Yale University Financial Report 2004–2005

Highlights

Five-Year Financial Overview ($ in millions)	2005	2004	2003	2002	2001
			Fiscal Years		
Operating Budget Bottom Line (see page 18)	($14.5)	$ ---	$ ---	$ ---	$ ---
Financial Position Highlights (see page 25):					
Total consolidated assets	$22,505.7	$19,772.4	$17,556.2	$16,741.3	$15,232.1
Total consolidated liabilities	6,004.5	5,797.1	5,328.1	5,006.6	3,357.0
Total net assets	$16,501.2	$13,975.3	$12,228.1	$11,734.7	$11,875.1
Endowment:					
Investments, at fair value	$15,091.0	$12,740.9	$11,048.9	$10,522.6	$10,733.3
Total return on investments	22.3%	19.4%	8.8%	0.7%	9.2%
Spending from endowment	4.5%	4.5%	4.5%	3.8%	3.4%
Facilities:					
Land, buildings and equipment, net of accumulated depreciation	$2,263.2	$2,095.2	$1,986.1	$1,853.2	$1,582.5
Disbursements for building projects	259.3	202.1	207.6	328.2	282.0
Debt:					
For facilities improvements	$1,576.9	$1,572.7	$1,543.9	$1,193.8	$994.3
For student loans and other	6.0	-	29.0	29.5	29.5
Statement of Activity Highlights (see page 26):					
Operating revenue	$1,835.6	$1,677.9	$1,553.7	$1,466.6	$1,352.9
Operating expenses	1,786.9	1,675.9	1,543.1	1,427.0	1,334.9
Increase in net assets from operating activities	$48.7	$2.0	$10.6	$39.6	$18.0

Five-Year Enrollment Statistics	2005	2004	2003	2002	2001
			Fiscal Years		
Student Fees:					
Yale College term bill	$38,850	$37,000	$35,370	$34,030	$32,880
Freshmen Enrollment:					
Class of:	’08	’07	’06	’05	’04
Freshmen applications	19,682	17,735	15,466	14,809	12,887
Freshmen admitted	1,958	2,014	2,009	2,038	2,084
Admissions rate	9.9%	11.4%	13.0%	13.8%	16.2%
Freshmen enrollment	1,308	1,353	1,300	1,296	1,352
Yield	68.1%	67.9%	65.6%	64.7%	66.4%
Total Enrollment:					
Yale College	5,281	5,308	5,307	5,270	5,335
Graduate and professional schools	5,971	5,933	5,853	5,762	5,579

Message from the Vice President for Finance and Administration

Since its founding in 1701, Yale has adhered to a core mission of creating, disseminating, and preserving knowledge and preparing students for a life of service and purpose. As with any longstanding educational institution, Yale has evolved to meet the changing expectations and experiences of society, and to anticipate and welcome the rich diversity in thinking, background and life experience of its students, faculty and staff. This report highlights the recent revisions to the undergraduate curriculum that have begun to take shape at Yale. The new direction in curriculum is only one example of how Yale strives to anticipate and welcome change to ensure its continued commitment to preserving and disseminating knowledge, and to creating leaders who will help shape society in this century and beyond.

The women and men of Yale's division of Finance and Administration take great pride in our service to Yale's mission. We, too, anticipate and welcome change, viewing it as a vital part of how we continue to deliver excellence as we support the strategic direction and long-term financial stability of the University.

Overall, the University's financial position strengthened during the past year. Strong growth in the endowment, combined with increases in gifts, allowed us more flexibility to fund programs that support Yale's strategic direction. We continue to monitor spending closely, looking for savings in business processes that will reduce administrative costs, with major savings and productivity initiatives in procurement, capital project management, facilities, travel, publishing, financial, business and student services, as well as in the foundational areas of human resources and information technology. These productivity initiatives will become even more crucial as we continue to face rising costs in areas such as health care and employee benefits.

The capital construction program continues to support the University's programmatic goals in the arts and sciences and medical school areas, as well as student residential life. In the sciences, the Class of 1954 Chemistry Research Building and the Malone Engineering Center were recently dedicated, while the Molecular, Cellular & Developmental Biology building is in the planning stage. Renovation of the residential college facilities remains a major part of the capital budget and is a special focus to enhance student living. In October 2005 the University issued $300 million in debt through the Connecticut Health and Educational Facilities Authority to help finance these investments.

Disciplined investing has allowed the University to again realize an outstanding year in investment performance. The total return of the endowment portfolio this year was 22.3%. David Swensen, our Chief Investment Officer, and his team continue to produce exceptional results that allow the University to meet ongoing strategic needs as well as to ensure long-term financial stability.

Andrew Hamilton was appointed Provost in October 2004 and is overseeing a wide range of new initiatives, including more effective use of endowment income, improvements in financial aid and the strengthening of efforts to recruit and retain minority and women ladder faculty. This support of and deep commitment to diversity extend also to the recruitment and retention of Yale's staff. To help guide the effort, President Levin has convened an advisory committee on diversity, made up of leaders from major international corporations and non-profit organizations. We view diversity as a fundamental priority and are ensuring our administrative processes lead to a more diverse workforce at every level of the organization. This commitment will enrich Yale, as we reap the benefits that come from the unique talents and perspectives held by people of diverse thinking, background, race, gender and ethnicity.

Important new initiatives were also launched to improve child care and we created a Sustainability Office, to provide high-level support and visibility to efforts that will reduce Yale's imprint on the environment. The Yale Energy Task Force, a university-wide committee with staff, faculty, and student representation, was convened last fall to respond to the challenge of increasing energy costs and greenhouse gas emissions. The task force is focusing on Yale's approach to energy - production (from conventional to renewable), procurement, demand, emission reductions, and conservation.

Within Finance and Administration, we also have a strong focus on improved customer satisfaction and productivity, delivering key financial targets, training and developing people, and providing data-based metrics to ensure our services are world class. But no amount of metrics or initiatives will replace what is the heart of Yale: its people. Over the past year, we have taken action to improve our organizational capacity, by providing added training opportunities and focus on career planning and articulating and living a core set of values and behaviors that empower us to provide high quality, cost effective services. We have also engaged the women and men represented by unions at Yale, to create an environment of mutual trust and shared goals that will lead to measurable improvements in productivity through Best Practices in departments.

Thanks are due to all those in the faculty, student body, and staff as well as our alumni and friends, who have helped make these improvements a reality. This joint effort continues to make Yale the highly respected institution that it is, as well as a rewarding place to work.

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

The Expanding World of the Yale Undergraduate

"To prepare leaders for the 21st century, Yale College is redefining itself to make the undergraduate experience broader, deeper, and more transformative."

– Richard C. Levin, President

Yale College offers exceptional students one of the most extraordinary liberal arts educations in the world. For the incoming class of '09, admission was particularly selective even among Ivy League schools, with more than ten applicants for every place. Equally impressive, 72% of those admitted chose Yale, resulting in the highest yield in decades.

At Yale, highly competitive admissions standards, leadership in financial aid, the commitment to making sure all faculty are engaged in teaching undergraduates, the residential college system, and the tremendous research opportunities and resources available to students – all these make Yale an ideal environment for learning.

Nevertheless, the twenty-first century demands more. Today's graduates need a broader knowledge of science and quantitative reasoning, a greater fluency in a foreign language, superior writing and communication skills, and a deeper sense of global issues. Yale is responding by making its undergraduate education more relevant to the society our graduates will be asked to lead.

From Recommendations to Reality: Curriculum Reforms in Action

"College is a time to explore, yet it is also a time when students learn to be highly disciplined thinkers, writers, and problem solvers. A young person who spends a summer working in Beijing comes back to campus with a perspective that is forever broadened. A freshman who learns to use quantitative evidence effectively has developed an essential life skill. A history student who learns to write persuasively will carry that ability into a career in law or business or the arts," explained Peter Salovey, Dean, Yale College.

Just two years ago, the *Report on Yale College Education* was an ambitious plan. Today many of the committee's recommendations are already shaping careers from the moment students open their Blue Books.

"The Committee on Yale College Education looked at the many positive aspects of the undergraduate education we were offering and then made very specific recommendations for improvement. That approach is really paying off," said Penelope Laurans, Associate Dean, Yale College.

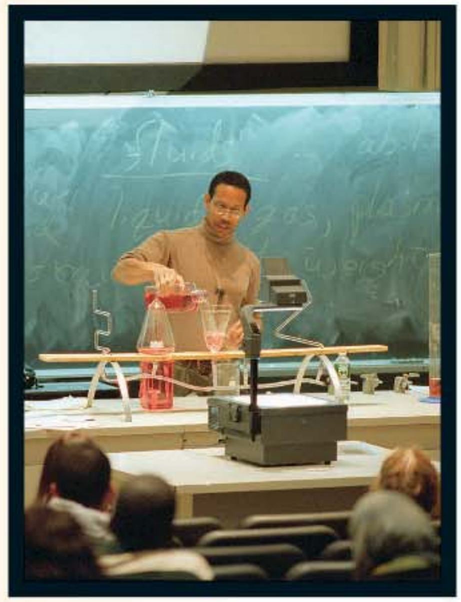
EXPLORING SCIENCE AND QUANTITATIVE REASONING

In today's society, a basic understanding of science and the ability to make and to understand arguments based on quantitative analysis are not optional skills. Yale College now requires two courses in quantitative reasoning and two courses in science, but with more than 400 courses to choose from, requirement quickly becomes opportunity.

Some new courses include *Math, Music and Mind; Visualization, Data, Pixels, and Ideas; Frontiers of Biomedical Engineering; Introduction to Nanoscience; Archaeoastronomy.*

"For students not planning to major in the sciences or quantitative disciplines, Yale is building a rich array of courses that are both accessible and substantive – all Yale students should have the opportunity to explore some area of science and to develop quantitative skills in courses that are relevant and interesting to them.

"At the same time, we are working to modernize and strengthen our science curriculum and to ensure that all of our science and engineering students have the opportunity to experience scientific discovery first-hand through participation in cutting-edge research under the supervision of a Yale faculty member," explained William Segraves, Associate Dean for Science Education.



Professor Homer Neal demonstrates to his introductory physics class how pressure changes are transmitted through a fluid.

Yale undergraduates learn about scaffolds used for tissue engineering from Professor Erin Lavik and members of her research group.

"MCDB 105 has made me more knowledgeable about the science behind issues that I had only approached from a political or ethical perspective, including stem cell research and cloning. The material is hard, but as someone who had thought of science as memorization of facts, this class has exposed me to—sorry for the cliché—a whole new world."

—Carol Yu '08, East Asian Studies major, and a student in MCDB 105 An Issues Approach to Biology

"Over the course of my undergraduate studies, I have been able to participate in both experimental and theoretical research in physics and astronomy. Through these projects, I have learned not only about the underlying science concepts, but also about the day-to-day work of a scientist. These experiences have cemented my desire to pursue a career as a researcher."

—Dave Moore '06, Physics/Math double major

Yale Undergraduate Researchers

In the past two years, Yale undergraduates were co-authors on more than 100 peer-reviewed scientific papers, while others had the opportunity to present their work at national and international scientific meetings. Recent publications included:

"A novel ammonia-carbon dioxide forward (direct) osmosis desalination process," based on research by Yale College Dean's Research Fellow Rob McGinnis '02 in the laboratory of Chemical Engineering Professor Menachem Elimelech, presents groundbreaking work on the development of a novel process for removing salt from sea water.

"Terphenyl-based helical mimetics that disrupt the p53/HDM2 interaction" includes work by STARS student Gregory Payne '05 - working with graduate student Hubert Yin and others in the laboratory of Chemistry Professor and Provost Andrew Hamilton, Greg helped to identify and characterize small molecules that mimic and can therefore disrupt protein-protein interactions.

"Biophysical properties and ionic signature of neuronal progenitors of the postnatal subventricular zone in situ" is one of Perspectives on Science student Doris Wang '04's four publications based on her work on nervous system development with Neurosurgery Professor Angelique Bordey.

For much more on undergraduate research projects and publications please visit: **www.yale.edu/yser/publications.html.**

THE INTERNATIONAL EXPERIENCE: THE WORLD BEYOND NEW HAVEN

"Every one of our students will live and work in a global community. An international perspective is critical," explained Barbara Rowe, Director of International Education and Fellowship Programs. Yale College has dramatically increased the number of programs that allow students to study, work, or pursue independent research abroad. These include a growing number of courses through Yale Summer Session, new internship opportunities through Undergraduate Career Services, such as Bulldogs in Beijing, and numerous fellowships and term-time study abroad programs through International Education and Fellowship Programs. "Over 600 Yale College students studied, worked, or did research abroad during the 2004-2005 year, and the summer of 2005. And next year that number should surpass 900," Rowe continued.

These programs and independent projects are a testament to the tremendous initiative of Yale undergraduates. Here is a sampling from the 2004-2005 academic year and the summer of 2005.

YALE UNDERGRADS AND THEIR PROJECTS

1. Paige Austin '06
Studied at the French Institute for Arabic Studies in Damascus, Syria, for Junior Year Abroad, on a National Security Education Program (NSEP) David L. Boren Undergraduate Scholarship.

2. Matthew McCarty '06
Traveled to Italy and Denmark to examine third-century Roman sarcophagi on a John Boit Morse Memorial Fellowship.

3. Michael Bustamante '06
Conducted archival research on Havana's 1920s radical intellectual elite, on a Lewis B. Curtis Fellowship.

4. Alexander Rabin '07
Volunteered with the World Health Organization's "Stop TB" initiative in Moscow, on a Thomas C. Barry Travel Fellowship and Richter Summer Fellowship.

5. Adam Zachary Scharfman '07
Studied Chinese language at Beijing Normal University, through Princeton-in-Beijing on a Richard U. Light Fellowship.

6. Ting Ting Yan '06
Interned in Beijing at NE TIGER Fashion Company, through the Bulldogs in Beijing program with funding from Yale's International Summer Awards (ISA) program.

7. Karen Chen '07
Volunteered in a children's hospital in Quito, Ecuador, and researched the incidence of cleft lip and palate, on a Thomas C. Barry Travel Fellowship.

8. Amanda Elbogen '07
Traveled to Israel to learn spoken Arabic and work on community-building projects with the Peres Center for Peace, on a Cyrus Vance Fellowship in Politics and Foreign Affairs.

9. Suraiya Jetha '06
Spent Junior Term Abroad with Denmark's International Study Program in Copenhagen. Worked at the Danish Red Cross Culture House, a resource center for asylum seekers in Denmark.

10. Simon Stumpf '06
Spent Junior Term Abroad with the School for International Training's Coastal Cultures program in Kenya.

11. Roger Eduardo '06
Investigated reef conservation in Honduras and Nicaragua, on a Howard William Hilgendorf Fellowship.

12. Donald Henschel '07
Interned in the United Kingdom at the Royal Institute of British Architects, through the British Bulldogs Program.

TEACHING STUDENTS TO WRITE WELL: THE NEW YALE COLLEGE WRITING CENTER

"No matter what subject a student is studying, encouraging excellent writing is a major priority. When students write they are more active learners of the material at hand. They have the chance to create knowledge, not just receive or report it," said Alfred "Alfie" Guy, the R. W. B. Lewis Director of the Yale College Writing Center.

Alfred "Alfie" Guy discusses a writing project with a group of students.

At the core of Yale's enhanced focus on writing throughout the curriculum are courses designated *WR* in the Blue Book. Each of these classes includes an extra writing module that teaches students to write with clarity and power. Students focus on how to better develop a thesis; how to use evidence; and on the role of analysis and reflection in a well-crafted essay.

"One of the priorities of the Writing Center is to encourage courses that teach writing in a particular academic discipline and that also show students how to adapt the principles of good writing to other subjects," Guy explained.

Right now, courses as varied as *Japanese Classics* and *Natural History Collections of the Peabody Museum* can be taken for writing credit, along with the many long-established writing courses offered by the English department.

The Yale College Writing Center also offers workshops for graduate students and faculty members who teach writing courses, sponsors a growing tutoring program, and provides online resources for writers seeking guidelines and advice.

FOREIGN LANGUAGE STUDY: TRAVELING A FURTHER DISTANCE

"In order to prepare for spending time abroad and working in the global arena, in whatever field, students need to go well beyond the traditional language requirement," said Nina Garrett, Director of Language Study.

Under Yale's new policy, every student must travel a "further distance" in language proficiency. No one can place out of language study: those who come to Yale already at an advanced level have the opportunity to become even more proficient or to learn any one of the fifty languages taught at Yale. International students speaking a language not taught at Yale must either study a language other than their native tongue or do an extra writing course in English, which is usually their most important foreign language. A growing number of courses in other departments also offer sections for students who can read and discuss original texts, in an initiative called Language Across the Curriculum.

"We want to teach students how to be lifelong learners by introducing them to – and teaching them how to use – the immense language resources technology makes available. They need to maintain and build their skills if they are to function not only as participants but also as leaders on the world scene – whether in environmental work, international studies, business, the arts, or medicine – or just as knowledgeable citizens of the world," Garrett said.

Students and faculty use the Center for Language Study's multimedia resources to bring written and spoken language and its cultural context together.

ENHANCING THE FRESHMAN EXPERIENCE

Freshman seminars are small classes (fifteen to eighteen students) that meet twice each week. In addition to fostering a stimulating intellectual environment, these seminars strive to help first-year students forge relationships with faculty members and peers.

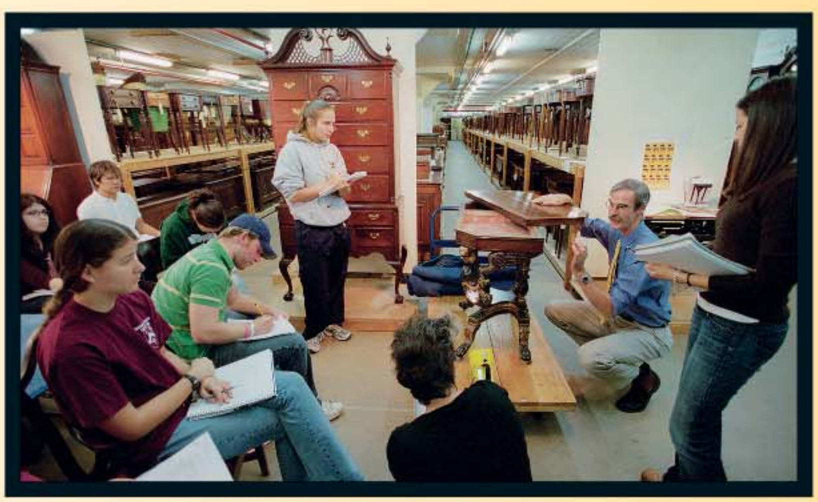
With the addition of freshman seminars to the Directed Studies and Perspectives on Science programs, over 40% of freshman now enroll in special small seminars, and the opportunities will increase again next year. Many programs are coordinated by a new assistant dean of freshman affairs. A look at the remarkable range of choices could make any graduate want to start freshman year all over again.

FRESHMAN SEMINARS

Stem Cells: The Science, Politics, and Possibilities
The Natural History Collections of the Peabody Museum
Introduction to Nanoscience
China's Environmental Issues
Film and the Arts
The Concept of Knowledge in the German Tradition
Revolutionary America
American Furniture, 1600 to the Present
Changing Ideas of the Hero
The Cultures of Medieval Spain
Epidemics in Global Perspective
The Geometry of Nature
Egypt and Northeast Africa: A Multidisciplinary Approach
Radiation, Nuclear Physics, and the Universe
The Global HIV/AIDS Pandemic: Critical Policy Issues
Russia: An Interdisciplinary Survey
Islam and Modernity
Social Relations and Society
Contemporary Chinese Society
Literary Studies in Spanish
Health, Culture, and Society
American Consumer Culture in the Twentieth Century
Data Analysis and Forecasting
Our Changing Climate
African American Freedom Movements in the Twentieth Century
Social Life and Popular Music in America, 1850 to the Present
Math, Music, and Mind
Current Topics in Science

Professor Maria Rosa Menocal leads class discussion in her freshman seminar, *The Cultures of Medieval Spain.*

Eric Lazo-Wasem, Senior Collections Manager at the Peabody Museum, helps a student examine a specimen of a giant squid.



Professor Edward Cooke and students examine an Empire-style card table from New York in the collection of the Yale University Art Gallery.

AN AMAZING STUDENT BODY POWERED BY FINANCIAL AID

Financial aid ensures that those with the most to contribute can become part of the Yale community. From the caliber of class discussions to the diversity of campus life, the impact of Yale's leadership in financial aid is evident every single day.

ATTRACTING THE MOST PROMISING STUDENTS TO YALE. SOME FINANCIAL AID MILESTONES

Over thirty years ago Yale adopted its need-blind admissions policy—admitting all students without regard to their financial circumstances. Today, more than 40% of undergraduates qualify for need-based scholarship grants from Yale.

2001
Need-blind admissions extended to all international students.

2005
Parents with incomes below $45,000 are no longer required to pay any portion of the cost of their children's education. Parents with incomes between $45,000 and $60,000 have seen their required contribution reduced dramatically.

2005
Yale becomes the first Ivy League school to expand undergraduate financial aid to include grant support for summer study and internships abroad.

A LOOK AT THE CLASS OF '09, THE MOST DIVERSE IN YALE'S HISTORY

Over 19,451 high school students applied to Yale. The admission rate was 9.7%, the lowest in Yale's history.

72% of those who were offered admission chose to come to Yale, producing the highest yield in decades and possibly in the history of the college.

More than half the freshmen (55.2%) attended public high schools; the remaining 44.8% went to independent, religious, or international schools.

The 1,321 freshmen (670 men and 651 women) come from all 50 states and 40 foreign countries.

Students from outside the United States make up 8.6% of the class.

Almost one-third (32.9%) of U.S. citizens and permanent residents in the freshman class identified themselves as members of minority groups.

"It is imperative that Yale continue to lead the way in attracting the most promising students from all economic backgrounds. We have made Yale even more affordable to students in need of aid and have expanded our efforts to reach out to exceptional students who may believe their financial circumstances rule out a Yale education."

– Richard C. Levin, President

YALE'S RESIDENTIAL COLLEGE COMMUNITIES: TEACHING LIFE'S MOST IMPORTANT SKILLS

A question posted on the Berkeley Orchestra Web site is testament to the pace of residential college life for many Yale undergraduates. It asks, "Can I play in Berkeley, three other orchestras, and take five credits at the same time?" The answer begins, "Well, you can try..."

From informal dining room debates, to Master's Teas, organization meetings, intramural sports, and student performances, residential college life is an inseparable part of a Yale education.

"Students who choose Yale are engaged by many different interests and want to be part of a community. As a society we talk a lot about making our cities, towns, and workplaces more cohesive. Yale residential colleges are small towns where students from diverse backgrounds live together for four years. I can't imagine a better way to educate people to work effectively with others," Dean Salovey said.

"THE WHOLE SYSTEM OF RESIDENTIAL LIVING AT YALE TRANSFORMS THE PLACE FROM ONE LARGE UNIVERSITY INTO A NUMBER OF SMALL TOWNS. IN THESE COMMUNITIES, PEOPLE LEARN BOTH HOW TO FIT IN AND HOW TO ACCOMPLISH THINGS THAT MAKE THEM STAND OUT."

–Jonathan Holloway, Master, Calhoun College

Residential College Life Is an Inseparable Part of a Yale Education

Berkeley

Branford

Calhoun

Davenport

Dwight

Edwards

To that end, residential colleges not only have to be comfortable and highly functional places in which to eat, study, and sleep, they need to contain public spaces that actively encourage community. "Throughout our renovations, one of our challenges is to design flexible spaces that support a tremendous range of activities," Laura Cruickshank, acting University Planner, explained.

In addition to libraries, common rooms, seminar rooms, and other standard spaces, many colleges now have multi-purpose rooms that allow students to transform a basketball court into a theater and back into a dance studio in minutes. "With movable bleachers, adaptable lighting, and even high-tech sprung floors, these areas are perfect for a campus that supports over 250 different student organizations," Cruickshank continued.

MASTER'S TEAS

They are among the most popular events on campus. Residential Master's Teas give undergraduates the opportunity to hear and talk to leading writers, political figures, artists, athletes, and business leaders. Here are some recent celebrated guests.

David Brooks, Op-Ed Columnist, *The New York Times*
Wendy Wasserstein, Pulitzer Prize-Winning Playwright
Alan Poul, Executive Producer, *Six Feet Under*
David Cone, Pitcher, Major League Baseball
Amanda Hesser and Tad Friend, Writers, *The New York Times Magazine* and *The New Yorker*
Richard Clarke, former Senior White House Counterterrorism Advisor
Richard Rodriguez, Author, Columnist and Essayist
Governor Howard Dean
Soledad Aguilar and Macrina Gardenas, International Caravan of Justice
Aoyama Shinji, Japanese Film Director
Ahood al-Fadhal, First Female Member of the Al-Tahsinniyya Council in Basra, Iraq
Paul Bucha, Congressional Medal of Honor Winner
Donald Graham, Chairman, *The Washington Post*
Michael Ignatieff, Political Writer
Judy Woodruff, Journalist, CNN
Louise Glück, U.S. Poet Laureate
John A. Schulman, Executive Vice President and General Counsel Warner Bros. Entertainment
David de Ferranti, Regional Vice President, Latin America and the Caribbean, the World Bank
Tayyibah Taylor, Editor-in-Chief and Publisher, *Azizah* magazine "Giving Voice to Muslim Women"

Morse

Pierson

Saybrook

Silliman

Stiles

Trumbull

"We've designed every initiative to make a noticeable difference in the quality of each student's education. But our ultimate success will be measured by the knowledge, skills, and values that Yale graduates take with them into the world."

—Peter Salovey, Dean, Yale College

Financial Results

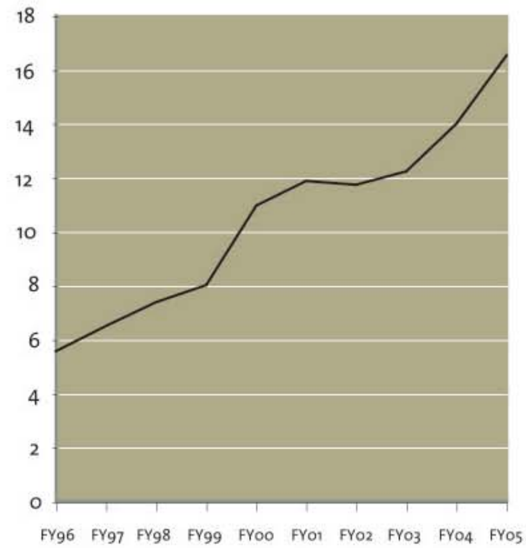
Overview

Yale University presents a very strong financial position after experiencing positive results for the year. At June 30, 2005, the University reported total consolidated assets of $22.5 billion, consolidated liabilities of $6.0 billion, and net assets of $16.5 billion. Net assets increased by $2.5 billion during the year, primarily because of the 22.3% return on the endowment.

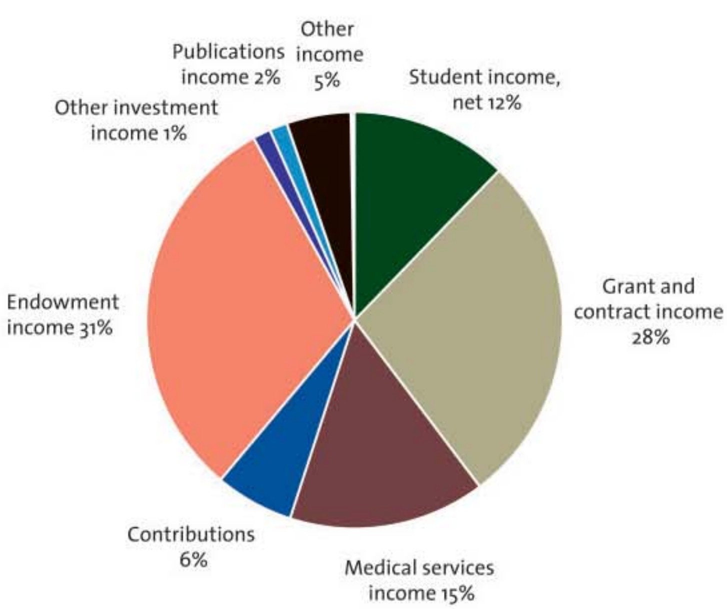
The University maintains a diverse operating revenue base, which allows protection from a downturn in any one source of revenue. Total operating revenue increased by 9.4% to $1.84 billion. The largest contributors to this growth were the increase in the allocation of endowment spending to operations, contributions, and medical services income. The University continues to develop new processes and practices to increase efficiencies in purchasing the goods and services necessary to fulfill its mission. Total operating expenses increased by 6.6% to $1.79 billion. The results from operations yielded an increase of $48.7 million in operating net assets for the year.

Net Assets

Ten-year trend ($ in billions)



Operating Revenue



Operating Revenue

As shown in the chart at left, the University derives its operating revenue from five main sources: student income (net of certain scholarships and fellowships), grants and contracts, medical services, contributions, and endowment investments. Additional revenues are received from a variety of programs.

Student Income, net

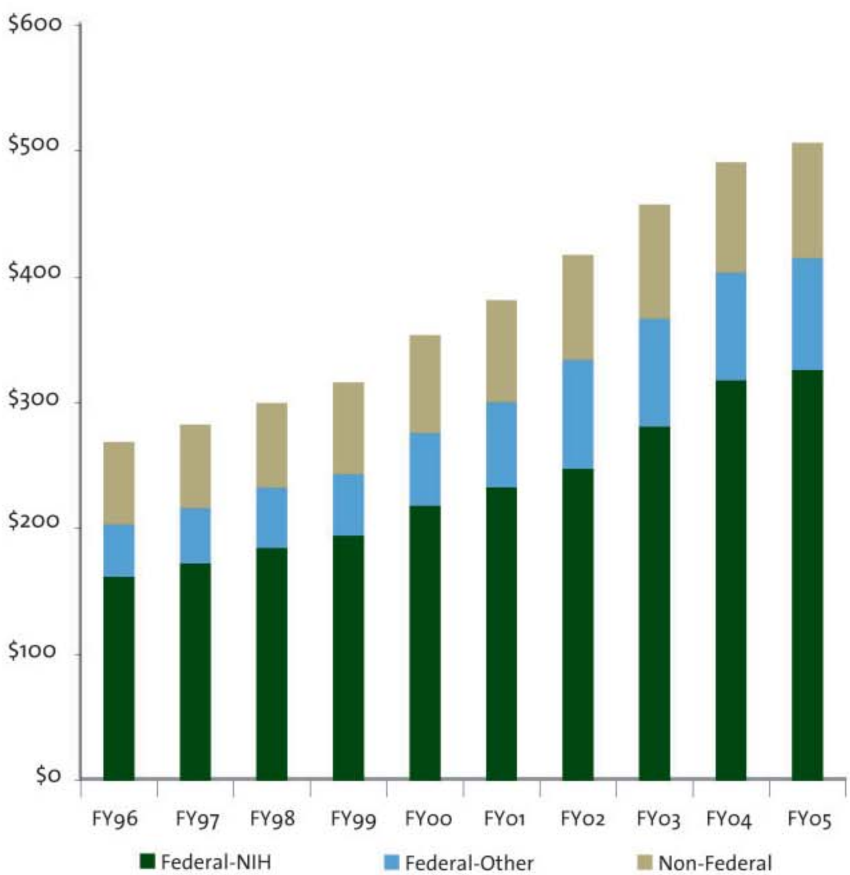
Student income, which includes revenue from tuition, fees, and room and board, net of certain scholarships and fellowships increased 3.5% during 2005, and amounted to $223.7 million, or 12% of operating revenues. Of the total amount, tuition and fees accounted for $300.9 million, a 5.3% increase over 2004. Revenue from room and board increased 9.1% to $49.5 million. In accordance with generally accepted accounting principles, student income is presented net of certain scholarships and fellowships, which totaled $126.7 million and $114.9 million for 2005 and 2004, respectively.

During the 2004-05 academic year, 11,252 students were enrolled at the University; 5,281 were undergraduate students attending programs at Yale College, and 5,971 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 $29,820 for tuition and $9,030 for room and board, bringing the total term bill to $38,850 for the 2004-2005 academic year. The increase in the Yale College term bill was 5% over the 2003-2004 academic year. Students enrolled in the Graduate School of Arts and Sciences paid $26,800 for tuition, a 4.7% increase over the 2003-2004 academic year.

Grant and Contract Income

Ten-year trend analysis ($ in millions)



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 students throughout their undergraduate years.

During the 2004-2005 academic year, 2,241 Yale College students, representing 42.4% of the Yale College enrollment, received financial aid. In the Graduate School of Arts and Sciences, 2,457 students, or 99.6% of those enrolled, received financial aid. In the professional schools, 2,795 students, or 82.6% of those enrolled, received financial aid. In all, 7,493 University students, or 67.3% of total University enrollment, received some form 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 3.3% growth from $491.0 million in 2004 to $507.2 million in 2005. The Yale School of Medicine, which receives 78% of the University's grant and contract income, reported an increase of 3.0% for 2005, while the remaining University sectors had an increase of 4.5%.

The federal government funded $415 million, or 82% of 2005 grant and contract income, in support of Yale's research and training programs. The largest federal sponsor was the National Institutes of Health (NIH), which provided revenues of $326 million during 2005, an increase of 2.4% over the prior year. This increase is in line with the recent slow growth of the NIH budget. Recently, the House of Representatives recommended an increase of only 0.5% for the NIH in fiscal 2006, so the slower growth is expected to continue into next 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. Nonfederal sources, which include foundations, voluntary health agencies, corporations, and the State of Connecticut, provided an additional $92 million in research, training, and other purposes during 2005.

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 $120.2 million in 2005, which is an increase of 1.7% 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. Yale will continue with the current rates while a new rate agreement is negotiated.

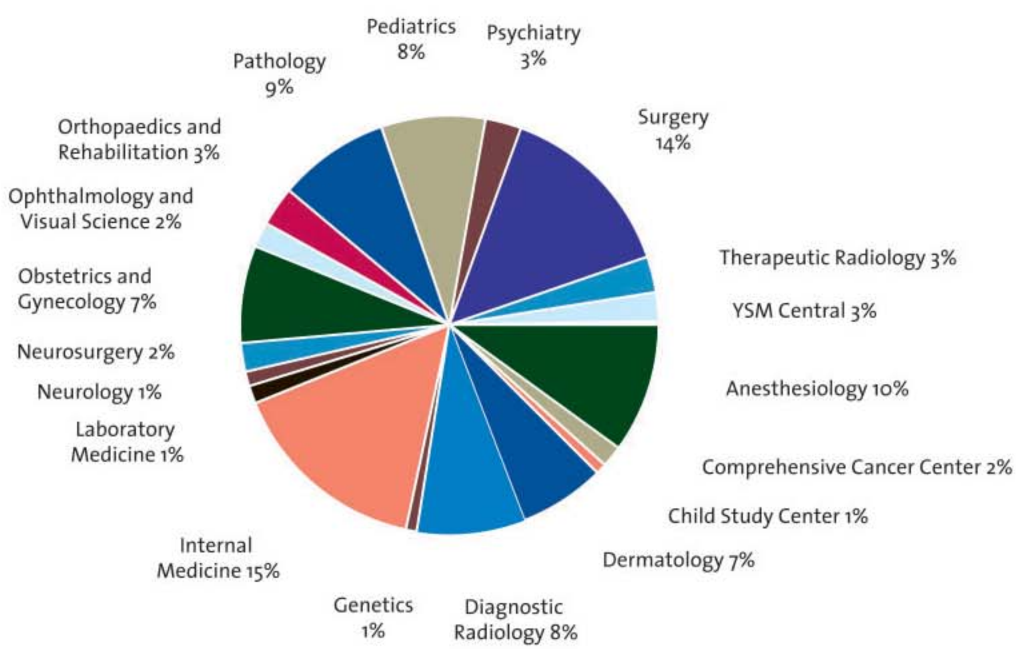
The primary regulations governing federal grants and contracts are encompassed in Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, and Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. The A-21 principles were modified during the 1990s 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 $277.1 million in fiscal 2005, an increase of 10.7% from 2004, and represented 15% of the University's operating revenue.

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

School of Medicine Clinical Income by Department



income from diagnostic laboratory services and contracts with affiliated hospitals, including Yale-New Haven Hospital, Inc. (YNHH). The increase of 13.7% in patient care income during the year was a result of new programs in areas such as Surgery, Obstetrics and Gynecology, and Internal Medicine. Increased laboratory volume in Pathology and Dermatopathology resulted in a 19% increase over the prior year in these departments.

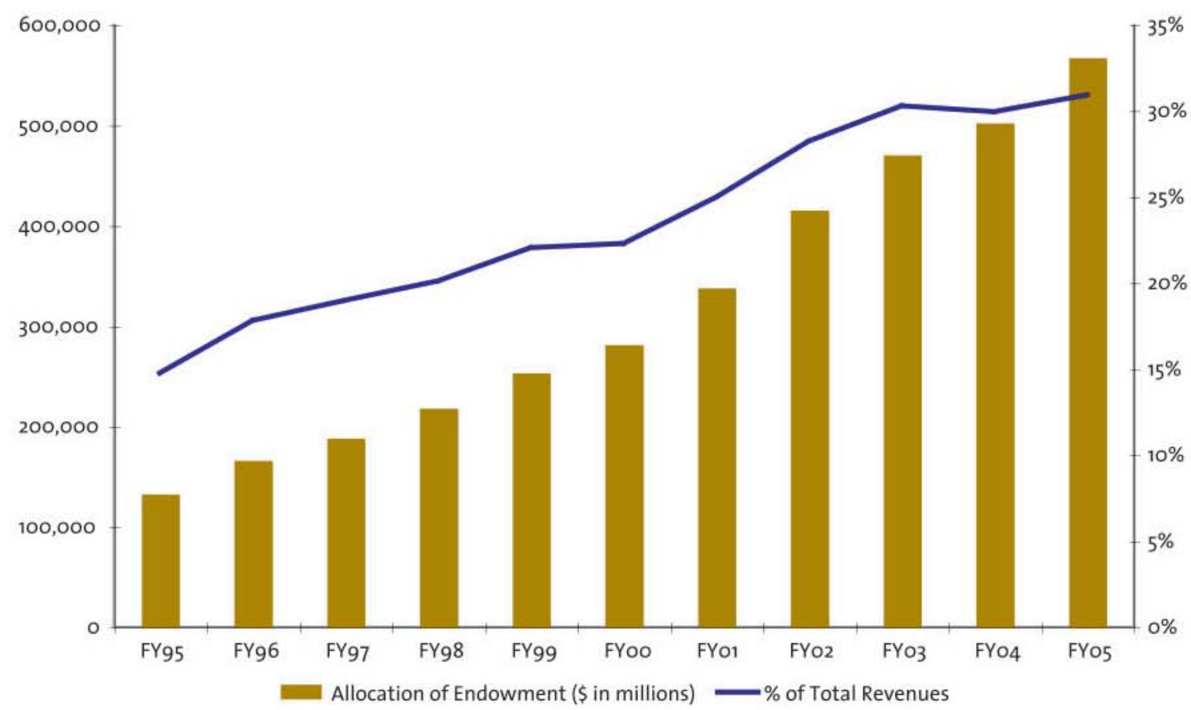
The cost of malpractice insurance has become a significant burden in the health care industry. While prevention techniques, including targeted risk management awareness programs and patient safety initiatives, are being implemented and refined, the benefits of these techniques cannot completely control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

Allocation of Endowment Spending
Each year a portion of accumulated endowment investment returns is allocated to support operational activity. This important source of revenue represents 31% of total operating income this year and is the largest source of operating revenue for the University. The level of spending is computed in accordance with an endowment spending policy that has the effect of smoothing year-to-year market swings. Endowment investment returns allocated to operating activities increased by 12.9% to $567 million. Details of the endowment spending policy, including the changes in fiscal year 2005, are provided in the endowment section of this report and in the footnotes to the financial statements.

Other Investment Income
Other investment income of $23.6 million represents interest, dividends, and gains on investments held outside of the endowment.

Contributions
Contributions from operating, physical, and financial activities totaled $398.6 million for

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



2005. This represents a 92% increase from the 2004 contributions of $208.0 million. The majority of the increase was in non-operating revenue, and was due in large part to a $100 million pledge to the endowment supporting the School of Music and a significant endowment pledge supporting physical capital.

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 2005 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 around the world. Revenue for the Press was $28.9 million in 2005 and $28.8 million in 2004.

Other income includes such items as royalty income, ticket sales, admission revenue, parking revenue, and application and enrollment fees. Royalty income increased in the current year because of a legal settlement in favor of the University.

Operating Expenses

Operating expenses totaled $1.79 billion, representing a 6.6% increase in expenses for the year. The largest component of expenses – salaries and wages and employee benefits – rose 7.9%. This category of expense represents 61% of total University operating costs.

This increase was in line with the University's commitment to maintain moderate growth and a competitive position with peer institutions. Faculty salaries, which make up 45.9% of total compensation, rose 6.8% in 2005. 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.

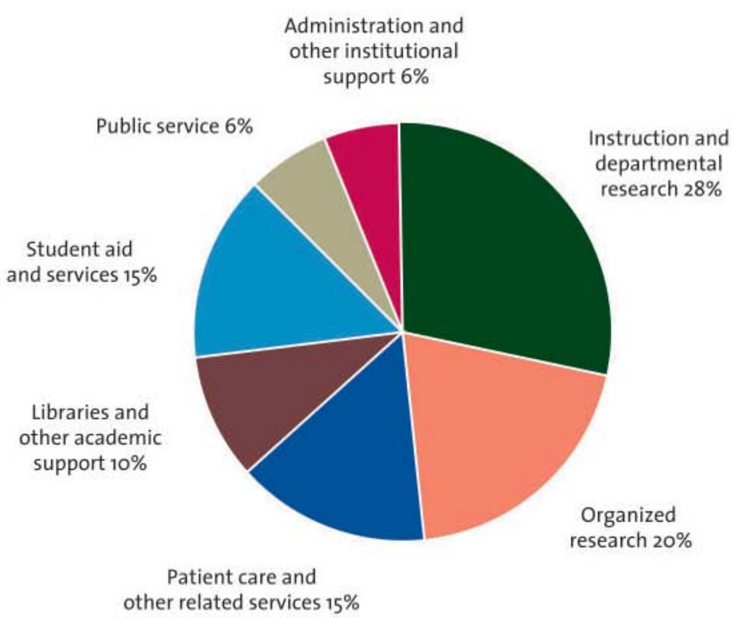
The cost of providing employee benefits, including various pension, postretirement health, and insurance plans in addition to social security and other statutory benefits, amounted to $238.5 million, an increase of 10.5% from 2004.

Another item of interest was an increase of approximately 14% in utilities, due to record fuel prices.

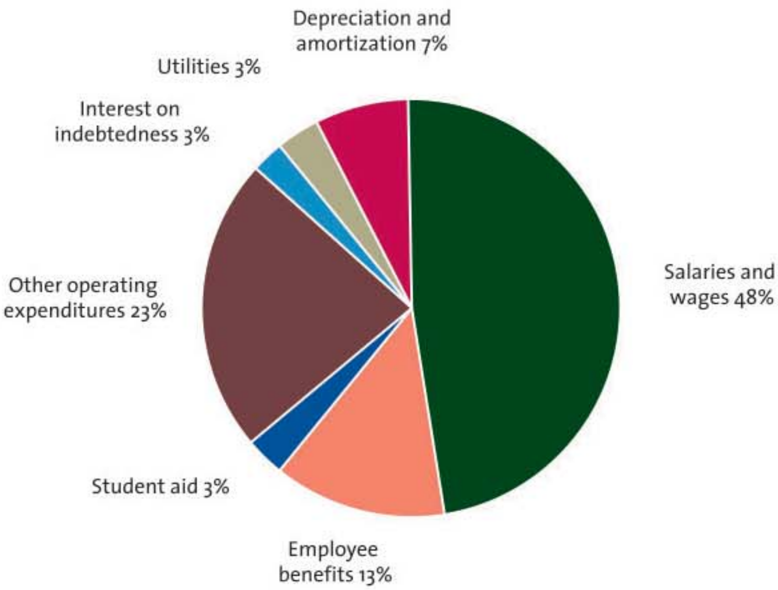
Other operating expenditures include services, materials and supplies, and other expenses. These expenditures remained stable in the current year.

In accordance with generally accepted accounting principles, Yale reports its operating expenses by functional classification in

Operating Expenses by Functional Classification



Operating Expenses by Natural Classification



the Statement of Activities. Expenses in each classification increased primarily as a result of the salary, wage, and employee benefit increases mentioned above. Additionally, student aid and services increased in part because of increased depreciation expense resulting from the completion of major renovations to residential colleges, as well as an increase in stipends paid to students. The acquisition of library collections increased approximately 13%, adding to the increase in libraries and other academic support. This expense can fluctuate as the purchase of collections is contingent upon the availability of desirable items.

Faculty and Staff Compensation
The University employs approximately 3,600 faculty, 3,600 managerial and professional staff, and 4,100 unionized clerical, technical, service, and maintenance personnel, based on full-time equivalents. Total salaries and wages and related employee benefits were $1.1 billion in 2005.

Operating Budget

The University manages its operations so as to achieve long-term financial equilibrium. We are committed to sustain both the programs and the capital assets (endowment and facilities) supporting those programs over multiple generations. Endowment income is allocated 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 Operating Budget includes the funds needed to replenish the capital base needed to ensure buildings are maintained to support current programs.

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 been increasing the funding of the CRC since 1996. In fiscal 2005, Yale funded $102 million of the CRC from the Operating Budget and departmental funds, $19 million from capital gifts, and borrowed the remaining $35 million. The University expects to fund the full CRC level in its Operating Budget by 2010. Another difference is that the GAAP financial statements do not present fund balance transfers between the operating, physical, and financial categories, as the Operating Budget does. Finally, the operations of 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:

	2005	2004
Operating Budget Bottom Line	$(14,500)	$ 0
Operating Budget Add to/ (Use of) fund balances	59,262	(6,180)
Revenue from pledge activity	26,474	5,923
Expenditures related to long-term liabilities	(27,252)	(6,054)
Depreciation in excess of capital funding	(8,244)	(5,016)
Yale Press operating results	376	921
Funding transfers	12,541	12,413
Increase in net assets from operations	$ 48,657	$ 2,007

The Budget presents operating activity by funding source. General Appropriations include general operations including the cost of education for the University. Other operating funding sources include endowments and gifts, sponsored research, patient care, and other activity. 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.

Yale University Operating Budget Revenue and Expense

for the year ended June 30, 2005
($ in thousands)

	General Appropriations	Other	Actual June 30, 2005	Budget June 30, 2005
Revenue				
Tuition, room and board	$345,062	$5,313	$350,375	$347,875
Funded Scholarships	(100,277)	(26,381)	(126,658)	(107,007)
Net tuition, room and board	244,785	(21,068)	223,717	240,868
Sponsored agreement income	118,669	388,551	507,220	527,739
Medical services income	26,487	250,643	277,130	260,875
Contributions	26,630	59,378	86,008	62,017
Allocation of endowment spending	36,549	530,456	567,005	533,097
Unrestricted and recovery income	351,703	(351,703)	-	-
Other investment income	17,146	6,418	23,564	17,393
Other income	40,510	55,006	95,516	81,678
Transfers	14,522	(27,063)	(12,541)	(7,777)
Total revenue	877,001	890,618	1,767,619	1,715,890
Expenses:				
Faculty salaries	144,243	232,725	376,968	385,308
Staff salaries and wages	287,982	168,875	456,857	448,838
Total salaries and wages	432,225	401,600	833,825	834,146
Employee benefits	100,089	119,864	219,953	238,251
Student stipends	16,441	37,638	54,079	60,168
Other expenses	306,077	307,243	613,320	598,315
Interest and capital replacement	151,064	4,618	155,682	155,849
Utilities	44,871	108	44,979	39,462
Internally provided services	(174,760)	(24,221)	(198,981)	(168,814)
Total expenses	876,007	846,850	1,722,857	1,757,377
Operating results - budgeted activity:	994	43,768	44,762	(41,487)
Use of / (Add to) Fund Balances	(15,494)	(43,768)	(59,262)	26,987
Operating Budget Bottom Line	$(14,500)	$ -	$(14,500)	$(14,500)

FY05 Operating Budget Results

The University ended the year with a negative operating budget bottom line of $14.5 million, as was budgeted. However, positive operating results of $44.8 million allowed the University to increase fund balances by $59.3 million rather than draw $27 million from fund balances as expected in the budget. This positive variance resulted primarily from higher revenues of $52 million and lower expenses of $34.5 million. Revenues were higher as a result of a change in the endowment spending policy after the budget was finalized, as well as significant increases in gift and medical services income during the year. The endowment spending rule change is discussed in the endowment section of this report and added $31 million of income to the University's operations. Continued support by the unrestricted giving of alumni and other donors was on budget, but giving to restricted activities exceeded the budget by over $20 million. These increases more than offset the lower than budgeted growth in the sponsored agreement income during the year.

Operating expenses were about 2% below budgeted levels. While General Appropriations expenses were on budget at $876 million, expenses in Sponsored Agreements were lower than budget, consistent with the revenue being below budgeted levels. Salary expenses were on budget at $834 million. Employee benefits were $18.3 million below budget. Financial aid costs were $11 million over budget (funded scholarships and student stipends) in part because of a change in the financial aid policies for undergraduates as well as higher stipends and scholarships funded by grants, endowments, and gift funds. Record high oil and gas prices caused the variance in utilities costs.

Physical Capital

In 2005 the University's capital program continued to focus on renovating existing facilities while adding strategic new facilities. Capital spending on facilities in 2005 totaled $259.3 million. This is the eighth straight year of capital spending in excess of $200 million, reflecting the university's commitment to address years of deferred maintenance.

About one-quarter of the University's capital spending was for science buildings. The unusually large share of spending for science is a result of major expenditures to construct the new Class of 1954 Chemistry Research Building and the new Malone Engineering Center. Funds also were spent on planning for the new Molecular, Cellular & Developmental Biology Building. The remainder of the spending on science buildings was devoted to modernizing laboratories and classrooms in existing buildings as well as maintaining these buildings.

Spending for the residential colleges consumed another quarter of total capital resources, consistent with the University's commitment to fully refurbishing its undergraduate residential facilities. The renovation of Pierson College was completed in time for the start of the 2004-2005 academic year. Thus, by 2005, five of the twelve residential colleges have been renovated: Berkeley, Branford, Timothy Dwight, Pierson, and Saybrook. Another four colleges were in various stages of renovation by the end of 2005. Renovations were nearly complete in Davenport College, were under way in Silliman College, and were beginning in Trumbull College. Design for the renovation of Jonathan Edwards College has begun. The remaining three colleges will also be receiving renovations in the coming years, though not as extensive as the other colleges because two of them – Morse and Stiles – are relatively new, and the third – Calhoun – was partially renovated earlier.

As in previous years, major capital spending also took place in the School of Medicine with investments in research, clinical, and administrative buildings. The School of Medicine accounted for almost one-fifth of the University's 2005 capital expenditures. Funds were spent to design the new Amistad Street Building, which will be a research laboratory building, and to construct a new Magnetic Resonance Center, including a Positron Emission Tomography Center, in existing space. Considerable funds also were spent on modernizing laboratory space in a number of medical buildings, including the Sterling Hall of Medicine, the Hunter Radiation Therapy Center, and Lauder Hall.

Yale continued to address other needs across the University. The rehabilitation and landscaping of the Hewitt Quadrangle and the underlying Beinecke Library roof were completed. Work continued on construction of a new University Police Facility and on the comprehensive renovation of the School of Music's Leigh Hall and the Yale University Art Gallery's Kahn building. Work was started on the renovation of Yale Bowl.

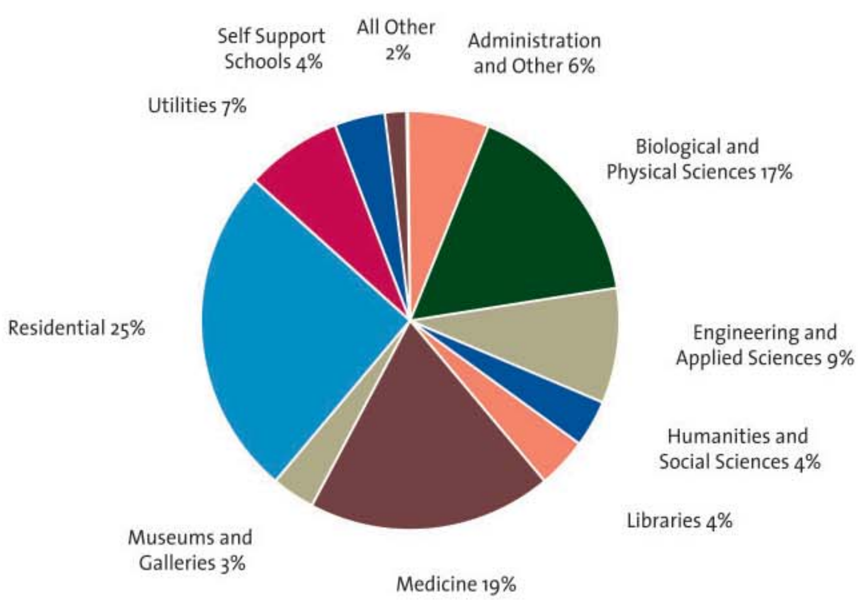
The University's ambitious renovation and building plans were funded by a combination of gifts and funds from the operating budget, as well as financed with debt. The University continues to rely heavily on the extraordinary generosity of its alumni/ae and friends. Gifts for facilities in 2005 totaled $26.4 million. The University has set gift targets for many of its projects and has been the beneficiary of an outstanding response from donors. The Malone Engineering Center, the Class of 1954 Chemistry Research Building, the residential college renovations, Yale University Art Gallery's Kahn building, Sprague Hall, Leigh Hall, the University Police Facility, Yale Bowl and, indeed, nearly all of the University's recent major renovation undertakings have been funded at least partially through gifts.

Another major source of capital for University capital projects is debt. Total outstanding facilities debt for the University is now $1.58 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 taxable interest rate swaps. As of June 30, 2005, Yale had $560 million in swaps outstanding associated with debt-financing building projects.

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 backup 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.

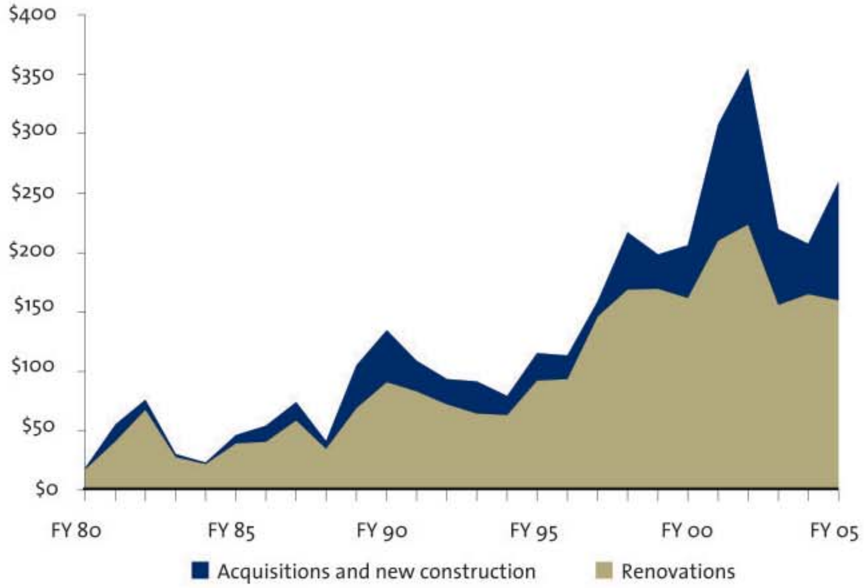
The University continues to enjoy the highest bond ratings available: AAA from Standard and Poor's and Aaa from Moody's.

Capital Spending by Campus Area



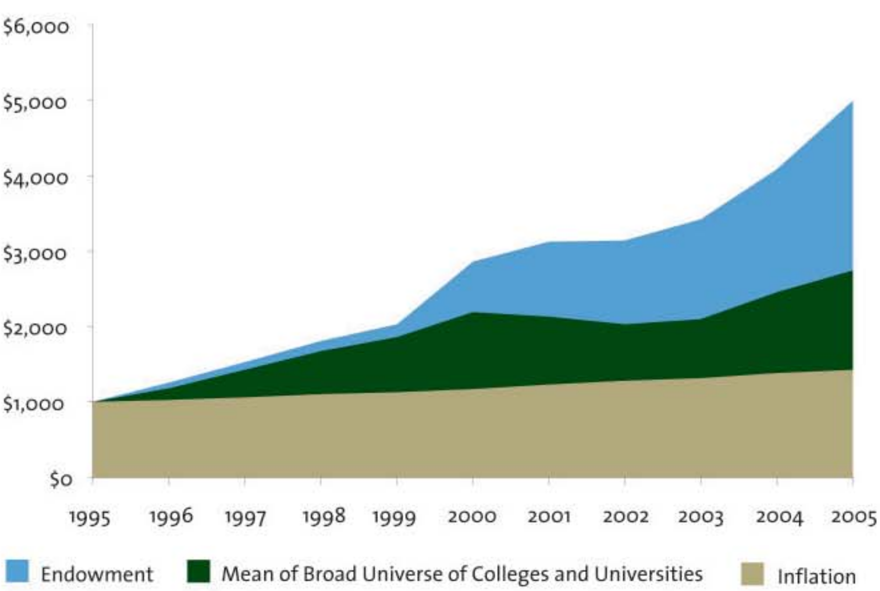
Capital Spending by Year

($ in millions; in 2005 dollars)



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. In 2004, the first year of the multi-year plan, the operating budget provided $97 million or approximately 64% of the $151 million estimated capital replacement needs. In 2005 the university adopted plans to increase the operating budget funding of capital maintenance and renovation of existing buildings to the full capital replacement charge level by fiscal year 2010. In 2005, funding of $102 million came from the operating budget and $19 million came from capital gifts, representing approximately 78% of the $156 million estimated capital replacement needs.

Growth of $1,000 Invested in the Yale Endowment 1995-2005



Endowment

The endowment supports both current and future academic programs of the University. To balance current and future needs, Yale utilizes investment and spending policies designed to preserve endowment asset values while providing a substantial flow of income to the operating budget. At June 30, 2005, the endowment stood at more than $15.0 billion, after providing $567 million to the operating budget during the year.

Investment Performance

For the year ended June 30, 2005, the endowment achieved a 22.3% investment return. During the past decade, the endowment earned an annualized 17.4% 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, 2005, Yale's superior investment returns added $6.3 billion relative to a composite passive benchmark and $7.2 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 manages the trade-off between these two objectives by using a long-term spending rate target combined with a smoothing rule, which adjusts spending in any given year 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 smoothing rule now limits endowment spending in a given year to the sum of 80% of the previous year's spending, adjusted for inflation, and 20% of the targeted long-term spending rate applied to the previous year's market value. The new target rate was effective for the fiscal year ended June 30, 2005. 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.

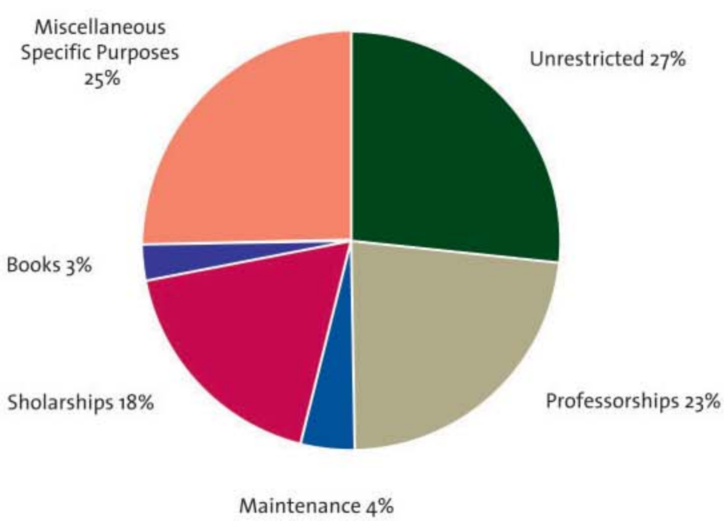
The endowment provided $567 million to current operations in 2005, representing 31% of the University's operating revenues. Ten years ago, endowment distributions contributed approximately $132 million, or 14% of the budget. Over the past decade, endowment distributions have increased at an annualized rate of nearly 15%.

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 weighted 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.

Endowment Fund Allocation, Fiscal Year 2005



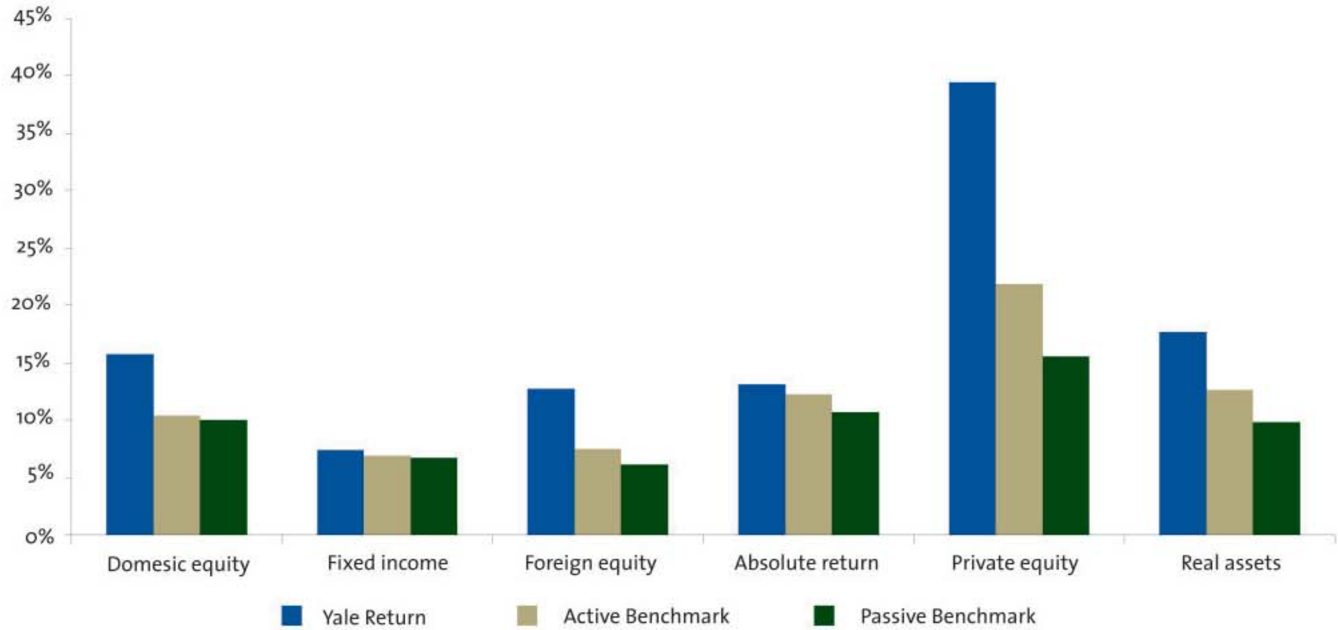
Over the past 15 years, Yale significantly reduced the endowment's exposure to traditional domestic marketable securities, reallocating assets to nontraditional asset classes. In 1990, nearly three-quarters of the endowment was committed to U.S. stocks, bonds, and cash. Today, this percentage is approximately 21%. 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 1990's portfolios.

Asset Class	June 2005	Current Target
Domestic Equity	14.1%	14.0%
Fixed Income	4.9%	5.0%
Foreign Equity	13.7%	14.0%
Absolute Return	25.7%	25.0%
Private Equity	14.8%	17.0%
Real Assets	25.0%	25.0%
Cash	1.8%	0.0%
Total	100.0%	100.0%

Yale Endowment

Asset classes versus benchmarks: annualized returns net of fees for ten years ended June 30, 2005



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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Facsimile (860) 241 7590

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 of cash flows present fairly, in all material respects, the financial position of Yale University (the "University") at June 30, 2005, 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. 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.

The 2004 summarized financial information has been derived from the University's 2004 financial statements. As described in Note 1q, such information has been restated to consolidate an investment company controlled by the University.

PricewaterhouseCoopers LLP

November 21, 2005

Yale University Statements of Financial Position

June 30, 2005 and 2004 ($ in thousands)

	June 30, 2005	June 30, 2004 Restated (See Note 1q)
Assets:		
University assets		
Cash and cash equivalents	$ 477,316	$ 452,585
Accounts receivable, net	109,482	103,553
Contributions receivable, net	383,956	209,359
Student loans receivable, net	55,019	55,580
Investments, at fair value	14,766,768	12,562,642
Other assets	67,856	76,431
Land, buildings and equipment, net of accumulated depreciation	2,263,170	2,095,186
University assets, excluding fair value of $456,173 and $417,008 of consolidated investment company net assets	18,123,567	15,555,336
Consolidated investment company assets	4,382,192	4,217,019
Total consolidated assets	$ 22,505,759	$ 19,772,355
Liabilities:		
University liabilities		
Accounts payable and accrued liabilities	$ 200,363	$ 183,049
Advances under grants and contracts and other deposits	57,379	56,898
Other liabilities	123,950	75,868
Liabilities under split-interest agreements	81,097	76,108
Bonds and notes payable	1,582,893	1,572,687
Advances from Federal government for student loans	32,825	32,432
University liabilities	2,078,507	1,997,042
Consolidated investment company liabilities	3,926,019	3,800,011
Total consolidated liabilities	6,004,526	5,797,053
Net assets:		
Unrestricted	8,535,925	7,540,560
Temporarily restricted	6,095,168	4,777,769
Permanently restricted	1,870,140	1,656,973
Total net assets	16,501,233	13,975,302
Total consolidated liabilities and net assets	$ 22,505,759	$ 19,772,355

Detail of net assets:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**June 30, 2005**	**June 30, 2004**
Endowment and student loans	$ 4,968,242	$ 5,561,854	$ 1,870,140	$ 12,400,236	$ 10,348,668
Funds functioning as endowment	2,696,248	160,982	-	2,857,230	2,417,130
Physical capital investment	553,329	201,930	-	755,259	766,502
Operating:					
Accumulated general budget deficit	(85,404)	-	-	(85,404)	(70,904)
Designated and restricted for specific purposes	403,510	170,402	-	573,912	513,906
	$ 8,535,925	$ 6,095,168	$ 1,870,140	$ 16,501,233	$ 13,975,302

The accompanying notes are an integral part of these financial statements

Yale University Statement of Activities

for the year ended June 30, 2005 with summarized information for the year ended June 30, 2004
($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005	2004
Operating					
Revenues and reclassifications:					
Student income, net	$ 223,717	$ -	$ -	$ 223,717	$ 216,069
Grant and contract income, primarily for research and training	507,220	-	-	507,220	491,034
Medical services income	277,130	-	-	277,130	250,400
Contributions	20,372	92,159	-	112,531	81,712
Allocation of endowment spending from financial capital	170,032	396,973	-	567,005	502,023
Other investment income	23,564	-	-	23,564	20,859
Publications income	29,254	-	-	29,254	29,226
Other income	95,176	-	-	95,176	86,592
Total revenues	1,346,465	489,132	-	1,835,597	1,677,915
Net assets released from restrictions	471,261	(471,261)	-	-	-
Total revenues and reclassifications	1,817,726	17,871	-	1,835,597	1,677,915
Expenses:					
Instruction and departmental research	508,736	-	-	508,736	486,041
Organized research	354,329	-	-	354,329	340,320
Patient care and other related services	269,992	-	-	269,992	249,515
Libraries and other academic support	171,522	-	-	171,522	154,186
Student aid and services	259,741	-	-	259,741	232,496
Public service	111,054	-	-	111,054	105,489
Administration and other institutional support	111,566	-	-	111,566	107,861
Total expenses	1,786,940	-	-	1,786,940	1,675,908
Increase in net assets from operating activities	30,786	17,871	-	48,657	2,007
Non-operating					
Physical capital:					
Contributions	-	26,425	-	26,425	12,068
Unrealized gain (loss) on swap contracts	(30,873)	-	-	(30,873)	46,923
Other (decreases) increases	6,601	-	-	6,601	(3,186)
Net assets released from restrictions	17,242	(17,242)	-	-	-
(Decrease) increase in net assets from physical capital activities	(7,030)	9,183	-	2,153	55,805
Financial capital:					
Contributions	30	63,256	196,383	259,669	114,218
Total endowment return, net of management fees	833,522	1,949,034	5,497	2,788,053	2,083,291
Other (decreases) increases	(15,224)	(1,659)	11,287	(5,596)	(6,046)
Allocation of endowment spending to operating	(170,032)	(396,973)	-	(567,005)	(502,023)
Net assets released from restrictions	323,313	(323,313)	-	-	-
Increase in net assets from financial capital activities	971,609	1,290,345	213,167	2,475,121	1,689,440
Total increase in net assets	995,365	1,317,399	213,167	2,525,931	1,747,252
Net assets, beginning of period	7,540,560	4,777,769	1,656,973	13,975,302	12,228,050
Net assets, end of period	$ 8,535,925	$ 6,095,168	$ 1,870,140	$ 16,501,233	$ 13,975,302

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

Yale University Statements of Cash Flows

for the years ended June 30, 2005 and 2004 ($ in thousands)

	2005	2004 Restated (See Note 1q)
Operating activities:		
Change in net assets	$2,525,931	$1,747,252
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	131,740	129,203
Unrealized loss (gain) on swap contracts	30,873	(46,923)
Net endowment gains	(2,349,130)	(1,759,679)
Contributions restricted for physical and financial capital	(286,094)	(126,286)
Other adjustments	8,000	(4,932)
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	(5,929)	(4,955)
Contributions receivable	(14,726)	43,507
Other operating assets	(1,484)	1,080
Accounts payable, other liabilities and deposits and advances	33,058	6,001
Net cash provided by (used in) operating activities	72,239	(15,732)
Investing activities:		
Student loans repaid	11,228	11,282
Proceeds from sale of student loans	17,662	29,060
Student loans granted	(28,967)	(27,633)
Purchases related to capitalized software costs and other assets	(2,656)	(1,252)
Proceeds from sales and maturities of investments	12,519,989	10,595,625
Purchases of investments	(12,414,149)	(10,431,609)
Purchases of land, buildings and equipment	(285,482)	(219,402)
Net cash used in investing activities	(182,375)	(43,929)
Financing activities:		
Contributions restricted for physical and financial capital	126,223	81,829
Contributions received for split-interest agreements	4,563	7,544
Payments made under split-interest agreements	(8,589)	(747)
Proceeds from long-term debt	11,264	-
Repayments of long-term debt	(252)	(342)
Interest earned and advances from Federal government for student loans	1,658	1,401
Net cash provided by financing activities	134,867	89,685
Net increase in cash and cash equivalents	24,731	30,024
Cash and cash equivalents at beginning of year	452,585	422,561
Cash and cash equivalents at end of year	$477,316	$452,585

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 classes are labeled 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 (net of certain scholarships and fellowships) 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 2005 is $156 million (unaudited). The University spent $141 million on the renovation of its facilities in 2005, of which $102 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 $460.8 million and $610.6 million at June 30, 2005 and 2004, 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.

During fiscal 2005 the University completed a transition of the spending rule from a 70/30 allocation of prior year spending to market value to an 80/20 rule, along with an increase in the target spending rate from 5.0% to 5.25%. The effect of this change added approximately $31 million to endowment spending for 2005. The actual rate of spending for 2005 and 2004, when measured against the previous year's market value, was 4.45 percent and 4.54 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 included in 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 values 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 11,250. 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 61 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 $126.7 million and $114.9 million in 2005 and 2004, 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 2005 and 2004, grant and contract income received from the Federal government totaled $415.4 million and $404.0 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 disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the valuation of investments, 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. Consolidated Investment Company

The University is the majority owner of an externally managed investment company that employs absolute return strategies utilizing leverage. For the year ended June 30, 2005, the University is consolidating the investment company in its financial statements. The investment company has its own independent management and the University does not engage in the day-to-day management of the company.

Consolidated investment company assets primarily consist of fixed income securities. Consolidated investment company liabilities are comprised of securities sold, not yet purchased, securities sold under agreements to repurchase, and other liabilities. Based on the legal structure of the organization, these liabilities are not legal obligations of the University and will be settled utilizing the assets of the investment company. At June 30, 2005 and 2004, the University's net equity in this investment is $456.2 million and $417.0 million, respectively.

The investment company's policy with respect to repurchase agreements is to take possession of underlying assets purchased under agreements to resell and to use fixed income securities to collateralize securities sold under agreements to repurchase. The market values of the underlying assets are reviewed daily to ensure that the amounts are adequately collateralized and, when warranted, additional collateral is obtained or provided. Nearly all underlying assets and collateral are permitted to be sold or repledged.

The 2004 statement of financial position has been restated to consolidate this investment company for comparative purposes. This investment was previously accounted for as an investment at fair value. Accordingly, June 30, 2004 investments have been reduced by $417 million and investment company assets of $4.2 billion and liabilities of $3.8 billion have been consolidated with the University's financial statements. In connection with this consolidation, the comparative 2004 statement of cash flows has been restated to increase purchases of investments and proceeds from sales of investments by $4.9 billion.

r. Summarized 2004 Financial Information (Restated)

The accompanying 2005 financial statements include comparative summarized financial information for the year ended June 30, 2004. Such information 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, 2004, from which the summarized financial 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 recorded 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:

	2005	2004 Restated (See Note 1q)
Endowment investments:		
Domestic equities	$ 2,095,482	$ 1,832,626
Absolute return	3,819,572	3,269,628
Private equities	2,201,684	1,818,697
Fixed-income	838,861	1,237,018
Real assets	3,875,555	2,518,495
International equities	2,035,069	1,864,510
	14,866,223	12,540,974
Beneficial interest in trust assets	144,027	128,840
Charitable remainder trusts	80,771	71,082
Total endowment investments	15,091,021	12,740,896
Other investments:		
Fixed-income	41,031	152,600
Other	90,889	86,154
Total other investments	131,920	238,754
Less:		
Fair value of consolidated investment company (Note 1q)	(456,173)	(417,008)
Investments, at fair value	$14,766,768	$12,562,642

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 investment 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 investment vehicles in certain circumstances. Yale does not use derivatives for speculation.

Yale's derivative positions directly held at June 30, 2005 included interest rate swaps and currency forward contracts. The market value of these derivatives was $37.0 million. A gain of $11.7 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, 2005, approximately 66.8 percent of the University's endowment investments were invested in limited partnerships or limited liability companies. Under the terms of certain limited partnership and limited liability company 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, 2005, the University had uncalled commitments of approximately $4.4 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, 2005, management estimates that it could have liquidated approximately $4.8 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:

	2005	2004
Investment income	$ 438,923	$ 323,612
Realized and unrealized gains (losses), net of investment management fees	2,349,130	1,759,679
Return on the endowment	2,788,053	2,083,291
Other investment income	23,563	20,859
Total return on investments	$ 2,811,616	$2,104,150

Endowment investment returns totaling $567.0 million and $502.0 million were allocated to operating activities in 2005 and 2004, respectively, using the spending policy described in Note 1d.

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

	2005	2004
Charitable gift annuities	$ 88,878	$ 74,699
Pooled income funds	23,655	23,341
Charitable remainder trusts	80,771	71,082
	$193,304	$169,122

Fixed income investments in the non-endowment portfolio include CHEFA X proceeds of $118.8 million at June 30, 2004 available for approved construction and campus renovation projects. These proceeds were expended during 2005. Other investments include directly held real estate and investments in minority owned subsidiaries.

3. Accounts Receivable

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

	2005	2004
Medical services	$ 36,098	$34,554
Grants and contracts	50,962	35,211
Investment income receivable	7,959	9,433
Affiliated organizations	11,721	20,057
Yale University Press receivables	6,452	5,637
Other	15,504	15,066
	128,696	119,958
Less: Allowance for doubtful accounts	(19,214)	(16,405)
	$109,482	$103,553

Medical services receivables are net of an allowance for contractual adjustments in the amount of $30.0 million and $27.5 million at June 30, 2005 and 2004, 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 $6.8 million and $5.9 million at June 30, 2005 and 2004, 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:

	2005	2004
Purpose:		
Endowment	$260,094	$ 78,013
Capital purposes	102,711	106,871
Operating programs	122,785	88,056
Gross unconditional promises to give	485,590	272,940
Less: Discount	(35,296)	(24,278)
Allowance for uncollectible accounts	(66,338)	(39,303)
Net unconditional promises to give	$383,956	$209,359

	2005	2004
Amounts due in:		
Less than one year	$161,583	$ 69,726
One to five years	314,257	161,620
More than five years	9,750	41,594
	$485,590	$272,940

Discount rates used to calculate the present value of contributions receivable ranged from .98 percent to 6.37 percent at June 30, 2005 and from .98 percent to 6.52 percent at June 30, 2004.

5. Student Notes Receivable

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

	2005	2004
Stafford Loan Program	$ 860	$ 1,459
Perkins Loan Program	33,564	32,853
YSL Loan Program	19,462	19,649
Other student loan notes	4,519	4,788
	58,405	58,749
Less: Allowance for doubtful accounts	(3,386)	(3,169)
	$55,019	$55,580

Student notes 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:

	2005	2004
Software costs, net of accumulated amortization	$41,475	$51,314
Inventories	11,367	13,921
Bond issue costs, net of accumulated amortization	5,283	5,507
Other notes receivable	1,743	459
Deferred expenses	7,988	5,230
	$67,856	$76,431

Amortization expense included in operating expenses amounted to $12.7 million and $13.0 million in 2005 and 2004, respectively.

7. Land, Buildings and Equipment

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

	2005	2004
Land and real estate improvements	$ 75,625	$ 74,780
Buildings	2,600,451	2,458,158
Equipment	400,236	379,131
Less: Accumulated depreciation	(1,102,857)	(1,003,928)
	1,973,455	1,908,141
Construction in progress	289,715	187,045
	$2,263,170	$2,095,186

Depreciation expense included in operating expenses amounted to $119.0 million and $116.2 million in 2005 and 2004, respectively.

Land, buildings and equipment include $36.3 million and $34.3 million in purchases payable to external vendors at June 30, 2005 and 2004.

8. Other Liabilities

Other liabilities consist of obligations of the University that will be paid over a longer period of time and consist of the following:

	2005	2004
Market value of interest rate swap contracts	$ 54,823	$ 23,950
Financial aid grant obligations	16,555	14,977
Compensated absences	38,697	34,300
Employee benefit obligations	13,875	2,641
	$123,950	$ 75,868

9. Bonds and Notes Payable

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

	2005	2004
Facilities financing	$1,576,893	$1,572,687
Student loan financing	6,000	-
	$1,582,893	$1,572,687

Total interest expense incurred on indebtedness was $61.4 million and $55.1 million in 2005 and 2004, respectively. Interest paid was $57.9 million and $52.8 million in 2005 and 2004, respectively. Interest capitalized to land, buildings and equipment totaled $2.9 million and $.9 million in 2005 and 2004, 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 2005	Year of Maturity	Principal Outstanding 2005	Principal Outstanding 2004
Connecticut Health and Educational Facilities Authority (CHEFA) tax-exempt bonds				
Series S	1.75%	2027	$ 135,865	$ 135,865
Series T	1.72%	2029	250,000	250,000
Series U	1.73%	2033	250,000	250,000
Series V	1.69%	2036	200,000	200,000
Series W	5.13%	2027	87,826	87,749
Series X	2.65%	2037/2042	350,000	350,000
Total CHEFA bonds			1,273,691	1,273,614
Medium-term notes	7.38%	2096	124,506	113,397
Taxable commercial paper	2.25%	2005	174,424	181,152
Other notes payable	3.00% -7.90%	2005/2020	4,272	4,524
			$1,576,893	$1,572,687

CHEFA 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 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 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 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 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 money market mode, bonds may be tendered for purchase at the end of each rate period.

Medium-term notes in the amount of $124.5 million are recorded net of a discount of $494 thousand at June 30, 2005. 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 in thousands of dollars, are as follows:

2006	$174,574
2007	162
2008	175
2009	190
2010	205
2011 - 2026	3,390
Thereafter	1,398,197

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 loan notes was $6 million in 2005.

c. Interest Rate Swaps

The University has entered into 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, in thousands of dollars:

	2005	2004
Notional amount of contract	$560,000	$480,000
Fair value of swap contract	$(54,823)	$(23,950)
Net loss (gain):		
Net interest expense recognized in operations	17,329	22,279
Unrealized loss (gain)-physical capital	30,873	(46,923)
	$ 48,202	$(24,644)

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 creditworthiness.

d. Fair Value

The fair value of the University's fixed rate bonds, $361.8 million at June 30, 2005, 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 $48.6 million and $45.7 million in 2005 and 2004, 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 benefits including health benefits and life insurance based on years of service. 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. Non faculty employees are paid 25% of unused sick time upon retirement from active status; effective in 2008, the University will pay 50% of unused sick time in these instances.

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	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation, beginning of year	$502,979	$350,308	$322,112	$294,060
Service cost, excluding assumed administration expenses	18,552	13,664	13,405	11,343
Interest cost	30,534	25,750	19,291	17,434
Benefit payments	(17,153)	(15,207)	(13,091)	(9,726)
Assumption changes	97,603	17,961	71,117	11,366
Amendments	2,116	99,197	-	8,444
Actuarial (gain) loss	12,108	11,306	10,768	(10,809)
Benefit obligation, end of year	$646,739	$502,979	$423,602	$322,112
Change in plan assets:				
Market value, beginning of year	$502,039	$445,968	$167,519	$127,984
Actual return on plan assets	101,154	69,882	28,598	23,310
University contributions	6,338	2,000	19,390	26,025
Benefits and expenses paid	(17,735)	(15,811)	(13,162)	(9,800)
Market value, end of year	$591,796	$502,039	$ 202,345	$167,519
Funded status	$ (54,943)	$ (940)	$(221,257)	$(154,593)
Unrecognized transition obligation	-	-	29,739	33,456
Benefit payments advanced	-	-	4,416	3,866
Unrecognized net (gain) loss	(41,576)	(90,347)	153,838	91,098
Unrecognized prior service cost	94,315	101,307	14,831	16,215
Prepaid (accrued) benefit cost included in the Statements of Financial Position	$ (2,204)	$ 10,020	$ (18,433)	$ (9,958)

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 $492.7 million at June 30, 2005 and $410.4 million at June 30, 2004. The Accumulated Benefit Obligation differs from the Benefit Obligation above in that it includes no assumptions about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels.

The primary change in assumptions during the year was a reduction in the discount rate from 6.0% to 5.0%. This caused an increase in the benefit obligation of $88.1 million for the Pension Plan and $53.3 million for Postretirement Plans.

Changes in salary, turnover, retirement and mortality assumptions caused an additional increase in these obligations of $9.5 million for the Pension Plan and $17.8 million for the Postretirement Plans.

Amendments to the plans made in 2004 included the following:

	Impact on Obligations	
	Pension	Postretirement
Pension Plan Enhancements	$99,197	$ -
Pharmacy Benefit Manager	-	(7,881)
Retiree Life Insurance	-	2,600
Sick Pay Obligation	-	13,825
	$99,197	$ 8,444

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 are as follows:

	Pension		Retiree Health	
	2005	2004	2005	2004
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 for the pension and retiree health plans are determined by the University considering calculations prepared by the plan's actuary as well as other factors. Expected contributions to the Pension Plan are $8 million for the fiscal year beginning July 1, 2005, while there are no expected contributions to the Retiree Health Plan.

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
2006	$ 19,200	$ 13,600
2007	20,400	14,400
2008	22,000	15,400
2009	23,800	16,500
2010	26,000	17,700
2011-2015	170,000	106,500

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

	2005	2004
Weighted-average discount rate	5.00%	6.00%
Increase in future compensation levels	4.54%	4.50%
Projected health care cost trend rate	8.00%	9.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2011	2008

The health care cost trend rate assumption has a significant effect on the amounts reported. For the fiscal year ended June 2005, a one percent change in the health care cost trend rate structure would cause the Retiree Health plan's benefit obligation at June 30, 2005 to change by approximately 10.5 percent and would also cause the sum of the service cost and interest cost components of postretirement expense to change by approximately 13 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	2005	2004	2005	2004
Service cost	$19,152	$ 14,164	$13,505	$12,285
Interest cost	30,534	25,749	19,292	18,104
Expected return on plan assets	(40,082)	(36,012)	(14,127)	(11,943)
Net amortization				
- Transition obligation	-	-	3,717	3,847
- Prior service cost	9,108	6,615	1,384	1,277
- Net (gain) loss	(150)	(2,445)	4,644	4,345
Net periodic benefit cost	$18,562	$ 8,071	$28,415	$27,915

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

	2005	2004
Weighted-average discount rate	6.00%	6.25%
Expected long-term rate of return	8.50%	8.50%
Compensation increase	4.50%	4.50%
Health care cost increase	8.00%	9.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2008	2008

12. 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 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 material adverse effect, individually or in the aggregate, upon the University's financial position.

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

2006	$11,100
2007	9,201
2008	8,312
2009	7,340
2010	6,478
Thereafter	54,327
	$96,758

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 $19.8 million at June 30, 2005.

13. Subsequent Event

On October 5, 2005 the University entered into a loan agreement with the Connecticut Health and Educational Facilities Authority to borrow $300 million for renovation and construction projects on the University campus. The debt is due on July 1, 2035 and is separated into a $100 million bond issue bearing interest at variable rates and a $200 million bond issue bearing interest at 5%. The bonds were sold at 105.515.

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