Working Smarter, Enjoying It More. For a Stronger Yale.

"I would like to see Yale's financial and administrative operations set a new standard for higher education and become as capable as those serving the best corporations in this country. To realize this aspiration we must strengthen financial management and systems throughout the campus, realize savings in procurement and construction, benchmark our compensations and benefits to ensure competitiveness, and develop new collaborations and training programs that help all our employees to build rewarding careers at Yale."

—Richard C. Levin, President

The strategic priorities for the University are bold. Yale aims to advance its programs in science and medicine to the top ranks of the nation's institutions while continuing to strengthen its world-class position in the arts, humanities, and social sciences. The University is investing in programs and relationships to make Yale a truly global university in both Yale College and its many top-ranked graduate and professional schools, and to spawn enlightened leadership, in all disciplines, all over the world. Yale is extending its preeminence as an undergraduate institution through a curriculum that fosters international experiences and stresses the development of the quantitative and qualitative skills that the 21st century requires.

The context within which Yale takes on these challenges is fiercely competitive at every level, and the stakes have never been higher. Yale must bid to hire the best faculty, and the right facilities are crucial to attracting key students as well as faculty. Like other selective schools, Yale supports the financial needs of all students, which, in turn, entails an ever-growing financial commitment. On the revenue side, even though Yale's endowment continues to have superb performance relative to other universities, returns in general may not be as extraordinary as in the 1990s.

In addition, Yale needs actively to manage day-to-day expenses and provide better ongoing maintenance. The operating budget for the 2003–04 year was under pressure due to increased benefit costs, including pensions, rocketing health care costs, and extraordinary energy costs. These are not expenses unique to Yale; indeed, every university, every business, and every household in America is coping with these issues.

Yale greets these challenges with enthusiasm and confidence and an imperative to improve the way it does business. No other major university is taking a more sweeping look at how administration can contribute to the academic mission. And no other major university has harnessed a more impressive constellation of talent, technology, and business processes to make it happen.

Over the past five years, many initiatives and technological advances have been made to advance administration. Under the leadership of Deputy Provost Stephanie Spangler, ASSET (Administrative Services and Support Enhancement Team) task forces have explored potential savings in areas like travel, printing, procurement, and telecommunications.

In December 2003, President Levin was successful in recruiting John Pepper, retired chairman and CEO of Procter and Gamble, as Vice President for Finance and Administration, and this has further galvanized efforts to create another center of excellence at Yale.

"Our strategy is to apply the most effective business practices to a great university. In fact, our methodology—including rigorous analysis, benchmarking, the exploration of new ideas, and the focus on best practices—mirrors that of any academic discipline," Pepper explained.

In every area of finance and administration, task forces are looking at customer needs and benchmarking existing best practices. This benchmarking process has involved top-team visits to MIT, the University of Pennsylvania, Cornell, Duke, Procter and Gamble, and other leading universities and corporations. As specific projects move forward, each one is spearheaded by teams that include people from all over the University—labor and management, academics and administration, the medical school and the main campus—whoever is part of the customer base. Senior representatives from Finance and Administration, the Provost's Office, faculty, and the President's Office oversee major projects, as the teams work toward continuous improvement and best-in-class performance.

It all starts with people. Union and management–a new atmosphere of communication.

Last year, when the University signed its union contracts, it did far more than just get people back to work. It signaled a profound change in how Yale and its union employees would work together in the coming years.

"The key has been better communication as well as a willingness to think creatively and address issues before they mushroom into bigger problems," explained Robert Schwartz, Associate Vice President and Chief Human Resources Officer. "We want everyone—from those who cut the grass, and take care of the classrooms, to service staff—to know that their roles are important to the mission of this university."

This communication starts at the top. A new Policy Board that includes John Pepper, Bob Proto (President, Local 35), Laura Smith (Account Assistant, Development, and President of Local 34), and Deputy Provost Lloyd Suttle meets monthly.

"We're trying to change some long-standing patterns in how union members and managers work together. This kind of fundamental change isn't easy. We have been extremely encouraged with our results to date," Lloyd Suttle noted.

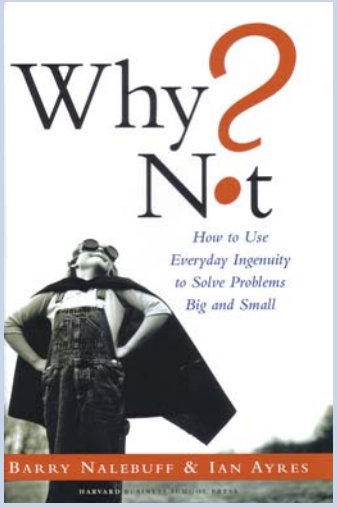
"There is an agreed conviction that we can't continue to operate as we have done in the past, and there is a shared commitment that this partnership will benefit everyone at the University," said Bob Proto. Added Laura Smith, "The best practices program provides us with the best opportunity we've had in many years to improve the work environment at Yale."

In just a short time, this commitment has already produced several impressive success stories. From dramatic improvements at the Yale Golf Course to the implementation of new training programs, labor and management are proving the power of best practices.

Policy Board members Lloyd Suttle, Laura Smith, Bob Proto, and John Pepper.

WHY NOT? WEB SITE

Ian Ayres, the William K. Townsend Professor of Law, and Barry Nalebuff, the Milton Steinbach Professor of Management, created the Why Not Open Source movement (www.whynot.net) with their book *Why Not? How to Use Everyday Ingenuity to Solve Problems Big and Small*. Yale now has its own version of this site: www.whynot.net/yale. As people propose challenges, solutions, and ideas, others in the community can comment and build on those ideas.



Back row: Scott Ramsay, *Golf Course Superintendent*; Mike Moran, *Master Gardener*; Vin Capobianco, *Senior Gardener*; Ed DeFrank, *Groundskeeper*
Middle row: Carmine Ferraro, *Gardener*; Larry Mingione, *Gardener*; Rob Colonna, *Groundskeeper*
Front row: Jim Burgh, *Senior Equipment Technician*; Peter Gagliardi, *Gardener and Shop Steward*

FROM "LANDMARK GONE ASKEW" TO "THE NO. 2 COLLEGE GOLF COURSE IN THE WORLD"

In September 2003, *Golf Week* characterized the Yale course as "a landmark gone askew." In September 2004, the same writer in the same publication ranked the Yale Golf Course as "the No. 2 college golf course in the world."

How was this dramatic turnaround accomplished in just a year? It all started with a meeting between University and Local 35 representatives that "wasn't pretty."

"At the first meeting, we couldn't even agree about why we were sitting down," recalled Mike Moran, Master Gardener. "Was it a best practices meeting? A golf course meeting? Nobody could agree."

"The second and third meetings were more of the same," echoed Scott Ramsay, who came to Yale as Course Superintendent just a year ago when outsourcing the entire operation was under discussion.

"But we kept working at it," Moran continued. "When union and management all realized we had a common goal, it allowed us to arrive at where we are today. We all agreed this is a treasure of a golf course." Local 35 Shop Steward Peter Gagliardi added, "A lot of it had to do with trust—Tom Beckett, the Athletic Director, gave us his word that our jobs would be protected."

The key issue was how many people were needed to keep up the golf course. “Eight Local 35 members could not keep up with the golf course no matter how hard they worked,” Ramsay explained. In the meeting room Ramsay wrote the number 23 up on the board. The University had concluded that was the number of people needed to take care of the golf course in the critical summer months. The question was, who should those people be?

The team broke the logjam when they figured out how to employ both student athletes and an alternative workforce of University employees, such as dining hall staff, whose jobs weren’t active during the summer. The additional workforce not only performed well, but it also allowed the core unit to operate more efficiently and to focus on higher-level maintenance issues and improvements. The results were dramatic, as *Golf Week*’s rating attests.

“Now the light is on us. Alumni have been supportive. Local 35 has been supportive. We’re not done here—it’s all a work in progress,” said Moran. “This was not without conflicts or rifts, but everybody gave a little and it turned into a beautiful thing.”

“THIS WAS NOT WITHOUT CONFLICTS OR RIFTS, BUT EVERYBODY GAVE A LITTLE AND IT TURNED INTO A BEAUTIFUL THING.”

Buying for the University. Faster, better, cheaper. And, yes, you can have all three.

A revolution in the Procurement office is offering the Yale community smarter and lower-cost ways to get what we need when we need it. The list of improvements is getting longer every day.

Over the past three years, the University has been transforming the way it buys, moving from a transaction-based system to strategic sourcing. In early 2004 Yale hired Accenture to quicken the pace of the transformation and provide benchmarking and insights about prime opportunities for campus-wide improvement. Implementing all these recommendations would result in savings of $25 million to $40 million over a three- to five-year period—and that doesn't count time saved and increased customer satisfaction.

"We've greatly improved our ability to do strategic contracting, with a more rigorous understanding of both internal needs and external markets. Increasingly, we're taking full advantage of Yale's purchasing power. Where once we had silos, now we're aggregating needs," said John Mayes, Executive Director of Procurement. "And now we've added the efficiencies of e-procurement, which eliminates delays while driving out a mountain of paperwork. New buying tools like the SciQuest system will let everyone in the Yale community shop across our pre-negotiated contracts, compare prices, and get what they need easily at a better price."

"Now the purchase requisition, the purchase order, and the invoicing will all be electronic," noted Cary Scapillato, Controller and Assistant Vice President.

"From a customer standpoint we've cut days out of the process with our new electronic buying tools. Someone who needs slides or test tubes or other lab supplies to finish an experiment can now get them virtually overnight," added Mayes.

"Our customers in every department," Mayes continued, "are collaborating on changes that improve their ability to get their work done quickly and easily. Our recent move to electronic travel reimbursements was originally proposed by community members through our Yale Why Not? Web site. Their great idea was acknowledged and implemented within weeks."

SAVINGS OF $25 MILLION TO $40 MILLION OVER A THREE- TO FIVE-YEAR PERIOD.

Here's just a sampling of procurement's recent successes:

30% savings on light bulbs, wiring, and switches through a "reverse auction," conducted with Facilities, which leveraged both technology and University-wide buying power.

$250,000 savings by pooling University cell phone minutes under one centralized contract.

69% savings by using generic brand toner cartridges. Not only is this a significant savings over name-brand cartridges, it represents a "green" solution because these cartridges are recycled.

40% drop in domestic long distance rates.

$100,000 savings by consolidating elevator maintenance contracts.

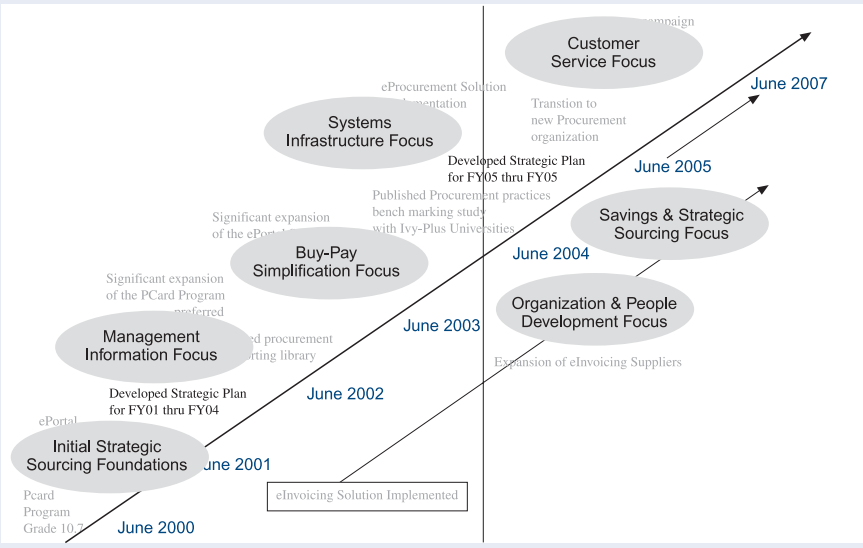
$150,000 projected savings from express shipping contracts and the use of "Accuship," an online tool that eliminates paperwork and creates competition for express shipping services.

$500,000–$1 million projected savings from new online travel services that will provide more choices to the Yale community.

$100,000 in print and postage savings from pilot studies conducted with Yale Law School, the Yale Office of New Haven and State Affairs, Yale Medical School, and the Office of Development. These successes have led to the creation of the Publishing Services Center, whose ongoing work is projected to save $1 million–$2 million annually.

Evolution of the Yale Procurement Strategy

Over time, The Procurement Strategic Plan has evolved to reflect the changing needs of the Yale Community and to embrace the latest advancements in procurement.



YALE SHUTTLE

It now runs every ten minutes throughout the day, thanks to some smart analysis and input from riders throughout the University community. "Through our survey, we discovered that part of our regular route was used by less than 3% of our riders," said Don Relihan, Director of Support Services. "By redesigning our campus loops, we could be far more efficient and eliminate waits that could be as long as 40 minutes. We're serving more customers and our cost per rider has actually decreased." "At the same time," added Ed Bebyn, Manager of Parking and Transit, "we've switched to ultra-low-sulfur diesel fuel and we're working with a graduate student from the Yale School of Public Health on installing filters that significantly reduce both tailpipe and crank case emissions. We want to make the shuttle more environmentally efficient, too."

The steering team for the new molecular, cellular, and developmental biology building will help assure that cost, schedule, and program needs are being met throughout all phases of the project.

Back row: David Spalding, *MCDB Program Manager*; Thomas Pollard, *the Eugene Higgins Professor of Molecular, Cellular, & Developmental Biology and MCDB Chair*; Bruce Carmichael, *Assistant Provost for Science & Technology*; Andrew Hamilton, *Provost and the Benjamin Silliman Professor of Chemistry*. **Front row:** Robert Dincecco, *Associate Director, University Planning*; Pamela Delphenich, *University Planner*; Jerry Warren, *Associate Vice President for Construction and Renovation*; Martha Highsmith, *Deputy Secretary of the University*. **Not pictured:** Timothy Nelson, *Professor of Molecular, Cellular, & Developmental Biology*; John Bollier, *Associate Vice President for Facilities Operations*

Build labs and libraries that inspire innovation and save 10% doing it.

At Yale, the complexities of building planning are inextricably linked to programmatic planning. On Science Hill, buildings are being designed for very specific kinds of research and collaboration. "A space that will house ten thousand mice cages requires a different configuration from one that will house aquariums, for instance," noted Jerry Warren, Associate Vice President for Construction and Renovation. "Beyond that, we must also build in flexibility to expand and modify labs as needs change."

This flexibility is critical for attracting faculty. As Yale College Dean Peter Salovey notes, the first questions scientists and engineers ask are, "Where can I get my work done? Where is my work going to be supported?" Robert Alpern, Dean of the Yale School of Medicine, also sees facility planning as key in research. "You want to stay ahead of your needs to attract the best talent. At the same time, if you get too far ahead, you don't have the grants to pay for what you build. Yale facilities fell behind in the last 10 years. The Anlyan Center has been a huge plus but we need more."

"On the cost side, our challenge is clear. Our capital spending is almost certain to be over $250 million annually over the next several years. How can Yale save 10% to 15% on all the capital projects we undertake?" said Warren. "First, we are benchmarking every type of expenditure on every single job to create a complete database of architectural, engineering, and construction costs. Then we'll track metrics against a number we think we can hit and we'll know very quickly if we're improving or not."

Yale is also posing a creative challenge to architects who design major University buildings. On appropriate projects, architectural firms are being asked to present design concepts during planning that include an option that would save 10% compared to the project budget. This allows everyone to look at how value can be engineered in before projects have progressed too far to accommodate that savings.

"My job and the job of our steering teams is to represent customer needs and to offer creative and efficient ways to meet those needs. The University can then decide which design best fits its strategic requirements," stated Warren. "I want to make sure we always have the best actionable choices on the table."

Cost Saving Goals:
Tactics to Achieve Savings

Spend item	New Tactic	Savings Goal
Contingency spending during construction	Monthly reports; control changes	**
Construction Manager G.C.s	Negotiate line by line	**
Architect-Engineer fees	Negotiate line by line; control changes	**
Subcontractor workers compensation insurance	Self-insure	**
Surety bonding of subcontractors	Self-insure	**
Construction Manager fees	Use CM Cost Plus Fee vs. GMP	**
Project liability insurance	Self-insure	**
Total		**10–15%**

"I WANT TO MAKE SURE WE ALWAYS HAVE THE BEST ACTIONABLE CHOICES."

"LOOK TO THE CUSTOMER'S PERSPECTIVE AND LET THAT BE YOUR GUIDING PRINCIPLE."

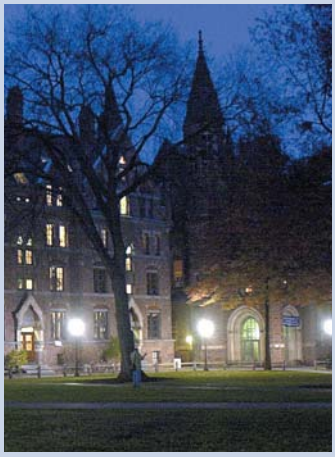
Serving our students– nothing is more important.

Ernst Huff, Associate Vice President for Student Financial and Administrative Services, takes a commonsense approach to the myriad of services for which his office is responsible (including financial aid, registration, and tuition payment, not to mention providing every meal served on campus). "Look back to the customer's perspective and let that be your guiding principle."

That perspective, coupled with state-of-the-art digital imaging and database technology, has created dramatic results, particularly in the area of financial aid, where competition is stronger than ever. "Parents are aware of what other institutions are doing, so the demand for better service has increased significantly," explained Huff.

Over the past several years, Huff and his staff have followed the customer-centric principle to create a Student Financial Services (SFS) organization that is not only committed to service but also is constantly seeking new efficiencies. Within the past few years, SFS has increased the posting of financial aid credits on first-term bills from 59% to 97% while reducing paper volume and handling. Each year nearly 50,000 fewer paper documents come in to the office (half the previous number). At the same time, SFS mails 4,000 documents, compared with 12,000 just two years ago. Most recently, SFS introduced online access to financial aid award letters and e-mail notification of award changes.

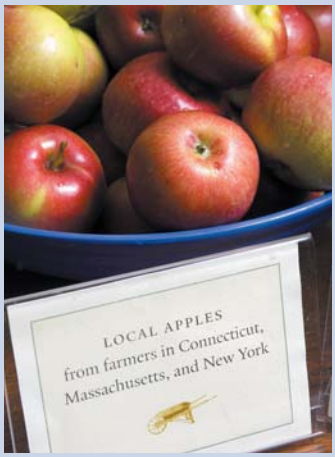
Just as important, Student Financial Services counselors have the training and the tools to provide comprehensive, one-on-one support. One parent e-mailed, "I don't know whether or not you would remember chatting with me last spring when my son, Matthew, was in the process of deciding whether or not he could come to Yale. Your advice regarding his financial aid application meant the difference between his being and not being able to attend. Yale has been just a great place for him to be. Thank you very much for making this possible."



YOU WANT TO REGISTER AT 2:00 A.M.? POUR YOURSELF SOME COFFEE AND CHOOSE YOUR CLASSES.

It's just another by-product of technological efficiency. A Yale student can now register for classes or check the status of a financial aid application when the rest of us are asleep. When simple tasks don't require in-person visits, the professional staff is more available for questions that require individual attention. "Because we deal with fewer routine requests, we are able to build relationships with students and their parents," said Myra Baas Smith, University Director of Financial Aid. Today, the average waiting time in the Student Financial Services office is just three minutes. Not surprisingly, peak student usage of Web-based services is between midnight and 2:00 a.m.

Back row: Joseph Cantafio, *Head of GSA*; Kurt Bauknecht, *Operations Manager of Sustainable Dining*; Michael Schoen, *First Cook*; Darren Gass, *Casual*; Catherine Jones, *Executive Chef of Sustainable Dining*; Diderot Desgrottes, *Cook's Helper*; John Turenne, *Director & Forager of Sustainable Dining*
Front row: Nicole Roseboro, *Second Cook ESM*; Dawn Boulas, *Head of Pantry*; Fannie Brooks, *Pantry Worker*; Pamela Little, *Pantry Worker*; Melina Shannon-DiPietro, *Associate Director of Yale Sustainable Food Project*



SUSTAINABLE FOOD PROJECT IMPROVES JOBS TOO

Students advocated for organic food in the dining halls, and Yale went a step further, creating the Yale Sustainable Food Project. Yale University Dining Services committed to bringing high-quality food to students by supporting local, sustainable farmers and by revamping menus in favor of simplicity and seasonality. The project—piloted last year at Berkeley College—is now making a debut in each residential college. While students call the food "as good as eating in a fine French restaurant," staff has warmed to working with fresh, high-quality ingredients.

"There was a point years ago, when I wasn't always so proud of the food we served—we had our names on chef's jackets but we were opening cans. This has been a rebirth for us all. It's labor intensive but the finished product is so worth it," explained Nicole Roseboro, Second Cook at Ezra Stiles/Morse. "I used to say I was a cook at Yale. Now I can call myself a chef."

An unexpected by-product of the project is the new sense of partnership between dining hall management and staff. The Berkeley management team of Catherine Jones, John Turenne, and Kurt Bauknecht regularly collaborates with the Berkeley staff in an ongoing test kitchen that also serves 6,300 meals a week. "We constantly talk with the cooks to determine final ingredients, recipes, and menus," said Jones. "There really is no other way to achieve what we need to get accomplished, especially when considering the number of people we serve."

The summer culminated with the Berkeley staff training their Local 35 colleagues in a cook-to-cook training program, the first such effort at Yale. "The whole idea of chefs training chefs was fairly revolutionary here," explained First Cook Mike Schoen. "It was a lot of work, but it was very rewarding." The group knew that it was essential to explain the reasoning or "whys" behind sustainable food, as well as the practical "how-tos." "So we visited farms, had a beekeeper come in to talk about honey, and visited our Edwards Street garden," said John Turenne.

Added Roseboro, "This is Yale. We should be leading the way with sustainable food. We should be leading the way with best practices. I'm so proud to be a part of it."

Yale University Dining Services is working to improve student satisfaction across campus with menu changes, increased communication, and structural improvements. Wrote one student: "I love the changes made at Commons. . . . Definitely up to Yale standards!! Thank you and keep up the good work."

"THIS IS YALE. WE SHOULD BE LEADING THE WAY."

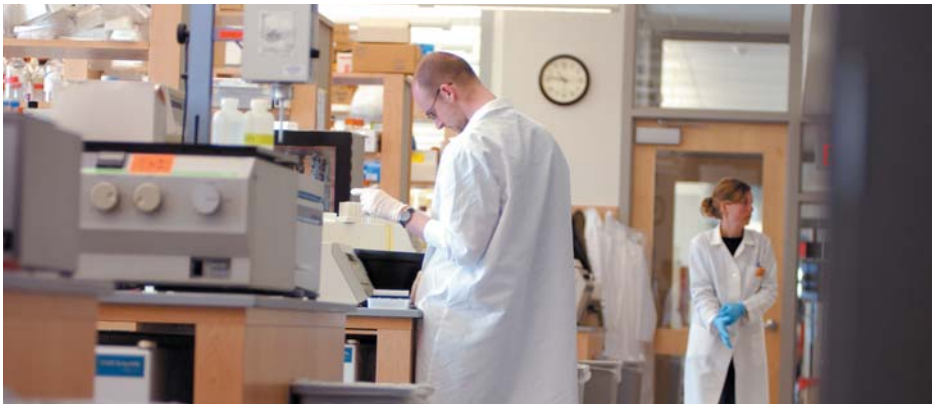
"THIS IS A GROWTH INSTITUTION."

It all gets back to people.

As Rob Schwartz explained, "This is a growth institution. If we train people correctly, if we focus on them with the right performance expectations and if we operate in a productive way, there will be plenty of great jobs here for a long, long time. We need to help people grow and pursue career opportunities. Additionally, we haven't always been as good as we should be at letting people know what's expected of them and at giving them feedback on how they are performing against those expectations."

"Increased communication is a critical first step in helping people advance their careers at Yale," commented Laura Smith. "Local 34 is conducting a series of departmental meetings across campus to listen to clerical and technical employees' concerns and identify ways to improve ongoing communication and build a better relationship between management and unionized employees."

"In addition to career development," Schwartz said, "we are working on the benefit programs that have a positive effect on both employees and the University's bottom line. We're starting with health care. If people are not satisfied with their health benefits, it can impact their work. We need to provide faculty and staff with meaningful choices in health care. So we've asked internal and external experts to look at both short-term and long-term strategies. We need to provide effective choices for individuals at a responsible cost to the University."

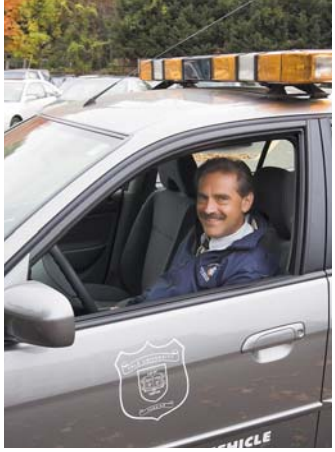


CAMPUS-WIDE E-MAIL KIOSKS

Yale's new service and maintenance (SAM) kiosks are strategically located around campus. They give computer access to employees who don't work in offices. "We need to make sure everyone who works at Yale can take advantage of Web-based tools and services," explained Faith Brown, Director of Facilities Information Systems. "The kiosks are part of a comprehensive program that includes computer classes for service and maintenance employees at all levels of proficiency."

"I used to have to get in my truck and drive all the way across campus if I needed to look at a blueprint," explained Jim Depino, Yale Electrician. "Now I can go to an e-mail kiosk and get on the Yale intranet and I have what I need. It's a big time saver."

Because computer skills and access are so essential, Yale is also offering every employee the chance to buy a home computer at a greatly reduced price. "With the classes I've taken, I now feel confident working on my own," commented a recent class participant.



The rewards of pioneering.

In the words of Ian Solomon, Associate Director of Yale Law School and co-chair of the Business Services Task Force, "Yale has so many different areas of excellence, and that diversity is a source of our strength, but it is also a source of complexity." For business managers of the 200-plus departments and for the people who work in them, the challenge is finding a way to use new tools and systems to support each individual operation. Departments have many different business models. One business manager may be handling the highly transactional work of 100 departments. Another may be managing complex grant reporting for a single department in the School of Medicine.

"That is definitely the challenge," explained Stephen Murphy, Director of Business Services Improvement and co-chair of the Business Services Task Force. "How do you develop processes that will leverage systems across a complex institution? We're finding ways to deliver high-quality, cost-effective services to a diverse set of customers while taking advantage of our scale and the fact that we are one university – Yale."

More than ever, while business practices help teams across the University manage more efficiently, forward-thinking financial planning is under way to provide a strong and lasting foundation on which to build. At the forefront of universities, Yale provides funds in the operating budget for the ongoing maintenance of facilities, as well as capital to renovate and replace buildings over time. Similarly, studies are under way to streamline and improve the quality of financial information and the planning process itself, as more adequately trained managers leverage more sophisticated knowledge and technology.

"This couldn't be happening without the unprecedented collaboration of the academic and administrative sides of the University," noted Provost Andrew Hamilton. "We are using all the intelligence and energy that are resident here to create a state-of-the-art infrastructure that's flexible enough to support a tremendous range of academic needs and styles. The very fact that there's no role model for this effort makes it particularly rewarding. We're in new territory and that's exactly where Yale should be."

"We're undertaking improvements here that are significant, systemic, and sustainable. And we're moving fast," added John Pepper. "There will be bumps in the road, but I'm optimistic. People all over campus are embracing change because it's bringing added professionalism and a sense of accomplishment to their jobs. They know the University is encouraging them to try new things and work in new ways. It's vital to the future of Yale. The results will come, and with them there's no turning back."

"THIS COULDN'T BE HAPPENING WITHOUT THE UNPRECEDENTED COLLABORATION OF THE ACADEMIC AND ADMINISTRATIVE SIDES OF THE UNIVERSITY."

"We're reaching out across and beyond the University for ideas and ways of working that help make Yale stronger. I welcome your thoughts, comments and active participation at www.yale.edu/fa/dialog."

—John Pepper

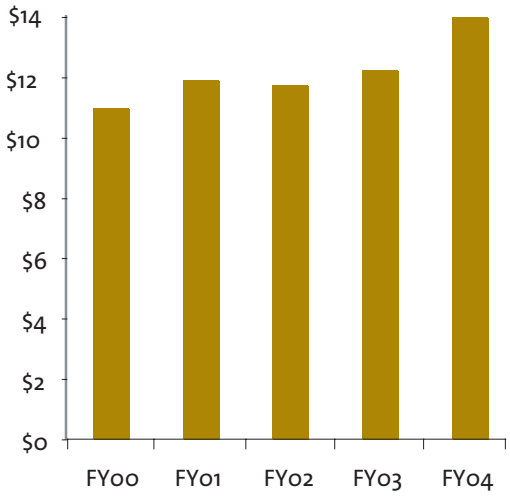
Financial Results Overview

At June 30, 2004, Yale reported total assets of $16.0 billion, liabilities of $2.0 billion, and net assets of $14.0 billion. Net assets increased by $1.7 billion during the year, primarily because of the outstanding 19.4% return on the endowment.

The University, once again, achieved a balanced operating budget. Total operating revenue increased by 8.0% to $1.68 billion. Increases in revenues from grants and contracts and the allocation of endowment spending to operations were the largest contributors to this growth. Total operating expenses increased by 8.6% to $1.68 billion, resulting in an increase in net assets from operating activities of $2.0 million.

Net Assets

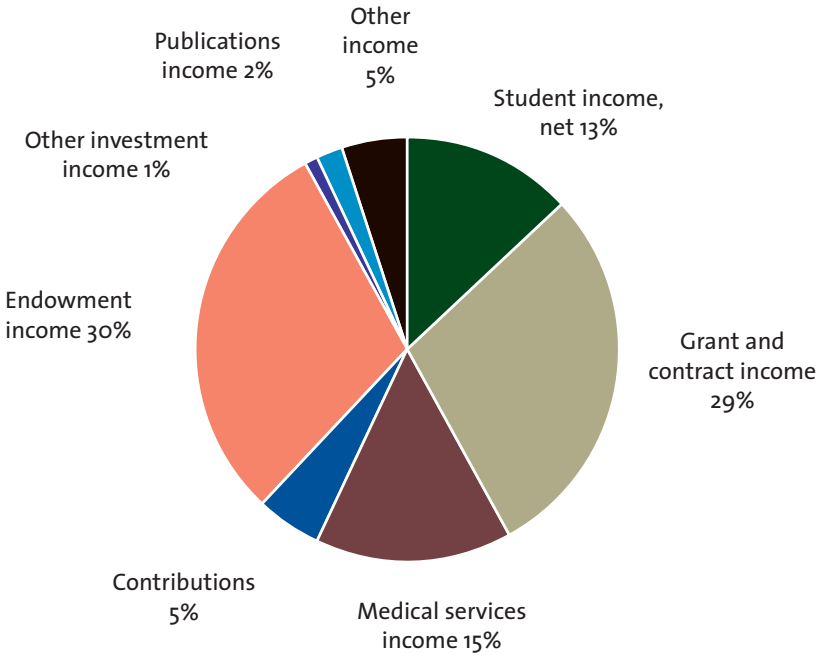
Five-year trend analysis ($ in billions)



Operating Revenue

As shown in the chart below, the University derives its operating revenues from five main sources: student income, grants and contracts, medical services, contributions, and endowment income. Additional revenues are received from a variety of programs.

Operating Revenue



Student Income

Student income, which includes revenue from tuition, fees, and room and board, net of financial aid increased 2.7% during 2004, and amounted to $216 million, or 12.9% of operating revenues. Of the total amount, tuition and fees accounted for $285.6 million, a 4.6% increase over 2003. Revenue from room and board increased 1.3% to $45.4 million during 2004. In accordance with generally accepted accounting principles, student income is presented net of certain scholarships and fellowships, which totaled $114.9 million and $107.4 million for 2004 and 2003, respectively.

During the 2003-2004 academic year, 11,241 students were enrolled at the University; 5,308 were undergraduate students attending programs at Yale College, and 5,933 were pursuing their studies at the Graduate School of Arts and Sciences and ten professional schools. (Figures are based on full-time equivalents.)

Students enrolled in Yale College paid $28,400 for tuition and $8,600 for room and board, bringing the total term bill to $37,000 for the 2003-2004 academic year. The increase in the Yale College term bill over the 2002-2003 academic year was limited to 4.6%, a reflection of the high priority placed on making a Yale College education accessible to the broadest range of students. Students enrolled in the Graduate School of Arts and Sciences paid $25,600 for tuition, a 4.6% increase over the 2002-2003 academic year.

The University maintains a policy of offering Yale College admission to qualified applicants without regard to family financial circumstances. This “need-blind” admission policy is supported

with a commitment to meet in full the demonstrated financial need of all such students throughout their four undergraduate years.

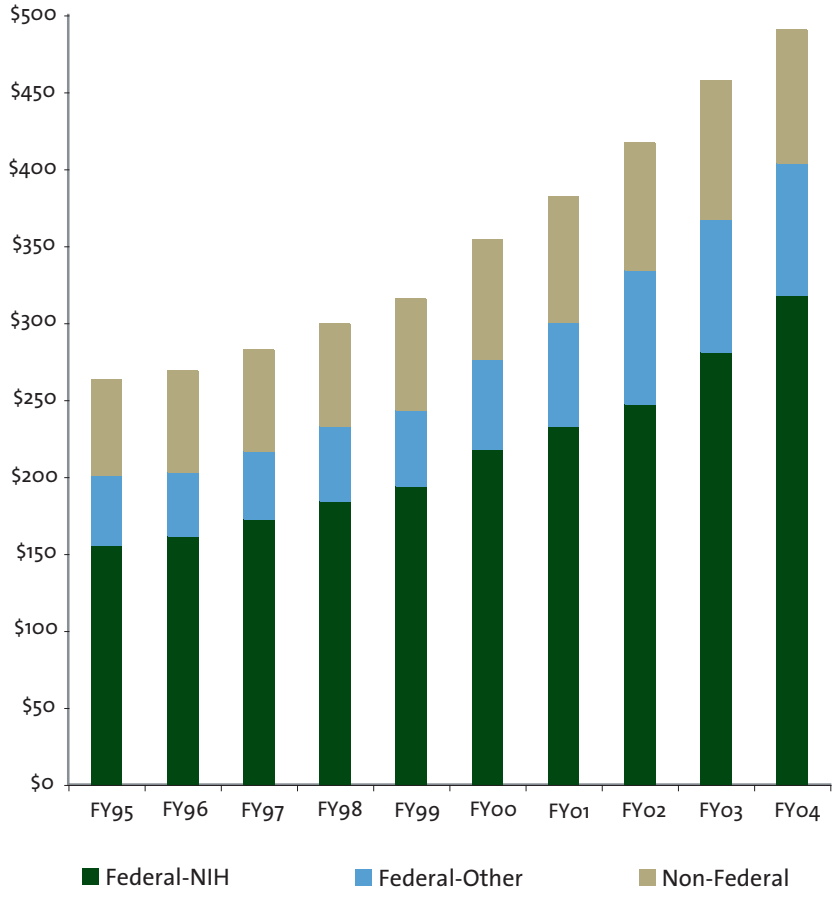
During the 2003-2004 academic year, 2,165 Yale College students, representing 41% of the Yale College enrollment, received financial aid. In the Graduate School of Arts and Sciences, 2,410 students, or 99% of those enrolled, received financial aid. In the professional schools, 2,779 students, or 81.9% of those enrolled, received financial aid. In all, 7,354 University students, or 66.1% of total University enrollment, received some type of University-administered student aid in the form of loans, gifts, or a combination of both loans and gifts.

Grant and Contract Income

Grant and contract income experienced a 7.3% growth from $457.8 million in 2003 to $491.0 million in 2004. The Yale School of Medicine, which receives 78% of the University's grant and contract income, reported an increase of 8.0% for 2004, while the remaining University sectors had an increase of 4.7%.

Grant and Contract Income

Ten-year trend analysis ($ in millions)



The federal government funded $404 million, or 82% of 2004 grant and contract income in support of Yale's research and training programs. The largest federal sponsor was the National Institutes of Health, which provided revenues of $318 million during 2004, an increase of 13.1% over the prior year. The University also receives significant research support from the National Science Foundation, the Department of Energy, the Department of Defense, and student aid awards from the Department of Education. Non-federal sources, which include foundations, voluntary health agencies, corporations, and the State of Connecticut, provide an additional $87 million in research, training, and other purposes.

In addition to funding the direct cost of sponsored programs, grant and contract awards generally include reimbursement for a portion of the costs related to research laboratories and other facilities, as well as administrative and support costs incurred for research and other sponsored activities. These reimbursements for facility and administrative costs amounted to $116.1 million in 2004, which is an increase of 10.6% over the prior year. Recovery of facility and administrative costs allocable to federally sponsored programs is recorded at rates negotiated with the University's cognizant agency, the Department of Health and Human Services. Yale's current rate agreement is effective from July 1, 2002 through June 30, 2005.

The primary regulations governing federal grants and contracts are encompassed in Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions,* and Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.* The A-21 principles were modified during the 1990's to impose limits on the types and amounts of facility and administrative costs eligible for reimbursement and mandate more stringent Federal Cost Accounting Standards for both grants and contracts.

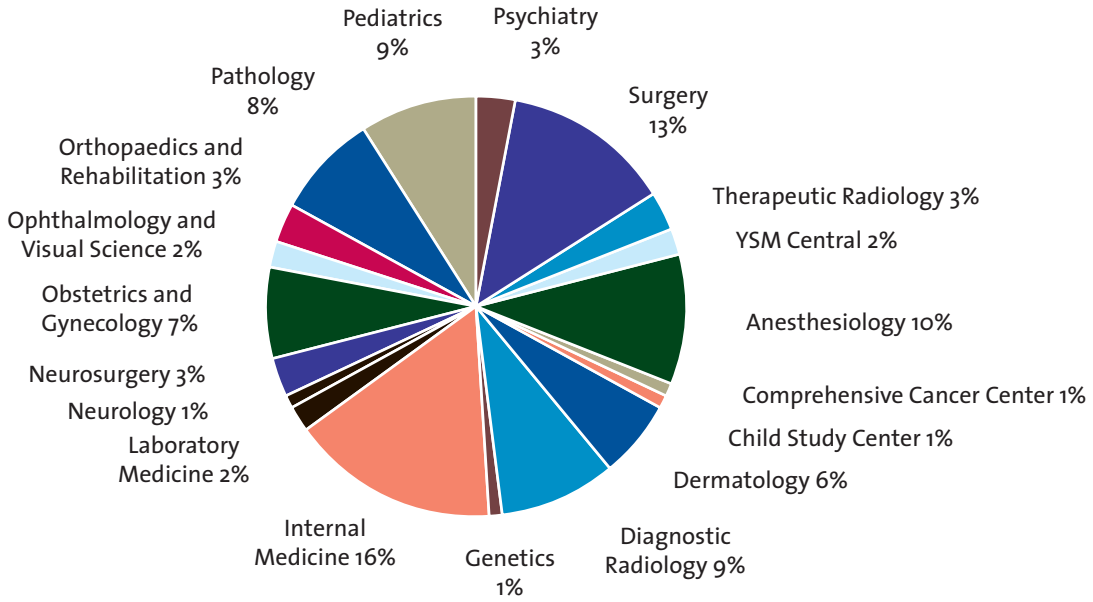
Medical Services Income

Medical services income totaled $250.4 million in fiscal 2004 and is a significant component of the University's operating revenue while providing support for the University's mission to preserve and disseminate knowledge through research and teaching.

The largest portion of this revenue stream is derived from patient care services provided by the School of Medicine's Yale Medical Group. Other components include income from diagnostic laboratory services and contracts with affiliated hospitals, including Yale-New Haven Hospital, Inc. (YNHH). The increase of 10.4% in patient care income during the year was a result of: new programs in areas such as Surgery, Obstetrics and Gynecology, and Pathology; increased volume in Dermatology and Dermatopathology, Anesthesiology and Orthopaedics; and improved efficiencies in billing. In addition, the Yale Medical Group continues to be successful in negotiating with third party managed care payers to improve reimbursement.

The cost of malpractice insurance has become a significant burden in the health care market. Costs of the settlement of claims are increasing to unprecedented levels. While prevention techniques, including targeted risk management awareness programs and patient safety initiatives, are being implemented and refined, the benefits of these techniques cannot completely control the external factors which lead to these increasing costs to health care providers.

School of Medicine Clinical Income by Department



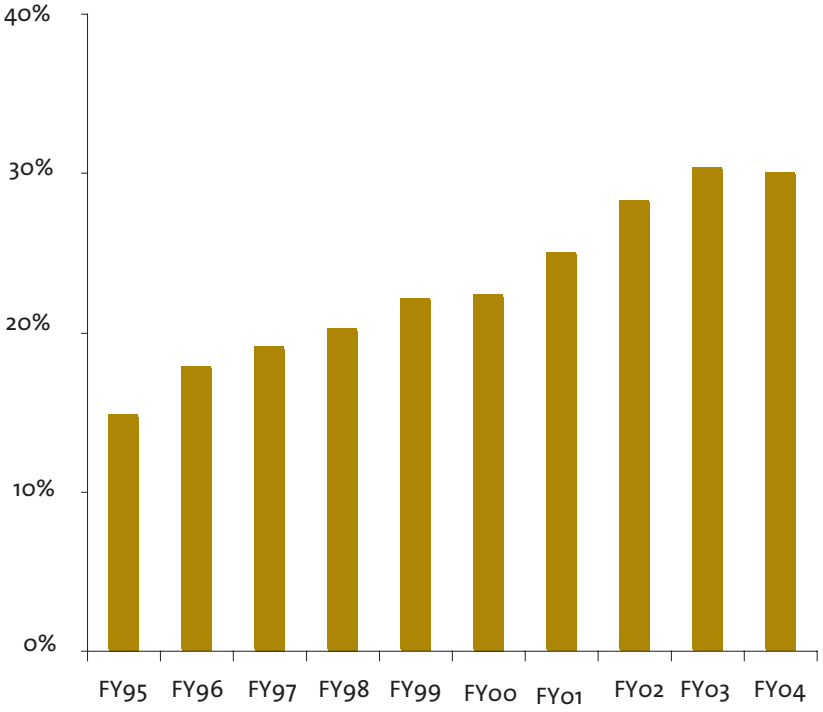
Allocation of Endowment Spending
Each year a portion of accumulated endowment investment returns is allocated to support operational activity. The level of spending is computed in accordance with the endowment spending policy that has the effect of smoothing year-to-year market swings. Endowment investment returns allocated to operating activities increased by 6.8% to $502 million. This important source of revenue represents 30% of total operating income this year and is the largest source of operating revenue for the University. The performance of the endowment investment portfolio and the endowment spending policy are discussed in detail in the endowment section of this report.

Other Investment Income
Other investment income of $20.9 million represents interest, dividends, and gains on investments held outside of the endowment.

Contributions
Contributions revenue from Operating, Physical, and Financial activities totaled $208.0 million for 2004. This represents a 19% increase from 2003's revenue of $174.1 million.

Publications and Other Income
Publications income is earned primarily through Yale University Press, a separately endowed department of the University. The Press published approximately 300 titles in 2004 and has approximately 3,700 titles in print. Many of these books are winners of prizes, including four Pulitzer Prizes. Its authors are academic and professional people from all over the world. Two recent publications were *Benjamin Franklin*, a New York Times best seller authored by Edmund Morgan, Sterling Professor Emeritus of History at Yale University, and Gore Vidal's *Inventing a Nation*. Revenue from the Press was $28.8 million in 2004, which was an increase of 16.7% from revenue of $24.0 million in 2003.

Allocation of Endowment Spending
as a Percentage of Total Revenues, Ten-year trend analysis

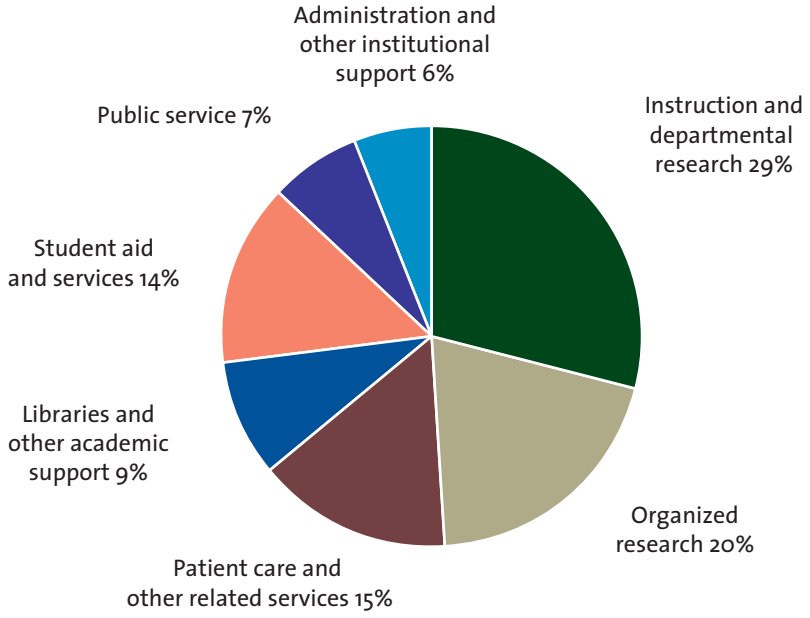


Operating Expenses

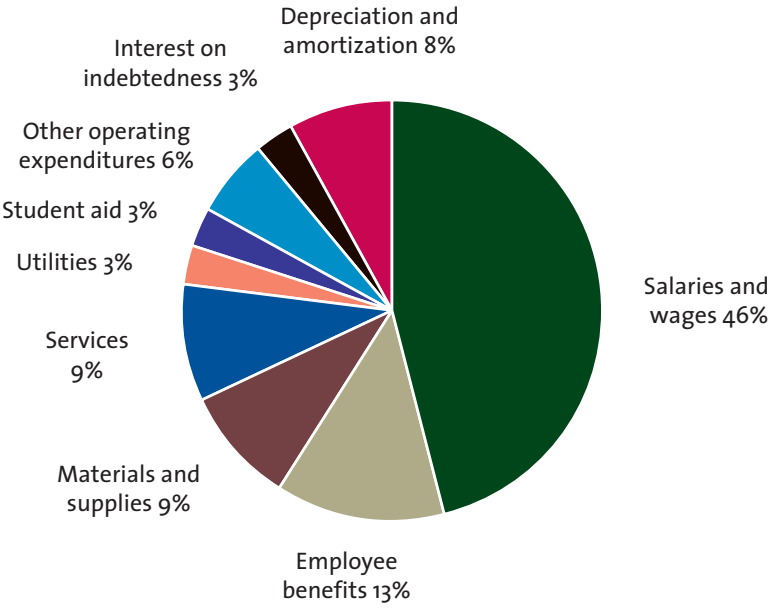
Operating expenses totaled $1.68 billion, representing an 8.6% increase in expenses for the year. The largest component of expenses, salaries and wages and employee benefits, rose 9.8%. This category of expense represents 59% of total University operating costs. In addition, utilities increased 14.9% and depreciation increased 10.4%. Higher fuel prices were responsible for the increase in utilities. The completion of several major capital projects over the past two years resulted in the increase in depreciation.

In accordance with generally accepted accounting principles, Yale reports its operating expenses by functional classification on the Statement of Activities. Instruction and departmental research, combined with organized research, represented 50% of total operating expenses. Together, these two functional classifications increased by 12%. The growth was the result of increased federal funding for research and the University's commitment to investing in faculty and new programs in education.

Operating Expenses by Functional Classification



Operating Expenses by Natural Classification



Faculty and Staff Compensation

The University employs approximately 3,400 faculty, 3,600 managerial and professional staff, and 4,000 unionized clerical, technical, service, and maintenance personnel, based on full-time equivalents. Total salaries and wages and related employee benefits were $994.4 million in 2004, which was a 9.8% increase from 2003. These increases were in line with the University's overall plans to maintain moderate growth and competitive position with peer institutions. Faculty salaries, which comprise 45.3% of total compensation, rose 8.4% in 2004. Since competition for the most qualified candidates is keen among academic institutions and private sector organizations, compensation packages must be competitive in order to recruit and retain faculty of the highest caliber. The University has also made it a priority to ensure that the salary and benefit programs for staff are equitable and competitive with the marketplace.

The cost of providing employee benefits, including various pension, postretirement health and insurance plans in addition to social security and other statutory benefits, amounted to $215.8 million, an increase of 19.0% from 2003 principally due to an increase in pension benefits.

Operating Budget

The University manages its operations in the context of long-term financial equilibrium, seeking to sustain both the programs and the capital assets (endowment and facilities) over multiple generations. Endowment income is released to the Operating Budget based on a spending policy that preserves the endowment asset values for future generations, while providing a robust revenue stream for current programs. Similarly, the University recognizes the need to provide resources to maintain and replenish its physical assets, and increasingly is funding the Capital Replacement Costs. The Operating Budget focuses on operating resources in a given fiscal year that will be available to fund expenditures that occur during that fiscal period.

The Statement of Activities in the audited financial statements is presented in accordance with generally accepted accounting principles (GAAP), and differs from the Operating Budget perspective in specific ways. The Budget does not include certain expenses that are paid out over the long term, such as unused vacation time, and certain revenue that will not be received within the next fiscal year, such as pledged contribution revenue. Another significant difference is that the Budget treats the Capital Replacement Charge, or CRC (replacement depreciation) as an expense rather than the historical cost depreciation expensed in the Statement of Activities. The University has consistently been increasing the funding of the CRC since 1996 and funded $97 million from Operating Budget and departmental funds in fiscal 2004, $26 million from capital gifts, and borrowed the remaining $28 million. The University expects to fund the full CRC level in its Operating Budget by 2010. The financial statements categorize activities into operating, financial

Yale University Operating Budget Revenue and Expense

for the year ended June 30, 2004
($ in thousands)

	General Appropriations	Endowments & Gifts	Sponsored Research	Other	Actual June 30, 2004	Budget June 30, 2004
Revenue:						
Tuition, room, and board	$ 326,465	$ 590	$ -	$ 3,919	$ 330,974	$ 329,025
Funded Scholarships	(14,943)	(89,498)	(9,430)	(1,034)	(114,905)	(109,157)
Net Tuition, room and board	311,522	(88,908)	(9,430)	2,885	216,069	219,868
Grant and contract income	117,302	-	373,721	11	491,034	487,342
Medical services income	24,953	14	-	225,433	250,400	236,431
Contributions	26,881	48,799	-	109	75,789	55,922
Allocation of endowment spending	144,484	348,593	-	8,946	502,023	496,097
Other investment income	13,354	2,225	-	5,280	20,859	16,688
Other income	35,436	8,671	10	42,917	87,034	80,193
Transfers	-	(43,616)	(1,080)	32,283	(12,413)	(11,703)
Total revenue	673,932	275,778	363,221	317,864	1,630,795	1,580,838
Expenses:						
Faculty salaries	57,790	94,952	101,349	98,841	352,932	354,990
Staff salaries and wages	279,324	23,209	67,813	56,596	426,942	411,565
Total salaries and wages	337,114	118,161	169,162	155,437	779,874	766,555
Employee benefits	85,880	33,973	44,968	50,497	215,318	201,355
Student stipends	15,405	7,176	24,169	5,270	52,020	44,688
Other expenses	241,515	111,118	124,740	103,070	580,443	581,845
Capital replacement	89,629	1,662	-	5,626	96,917	96,145
Interest	53,187	550	-	124	53,861	64,980
Utilities	39,178	31	8	48	39,265	30,547
Internally provided services	(151,901)	(236)	-	(28,586)	(180,723)	(165,067)
Total expenses	710,007	272,435	363,047	291,486	1,636,975	1,621,048
Operating results - budgeted activity:	(36,075)	3,343	174	26,378	(6,180)	(40,210)
Use of / (Add to) Reserves	36,075				36,075	29,900
Use of / (Add to) Restricted Fund Balances	-	(3,343)	(174)	(26,378)	(29,895)	10,310
Operating Budget Bottom Line	$ -	$ -	$ -	$ -	$ -	$ -

and physical. The Operating Budget may transfer funding from one category to another, which is shown in Funding transfers. For example, endowment income may be transferred from operating to financial if a particular fund is accumulating income to achieve a specific principal balance. The operations of the Yale Press are consolidated in the Statement of Activities, but are not part of the Operating Budget.

A summary of the differences between the Operating Budget presentation and the Statement of Activities is as follows:

	2004	2003
Operating Budget Bottom Line	$ 0	$ 0
Operating Budget Add to/ (Use of) fund balances	(6,180)	34,964
Revenue from pledge activity	5,923	(8,768)
Expenditures related to long-term liabilities	(6,054)	(4,280)
Depreciation in excess of capital funding	(5,016)	(1,223)
Yale Press operating results	921	(1,008)
Funding transfers	12,413	(9,114)
Increase in net assets from operations	$ 2,007	$10,571

The Budget presents operating activity by funding source. General appropriations include general operations including the cost of education for the University. Endowments and gift activity are separated to facilitate and monitor the University's fiduciary responsibility for compliance with donor intentions for restricted activity. Sponsored research includes the funding from Federal, State and non-governmental entities and the direct costs of the related research. Other activity includes, among other things, health services provided by the Yale Medical Group as part of Yale's role in the Academic Health Center of Yale-New Haven Health Systems.

FY04 Operating Budget Results

The University drew down $6.2 million in fund balances accumulated in prior years to balance its Operating Budget, while a draw of $40 million was budgeted. The general appropriations budget was balanced for the year, while $3.3 million of endowment and gift balances were reserved for future years' commitments. Other sources generated an increase in fund balaces of $26 million.

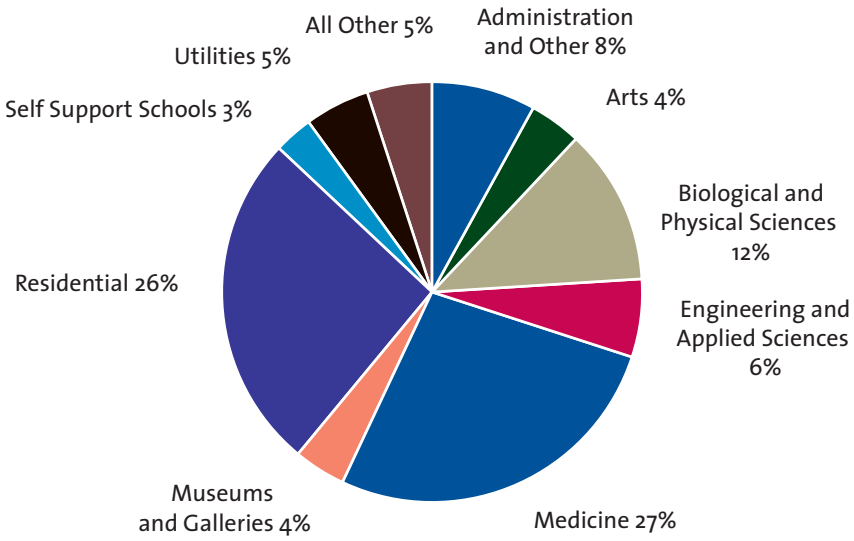
Tuition revenue showed strong growth as Yale College experienced record application rates. However, additional scholarship funding drove the Net Tuition, Room and Board income below budget expectations for the year. Sponsored Research showed the strong growth the budget anticipated in both the School of Medicine and the Faculty of Arts & Sciences. The growth in clinical income was fueled in part by recent recruitments to the School of Medicine and the success of the School's investments in its Clinical Development Program. Contributions were also higher than last year, and exceeded levels anticipated in the budget. Other Investment Income was higher than budget due to increased revenues from investment properties and greater endowment gifts added to the Allocation of Endowment Spending. Overall, Operating Budget revenue was $50 million, or 3% higher than budgeted.

Operating expenses were about 1% above budgeted levels, primarily in Sponsored Research and other restricted activities where the income also exceeded the budget. Salary expense includes increases for recent faculty recruitments and the settlement of the union contract for the University's clerical, technical, service, and maintenance work forces. The cost of fringe benefits exceeded the budget as a result of escalating health care costs and increased funding of the staff pension plan. Student stipends exceeded the budget in endowments, gifts and sponsored research due to the growth in revenue in these categories. Student stipend costs in general appropriations were on budget. Interest expense was lower than budget because of lower rates and debt levels than budgeted. Finally, record high oil and gas prices caused significant variance in utilities costs.

Physical Capital

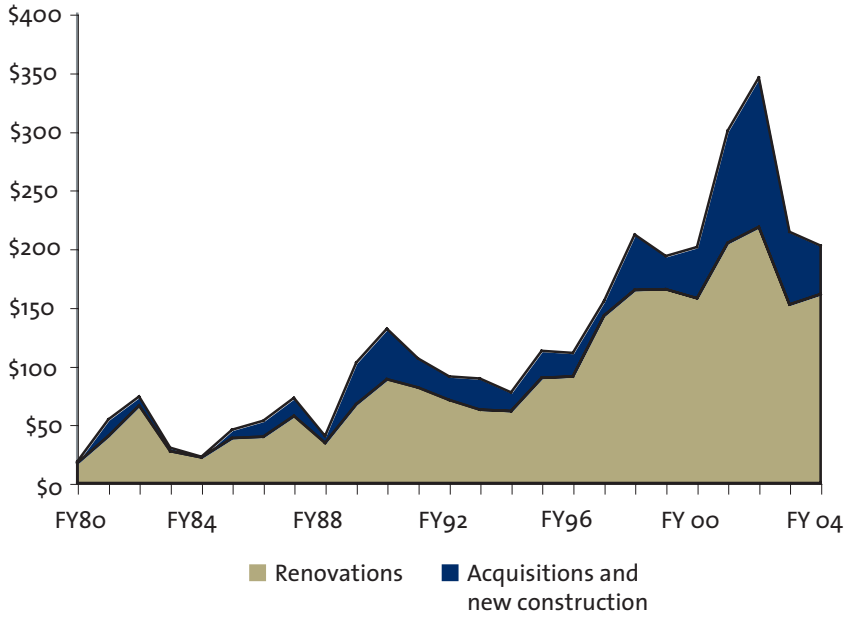
In 2004, the University continued its investment in renovating existing facilities and adding new facilities, with spending that totaled $202.1 million for the year. Of this spending, nearly twenty percent was for science buildings including rehabilitation of existing buildings such as Kline Biology Tower, as well as construction of the new Chemistry Research and Engineering facilities.

Capital Spending by Campus Area



Capital Spending by Year

($ in millions; in 2004 dollars)



At the same time, the Molecular, Cellular & Developmental Biology building moved from the planning phase to the preliminary design phase.

As in previous years, capital spending was also concentrated in the School of Medicine with investments in research, clinical, and administrative buildings. The School of Medicine accounted for more than a quarter of the University's 2004 capital expenditures. Funds were spent to complete construction of The Anlyan Center (formerly called the Congress Avenue Building), and to begin construction of the shell and core of the new Amistad Medical Building. The third largest project, in terms of 2004 expenditures, was the renovation of the second and third floors of the Sterling Hall of Medicine B-Wing to rehabilitate space used for research. This project was completed in 2004.

Spending for the residential colleges consumed another quarter of total capital expenditures, demonstrating the University's continuing commitment to fully refurbish its undergraduate residential facilities. In 2004, the renovation of Vanderbilt Hall, a freshman dormitory, was completed in time for the start of the 2003-2004 academic year. By 2004, four of the twelve residential colleges have been renovated: Berkeley, Branford, Timothy Dwight, and Saybrook. Construction is underway on three other colleges (Davenport, Pierson, and Silliman), and design has started on a fourth (Trumbull College). Morse and Stiles, the two most recently built colleges, and Calhoun have had more recent attention and will, therefore, require a smaller investment when they are renovated. That leaves Jonathan Edwards College as the last college requiring a comprehensive renovation. Attention will turn to restoring Jonathan Edwards following the renovation of Silliman and Trumbull.

Yale continued to address needs in other areas of the University, consistent with its strategy of modernizing all areas of the physical campus. The $20.9 million renovation of the School of Music's Sprague Hall was completed in 2004, as was the $4.7 million renovation of the Payne Whitney Gym locker rooms. Work progressed on the comprehensive renovation of the Yale University Art Gallery's Kahn Building and associated projects. Finally, the University spent $9.7 million during 2004 for utilities expansion and improvements in order to support existing and new buildings.

The University's ambitious renovation and building plans are funded by a combination of gifts, debt, and, increasingly, funds from the operating budget. The University continues to rely heavily on the extraordinary generosity of its

alumni/ae and friends. Gifts for facilities in 2004 totaled $26.9 million. The University has set gift targets for many of its projects and has been the beneficiary of an outstanding response from donors. The Engineering Research Building, the Chemistry Research Building, the residential college renovations, Yale University Art Gallery's Kahn Building, The Anlyan Center, Sprague Hall, and indeed, nearly all of the University's recent major renovation undertakings have been funded at least partially through gifts.

Another major source of financing for University capital projects is debt. Total outstanding facility debt for the University is now $1.57 billion. The University continues to benefit from advantageous interest rate conditions through its substantial variable-rate debt program, but has hedged a significant portion of its exposure to higher interest expense with interest rate swaps. As of June 30, 2004, Yale had $480 million in swaps outstanding associated with debt-financing building projects. Through the combination of direct issuance and swaps, the portfolio is now approximately 67% fixed and 33% variable.

Although the University relies on the liquidity of its own portfolio to fund any return of variable-rate bonds, it has entered into a revolving credit arrangement totaling $200 million to serve as a back-up liquidity facility. With the exception of its taxable commercial paper, which can be retired at will, and certain small borrowings, all of the University's debt is in the form of bullet maturities due between 2027 and 2096; that is, the debt matures in a single or a few years at the end of its life.

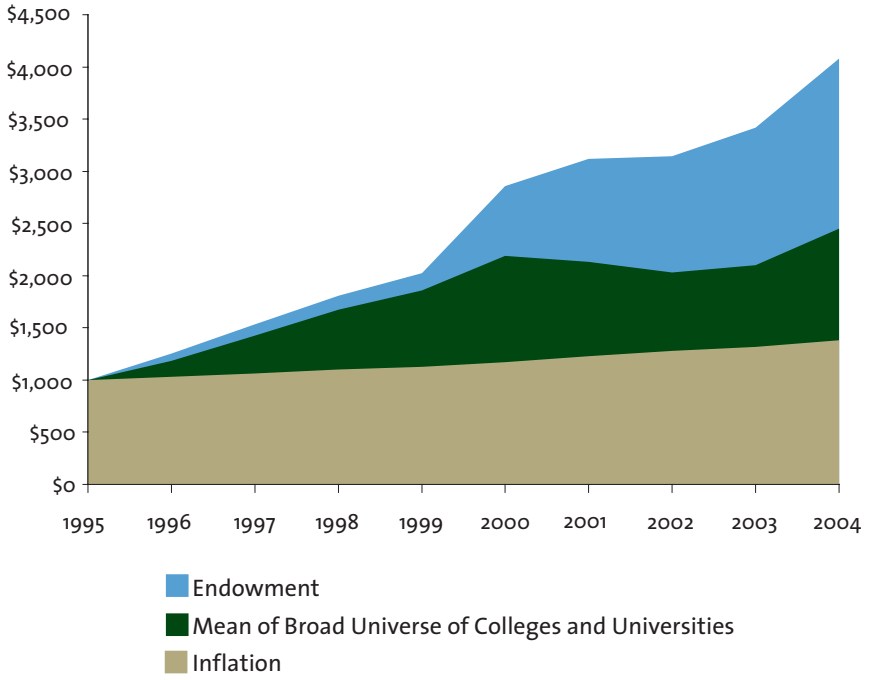
The University continues to enjoy the highest bond ratings available: AAA from Standard and Poor's and Aaa from Moody's.

Finally, an increasingly important source of funding for the University's capital plans is the operating budget. In 1996, the University began devoting a steadily increasing amount of operating funds to the capital budget. In 2003, however, the University significantly increased the transfer of operating funds to the capital budget by adopting an ambitious new policy to fund all capital maintenance and renovation of existing buildings from the operating budget within ten years. Fiscal 2004 was the first year of the University's ten-year plan that will eventually provide this entire amount from the operating budget.

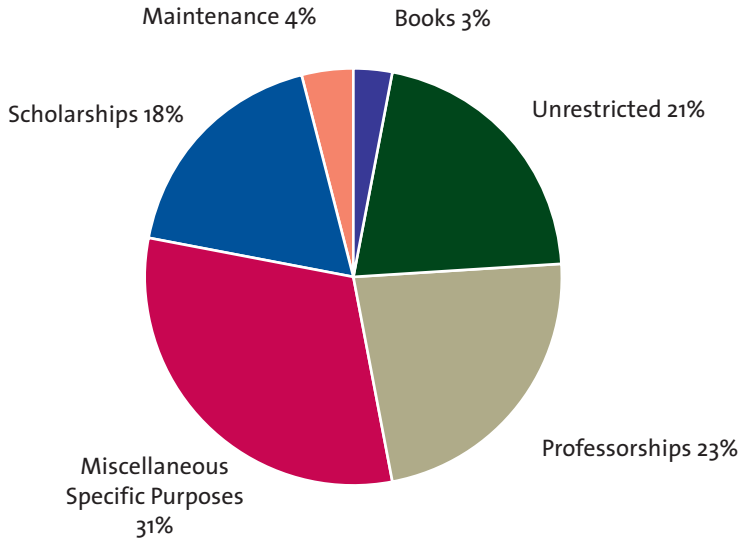
Endowment

The endowment supports both current and future academic programs of the University. To balance current and future needs, Yale pursues investment and spending policies designed to preserve endowment asset values while providing a substantial flow of income to the operating budget. At June 30, 2004, the endowment stood at more than $12.7 billion, after providing $502 million to the operating budget during the year.

Growth of $1,000 Invested in the Yale Endowment 1995-2004



Endowment Fund Allocation, Fiscal Year 2004



Investment Performance
For the year ended June 30, 2004, the endowment achieved a 19.4% investment return. During the past decade, the endowment earned an annualized 16.8% return, placing the University near the top of the universe of institutional funds. Yale's disciplined and diversified asset allocation policies combined with strong active management added substantial value to the endowment.

Over the ten years ended June 30, 2004, Yale's superior investment returns added $5.4 billion relative to a composite passive benchmark and $6.0 billion relative to the median return of a broad universe of colleges and universities.

Endowment Spending
The endowment spending policy, the means by which endowment earnings are allocated to operations, balances the competing objectives of providing a stable flow of income to the operating budget and protecting the real value of the endowment over time. The spending policy deals with the trade-off between these two objectives by using a long-term spending rate target combined with a smoothing rule, which adjusts spending gradually in response to changes in endowment market value.

In October 2004, the Yale Corporation approved an increase in the target spending rate from 5.00% to 5.25% and a modification of the smoothing rule to decrease the likelihood of a disruptive drop in spending. The new target rate will be effective for the fiscal year ending June 30, 2005. The actual rate of spending for 2004, when measured against the previous year's market value, was 4.54 percent. The smoothing rule and the diversified nature of the endowment mitigate the impact of short-term market volatility on the flow of funds to support Yale's operations.

The endowment provided $502 million to current operations in 2004, representing 30% of the University's operating revenues. Ten years ago, endowment distributions contributed approximately $146 million, or 16% of the budget. Over the past decade, endowment distributions increased at an annualized rate of over 14%.

Asset Allocation
Asset allocation proves critical to successful endowment performance. Yale's asset allocation policy combines tested theory and informed market judgment to balance investment risks with the need for high returns.

The need to provide resources for current operations as well as preserve the purchasing power of assets dictates investing for high returns, causing the endowment to be biased toward equity. In addition, the endowment's vulnerability to inflation directs the University away from fixed income and toward equity instruments. Hence, over 90% of the endowment is invested in some form of equity, through domestic and international securities, real estate, and private equity.

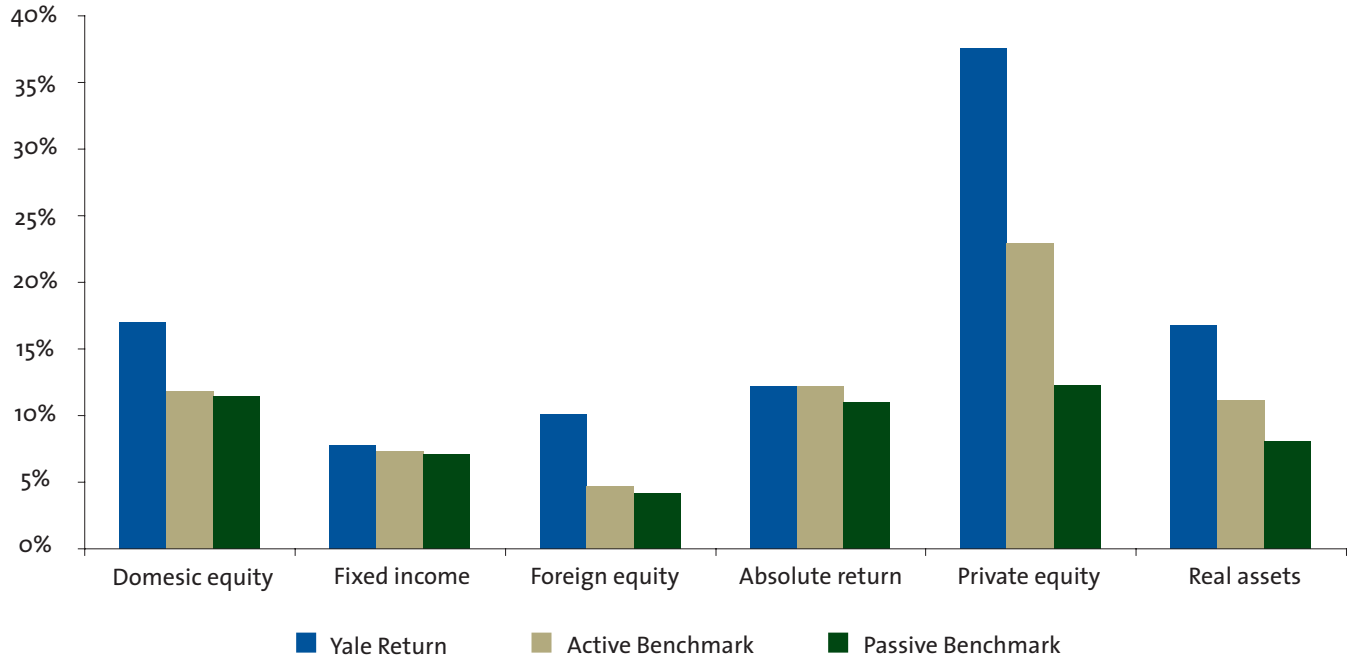
Over the past 15 years, Yale significantly reduced the endowment's exposure to traditional domestic marketable securities, reallocating assets to nontraditional asset classes. In 1989, nearly three-quarters of the endowment was committed to U.S. stocks, bonds, and cash. Today, this percentage is approximately 22.5%. Foreign equity, private equity, absolute return strategies, and real assets now represent more than three-quarters of the endowment.

The heavy allocation to nontraditional asset classes stems from the diversifying power they provide to the portfolio as a whole. Alternative assets, by their nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management. Today's actual and target portfolios have significantly higher expected returns and lower volatility than 1989's portfolio.

Asset Class	June 2004	Current Target
Domestic Equity	14.8%	15.0%
Fixed Income	7.4%	7.5%
Foreign Equity	14.8%	15.0%
Absolute Return	26.1%	25.0%
Private Equity	14.5%	17.5%
Real Assets	18.8%	20.0%
Cash	3.6%	0.0%
Total	100.0%	100.0%

Yale Endowment

Asset classes versus benchmarks: annualized returns net of fees for ten years ended June 30, 2004



Active Benchmarks

Domestic Equity: Frank Russell Median Manager, U.S. Equity
Fixed Income: Frank Russell Median Manager, Fixed Income
Foreign Equity: Frank Russell Median Manager Composite, Foreign Equity
Absolute Return: CSFB Composite
Private Equity: Cambridge Associates Composite
Real Assets: NCREIF and Cambridge Associates Composite

Passive Benchmarks

Domestic Equity: Wilshire 5000
Fixed Income: Lehman Brothers Treasury Index
Foreign Equity: 50% MSCI EAFE Index, 50% MSCI EMF Index
Absolute Return: 1-year Constant Maturity Treasury + 6%
Private Equity: University Inflation + 10%
Real Assets: University Inflation + 6%

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Report of Independent Auditors

To the President and Fellows of
Yale University:

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Yale University (the "University") at June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2003 financial statements, and in our report dated September 26, 2003, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 30, 2004

Yale University Statements of Financial Position

June 30, 2004 and June 30, 2003 ($ in thousands)

	June 30, 2004	June 30, 2003
Assets:		
Cash and cash equivalents	$ 452,585	$422,561
Accounts receivable, net	99,687	98,598
Contributions receivable, net	209,359	208,409
Student loans receivable, net	55,580	68,761
Investments, at market value	12,850,810	11,277,379
Beneficial interest in trust assets	128,840	106,601
Other assets	76,431	88,970
Land, buildings and equipment, net of accumulated depreciation	2,095,186	1,986,111
Total assets	**$ 15,968,478**	**$14,257,390**
Liabilities:		
Accounts payable and accrued liabilities	$ 182,380	$ 173,222
Advances under grants and contracts and other deposits	56,898	60,263
Other liabilities	72,671	116,182
Liabilities under split-interest agreements	76,108	74,532
Bonds and notes payable	1,572,687	1,572,885
Advances from Federal government for student loans	32,432	32,256
Total liabilities	**1,993,176**	**2,029,340**
Net assets:		
Unrestricted	7,540,560	6,700,281
Temporarily restricted	4,777,769	4,003,675
Permanently restricted	1,656,973	1,524,094
Total net assets	13,975,302	12,228,050
Total liabilities and net assets	**$ 15,968,478**	**$ 14,257,390**

Detail of net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2004	June 30, 2003
Endowment and student loans	$ 4,357,178	$4,334,517	$ 1,656,973	$ 10,348,668	$ 8,917,491
Funds functioning as endowment	2,319,186	97,944	-	2,417,130	2,146,395
Physical capital investment	573,755	192,747	-	766,502	714,113
Operating:					
Accumulated general budget deficit	(70,904)	-	-	(70,904)	(70,904)
Designated and restricted for specific purposes	361,345	152,561	-	513,906	520,955
	$ 7,540,560	**$ 4,777,769**	**$ 1,656,973**	**$ 13,975,302**	**$ 12,228,050**

The accompanying notes are an integral part of these financial statements.

Yale University Statement of Activities

for the year ended June 30, 2004 with summarized information for the year ended June 30, 2003
($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004	2003
Operating					
Revenues and reclassifications:					
Student income, net	$ 216,069	$ -	$ -	$ 216,069	$ 210,397
Grant and contract income, primarily for research and training	491,034	-	-	491,034	457,827
Medical services income	250,400	-	-	250,400	229,589
Contributions	18,751	62,961	-	81,712	64,205
Allocation of endowment spending from financial capital	151,531	350,492	-	502,023	470,097
Other investment income	20,859	-	-	20,859	17,434
Publications income	29,226	-	-	29,226	24,466
Other income	86,592	-	-	86,592	79,732
Total revenues	1,264,462	413,453	-	1,677,915	1,553,747
Net assets released from restrictions	424,075	(424,075)	-	-	-
Total revenues and reclassifications	1,688,537	(10,622)	-	1,677,915	1,553,747
Expenses:					
Instruction and departmental research	493,050	-	-	493,050	433,466
Organized research	343,369	-	-	343,369	313,129
Patient care and other related services	248,500	-	-	248,500	227,084
Libraries and other academic support	142,671	-	-	142,671	140,827
Student aid and services	228,856	-	-	228,856	222,948
Public service	109,977	-	-	109,977	98,836
Administration and other institutional support	109,485	-	-	109,485	106,886
Total expenses	1,675,908	-	-	1,675,908	1,543,176
Increase (decrease) in net assets from operating activities	12,629	(10,622)	-	2,007	10,571
Non-operating					
Physical capital:					
Contributions	-	12,068	-	12,068	17,244
Unrealized gain (loss) on swap contracts	46,923	-	-	46,923	(57,823)
Other (decreases) increases	(3,186)	-	-	(3,186)	953
Net assets released from restrictions	26,397	(26,397)	-	-	-
Increase (decrease) in net assets from physical capital activities	70,134	(14,329)	-	55,805	(39,626)
Financial capital:					
Contributions	542	2,312	111,364	114,218	92,681
Total endowment return, net of management fees	636,235	1,442,929	4,127	2,083,291	909,877
Other (decreases) increases	(14,472)	(8,962)	17,388	(6,046)	(10,041)
Allocation of endowment spending to operating	(151,531)	(350,492)	-	(502,023)	(470,097)
Net assets released from restrictions	286,742	(286,742)	-	-	-
Increase (decrease) in net assets from financial capital activities	757,516	799,045	132,879	1,689,440	522,420
Total increase in net assets	840,279	774,094	132,879	1,747,252	493,365
Net assets, beginning of period	6,700,281	4,003,675	1,524,094	12,228,050	11,734,685
Net assets, end of period	$ 7,540,560	$ 4,777,769	$ 1,656,973	$ 13,975,302	$ 12,228,050

The accompanying notes are an integral part of these financial statements.

Yale University Statements of Cash Flows

for the years ended June 30, 2004 and 2003 ($ in thousands)

	2004	2003
Operating activities:		
Change in net assets	$1,747,252	$493,365
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	129,203	118,843
Net endowment gains	(1,759,679)	(620,734)
Contributions restricted for physical and financial capital	(81,829)	(95,788)
Other adjustments	(4,932)	4,538
Changes in assets and liabilities that provide (use) cash:		
Increase in accounts receivable	(1,089)	(1,625)
Increase in contributions receivable	(950)	(2,809)
Decrease in other operating assets	1,080	2,134
(Decrease) increase in accounts payable, other liabilities and deposits and advances	(44,788)	67,403
Net cash used in operating activities	**(15,732)**	**(34,673)**
Investing activities:		
Student loans repaid	11,282	15,505
Proceeds from sale of student loans	29,060	20,307
Student loans granted	(27,633)	(24,272)
Purchases related to capitalized software costs and other assets	(1,252)	(5,034)
Proceeds from sale of investments	5,690,373	6,176,541
Purchases of investments	(5,526,357)	(6,188,722)
Purchases of land, buildings and equipment	(219,402)	(260,280)
Net cash used in investing activities	**(43,929)**	**(265,955)**
Financing activities:		
Contributions restricted for physical and financial capital	81,829	95,788
Contributions received for split-interest agreements	7,544	6,524
Payments made under split-interest agreements	(747)	(2,503)
Proceeds from long-term debt	-	350,000
Repayments of long-term debt	(342)	(617)
Interest earned and advances from Federal government for student loans	1,401	1,730
Net cash provided by financing activities	**89,685**	**450,922**
Net increase in cash and cash equivalents	30,024	150,294
Cash and cash equivalents at beginning of year	422,561	272,267
Cash and cash equivalents at end of year	**$452,585**	**$422,561**

The accompanying notes are an integral part of these financial statements.

Yale University
Notes to Financial Statements

1. Significant Accounting Policies

a. General

Yale University ("the University") is a private, not-for-profit institution of higher education located in New Haven, Connecticut. The University provides educational services primarily for students and trainees at the undergraduate, graduate and postdoctoral levels, and performs research, training and other services under grants, contracts and other similar agreements with agencies of the Federal government and other sponsoring organizations. The University's academic organization includes Yale College, the Graduate School of Arts and Sciences, ten professional schools and a variety of research institutions and museums. The largest professional school is the Yale School of Medicine, which conducts medical services in support of its teaching and research missions.

b. Basis of Presentation

The financial statements of Yale University include the accounts of all academic and administrative departments of the University, and certain affiliated organizations that are controlled by the University.

Financial statements of private, not-for-profit organizations measure aggregate net assets based on the absence or existence of donor-imposed restrictions. Three categories of net assets serve as the foundation of the accompanying financial statements. These categories are unrestricted, temporarily restricted and permanently restricted net assets. Brief definitions of the three net asset classes are presented below:

Unrestricted Net Assets - Net assets derived from tuition and other institutional resources that are not subject to explicit donor-imposed restrictions. Unrestricted net assets also include a portion of the appreciation on endowment investments as described in subsequent paragraphs of this note.

Temporarily Restricted Net Assets - Net assets that are subject to explicit donor imposed restrictions on the expenditure of contributions or income and gains on contributed assets. The temporary restrictions may expire due to the passage of time or the incurrence of expenditures that fulfill the donor-imposed restrictions. Temporarily restricted net assets are generally established in support of schools or departments of the University, often for specific purposes such as professorships, research, faculty support, scholarships and fellowships, library and art museums, building construction and other specific purposes.

Permanently Restricted Net Assets - Net assets that are subject to explicit donor- imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use the returns on the related investments over time for general or specific purposes.

The University's measure of operations as presented in the Statement of Activities includes income from tuition and fees, grants and contracts, medical services, contributions for operating programs, the allocation of endowment spending and other revenues. Operating expenses are reported on the Statement of Activities by functional categories, after allocating costs for operation and maintenance of plant, interest on indebtedness and depreciation expense. The University presents non-operating activity as physical capital and financial capital, within the Statement of Activities. The physical capital section includes contributions and other activities related to land, buildings and equipment that are not included in the University's measure of operations. Similarly, the financial capital section includes contributions, investment returns and other activities related to endowment and student loan net assets utilized for long-term investment purposes. Financial capital also encompasses expendable contributions and the related accumulated appreciation that have been designated to function as endowment (i.e., funds functioning as endowment) by the Yale Corporation.

Administration of the University's endowment is subject to the general provisions of the Uniform Management of Institutional Funds Act (UMIFA or "the Act"). Under the provisions of this State law, a governing board may appropriate for expenditure, for the uses and purposes for which an endowment fund is established, so much of the net appreciation as is deemed prudent based on standards established by the Act. While a governing board must exercise ordinary business care in the appropriation of such appreciation, the general provisions of UMIFA do not mandate that institutions retain endowment gains permanently. Generally accepted accounting principles require institutions that are subject to general UMIFA provisions to report gains on endowment assets as increases in unrestricted net assets or temporarily restricted net assets based on the absence or existence of donor-imposed restrictions.

Recognizing the critical importance of maintaining its physical capital as well as its financial capital over many generations, the University began in the mid-1990's to allocate funds directly from the operating budget to a capital maintenance account. Significant effort has gone into estimating an annual equilibrium level funding target for internal purposes that would allow Yale's facilities to be maintained in excellent condition on a consistent basis, thus avoiding deferred maintenance and the need to make catch-up investments in facilities at a later date. While not an exact science, an estimate of the full capital replacement equilibrium level for 2004 is $151 million. The University spent $156 million on the renovation of its facilities in 2004, of which $97 million was provided from operating funds, and the remainder from capital gifts and debt. Over time, it is the University's intent to increase the annual funding of capital replacement costs from the operating budget until such funding reaches the estimated full capital replacement equilibrium level.

c. Cash and Cash Equivalents

Cash and cash equivalents are recorded at fair value and include institutional money market funds and similar temporary investments with maturities of three months or less. Cash and cash equivalents representing investments purchased with endowment net assets are reported as investments. Cash and cash equivalents classified as investments were $610.6 million and $303.2 million at June 30, 2004 and 2003, respectively.

d. Investments

The University's investments are recorded in the financial statements at fair value. The value of publicly traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. The fair value of significant direct real estate investments is determined from periodic valuations prepared by independent appraisers.

Fair values for certain private equity and real estate investments held through limited partnerships or commingled funds are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the University's Investments Office. The University records the cost of managing its endowment portfolio as a decrease in financial capital within the appropriate net asset class in the Statement of Activities.

The University invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of the cash yield and appreciation of investments earned during the year is provided for program support. The University has adopted an endowment spending policy designed specifically to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. The spending policy attempts to achieve these two objectives by using a long-term targeted spending rate combined with a smoothing rule, which adjusts spending gradually to changes in the endowment market value. The Yale Corporation approved a long-term targeted spending rate of 5.0 percent effective beginning in fiscal 1996. The actual rate of spending for 2004 and 2003, when measured against the previous year's market value, was 4.54 percent and 4.47 percent, respectively. Actual rates have been lower than long-term targets in recent years due to strong investment returns.

e. Derivatives
Derivative financial instruments are recorded at fair value with the resulting gain or loss recognized in the Statement of Activities.

f. Land, Buildings and Equipment
Land, buildings and equipment are generally stated at cost and are presented net of accumulated depreciation. Annual depreciation is calculated on a straight-line basis over useful lives ranging from 15 to 50 years for buildings and improvements and 4 to 12 years for furnishings and equipment.

g. Other Assets
Capitalized software and bond issuance costs are categorized within other assets in the financial statements. Bond issuance costs are amortized over the term of the related debt and capitalized software costs are amortized over the estimated useful lives of the software, ranging from 5 to 10 years.

h. Collections
Collections at Yale include works of art, literary works, historical treasures and artifacts that are maintained in the University's museums and libraries. These collections are protected and preserved for public exhibition, education, research and the furtherance of public service. Purchases of such collections are recorded as operating expenses in the period in which the items are acquired.

i. Split-Interest Agreements
The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenues for charitable gift annuities and charitable remainder trusts are recognized at the dates the agreements are established. In addition, the present values of the estimated future payments to be made to the beneficiaries under these agreements are recorded as liabilities. For pooled income funds, contribution revenue is recognized upon establishment of the agreement at the fair value of the estimated future receipts, discounted for the estimated time period until culmination of the agreement. The discount rates used to calculate these liabilities approximated a risk-free rate.

j. Beneficial Interest in Trust Assets
The University is the beneficiary of certain perpetual trusts and charitable remainder trusts held and administered by others. The estimated fair value of trust assets are recognized as assets and as gift revenue when the trusts are established or when reported to the University.

k. Tuition and Fees
Tuition and fees revenue, which is included in student income on the Statement of Activities, is generated from an enrolled student population of approximately 11,200. The undergraduate population of approximately 5,300 is a diverse group attracted from across the United States and from many foreign countries. Foreign students account for approximately 9 percent of the undergraduate population. Net tuition revenue from undergraduate enrollment represents approximately 60 percent of total net tuition revenue.

The University maintains a policy of offering qualified applicants admission to Yale College without regard to financial circumstance as well as meeting in full the demonstrated financial need of those admitted. Student need in all programs throughout the University is generally fulfilled through a combination of scholarships and fellowships, loans and employment during the academic year. Tuition and fees have been reduced by certain scholarships and fellowships in the amounts of $114.9 million and $107.4 million in 2004 and 2003, respectively.

l. Contributions
Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those contributions are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met. A facilities and administrative charge is assessed against current use gifts when received.

m. Grant and Contract Income
The University receives grant and contract income from governmental and private sources. In 2004 and 2003, grant and contract income received from the Federal government totaled $404.0 million and $365.7 million, respectively. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Recovery of facilities and administrative costs of Federally sponsored programs is at rates negotiated with the University's cognizant agency, the Department of Health and Human Services. The University and the Federal government are currently operating under an agreement that establishes facilities and administrative cost reimbursement rates under Federal grants and contracts through June 30, 2005.

n. Medical Services Income
The University has agreements with third-party payors, including health maintenance organizations, that provide payment for medical

services at amounts different from standard rates established by the University. Medical services income is reported net of contractual allowances from third-party payors and others for services rendered, and further adjusted for estimates of uncollectible amounts.

o. Net Assets Released from Restrictions
Reclassification of net assets is based upon the satisfaction of the purpose for which the net assets were restricted or the completion of a time stipulation. Restricted contributions and net investment returns earned are reported as temporarily restricted support and reclassified to unrestricted when any donor- imposed restrictions are satisfied. Restricted net assets associated with physical capital assets are reclassified to unrestricted net assets when the capital asset is placed in service.

p. Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made in the preparation of these financial statements include the valuation of investments at fair value, the estimated net realizable value of receivables, and the actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from those estimates.

q. 2003 Financial Statement Presentation
Comparative summarized information for the year ended June 30, 2003 presented in the Statement of Activities does not include sufficient detail by net asset class to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2003, from which the summarized information was derived. In addition, certain amounts have been reclassified to conform to the current-year presentation.

2. Investments

As described in Note 1d, investments are generally shown in the financial statements at fair value. The fair values of the University's investments (excluding non-endowment cash and cash equivalents as described in Note 1c) are presented below, as of June 30, in thousands of dollars:

	2004	2003
Endowment:		
Domestic equities	$ 1,832,626	$ 1,694,521
Absolute return	3,269,628	2,728,955
Private equities	1,818,697	1,626,159
Fixed-income	1,237,018	813,820
Real assets	2,518,495	2,425,809
International equities	1,864,510	1,590,718
	12,540,974	10,879,982
Assets held in trust:	71,082	62,308
Other investments:		
Fixed-income	152,600	257,367
Other	86,154	77,722
	238,754	335,089
Total Investments	$12,850,810	$11,277,379

Fixed income investments in the non-endowment portfolio include CHEFA X proceeds of $118.8 million and $172.2 million at June 30, 2004 and 2003, respectively, available for approved construction and campus renovation projects.

The University's split-interest assets as described in footnote 1i and included in investments comprise the following components, in thousands of dollars:

	2004	2003
Charitable gift annuities	$ 74,699	$ 63,220
Pooled income funds	23,341	23,269
Charitable remainder trusts	71,082	62,308
	$ 169,122	$ 148,797

The University has developed a diversified endowment investment portfolio with a strong orientation to equity investments and to strategies designed to take advantage of market inefficiencies. The University's investment objectives are guided by its asset allocation policy and are achieved in partnership with external investment managers operating through a variety of vehicles, including separate accounts, limited partnerships and commingled funds.

The University may employ derivatives and other strategies to (1) hedge against market risks, (2) arbitrage mispricings of related securities and (3) replicate long or short positions more cost effectively. Accordingly, derivatives in the investment portfolio may include currency forward contracts, interest rate and currency swaps, call and put options, debt and equity futures contracts, equity swaps and other vehicles that may be appropriate in certain circumstances. Since Yale does not strive for higher returns through market timing or by making leveraged market bets, derivatives are not used for speculation.

Yale's derivative positions directly held at June 30, 2004 included interest rate swaps, and currency forward contracts. The fair value of these derivatives was $24.2 million. A gain of $1.8 million related to these transactions is included within total endowment return in the Statement of Activities. Derivatives held by limited partnerships and commingled investment trusts in which Yale invests pose no off-balance sheet risk to the University due to the limited liability structure of the investments.

Certain investment transactions, including derivative financial instruments, necessarily involve counterparty credit exposure. Such exposure is monitored regularly by the University's Investments Office in accordance with established credit policies and other relevant criteria.

At June 30, 2004, approximately 59.3 percent of the University's endowment investments were invested in limited partnerships or limited liability corporations. Under the terms of certain limited partnership agreements for private equity and real estate investments, the University is obligated to remit additional funding periodically as capital calls are exercised. At June 30, 2004, the University had uncalled commitments of approximately $3.0 billion. Such commitments are generally called over a period of years and contain fixed expiration dates or other termination clauses.

The University has various sources of internal liquidity at its disposal, including cash, cash equivalents and marketable debt and equity securities. If called upon on June 30, 2004, management estimates that it could have liquidated approximately $3.2 billion to meet short-term needs.

A summary of the University's total investment return as reported in the Statement of Activities is presented below, in thousands of dollars:

	2004	2003
Investment income	$ 323,612	$288,341
Realized and unrealized gains, net of investment management fees	1,759,679	621,536
Return on the endowment	2,083,291	909,877
Other investment income	20,859	17,434
Total return on investments	$2,104,150	$927,311

Endowment investment returns totaling $502.0 million and $470.1 million were allocated to operating activities in 2004 and 2003, respectively, using the spending policy described in Note 1d.

3. Accounts Receivable

Accounts receivable from the following sources were outstanding at June 30, in thousands of dollars:

	2004	2003
Medical services	$ 34,554	$ 35,582
Grants and contracts	35,211	38,479
Investment income receivable	9,433	10,273
Affiliated organizations	20,057	14,831
Yale University Press receivables	5,637	5,528
Other	11,200	10,634
	116,092	115,327
Less: Allowance for doubtful accounts	(16,405)	(16,729)
	$ 99,687	$ 98,598

Medical services receivables are net of an allowance for contractual reserves in the amount of $27.5 million and $28.0 million at June 30, 2004 and 2003, respectively.

The University and Yale-New Haven Hospital ("the Hospital") are parties to an affiliation agreement that establishes guidelines for the operation of activities between these two separate organizations. These guidelines set forth each organization's responsibility under the common goal of delivering comprehensive patient care services. Under the terms of the arrangement, the Hospital is responsible for providing a clinical setting and clinical support for the University to carry out its teaching and research missions. The University provides professional services from faculty of the Yale School of Medicine and a variety of other administrative and clinical services.

The net receivable from the Hospital amounted to $5.9 million and $6.1 million at June 30, 2004 and 2003, respectively. Balances are settled in the ordinary course of business.

4. Contributions Receivable

Contributions receivable consists of the following unconditional promises to give as of June 30, in thousands of dollars:

	2004	2003
Purpose:		
Endowment	$ 78,013	$ 66,508
Capital purposes	106,871	126,820
Operating programs	88,056	81,160
Gross unconditional promises to give	272,940	274,488
Less: Discount	(24,278)	(30,922)
Allowance for uncollectible accounts	(39,303)	(35,157)
Net unconditional promises to give	$209,359	$208,409
Amounts due in:		
Less than one year	$ 69,726	$ 47,360
One to five years	161,620	172,961
More than five years	41,594	54,167
Total	$272,940	$274,488

Discount rates used to calculate the present value of contributions receivable ranged from .98 percent to 6.52 percent at June 30, 2004, and from .98 percent to 6.60 percent at June 30, 2003.

5. Student Loans Receivable

Student loans and interest receivable at June 30, in thousands of dollars, include:

	2004	2003
Stafford Loan Program	$ 1,459	$14,306
Perkins Loan Program	32,853	32,442
YSL Loan Program	19,649	20,059
Other student loans	4,788	5,019
	58,749	71,826
Less: Allowance for doubtful accounts	(3,169)	(3,065)
	$55,580	$68,761

Student loans receivable include donor-restricted and Federally-sponsored student loans with mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. Yale Student Loans (YSL) are made with University funds to meet demonstrated needs in excess of all other sources of student loan borrowings. Interest accrues at fixed rates upon loan disbursement. Amounts received from the Federal government to fund a portion of the Perkins student loans are ultimately refundable to the Federal government and have been reported as refundable advances in the Statements of Financial Position. The fair value of student loan instruments could not be determined without incurring excessive costs.

6. Other Assets

Other assets at June 30, in thousands of dollars, include:

	2004	2003
Software costs, net of accumulated amortization	$51,314	$62,555
Inventories	13,921	13,780
Bond issue costs, net of accumulated amortization	5,507	5,726
Other notes receivable	459	844
Deferred expenses	5,230	6,065
	$76,431	$88,970

Amortization expense included in operating expenses amounted to $13.0 million and $12.3 million in 2004 and 2003, respectively.

7. Land, Buildings and Equipment

Land, buildings and equipment at June 30, less accumulated depreciation, in thousands of dollars, are as follows:

	2004	2003
Land and real estate improvements	$ 74,780	$ 74,759
Buildings	2,458,158	2,306,086
Equipment	379,131	360,183
Construction in progress	187,045	171,223
	3,099,114	2,912,251
Less: Accumulated depreciation	(1,003,928)	(926,140)
	$2,095,186	$1,986,111

Depreciation expense included in operating expenses amounted to $116.2 million and $106.5 million in 2004 and 2003, respectively.

8. Other Liabilities

Other liabilities are obligations of the University that will be paid out over various terms in excess of one year and consist of the following:

	2004	2003
Market value of interest rate swap contracts	$23,950	$ 70,874
Financial aid grant obligations	14,421	14,980
Compensated absences	34,300	30,328
	$72,671	$116,182

9. Bonds and Notes Payable

Bonds and notes payable of the University at June 30, in thousands of dollars, consist of:

	2004	2003
Facilities financing	$1,572,687	$1,543,885
Student loan financing	-	29,000
	$1,572,687	$1,572,885

Total interest expense incurred on indebtedness was $55.1 million and $52.4 million in 2004 and 2003, respectively. Interest capitalized to land, buildings and equipment totaled $.9 million and $2.7 million in 2004 and 2003 respectively.

a. Facilities

The University has entered into various agreements to finance its facilities additions, renovations and improvements. Bonds and notes payable outstanding for such purposes at June 30, in thousands of dollars, include:

	Effective Interest Rate 2004	Year of Maturity	Principal Outstanding 2004	Principal Outstanding 2003
Connecticut Health and Educational Facilities Authority (CHEFA) tax-exempt bonds				
Series S	.94%	2027	$ 135,865	$ 135,865
Series T	.88%	2029	250,000	250,000
Series U	.85%	2033	250,000	250,000
Series V	.86%	2036	200,000	200,000
Series W	5.13%	2027	87,749	87,672
Series X	2.06%	2037/2042	350,000	350,000
Total CHEFA bonds			1,273,614	1,273,537
Medium-term notes	7.38%	2096	113,397	113,388
Taxable commercial paper	1.10%	2004	181,152	152,094
Other notes payable	3.00%-7.90%	2004/2020	4,524	4,866
			$1,572,687	$1,543,885

Series X bonds consist of 1) $100 million Series X-1 bonds at a fixed interest rate of 5%. Series X-1 bonds mature on July 1, 2042, and are subject to an optional redemption on July 1, 2013; 2) $125 million Series X-2 variable rate bonds, currently bearing interest at a weekly rate; 3) $125 million Series X-3 variable rate bonds, currently bearing interest at a daily rate. Series X-2 and X-3 bonds mature on July 1, 2037. Series X-2 and X-3 bonds may be converted to other variable rate modes or to a fixed rate at the discretion of the University.

Series X-2 bonds may be tendered for purchase on any business day with seven days notice. Series X-3 bonds may be tendered for purchase on any business day.

CHEFA Series W bonds bear interest at a fixed interest rate of 5.125%. The proceeds of Series W were used to refinance CHEFA Series Q and R bonds of $87,600,000. Yale exercised its option to redeem the series Q and R bonds, which had a 6% fixed interest rate, on June 17, 2002. The refinancing required the payment of a call premium in the amount of $1.7 million. Series W bonds mature on July 1, 2027, and are subject to an optional redemption in July of 2009. The original issuance discount associated with this issuance is $1,924,680, which is being amortized over the 25-year life of the bond.

CHEFA Series V bonds currently bear interest at a daily rate and mature on July 1, 2036. The bonds may be converted from a daily rate period to other variable rate modes or to a fixed rate mode at the discretion of the University. The bonds may be tendered for purchase on any business day.

CHEFA Series U bonds and one-half of Series T currently bear interest at a weekly rate. The bonds may be converted from the weekly rate period to other variable-rate modes or to a fixed-rate mode at the discretion of the University. In the weekly mode, bonds may be tendered for purchase on any business day with seven days notice. On September 4, 2001, the University converted half of CHEFA Series T from a weekly mode to a daily mode. Series T bonds in daily mode may be tendered for purchase on any business day.

CHEFA Series S bonds currently bear interest at a money market municipal rate and are outstanding for varying interest rate periods of 270 days or less. The bonds may be converted from the money market mode to other variable rate modes or to a fixed rate mode at the discretion of the University. In the current money market mode, bonds may be tendered for purchase at the end of each rate period.

Medium-term notes in the amount of $113.4 million are recorded net of a discount at June 30, 2004. The notes mature in the year 2096, with a call provision in the year 2026. The bonds bear interest at a fixed rate of 7.38%.

Commercial paper consists of notes issued in the short-term taxable market, and is sold at a discount from par. The maturities of individual notes are issued in ranges from one day to no more than one year, and fall on average in a range of thirty to sixty days.

Scheduled maturities of the facilities bonds and notes payable for the next five fiscal years, in thousands of dollars, are as follows:

2005	$252
2006	150
2007	162
2008	175
2009	190

Commercial paper borrowings have no scheduled maturities. The University may choose to retire some or all of the outstanding commercial paper over the next five years.

The University employs a 364-day revolving credit agreement totaling $200 million to provide alternative liquidity to support Yale's variable rate demand notes.

b. Student Loan
Commercial paper utilized to finance student loans was $29 million in 2003. During fiscal 2004 this debt was allocated to fund facilities renovations and improvements.

c. Interest Rate Swaps
The University has entered into various interest rate swap agreements to manage the interest cost and risk associated with its variable rate debt portfolios. Under the terms of these agreements, the University pays fixed rates, ranging from 4.64% to 6.54%, determined at inception, and receives the 3-month LIBOR on the respective notional principal amounts. The following schedule presents swap agreements in force related to this strategy at June 30, 2004 in thousands of dollars:

	Notional Amount	Fair Value	Net Interest Expense 2004	2003	Expiration Date
Facilities	$480,000	$(23,950)	$22,279	$20,015	2005-2041
Student loan	-	-	-	497	
	$480,000	$(23,950)	$22,279	$20,512	

These financial instruments involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and credit-worthiness.

d. Fair Value
The fair value of the University's fixed rate bonds, $323.9 million at June 30, 2004, is estimated based on quoted market prices for the same or similar issues. The carrying value of commercial paper and variable rate bonds and notes payable, which reflects varying interest rate periods, on average 90 days, approximates fair value because of the short-term maturity of these instruments.

10. Pension Plans –Defined Contribution

The University maintains the Yale University Retirement Annuity Plan as a contributory plan for faculty and certain staff employees. Participants may direct employee and employer contributions to the Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF), as well as other investment options. Pension expense for this plan was $45.7 million and $42.1 million in 2004 and 2003, respectively.

11. Pension and Postretirement Plans –Defined Benefit

The University has a noncontributory, defined benefit pension plan for staff employees. Pension benefits provided by the plan are based on years of participation and the employee's highest annual rate of earnings during the last five years of employment. In addition, the University provides postretirement health benefits and life insurance. While the University's subsidy of the cost of comprehensive health care benefits and life insurance differs among retiree groups, substantially all employees who meet minimum age and service requirements and retire from the University are eligible for these benefits.

The University uses a June 30th measurement date for its defined benefit plans.

The following table sets forth the Pension and Postretirement plans' funded status and provides a reconciliation to the accrued liability reported in the Statements of Financial Position at June 30, in thousands of dollars:

	Pension		Postretirement	
Plans' Funded Status	2004	2003	2004	2003
Change in benefit obligation:				
Benefit obligation, beginning of year	$350,308	$298,949	$ 294,060	$ 245,274
Service cost, excluding assumed administration expenses	13,664	8,637	11,343	9,385
Interest cost	25,750	20,596	17,433	16,829
Benefit payments	(15,207)	(13,149)	(9,726)	(9,971)
Assumption changes	17,961	33,343	11,366	20,282
Amendments	99,197	13	(5,381)	5,728
Loss (gain)	11,306	1,919	(14,404)	6,533
Benefit obligation, end of year	$502,979	$350,308	$ 304,691	$ 294,060
Change in plan assets:				
Market value, beginning of year	$445,968	$419,934	$ 127,984	$ 109,282
Actual return on plan assets	69,882	39,863	23,310	5,760
University contributions	2,000	-	26,025	23,174
Benefits and expenses paid	(15,811)	(13,829)	(9,800)	(10,232)
Market value, end of year	$502,039	$445,968	$ 167,519	$ 127,984
Funded status	$ (940)	$ 95,660	$(137,172)	$(166,076)
Unrecognized transition obligation	-	-	33,456	39,757
Benefit payments advanced	-	-	3,866	2,051
Unrecognized net (gain) loss	(90,347)	(88,293)	89,771	108,658
Unrecognized prior service cost	101,307	8,724	2,389	5,728
Prepaid (accrued) benefit cost included in the Statements of Financial Position	$ 10,020	$ 16,091	$ (7,690)	$ (9,882)

The Benefit Obligation disclosed above represents the actuarial present value of future payments to plan participants for services rendered prior to that date, based on the pension benefit formula. In calculating the value, the participants' compensation levels are projected to retirement.

The Accumulated Benefit Obligation for the Pension Plan was $410.4 million at June 30, 2004 and $295.7 million at June 30, 2003. The Accumulated Benefit Obligation differs from the Benefit Obligation above in that it includes no assumption about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels.

Changes in assumptions to the plans during the current year affecting the benefit obligations of the plans are a result of reducing the discount rate from 6.25% to 6.0%.

Amendments to the plans made during the current year include the following:

	Impact on Obligations	
	Pension	Postretirement
Pension Plan Enhancements	$99,197	$ -
Pharmacy Benefit Manager	-	(7,981)
Retiree Life Insurance	-	2,600
Total	$99,197	$(5,381)

Pension Plan Enhancements
Pension plan enhancements include a change in the pension benefit formula and early retirement eligibility criteria for covered members effective October 2003, and a retiree cost-of-living increase effective January 1, 2004.

Pharmacy Benefit Manager
In late 2003, Yale made the decision to introduce a Pharmacy Benefit Manager process into its retiree medical program effective January 1, 2005. This change, which provides discounted drugs at network pharmacies, is expected to reduce prescription drug costs by more than 22% through more efficient pricing and delivery initiatives. It has been reflected in liabilities and expense as a plan change beginning January 1, 2004. The related reduction in Accumulated Postretirement Benefit Obligation is $7.9 million; the reduction in expense for the period ending June 30, 2004 is $0.7 million.

Retiree Life Insurance
Enhanced retiree life insurance benefits which provide various levels of flat dollar insurance to non-Faculty retirees increased the Accumulated Postretirement Benefit Obligation by $2.6 million at June 30, 2004 and the expense for the period ending June 30, 2004 by $375,000. The plan is currently funded on a pay-as-you-go basis.

Medicare Prescription Drug Act
On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. Among other things, the Act provides for a direct government subsidy for employers who continue to offer a retiree drug program that is deemed to be actuarially equivalent to the government plan. Based on the available guidance, the University has estimated that the drug coverage provided to its Clerical & Technical and Service & Maintenance population is actuarially equivalent to that provided under the government program and that the University will be eligible for the government subsidy for that group. The Act is not expected to have a material impact on the cost to Yale of providing postretirement medical benefits to other groups of retirees. The University has included a reduction in liabilities and expense associated with the subsidy in its accounting results as a gain. The reduction in the June 30, 2004 Accumulated Postretirement Benefit Obligation is $15.9 million; the reduction in expense for the period ended June 30, 2004 is $1.2 million.

Plan Assets
The investment objective for the Pension and Retiree Health Plans seeks a positive long-term total return after inflation to meet the University's current and future plan obligations. Asset allocations for both plans combine tested theory and informed market judgment to balance investment risks with the need for high returns.

The pension and retiree health long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and correlation between the returns of various asset classes.

Plan target asset allocations by category at June 30, 2004 and 2003 are as follows:

	Pension		Retiree Health	
	2004	2003	2004	2003
Absolute return	22.5%	22.5%	25.0%	25.0%
Domestic equity	15.0%	15.0%	25.0%	25.0%
Foreign equity	15.0%	15.0%	15.0%	15.0%
Private equity	12.5%	12.5%	7.5%	7.5%
Real assets	15.0%	15.0%	25.0%	25.0%
Fixed income	20.0%	20.0%	0.0%	0.0%
Cash	0.0%	0.0%	2.5%	2.5%

Contributions

Annual contributions are determined by the University based upon calculations prepared by the plan's actuary. Expected contributions to the Pension and Retiree Health Plans for fiscal year beginning July 1, 2004 are:

Pension	$ 8 million
Retiree Health	$17 million

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the plans, in thousands of dollars:

Fiscal year	Pension	Postretirement
2005	$18,000	$10,000
2006	19,000	11,000
2007	20,000	12,000
2008	21,000	13,000
2009	23,000	14,000
2010-2014	140,000	85,000

Assumptions used in determining the year end obligation of the Pension and Postretirement plans are:

	2004	2003
Weighted-average discount rate	6.00%	6.25%
Increase in future compensation levels	4.50%	4.50%
Projected retiree health care cost trend rate	9.00%	9.00%
Ultimate retiree health care cost trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2008	2008

The health care cost trend rate assumption has a significant effect on the amounts reported. For fiscal year ended June 2004, a one percent change in the health care cost trend rate structure would cause the Retiree Health plan's benefit obligation at June 30, 2004 to change by approximately 12.1 percent and would also cause the sum of the service cost and interest cost components of postretirement expense to change by approximately 15.2 percent.

Net Periodic Benefit Cost

Net periodic benefit cost for defined benefit plans includes the following components, in thousands of dollars:

	Pension		Postretirement	
Net periodic benefit cost for the fiscal year ended	2004	2003	2004	2003
Service cost	$ 14,164	$ 9,038	$ 11,553	$ 9,555
Interest cost	25,750	20,596	17,433	16,829
Expected return on plan assets	(36,013)	(35,350)	(11,943)	(10,917)
Net amortization				
- Transition obligation	-	517	3,847	3,976
- Prior service cost	6,615	1,206	412	-
- Net (gain) loss	(2,445)	(4,018)	4,345	3,602
Net periodic (benefit) cost	$ 8,071	$ (8,011)	$ 25,647	$ 23,045

Assumptions used in determining the net periodic costs of the Pension and Postretirement plans are:

	2004	2003
Weighted-average discount rate	6.25%	7.00%
Expected long-term rate of return	8.50%	9.25%
Compensation increase	4.50%	4.50%
Health care cost increase	9.00%	10.00%
Ultimate retiree health care cost trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2008	2008

12. Other Postretirement Benefits

Effective October 1, 2003 the University has agreed to pay 25% of unused sick time to non-Faculty employees who retire from active status; effective in 2008, the University will pay 50% of unused sick time in these instances. The cost of this benefit is being accrued over the working life of employees and funded on a pay-as-you-go basis. The accumulated benefit obligation for unused sick pay is $15.8 million at June 30, 2004 and the expense for the period ending June 30, 2004 is $2.3 million.

13. Commitments and Contingencies

The University is involved in various legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolution of these pending matters will not have a materially adverse effect, individually or in the aggregate, upon the University's financial statements.

In the normal course of business, the University leases facilities under non-cancellable operating leases. Minimum lease payments under these agreements over the next five years, in thousands of dollars, are as follows:

2005	$7,766
2006	6,412
2007	5,561
2008	4,955
2009	4,725

The University has entered into certain agreements to guarantee the debt and financial commitments of others. Under these agreements if the original debt holder defaults on the debt the University may be required to satisfy all or part of the remaining obligation. The total amount of these guarantees is approximately $19 million at June 30, 2004.

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