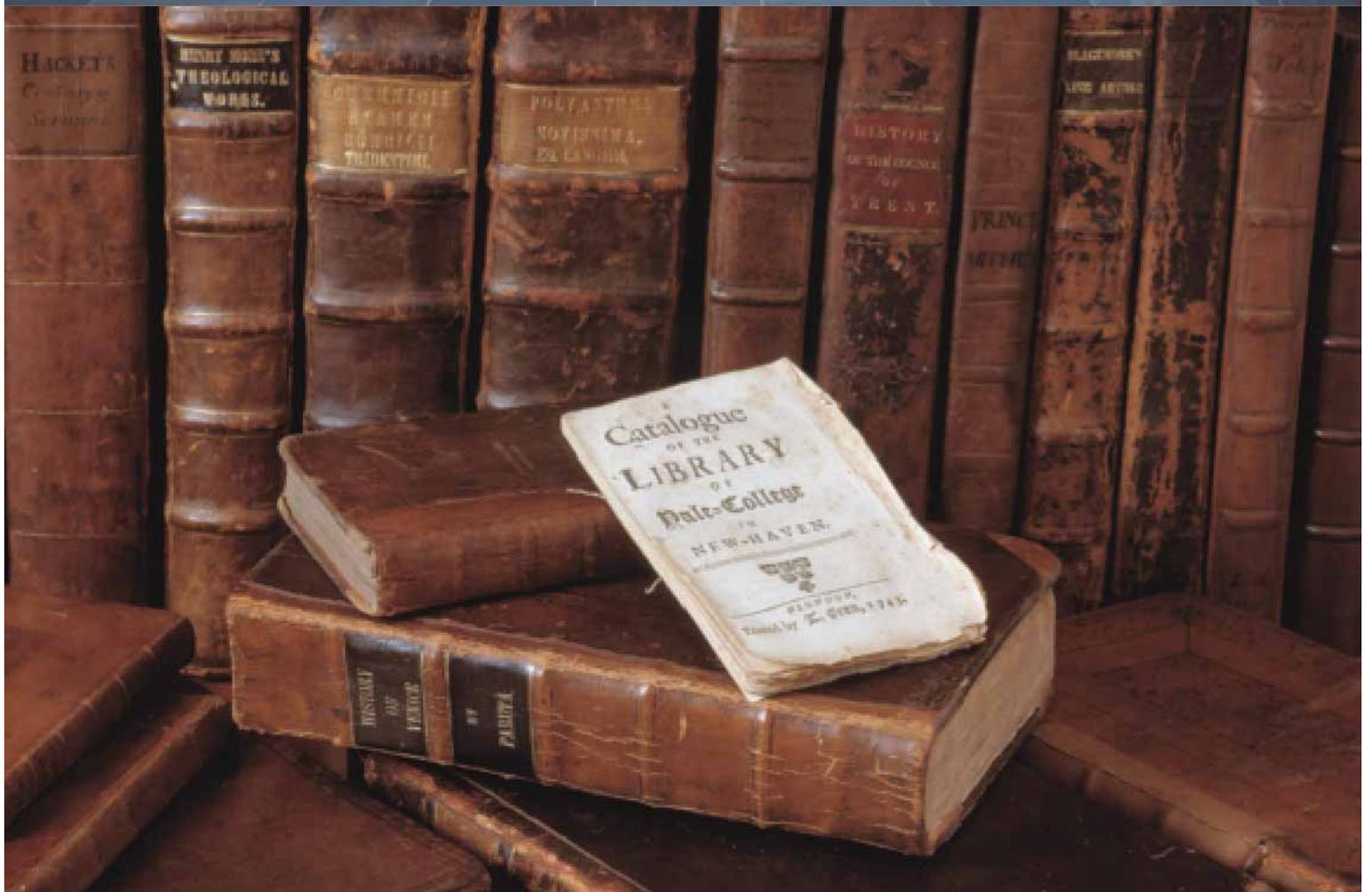




Yale University Financial Report  
2006-2007  
[www.yale.edu/fro6-07](http://www.yale.edu/fro6-07)



# Highlights

Five-Year Financial Overview (\$ in millions)	Fiscal Years				
	2007	2006	2005	2004	2003
<b>Operating Budget Bottom Line</b> (see page 19)	\$ ---	\$14.5	(\$14.5)	\$ ---	\$ ---

## Financial Position Highlights (see page 26):

Total assets	\$32,165.3	\$27,711.6	\$22,505.7	\$19,772.4	\$17,556.2
Total liabilities	8,079.5	8,213.3	6,004.5	5,797.1	5,328.1
Total net assets	\$24,085.8	\$19,498.3	\$16,501.2	\$13,975.3	\$12,228.1

## Endowment:

Net investments, at fair value	\$22,364.7	\$17,949.1	\$15,091.0	\$12,740.9	\$11,048.9
Total return on investments	28.0%	22.9%	22.3%	19.4%	8.8%
Spending from Endowment	3.8%	4.1%	4.5%	4.5%	4.5%

## Facilities:

Land, buildings and equipment, net of accumulated depreciation	\$2,746.4	\$2,486.9	\$2,263.2	\$2,095.2	\$1,986.1
Disbursements for building projects	373.3	265.1	259.3	202.1	207.6

## Debt:

For facilities improvements	\$1,954.6	\$1,954.3	\$1,576.9	\$1,572.7	\$1,543.9
For student loans and other	-	-	6.0	-	29.0

## Statement of Activity Highlights (see page 27):

Operating revenue	\$2,121.2	\$1,971.0	\$1,835.6	\$1,677.9	\$1,553.7
Operating expenses	2,108.5	1,963.6	1,786.9	1,675.9	1,543.1
Increase in net assets from operating activities	\$12.7	\$7.4	\$48.7	\$2.0	\$10.6

Five-Year Enrollment Statistics	Fiscal Years				
	2007	2006	2005	2004	2003
Student Fees:					
Yale College term bill	\$43,050	\$41,000	\$38,850	\$37,000	\$35,370

## Total Enrollment:

Yale College	5,319	5,380	5,281	5,308	5,307
Graduate and professional schools	6,004	6,000	5,971	5,933	5,853

## Freshmen Enrollment:

Class of:	'10	'09	'08	'07	'06
Freshmen applications	21,101	19,451	19,682	17,735	15,466
Freshmen admitted	1,878	1,880	1,958	2,014	2,009
Admissions rate	8.9%	9.7%	9.9%	11.4%	13.0%
Freshmen enrollment	1,315	1,321	1,308	1,353	1,300
Yield	70.9%	71.3%	68.1%	67.9%	65.6%

# Message from the Vice President for Finance and Administration

Since its founding in 1701, Yale University has had a rich history of creating and disseminating knowledge through the printed page. Indeed, the University's early history revolves around books, as a gift of books and other goods from Elihu Yale led to the young college's naming, and the first event in its history was the creation of a library. Tradition holds that ten ministers met in Reverend Samuel Russel's Branford home in 1701, each bringing books for the founding of the college in the New Haven Colony. Books from that collection remain on campus, representing the oldest college library collection in the country.

From its original collection, the University's library has grown to encompass 22 library facilities, almost 13 million printed volumes, and 82,000 linear feet of manuscripts and archival holdings. Well more than 5 million searches are conducted in the library's Orbis online catalog each year.

This year's financial report focuses on the subject of books at Yale including its libraries, the University Press, and new technologies, such as the creation of digital images to preserve and share the University's collections.

The University's libraries, like so many of its programs and buildings, rely upon the generous gifts of donors and grant income, as well as strong financial stewardship. I am pleased to report that the University has had another successful year financially. The endowment generated a 28.0% return this year, creating an increase in net assets of \$4.6 billion; the Yale Investments Office has been able to outperform its benchmarks and peer averages more often than not during the past 20 years. While positive investment performance has added to the size of the endowment, the University has also become more reliant on endowment income, which now represents 32% of the operating budget. Overall, operating revenue increased by 7.6% and operating expenses increased by 7.4%, generating an increase in operating net assets of \$12.7 million for the year.

The University continues its ambitious capital plan which calls for investing more than \$5 billion in renovation and expansion of the campus over the next ten years. The University has made good progress in its strategy of

maintaining the quality of its physical infrastructure through long-term investments in renovations, and the campus continues to grow to meet ambitious academic goals. The University spent \$373 million during fiscal 2006-2007 on building new research facilities and renovating campus buildings. Major new construction projects include the Amistad Street Building and the new Sculpture Building. Major renovations this year include Silliman College and the Bass Library.

In September 2007, the University purchased a 136-acre campus in West Haven/Orange which will allow the University to accelerate its plans in critical research programs in medicine and the sciences, and the new campus will also serve other strategic academic goals.

In addition to its financial stewardship role, Yale's Finance and Administration division supports the continued academic and research growth of the University by identifying efficiencies in operations. By redesigning business processes and taking advantage of new technologies and new ways of thinking about providing services, the division has made solid progress in areas such as grants, procurement, and business operations. Performance metrics have been developed and are being reported on a monthly basis to allow management to monitor key operations and risk areas. New business processes are being developed to better comply with fiduciary responsibilities and to operate more effectively and transparently.

The "Yale Tomorrow" campaign, now in its third year and more than halfway complete, is on target to reach its goal of \$3 billion. Donor support is critical in helping to balance the operating budget, to support the University's strategic goals, and to help sustain the University for years to come. In reviewing a highly successful year, we want to thank Yale's donors and friends for their support in helping to make Yale the premier institution of teaching and research that it has become.



Shauna Ryan King  
*Vice President for Finance and Administration*

# The Books of Yale

*What would a university be without books? From its 22 libraries to its stellar university press, Yale makes books the centerpiece of its intellectual life.*

It is impossible to discuss Yale's collections of books without reference to the spaces in which books are experienced. From the magnificent Beinecke Library to the warm and welcoming Bass Library (formerly the Cross Campus), the University excels at creating buildings and rooms that are havens for researchers and casual readers.

## Collectors and Collections: Yale's Libraries

All Yale students, alumni, faculty, and staff know that the University was founded with a gift of books. As the legend goes, a group of Congregational ministers met in 1701 at the Branford parsonage of Rev. Samuel Russel, each donating books from his own library for the founding of a new college for the colony of Connecticut.



Beinecke Rare Book and Manuscript Library



Irving S. Gilmore Music Library



Anne T. and Robert M. Bass Library, on opening night, October 18, 2007

Whether that story is true—George W. Pierson theorized that the weight of the donated books would have collapsed Rev. Russel's parlor table—it is a fact that gifts of books have shaped Yale's libraries, and its intellectual life, from the outset. What could be more appropriate? If, as University Librarian Alice Prochaska says, "The book is the receptacle of and the vehicle for recorded human knowledge," then books are the building blocks of a great university.

Since the University's founding days, Yale has benefited from the generosity of faculty, alumni, and friends who collected books. In some cases, they used their gifts to Yale to push the University in a particular direction. Some of the donors were scholars who collected in their own areas of expertise. But a surprising number of gifts were made by "ordinary" people who engaged enthusiastically in the pastime of hunting down, purchasing, and preserving rare books.

*A few examples:*

*Elihu Yale's 1718 gift of valuables to the fledgling college included 437 books. While the other treasures were sold to fund the college that would be named after him, the books augmented the young Yale library.*

*Yung Wing (B.A. 1854), the first Chinese student to graduate from an American college, promised the University a collection of Chinese books if it would establish a program in Chinese language and literature. His gift, and that of Japanese books donated by paleontology professor O.C. Marsh, formed the nucleus of what is now the East Asia Collection.*

*Wilmarth Sheldon Lewis (B.A. 1918) and Annie Burr Lewis left Yale not only their extensive collection of books and materials on the eighteenth-century figure Horace Walpole, but also the house in Farmington, Conn., where they lived and where he spent nearly fifty years editing Walpole's correspondence for publication by Yale University Press.*

*The Harvey Cushing/John Hay Whitney Medical Library was founded in 1941 with the donations of Cushing (B.A. 1891) and of John F. Fulton and Arnold C. Klebs, medical school faculty members whose gifts of rare books and other materials are*



*the basis for one of the strongest medical historical collections in the world. It includes more than 300 incunabula, early printed books created after Gutenberg invented moveable type and before 1500.*

*As well as collecting art, Paul Mellon (B.A. 1929) collected books. When he made the extraordinary gift of artwork and of funds to create and endow the Yale Center for British Art, he also gave a large collection of books. The YCBA Collection of Rare Books and Manuscripts contains approximately 35,000 titles, consisting of material relating to the visual arts and cultural life in the United Kingdom and former British Empire from the sixteenth century to the present.*

And then there is the Beinecke Rare Book and Manuscript Library, the vision of a family that loved books and loved Yale University. Not content merely to donate F.W. Beinecke's

The first building at Yale built specifically to house the library, the "Old Library" was completed in 1846, only a few years after the college appointed the first full-time librarian. At the time, the library catalog listed 10,000 books. Hopelessly overcrowded by the turn of the twentieth century, the handsome Gothic building was remodeled and became Dwight Memorial Chapel after Sterling Memorial Library was completed in 1931.

(B.A. 1909) Western Americana collection and Edwin Beinecke's (B.A. 1907) materials related to Robert Louis Stevenson, the Beinecke family made it possible for Yale to combine other important collections under one roof and to continue acquiring materials to augment these collections.

Collectors like the Beineckes and Mellon often permitted the needs of the University to inform their purchases. Thanks to earlier donors, including William Robertson Coe (not even a Yale graduate), Yale already had a rich collection of maps, books, and manuscripts on trans-Mississippi exploration, the Northwest, and Native American culture. And so, guided by Western Americana curator Archibald Hanna, F.W. Beinecke focused much of his collecting in the 1950s on the Spanish Southwest—Texas, New Mexico, Arizona, and California. He purchased books and manuscripts for his own collection, but with the full knowledge that they would come to Yale and supplement—not duplicate—existing materials.

In 1993, Paul Mellon made a losing bid for a sketchbook of the artist J.B.W. Turner. When the winning bidder subsequently threatened to break it up in order to sell pages separately, Mellon was moved to make an offer that prevented this from happening. The intact sketchbook now resides in the Yale Center for British Art's collections.

The importance of gifts to Yale's libraries—of large collections and of individual items, such as the Gutenberg Bible given by Mrs. Edward S. Harkness—should not overshadow the acquisitions made by Yale's libraries over the years. Yale's emergence as a top university has been matched by the importance of its library system, now ranked second amongst North American academic libraries, and one of the world's leading research libraries. That the University hosts and curates multiple special collections in 22 libraries and museums is the result of the everyday activities of generations of librarians and curators not only buying the books and materials being published at the time, but also looking for opportunities to acquire older and rarer materials for Yale's collections. The University Library system now spends more on library materials than any other North American academic library.



Elihu Yale



Annie Burr and Wilmarth Sheldon Lewis, B.A. 1918



Yung Wing, B.A. 1854



Paul Mellon, B.A. 1929

Almost every time a collector has donated books to Yale, the collection has been supplemented with materials already owned by the University. Yale's longevity itself contributes to the depth and richness of its collections. Linda Peterson, a professor of English, works on women editors of the 1830s and 1840s. Magazines that Yale subscribed to in the normal course of events are key to her research, as are literary annuals from the era—small, handsome books with engravings, short stories, and poems, usually edited by women. Many of these volumes, almost certainly collected by Yale as they were published, are found in the stacks and can circulate.

#### *Research, Teaching, and Outreach*

Despite the fact that Yale's collections boast rare and museum-quality items—a Gutenberg Bible, early anatomies and surgery manuals in the Medical Historical Collection, the aforementioned Turner sketchbook, and many, many other valuable books and manuscripts—Yale is, after all, a university and not a museum. It is a place of learning and research, and the libraries' holdings are meant to support those missions. That means getting the books into the hands of students and professors.



Alexandra Marraccini

Book collecting has waned as a hobby—wealthy people of recent generations may be more likely to collect art than books—but is still part of the DNA of Yale University, which is perhaps the only university to offer an undergraduate prize in book collecting. In 1957, a bequest by Adrian Van Sinderen (B.A. 1910) established two such prizes, one for seniors and one for sophomores. The competition encourages undergraduates to build collections.

2006 sophomore entrant **Alexandra Marraccini** won with a collection entitled “Forster-Auden-Isherwood: Six Degrees of Separation.” It traces a circle of influence that starts with E.M. Forster and his close associates W.H. Auden and Christopher Isherwood, and spirals out to include Susan Sontag, Henry James, the classical poet Vergil and others who either influenced or were influenced by her core authors.

While none of her books are rare in the traditional sense, they include much-loved and much-handled family paperback copies of beloved books, “because they show what a personal act building a library is for me.”

Marraccini—who has worked at the Yale Center for British Art and whose studies include a course in medieval manuscripts at the Beinecke—used her winnings to fund a trip to London and to add to her library.

The Law Library acquired an important collection of texts on Roman and canon law from the Association of the Bar of New York. Many of the books were in bad condition, and with assistance from staff in the University Library's preservation department, the Law Library put a good deal of effort into repair and conservation. While the library could be forgiven for wanting to lock these valuables away, law librarian Blair Kauffman says, “We don't want them to just sit there. Any student can come in and use these materials. We want to engage the students and the faculty.”

His sentiments are echoed across campus. Ask any librarian or curator what their most precious acquisitions are for, and they are unanimous: they are there to be used, not to be admired from the other side of a locked glass case. Library holdings are meant to support teaching and research by members of the Yale community and beyond. Elisabeth Fairman, curator of rare books and manuscripts at the Yale Center for British Art, says, “No appointment is needed to use the library.” If you can come to the reading room and show a photo i.d., she says, you can see a unique first edition of Blake's *Jerusalem* with hand-colored illustrations, or the earliest surviving manuscript showing Sir Francis Drake's circumnavigation.

Different collections have different access policies—some require scholarly credentials—and security remains tight, of course. But generally, anyone willing to surrender a book bag or have it searched can have access to Yale's holdings.

A visitor does not always need to have an academic reason to examine materials. For instance, Nancy F. Lyon, an archivist at Manuscripts and Archives in Sterling Memorial Library, describes a collection of title deeds from a New Haven law firm. Materials from this archive might be used by the General Counsel of Yale, a local resident interested in the history of his home, and local surveyors, as well as by academics in the Law School and elsewhere on campus.

A remarkable amount of symbiosis exists between the libraries and the University's intellectual life. The University Library system offers open houses, short seminars, or full-semester courses to introduce undergraduates and graduate students to its collections. Librarians alert faculty members to new acquisitions in their subject areas, and in turn, faculty will let librarians know about opportunities to purchase materials.

Librarians are particularly passionate about introducing students to the use of primary sources. Groups of graduate and undergraduate students travel from New Haven to Farmington, Conn., a few times a year to see some of the original eighteenth-century British manuscripts in the Lewis Walpole Library. The Manuscripts and Archives Department and the Government Documents and Information Center give two prizes for undergraduate papers based on their holdings. The ability to do primary source research, says Robert Babcock, curator of early books and manuscripts at the Beinecke, is fundamental to Yale's mission to train the next generation of scholars.

And librarians find that they learn things about their collections from the students and faculty as well. George Miles, the William Robertson Coe Curator of the Western Americana Collection, recalls a manuscript map acquired by his predecessor Archibald Hanna. He knew it was done by Aztec map makers and showed a part of Mexico, but that was all. It hung, "more or less ignored," until graduate student Dennis Carr decided to research it as a project for a seminar taught by Mary Miller, the Vincent Scully Professor of the History of Art. Carr's paper resulted in Miller convening an international team of experts who spent a rainy October weekend at the Beinecke piecing together information about the map and its creators. A book resulting from this work will be published by Yale University Press.



Paneth Codex, a compendium of medical and surgical knowledge, ca. 1300, Medical Historical Library



This Gutenberg Bible is on permanent display in the Beinecke Rare Book and Manuscript Library.



A print from John James Audubon's *Birds of America*, also from the Beinecke Library.

**Some library statistics**

Printed volumes held:  
approx. 13,000,000

Volumes purchased in  
2005–06: 249,613

Volumes moved to Library  
Shelving Facility annually:  
approx. 250,000

Serials subscriptions: 73,953

Staff: approx. 600 full-time  
equivalents

Another instance of librarians, students, and faculty working closely with archival materials happened when Yale acquired the papers of architect Eero Saarinen (B.F.A. 1934). So significant was this collection that both Manuscripts and Archives and the School of Architecture received grants from the Getty Foundation to process and study the material. While architectural records archivist Laura Tatum was cataloging the papers, which arrived in 2002, Eeva-Liisa Pelkonen, an assistant professor of architecture, was simultaneously mining them with a group of international scholars for information for the book *Eero Saarinen: Shaping the Future* (Yale University Press), which accompanied an international exhibit of the same name.

Pelkonen involved her students with the Saarinen papers from the outset. In 2003, she led a graduate seminar in which students designed and mounted an exhibit in Sterling Memorial Library. Then, in fall 2005, she co-taught a course with John Eberhart in which students conducted structural and formal analyses based on Saarinen's drawings and used those drawings to create three-dimensional digital animations of such

famous structures as the TWA Terminal at JFK International Airport and the David S. Ingalls ice rink on campus. At the end of the term, several students were asked to refine their animations for inclusion in the international exhibit.

At least 70 of her students at both the School of Architecture and Yale College have used the archive, says Pelkonen. "Laura Tatum and the others at the library have been incredibly helpful to us. They did everything to make this happen."

*The Digital Future*

Faculty member Douglas Rae knew that a frontier had been crossed when Adam Robinson won the John Addison Porter Prize for an essay on oil and geopolitics that was based almost solely on electronic sources. In the past, Rae had considered student reliance on online sources as lazy research. But in Robinson's case, "It was superb research," says Rae, the Richard S. Ely Professor of Management and Political Science.

There can be little doubt that technology is changing the nature of research and of libraries not only at Yale but across academia. "In the future, thinking of a library as a vast collection of books will not make sense," says Rae. "Instead, it will be a vast collection of search paths that will run through books, laser-like."

Consider this: last year, more than \$5 million was spent by Yale libraries to provide remote online access to materials. In 1996–97, the figure was \$300,000. "It grows every year by twenty to thirty per cent," says Ann Okerson, associate university librarian.

The libraries' expenditures in this area cover the acquisition of new material in electronic form—most notably journals and other periodicals—and both the University and library are also supporting the digitization of existing holdings. In November, Yale announced a collaboration with Microsoft that will enable the digitization of 100,000 books published before 1923 and therefore in the public domain. Fully searchable pdfs will be available to anyone with internet access, and Yale will receive copies of the electronic files.



Detail from a late-thirteenth-century Arthurian Romance, Beinecke Rare Book and Manuscript Library. Using high-resolution scans of this manuscript, scholars like Howard Bloch have been able to conduct research and improve classroom teaching without handling the fragile object.

Before the Microsoft project, libraries on campus were already engaging in substantial digitization projects that are a boon to research. The ability to search across collections will reveal clumps of related material held in different locations. Digitization also offers unique opportunities for international collaboration; scraps of papyrus located at Yale can be compared to those in other countries, enabling researchers to piece together texts that have been separated for years.

Making books available electronically has obvious benefits in terms of access and preservation. If the goal of libraries is for their holdings to be used more widely, then digitization helps to achieve this, while keeping the handling of books to a minimum.

It is transforming teaching as well. Howard Bloch, the Sterling Professor of French, uses

high-resolution scans of a thirteenth-century Arthurian manuscript held by the Beinecke for both undergraduate and graduate courses. Graduate students learn Old French from projected images of the manuscript pages rather than from modern printed editions. “You can see the smiles on their faces as they’re mastering material this way,” says Bloch. “And they get the sense of the magical and even playful quality of the manuscript: the handwritten script, the gold and silver and highly colored illuminations and decorated letters.” What was once primarily an object for scholarly study is now an important teaching tool, he says, not only because it was impractical to teach from a single, bulky manuscript but also because it was important to keep handling to a minimum. An additional benefit for Bloch is that he can travel with the entire contents of the fragile 30-pound book uploaded onto a flash drive.



Field notes of the Lewis & Clark Expedition, which include the only surviving sketch of the keelboat that carried the “corps of the discovery” up the Missouri River in early 1804/ Beinecke Library.



Leaf 17v from Helmingham Herbal and Bestiary, England, ca. 1500. Gouache and watercolor, with pen and ink, on parchment/ Yale Center for British Art



**Harvey Cushing/John Hay Whitney Medical Library**  
333 Cedar Street

Elihu Yale himself donated Yale College's first two medical volumes, although the medical school did not open until 1813. The medical library is a top research library and a place of respite conducive to intellectual interactions, information exchange, and collaborative learning. It hosts the Medical Historical Library, which has an important collection of manuscripts, rare medical books, journals, prints, and instruments.



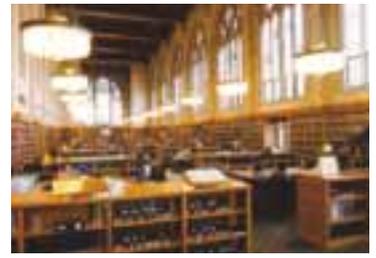
**Art + Architecture + Drama Library**  
270 Crown Street (temporary)

The library currently contains approximately 80,000 volumes on architecture, painting, graphic design, photography, urban planning, and the history of art and architecture. Among its special collections is the Faber Birren Collection of Books on Color, with material on every aspect of color and color theory as well as art instruction and techniques. In 2008, it will return to its newly renovated original location on 180 York Street and will also house the Arts of the Book Collection and Drama Library.



**East Asia Library**  
130 Wall Street, 2nd Floor

The East Asia Library is one of the major collections of East Asian materials in the United States. Traditionally strong in materials on China and Japan (and in those languages), it is currently developing a collection in Korean Studies.



**Lillian Goldman Law Library**  
Sterling Law Building, 3rd Floor  
127 Wall Street

This library provides the Law School community with ready access to one of the world's finest collections of printed legal materials. It hosts a number of special collections and rare materials including Anglo-American court reports, digests, statutes, monographs, and a large collection on Roman and canon law.



**Sterling Memorial Library**  
120 High Street

With approximately 3 million volumes, Sterling Memorial Library is the largest library building on the Yale campus and serves as the center of the University Library system. Completed in 1930, the impressive edifice was named for its benefactor, John William Sterling (B.A. 1864). It houses the Irving S. Gilmore Music Library, the Babylonian Collection, the Yale Map Collection, the East Asia Library, Arts of the Book Collection (until 2008), and numerous Area Studies and other subject-based Reading Rooms. The Department of Manuscripts and Archives is also housed in Sterling. It has well over 1,000 separate collections of historical materials ranging from New Haven history to many other parts of the world, and including the Fortunoff Video Archive of Holocaust testimonies, in addition to the University Archives.



**Irving S. Gilmore Music Library**  
Sterling Memorial Library  
120 High Street

This library, built in 1998 in a courtyard within Sterling Memorial Library, has one of the largest collections of music scores, sound recordings, and music research materials in the United States. It holds books and periodicals about music, scores, LP recordings and compact discs, microfilms of music manuscripts and scores, sheet music, photographs, rare books, and 4,000 linear feet of archival materials.



**Anne T. and Robert M. Bass Library**  
130 Wall Street

Recently opened on the site of the former Cross Campus Library, the Bass Library is a 150,000-volume intensive-use collection of the most heavily consulted books at Yale. It features key books in all of the disciplines of the Yale College curriculum, books by faculty, and reserve books for courses. With group study rooms, individual carrels, a collaborative learning center with electronic classrooms, and the Thain Family Café, the library is an exciting place for learning, study, and collaboration.



**Classics Library**  
Phelps Hall, 5th Floor  
344 College Street

The Classics Library covers many disciplines including Greek and Latin texts, textual criticism, inscriptions, paleography, papyrology, epigraphy, Greek and Roman literature, philology, numismatics, history (prehistory, Greece and Rome, Byzantine and medieval), Greek and Roman law, classical archaeology and art, Greek and Roman mythology and religion, ancient philosophy and science, ancient music, classical scholarship, Byzantine studies, and the early history and literature of Christianity.



**Yale Center for British Art Reference Library**  
1080 Chapel Street

This library houses material supporting the study of British art and related fields including architecture, history, literature, and the performing arts. In addition, the YCBA's collections include illustrated "color-plate" books, sporting books and manuscripts, early maps and atlases, panoramas, private press books, contemporary artists' books, and archival material relating to British artists of all periods.



**Social Science Libraries & Information Services**  
140 Prospect Street

The SSL, including the Economic Growth Center Collection, contains more than 140,000 printed volumes, 7,000 journal and serial titles, the Social Science Data Archive, and a number of other specialized electronic resources.



**Seeley G. Mudd Library**  
38 Mansfield Street

Mudd is a high-density library containing 2 million volumes and some collections of rare and special materials. It also contains the Government Documents and Information Center, with five national and international document collections, a gold mine for researchers who want to tap into the vast amount of information contained in such documents.



**Kline Science Library**  
Kline Biology Tower  
219 Prospect Street

The Kline Science Library collects materials in the areas of general science, biology, chemistry, physics, botany, zoology, and molecular biophysics and biochemistry. It also provides access to many electronic journal indexes.



**Divinity School Library**  
409 Prospect Street

One of the most important theological libraries in the world, the Divinity School Library collects materials related to the study of Christianity and also has collections of missionary archives and personal papers, documentation of religious work among college and university students, and information on the history of religion in New England.



**Lewis Walpole Library**  
154 Main Street, Farmington, Conn.

The Lewis Walpole Library is a research library for eighteenth-century studies and the prime source for the study of Horace Walpole and Strawberry Hill. Its collections include significant holdings of eighteenth-century British books, manuscripts, prints, drawings and paintings, as well as important examples of the decorative arts. Housed in Farmington and given to Yale by Wilmarth Sheldon Lewis and Annie Burr Lewis, the library boasts a new reading room in addition to space in an historic frame house. It is open to researchers by appointment.



**Sterling Chemistry Library**  
225 Prospect Street, 2nd level

The Sterling Chemistry Library is a non-circulating collection of reference materials, older books, and some (but not all) of the chemistry journals held by the Yale libraries, covering the areas of general, inorganic, organic, biochemistry, and physical chemistry.



**Beinecke Rare Book & Manuscript Library**  
121 Wall Street

The Beinecke Rare Book & Manuscript Library is Yale's principal repository for literary papers and for early manuscripts and rare books, maps, prints, and drawings in the fields of literature, theology, history, and the natural sciences. Among the largest libraries built specifically for rare books and manuscripts, it houses the Yale Collection of American Literature, the Yale Collection of German Literature, the Yale Collection of Western Americana, and the Osborn Collection of literary and historical manuscripts, with numerous other important named collections.



**Geology Library**  
Kline Geology Laboratory, Room 32B  
210 Whitney Avenue

The Geology Library was formed in 1963 when a number of related collections from across campus were brought together. It collects materials in the fields of geology, geophysics, geochemistry, paleontology, meteorology, and oceanography, and has a large collection of geological maps.



**Engineering and Applied Science Library**  
Becton Center, 1st Floor  
15 Prospect Street

This library supports present and anticipated teaching and research in Applied Physics; Electrical, Chemical, Mechanical, Biomedical, and Environmental Engineering; the Department of Computer Science; and programs in applied mathematics and operations research.

Technology also creates ways for faculty to re-examine how they teach a subject. Hazel Carby, the Charles C. and Dorathea S. Dilley Professor of African American Studies, refers to a new ability to “teach across the collections,” bringing the books she teaches about into conversation with paintings and other visual images, music, and other materials. “It opens up the milieu from which the books came,” she says. “It allows us to cross disciplinary boundaries in new ways.”

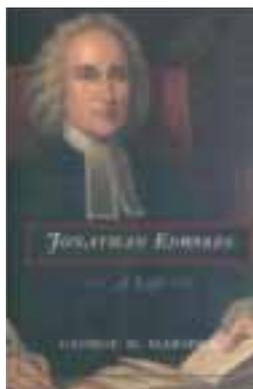
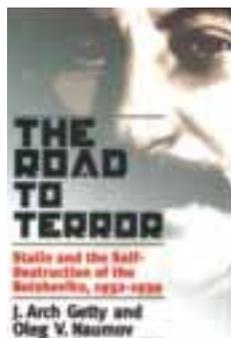
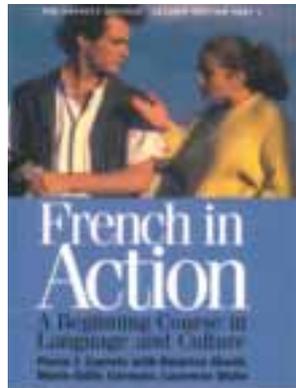
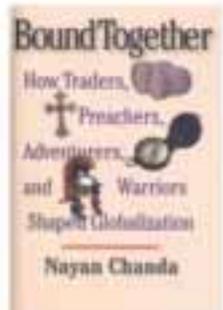
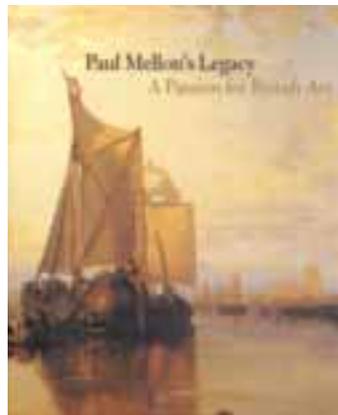
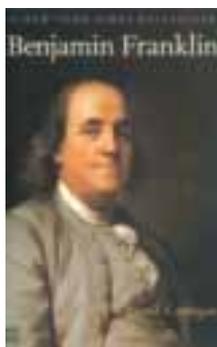
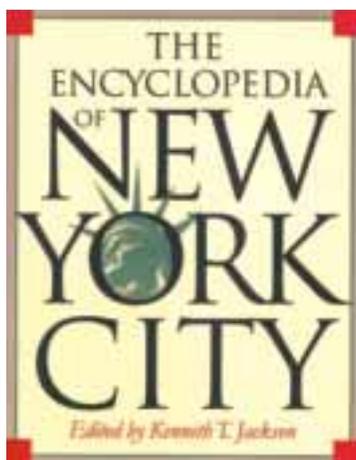
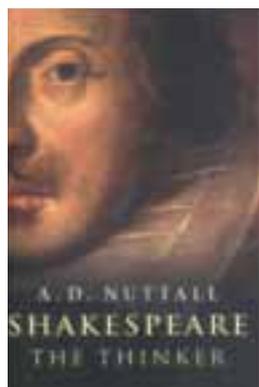
For all of the attention to digitization at Yale, no one is letting go of the bound book, the handwritten manuscript, or the experience of exploring the stacks. “We will always retain the original,” says University Librarian Alice Prochaska. “There will always be reasons why people want to see the physical book. We treasure that.”

Aside from the well-known pleasure of reading the bound book and the frequently expressed aversion to “curling up with a laptop,” many reasons exist for preserving the physical collection, from the practical – automated scans can miss pages or reproduce color badly – to the scholarly. How a book is bound, the quality of its paper, the marginalia – these are all important, particularly for early books. Patricia Willis, curator of the American Literature Collection at the Beinecke, recalls a student’s discovery that several poems by H.D. (Hilda Doolittle) had been mailed together and therefore should be considered a suite. The discovery was based on the folds of the papers – something a scanned image would not have revealed.

Additionally, many people cite the quality of serendipity that is introduced to scholarship when readers can wander in the stacks at Sterling, Mudd, and the newly renovated Bass Library (formerly the Cross Campus). Susan Walker, head of public services at the Lewis Walpole Library, compares exploring the stacks to looking up a word in the dictionary and finding other interesting words nearby. Neither experience can be duplicated by using the library’s Orbis online catalog or using an electronic dictionary.

Some librarians find that technology opens new opportunities for acquiring physical books, as other institutions let go of materials in favor of digital collections. “I’m ready to take those things and preserve them,” says law librarian Kauffman. “We’re putting together a richer collection that will make us unique.”

He adds, “That’s part of what makes Yale Yale.”



Yale University Press, celebrating its 100th anniversary in 2008, publishes distinguished books in literature, language, law, history, art, science, and political science.

### Some University Press statistics

Number of books in print:  
about 4,500

Books published in  
FY 2007: 388

Worldwide sales,  
FY 2007: \$31 million

Staff: 85 in New Haven,  
35 in London

## One of the Best: Yale University Press, Celebrating 100 Years

Anyone who thinks New York is the epicenter of book publishing should take another look behind a modest façade on Temple Street where Yale University Press resides. One of the powerhouses of academic publishing, the press competes with the top New York houses to sign important authors, and it meets and surpasses many commercial publishers in revenue and book review coverage.

And yet the mission of Yale University Press is fundamentally different from that of commercial publishers, in that its publishing program is driven by scholarship instead of profit. Make no mistake: the Press must sell enough books to cover its operating costs. But like all university presses, it is first and foremost a vehicle for disseminating knowledge within and outside of academia.

The Press meets its expenses and fulfills its scholarly mission by employing what director John Donatich calls a portfolio approach to publishing. Every book published fits into one of five discrete portfolios:



The popular image of Jonathan Edwards is largely dependent upon his authorship of the greatest alarm to the unconverted since John the Baptist, *Sinners in the Hands of an Angry God*. While the sermon is a fitting memorial to the literary genius of Edwards and to his participation in the Great Awakening, it represents only the thin, cutting edge of his homiletics, preparatory sermons. In the course of sermons he preached as a settled pastor, instruction is more prominent than debortation, amplification more intellectual than emotional. Like his Puritan forebears, he was a theological teacher, moral censor, and general cultural leader within the community.

Portrait of Jonathan Edwards superimposed over a portion of his address *Peccator Non Justificatur Coram deo Nisi Per Justitiam Christi fide Apprehensam*, delivered at the September 1723 Yale commencement. Below is a section of the “Preaching and Printing” broadside published in 1990 by the Beinecke Rare Book & Manuscript Library.

**Monographs**, the highly specialized products of scholarly research. Publishing these books is considered a scholarly press’s core mission, but they typically sell from 300 to 1,000 copies, not enough to cover costs.

**General interest**, or “trade” books that translate scholarship to a broader readership. These books “help us achieve financial stability,” says associate director and editorial director Jonathan Brent, “but also are a way of engaging with the world.”

**Art books**, expensive to produce but potentially lucrative due to their high prices. The Press has forged copublication or distribution relationships with 26 museums and galleries including the National Gallery in London and the Metropolitan Museum of Art, and it is now considered one of the top publishers of art books.

**Language titles**, from the venerable *French in Action* to the upcoming *I Speak Chinese*, which will feature the latest technology to provide pronunciation feedback and skills development.

**Reference books**, including the recent *Yale Book of Quotations*, a lively competitor to *Bartlett’s* from Fred Shapiro, an associate librarian at the Yale Law School.

Donatich says, “The strength of the portfolio approach is that something is always working.” Monographs may break new ground and win scholarly awards while general interest books are selling strongly. Revenue from general interest and reference can help underwrite the upfront costs of publishing art and multimedia language titles.

Many people believe that university presses solely publish the work of their own university’s faculty. That was largely the case when the Press was founded 100 years ago. Over the years, it developed strengths in a set of subject areas, including literature, language, law, history, art, science, and political science, and it publishes the works of authors in these fields from throughout the world.

“The diversity of our list reflects the diversity and strengths of the university and distinguishes

Yale University Press from other university presses,” says Tina Weiner, associate director and publishing director.

The Press does maintain strong relationships with campus departments and programs. One example is the Jonathan Edwards papers, which Brent calls “an excellent example of the ideal process of publishing.” Since 1957, the press has published twenty-five volumes of *The Works of*

*Jonathan Edwards*, editions that are a boon to scholars. Edwards (1703–58), the great Christian philosopher, attended Yale College and was a tutor at Yale. His papers reside at the Beinecke, and Divinity School professor Harry Stout oversees their editing. The press has also published a set of Jonathan Edwards readers used primarily in college courses, and George Marsden’s *Jonathan Edwards: A Life* was a modest bestseller. It is a remarkable publishing hat trick, and all of the primary players come from Yale.

Brent is equally enthusiastic when he talks about the *Annals of Communism*, a multivolume series of long-suppressed documents from the U.S.S.R. An upcoming volume from Josef Stalin’s personal archive shows the dictator’s own handwritten corrections to documents prepared on his behalf by the Central Committee. “I have never been involved in anything this important from a historical standpoint,” Brent says.

Books like these – the Edwards biography and the Stalin papers – are a mainstay of the Press’s general interest list. Commercial publishers are largely seen to have abandoned intelligently written books on challenging subjects, creating opportunities for academic publishers.

Translations are also considered to be commercially unviable, a trend that Donatich calls “virtual censorship that further insulates our culture.” In 2008, Yale Press will publish the first books in the Cecile and Theodore Margellos World Republic of Letters series, translations of literary works from around the globe: *The Selected Poems of Umberto Saba* and *Five Flavor Grove*, by Chinese novelist Can Xue.

While monographs are destined primarily for libraries, the general interest and art books have a more complex market. A team of sales representatives presents information about these titles to booksellers small and large, and publicists send review copies to all of the national publications and broadcast outlets as well as to scholarly journals. Yale University Press books are mainstays on the pages of *The New York Times Book Review*, *Publishers Weekly* (the leading book trade publication), *New York Review of Books*, *Times Literary Supplement*, *Wall Street Journal*,

## Yale Authors

### Noteworthy books by Yale graduates and faculty members

**Harold Bloom**, PH.D. 1956  
Sterling Professor of the Humanities,  
*Shakespeare: The Invention of the Human*  
(1998)

**Daniel Boorstin**, J.S.D. 1940  
*The Discoverers* (1983)

**Cleanth Brooks**,  
Professor of English  
*The Well-Wrought Urn* (1956)

**William F. Buckley Jr.**, B.A. 1950  
*God and Man at Yale* (1951)

**Hillary Rodham Clinton**, J.D. 1973  
*It Takes a Village* (1996)

**James Fenimore Cooper**, B.A. 1806  
*The Last of the Mohicans* (1826)

**Henry Louis Gates, Jr.**, B.A. 1973  
*Colored People: A Memoir* (1994)

**John Knowles**, B.A. 1949  
*A Separate Peace* (1960)

**Aldo Leopold**, M.F. 1909  
*A Sand County Almanac* (1949)

**Sinclair Lewis**, B.A. 1907  
*Main Street* (1937)

**Archibald MacLeish**, B.A. 1915  
*Collected Poems, 1917–1982* (1985)

**David McCullough**, B.A., 1955  
*Truman* (1993, winner of the Pulitzer Prize  
for Biography)

**Gloria Naylor**, M.A. 1983  
*The Women of Brewster Place* (1982)

**Patricia Nelson Limerick**, PH.D. 1980  
*The Legacy of Conquest: The Unbroken  
Past of the American West I* (1987)

**Camilia Paglia**, PH.D. 1974  
*Sexual Personae: Art and Decadence from  
Nefertiti to Emily Dickinson* (1990)

**Benjamin Spock**, B.A. 1925  
*Baby and Child Care* (1946)

**Robert Penn Warren**,  
Professor of English  
*All the King’s Men* (1946, winner of the  
Pulitzer Prize for Literature)

**Wendy Wasserstein**, M.F.A. 1976  
*The Heidi Chronicles* (1988, winner of the  
Pulitzer Prize for Drama)

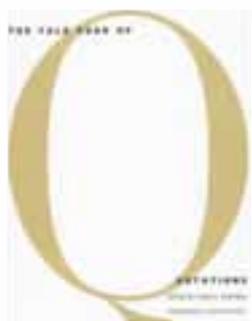
**Noah Webster**, B.A. 1778  
*The American Dictionary of the English  
Language* (1930)

**Thornton Wilder**, B.A. 1920  
*Our Town* (1938, winner of the Pulitzer  
Prize for Drama)

**Naomi Wolf**, B.A. 1984  
*The Beauty Myth: How Images of Beauty  
are Used Against Women* (1990)

**C. Vann Woodward**,  
Sterling Professor of History  
*The Strange Career of Jim Crow* (1957)

If you think Mark Twain originated the phrase “lies, damned lies, and statistics,” think again. Twain was actually quoting Benjamin Disraeli. But did Disraeli really say it? That’s the kind of puzzle that intrigues associate law librarian **Fred Shapiro**, who traced the origins of the 12,000-plus quotes, ad slogans, film lines, and radio and television catchphrases that appear in *The Yale Book of Quotations*.



According to Shapiro, competing quotation books are not based on strong research. His book is more accurate and comprehensive than its predecessors, and yet he was able to complete it in just six years – during lunchtime and after hours – largely because of the electronic resources made available through Yale’s libraries. Using databases like JSTOR and ProSearch enabled him to find numerous attributions of the “damned lies” quote to Disraeli. His detailed notes about the origins of certain quotations are just as interesting as the quotes themselves.

It is the quintessential Yale Book: it has a Yale author, who capitalized on Yale library resources, and it was published by Yale University Press. Now in its second printing, the book has been a not-so-surprising bestseller and reviewer favorite.

*Washington Post*, and the news magazines. Authors are interviewed on C-Span, National Public Radio, the Oprah Winfrey Show, and even Comedy Central’s *The Colbert Report* and *The Daily Show*.

Publishers rarely develop brand awareness in the way that consumer products companies do. And yet in one area – art book publishing – Yale Press is well on the way to achieving that status. Distinguished art books come from Yale – this is the growing perception. In December 2004, *San Francisco Chronicle* art critic Kenneth Baker wrote, “In 2004, a publisher rather than a single art book merits singling out as the year’s best: Yale University Press. Yale consistently maintains one of the most impressive lists among academic presses, but in recent years it has taken an almost unchallenged lead in art books.”

As it embarks on its second century, Yale University Press faces challenges to the very idea of the book. While most people agree that the book will continue to exist in its current form, publishers are facing pressure to provide digital alternatives. The challenge is protecting authors’ intellectual property and the Press’s revenue base in a world in which people expect online materials to be available free of charge.

Technology is a key component of the language study publications – *I Speak Chinese* will use streaming video to provide feedback and incorporate a video game to help readers master skills. How technology will play into the other parts of the Press’s list is a challenge that the Press will continue to explore.

## 600-Year-Old Engineering

The book is a receptacle for knowledge, a dialogue with readers, a way of communicating to future generations.

But a book is also an object, one whose form has not changed too much since before Johannes Gutenberg invented moveable type: a bound volume of parchment or paper with type running from left to right (in Western society) on both sides of a page. “It’s a beautiful piece of engineering, and in 600 years we haven’t been able to improve on it too much,” says Yale University Press director John Donatich.

Not surprisingly, an entire field of scholarship is devoted to the arts of the book, with scholars examining how the physical aspects of a book – binding, paper, illustration, and typography – contribute to its ability to communicate. Deputy Provost for the Arts Barbara Shailor has written on the changing conventions of bookmaking in the period of handwritten manuscripts during the Middle Ages and Renaissance, when growing literacy demanded mass production of books.

The Arts of the Book Collection currently resides in Sterling Memorial Library but will move in 2008 into the expanded Arts Library that will form a bridge between the renovated Rudolph building and the new Jeffrey Loria Center for the History of Art. It has a wide selection of information on printing, graphic design, typography, binding, illustration, and all of the other crafts that go into making a traditional book. Old-fashioned printing presses owned by the collection are occasionally used to demonstrate letterpress printing, once a strong tradition at Yale.

“We’re good at showing that a book can be a beautiful object as well as a useful one,” says Jae Rossman, curator of the Arts of the Book Collection. But the collection also shows how some contemporary book makers are blurring the distinction between books and artworks and challenging the form of the traditional bound book. Rossman and Nancy Kuhl, associate curator of the Yale Collection of American Literature, are co-curating an exhibit featuring some of these artists’ books, entitled “Metaphor Taking Shape: Poetry, Art, and the Book.” The exhibition will run from January 14 to March 31, 2008, at the Beinecke Rare Book and Manuscript Library.



John Donatich with Cecile and Theodore Margellos

# Financial Results

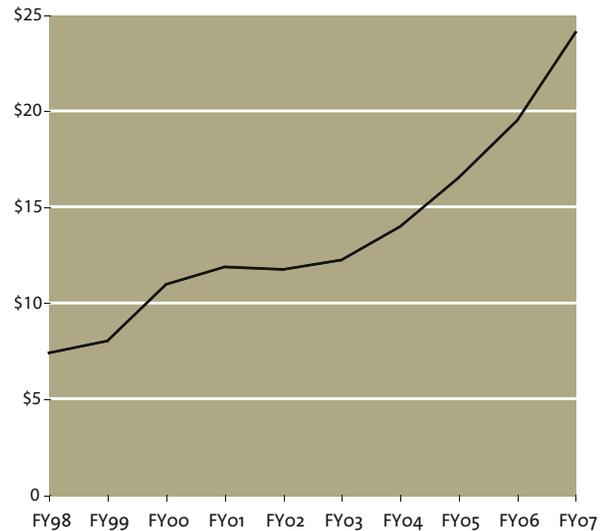
## Overview

Yale University continues to improve on its strong financial position after experiencing positive results for the year. At June 30, 2007, the University reported total consolidated assets of \$32.2 billion, consolidated liabilities of \$8.1 billion, and net assets of \$24.1 billion. Net assets increased by \$4.6 billion during the year, primarily because of the 28.0% investment return on the endowment.

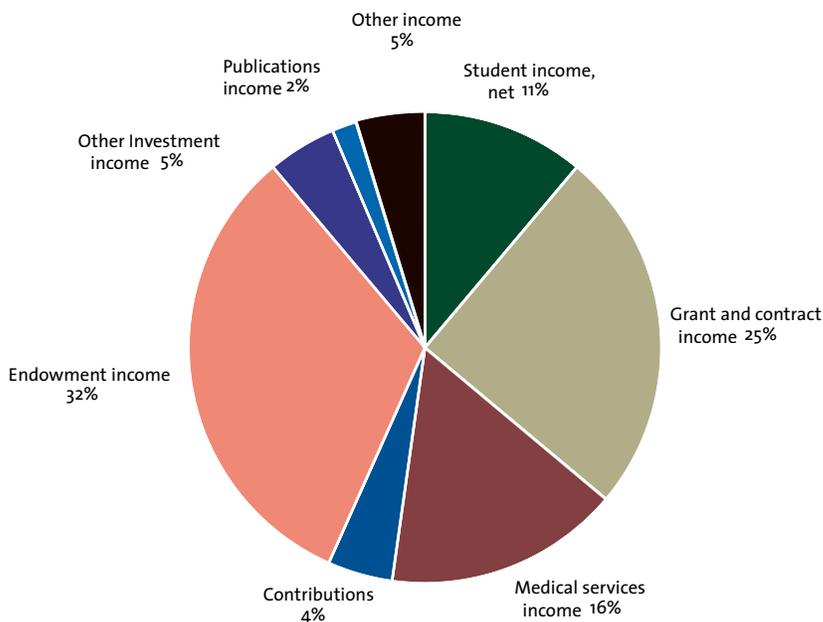
The University maintains a diverse operating revenue base, which allows protection against a downturn in any one source of revenue. Total operating revenue increased by 7.6% to \$2.1 billion. The largest contributors to this growth were the increase in the allocation of Endowment spending to operations, medical services income, and other investment income. Total operating expenses increased by 7.4% to \$2.1 billion. The results from operations show an increase of \$12.7 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 income. 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 amounted to \$236.8 million, or 11% of operating revenues. Student income grew less than 1% for the year, as an increase in scholarships and fellowships offset the increase in tuition. Of the total amount, tuition and fees accounted for \$335.4 million, a 5.2% increase over 2006. Revenue from room and board increased 3.8% to \$54.7 million. In accordance with generally accepted accounting principles, student income is presented net of certain scholarships and fellowships, which totaled \$153.3 million and \$135.6 million for 2007 and 2006, respectively.

During the 2006-2007 academic year, 11,323 students were enrolled at the University; 5,319 were undergraduate students attending programs at Yale College, and 6,004 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 \$33,030 for tuition and \$10,020 for room and board, bringing the total term bill to \$43,050 for the 2006-2007 academic year. The increase in the Yale College term bill was 5.0% over the 2005-2006 academic year. Students enrolled in the Graduate School of Arts and Sciences paid \$29,300 for tuition, a 4.6% increase over the 2005-2006 academic year.

The University maintains a policy of offering Yale College admission to qualified applicants without regard to family financial circumstances. This “need-blind” admission policy is supported with a commitment to meet in full the demonstrated financial need of all students throughout their undergraduate years.

During the 2006-2007 academic year, 2,309 undergraduates, representing 43.2% of eligible Yale College enrollment, received financial aid. In the Graduate School of Arts and Sciences, 2,428 students, or 98.2% of those eligible, received financial aid. In the professional schools, 2,831 students, or 84.7% of those eligible, received financial aid. In all, 7,568 University students, or 67.8% of total University eligible 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*

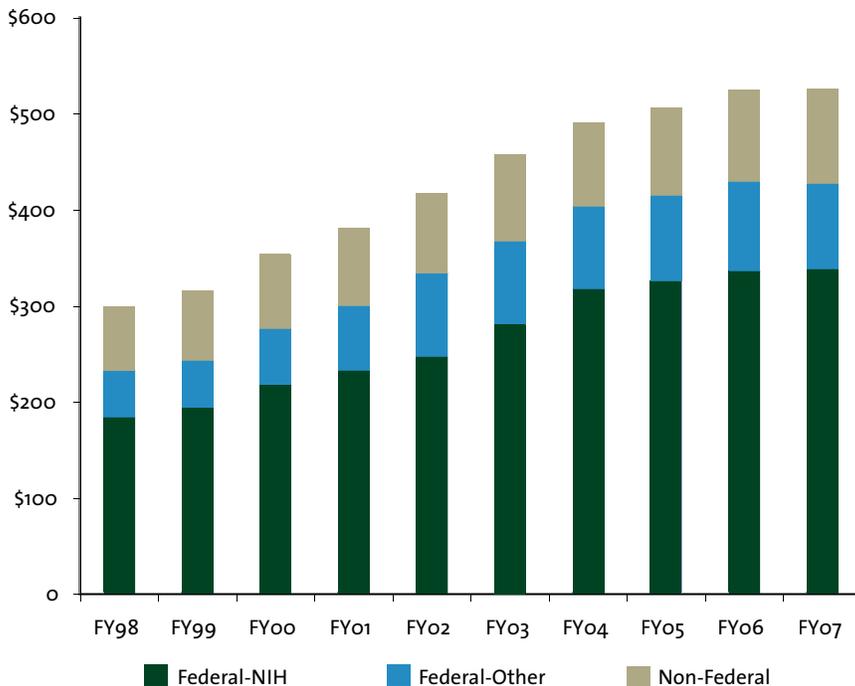
Grant and contract income was essentially flat during the year, with \$526.4 million in revenue in 2007 compared to \$525.7 million in 2006. The Yale School of Medicine, which receives 79% of the University’s grant and contract income, reported an increase of 1.3% for 2007, while the remaining University sectors had a decrease of 4.2%.

The federal government funded \$427.6 million, or 81% of 2007 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 \$338.7 million during 2007, an increase of less than one percent over the prior year. This increase is in line with the recent slow growth of the NIH budget, and that slow growth is expected to continue. 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 \$98.8 million in research, training, and other purposes during 2007.

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

## Grant and Contract Income

Ten-year trend analysis (\$ in millions)



for facility and administrative costs amounted to \$125.5 million in 2007, which is an increase of 1.2% 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, 2006 through June 30, 2009.

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

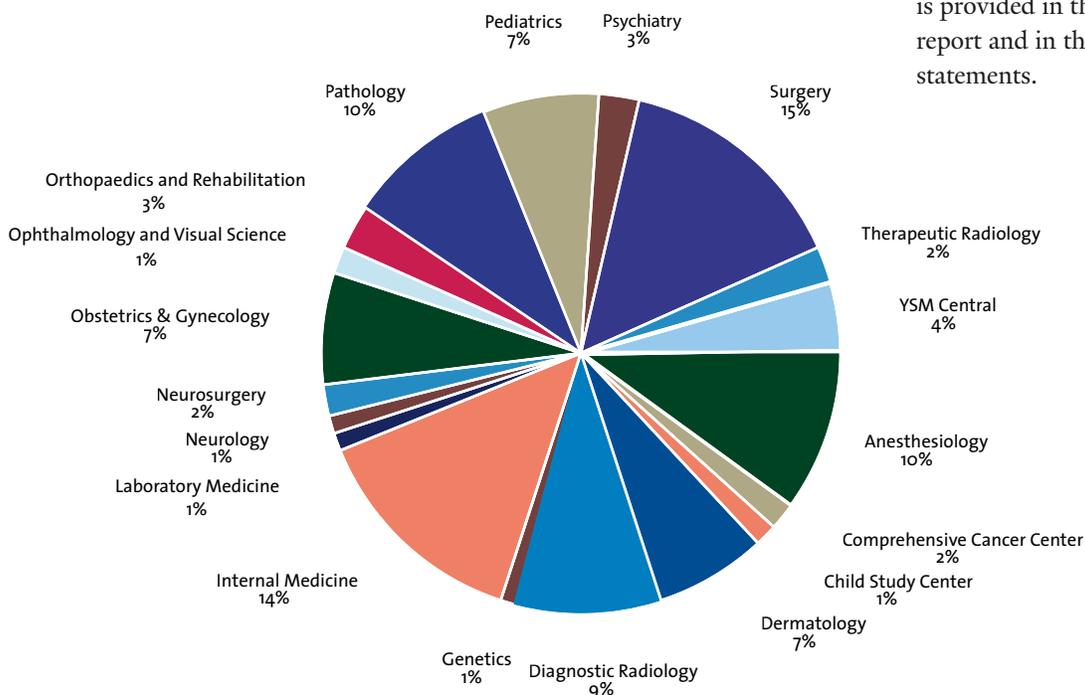
Medical services income totaled \$343.8 million in fiscal 2007, an increase of 13.5% from 2006, and represented 16% of the University's operating revenue.

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 income from diagnostic laboratory services and contracts with affiliated hospitals, including Yale-New Haven Hospital, Inc. (YNHH). The increase of 15% in patient care income and 18% in laboratory service income during the year was a result of an overall increase in volume across departments.

### Allocation of Endowment Spending

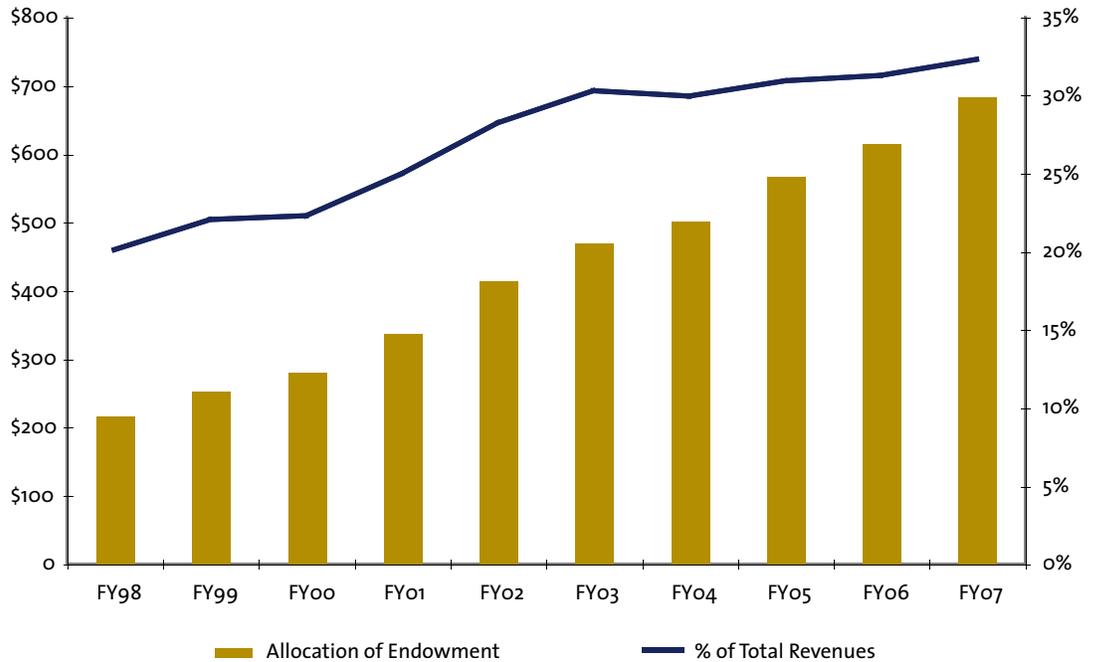
Each year a portion of accumulated Endowment investment returns is allocated to support operational activity. This important source of revenue represents 32% of total operating income this year and is the largest source of operating revenue for the University. The level of spending is computed in accordance 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 11.2% to \$684.5 million. Additional information on the Endowment spending policy is provided in the Endowment section of this report and in the footnotes to the financial statements.

## School of Medicine Clinical Income by Department



## Allocation of Endowment Spending

As a percentage of total revenues, ten-year trend analysis (\$ in millions)



### *Other Investment Income*

Other investment income of \$99.3 million represents interest, dividends, and gains on non-endowment investments. The increase over the prior year is a result of the University investing more of its available cash in long-term, higher yielding investments.

### *Contributions*

Contributions from operating, physical, and financial activities totaled \$382.0 million for 2007. This represents a 20.6% increase over the 2006 contributions of \$316.8 million. This increase is the result of the ongoing “Yale Tomorrow” campaign, with a goal of raising \$3 billion.

### *Publications and Other Income*

Publications income is generated through Yale University Press (Press), a separately endowed department of the University. The Press published approximately 400 titles in 2007 and has approximately 4,000 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 \$34.0 million in 2007 and \$30.5 million in 2006.

Other income includes such items as royalty income, ticket sales, admission revenue, parking revenue, and application and enrollment fees.

## Operating Expenses

Operating expenses totaled \$2.1 billion, representing a 7.4% increase in expenses for the year. The largest component of expenses—salaries and wages and employee benefits—rose 5.8%. This category of expense represents 60% of total University operating costs. This increase was in line with the University’s overall plans to maintain moderate growth and a competitive position with peer institutions. Faculty salaries, which make up 44.7% of total compensation, rose 7.7%

in 2007. 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 \$286.3 million. There was no overall growth in employee benefit costs, as savings on defined benefit plans offset increases in other categories of employee benefit costs.

Other operating expenditures include services, materials and supplies, and other expenses. These expenditures increased by approximately 9.6%. Professional service fees increased, and equipment expense grew due primarily to an increase in the capitalization threshold from \$2,000 to \$5,000.

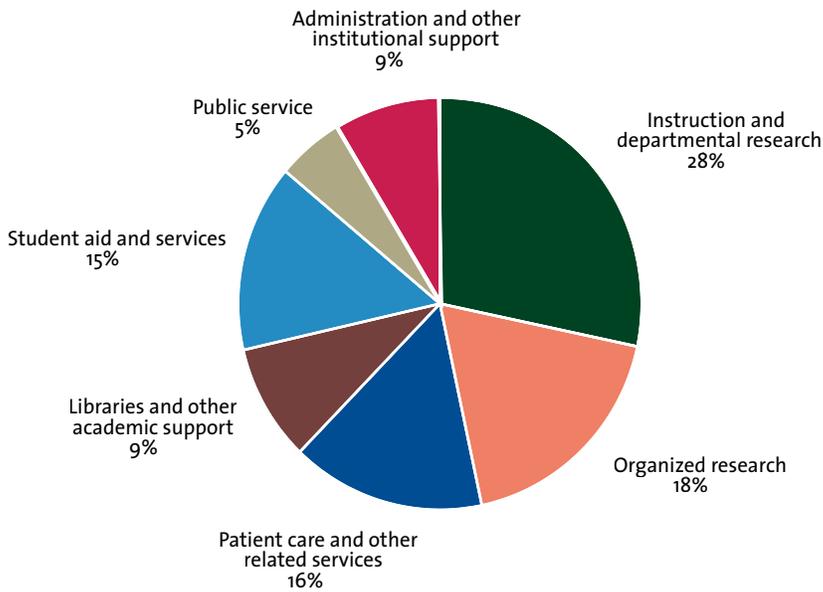
In accordance with generally accepted accounting principles, Yale reports its operating expenses by functional classification in the Statement of Activities. Expenses in each classification increased primarily as a result of the salary and wage increases mentioned above.

The University spends 52% of its operating resources on academic activities including libraries as well as student aid and services. Organized research represents 18% and patient care 16% of spending. Organized research and patient care activities also support the academic and learning experiences at the University.

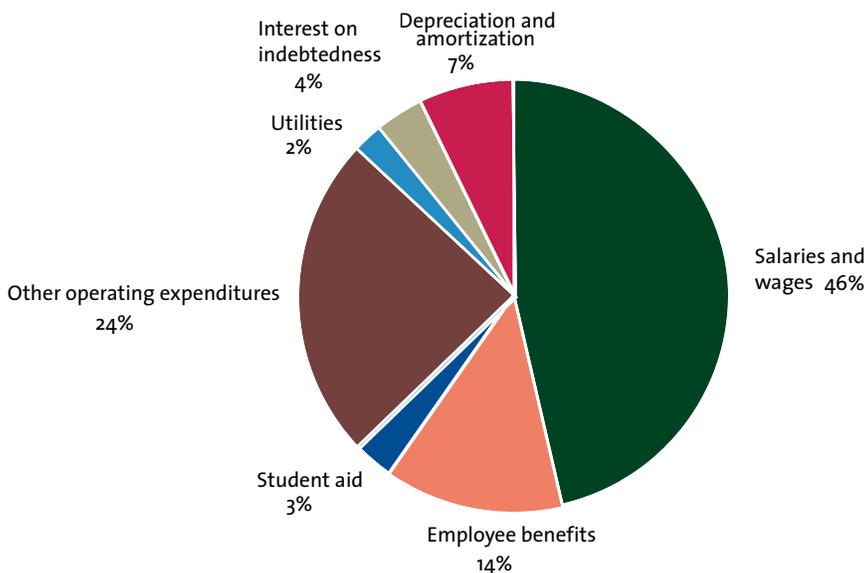
### Faculty and Staff Compensation

The University employs approximately 2,950 faculty and 720 postdoctoral associates and other trainees. Additionally, there are approximately 3,790 managerial and professional staff, and 4,200 unionized clerical, technical, service, and maintenance personnel. The employment figures are based on full-time equivalents. Total salaries and wages and related employee benefits were \$1.3 billion in 2007.

## Operating Expenses by Functional Classification



## Operating Expenses by Natural Classification



## Operating Budget

The University manages its operations to achieve long-term financial equilibrium. It is committed to sustaining both the programs and the capital assets (Endowment and facilities) supporting those programs over multiple generations. Endowment income, Yale's largest source of revenue, 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 increasingly provides the funds needed, through the Capital Replacement Charge (CRC), to replenish the capital base necessary to ensure that 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). GAAP recognizes revenue when earned and expenses when incurred. The Operating Budget is focused more on resources available and used in the fiscal period presented. 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 Operating Budget treats the CRC 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 2007, Yale funded \$98 million of the CRC from the Operating Budget and departmental funds,

### Yale University Operating Budget Revenue and Expense

for the year ended June 30, 2007  
(\$ in thousands)

	General Appropriations	Other	Actual June 30, 2007	Budget June 30, 2007
<i>Revenue:</i>				
Tuition, room and board	\$ 379,759	\$ 10,296	\$ 390,055	\$ 387,787
Funded Scholarships	(121,419)	(29,005)	(150,424)	(159,789)
Net tuition, room and board	258,340	(18,709)	239,631	227,998
Sponsored agreement income	125,383	400,956	526,339	539,374
Medical services income	34,557	309,201	343,758	324,294
Contributions	32,087	65,649	97,736	81,059
Allocation of Endowment spending	11,587	672,895	684,482	675,516
Unrestricted and recovery income	459,601	(459,601)	-	-
Other investment income	21,861	71,641	93,502	52,097
Other income	53,098	49,106	102,204	92,990
Transfers	11,534	(21,185)	(9,651)	556
Total revenue	1,008,048	1,069,953	2,078,001	1,993,884
<i>Expenses:</i>				
Faculty salaries	156,005	275,816	431,821	427,620
Staff salaries and wages	331,889	196,438	528,327	527,381
Total salaries and wages	487,894	472,254	960,148	955,001
Employee benefits	122,782	143,139	265,921	280,984
Student stipends	20,444	42,508	62,952	38,315
Other expenses	364,579	353,438	718,017	709,101
Interest and capital replacement	165,660	15,699	181,359	189,176
Utilities	54,029	(1,481)	52,548	52,411
Internally provided services	(186,622)	(31,372)	(217,994)	(209,700)
Total expenses	1,028,766	994,185	2,022,951	2,015,288
<i>Operating results - budgeted activity:</i>	(20,718)	75,768	55,050	(21,404)
Use of / (Add to) Fund Balances	20,718	(75,768)	(55,050)	21,404
Operating Budget Bottom Line	\$ -	\$ -	\$ -	\$ -

\$44 million from capital gifts, and borrowed the remaining \$35 million. The University expects to fund the full CRC level in its Operating Budget in fiscal 2008. 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. Also, 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:

	2007
Operating Budget Bottom Line	\$ -
Operating Budget Add to/ (Use of) fund balances	55,050
Revenue from pledge activity	(3,398)
Expenditures related to long-term liabilities	(33,054)
Depreciation in excess of capital funding	(22,017)
Yale Press operating results	(219)
Interest expense on interest rate swaps	6,682
Funding transfers	9,651
Increase in net assets from operations per the Statement of Activities	\$ 12,695

The Budget presents operating activity by funding source. The category “General Appropriations” includes the cost of education for the University. The category “Other” includes Endowments and gifts, sponsored research, patient care, and other activity. Endowment and gift activities 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.

#### *FY07 Operating Budget Results*

The University ended the year with a balanced budget as planned. Positive operating results of \$55.1 million allowed the University to increase fund balances rather than draw down \$21.4 million from fund balances as anticipated in the budget. This positive variance resulted from higher revenues of \$84.1 million and expenses that were slightly higher than budget. Revenues were higher in tuition, room and board, medical services, contributions, allocation of Endowment spending, investment income, and other income. Grants and contracts revenue was unfavorable to budget as the Medical School and the Faculty of Arts and Sciences experienced slower growth in research funding. The current climate for federal research funding is uncertain and many investigators are seeing award renewals reduced from previous levels. Medical services income was favorable to budget because of continued efficiencies and growth in the Yale Medical Group. Contributions to the University’s Operating Budget were higher than expected as donors responded to the University’s capital campaign.

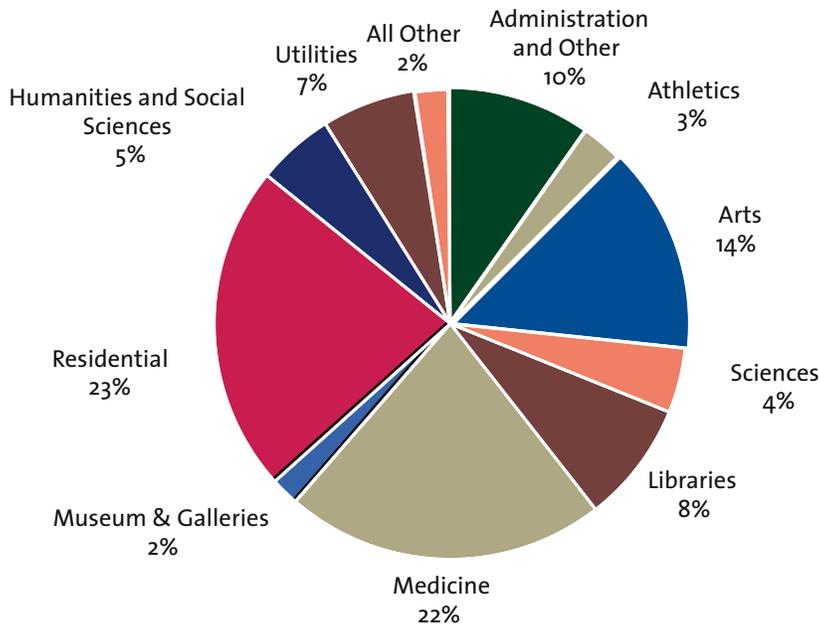
Overall, operating expenses were essentially on budget. Salary expenses were \$5.1 million or 0.5% over budget. Financial aid costs (funded scholarships and student stipends) were over budget because more scholarships and stipends were available from grants and restricted funds than budgeted. Interest and capital replacement costs were under budget because of increased capital gifts received during the fiscal year which were applied to the funding of the capital replacement cost.

## Physical Capital

Capital spending on facilities in 2007 totaled \$373.3 million. This is the highest level of capital spending in the University's history in nominal terms and a close second, since at least 1975, in real terms. This high level of capital spending reflects the University's commitment to renovating its existing facilities while adding strategic new facilities to meet teaching, research, and residential needs.

The largest share of the University's capital spending in 2007, 23%, was devoted to the University's goal of fully refurbishing its undergraduate residential facilities. With the completion of Trumbull College in time for the start of the 2006-2007 academic year, seven of the twelve residential colleges have been renovated: Berkeley, Branford, Davenport, Timothy Dwight, Pierson, Trumbull, and Saybrook. The remaining five colleges were in various stages of renovation at the end of 2007: the renovation of Silliman College was nearly complete; construction was underway on Jonathan Edwards College; and the Calhoun, Morse, and Stiles College renovations were in design.

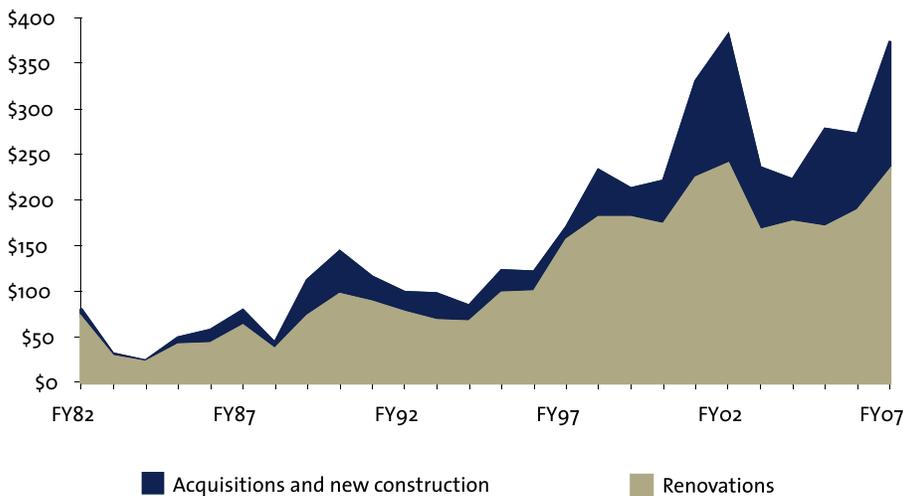
## Capital Spending by Campus Area



Capital spending was also concentrated in the School of Medicine. The School of Medicine accounted for slightly more than one-fifth of the University's 2007 capital expenditures. Construction of the new Amistad Street Building accounted for more than half of the funds expended in this area. When completed next year, this building will significantly increase the Medical School's research laboratory space. The remaining funds were spent renovating buildings throughout the Medical School's campus, such as the Sterling Hall of Medicine, the Brady Memorial Laboratory, and the Laboratory of Epidemiology and Public Health.

## Capital Spending by Year

(in 2007 dollars, in millions)



Fourteen percent of the University's capital spending was for the renovation and construction of Arts buildings. Two projects accounted for most of the spending in this area. The first project was the construction of 32-36 Edgewood Avenue (the new Gallery and Sculpture Building) and the associated Howe Street Garage. The second major project involved the renovation of the Rudolph Building as well as the construction of an addition for the Loria Center for the History of Art. Both of these projects were in construction in 2007.

Consistent with the University's strategy of modernizing all areas of the campus, significant capital projects were underway in other areas of the University in 2007. Several important capital projects were completed during 2007; namely, the construction of Arnold Hall (a residential annex for Davenport College) and the Prospect-Sachem Garage as well as the comprehensive renovation of the Yale University Art Gallery's Kahn Building and the partial renovation of The Yale Bowl. Among the largest expenditures outside of the residential colleges, the School of Medicine, and the Arts were expenditures for the comprehensive renovation of the Bass Library (formerly the Cross Campus Library), the construction of Forestry & Environmental Studies' new Kroon Building, and the renovation and expansion of 158 Whitney Avenue, for the Department of Anthropology, and the Lewis Walpole Library in Farmington, Connecticut. All of these were under construction in 2007. Finally, by the end of 2007, design was started for the new Greenberg Conference Center and the University Health Service Center building and garage and completed for the Cullman-Heyman Tennis Center.

The University's ambitious renovation and building plans were funded by a combination of gifts, debt, and increasingly, funds from the operating budget. The University continues to rely heavily on the extraordinary generosity of its alumni/ae and friends. Gifts for facilities in 2007 totaled \$68.0 million. The University has been the beneficiary of an outstanding response from donors. The residential college renovations and the new Arnold Hall, the Yale University Art Gallery's Kahn Building, the Yale Bowl, the Forestry & Environmental Studies' new Kroon Building, the renovated Bass Library, the Rudolph building, the new Loria Center for the History of Art addition, the new Greenberg Conference Center, the Cullman-Heyman Tennis Center and indeed, nearly all of the University's recent major capital projects have been funded at least partially through gifts.

The major source of funding for the capital program is debt provided through the Connecticut Health and Facilities Authority (CHEFA) which allows the University to borrow at tax exempt rates. This funding source is critical to keeping the cost of funding at lower levels which allows the University to maximize the use of its resources in the fulfillment of its mission of teaching and research. In October 2007, the University borrowed an additional \$600 million through CHEFA to finance planned renovation and capital additions. The University again received the highest bond ratings available: AAA from Standard and Poor's and Aaa from Moody's.

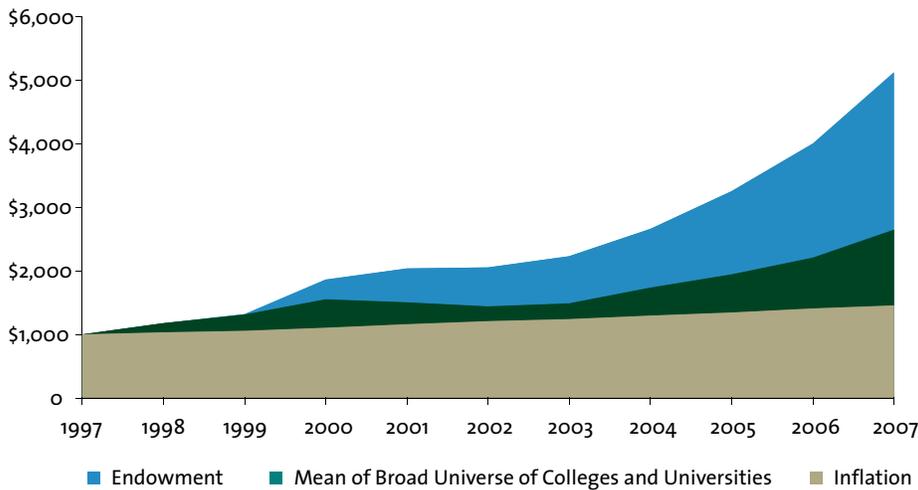
In order to increase the University's funding flexibility, the Yale Corporation voted to expand the authorized limit of Yale's Commercial Note program to \$1 billion. The University may use this source of funding to supplement its tax exempt borrowing.

Continuing a multi-year plan toward funding all capital maintenance and renovation from the operating budget and capital gifts by 2010, the operating budget contributed \$98 million, or 55%, of the estimated \$177 million required annually to maintain the University's buildings. Capital gifts provided another \$44 million, or 25%, to meet this target.

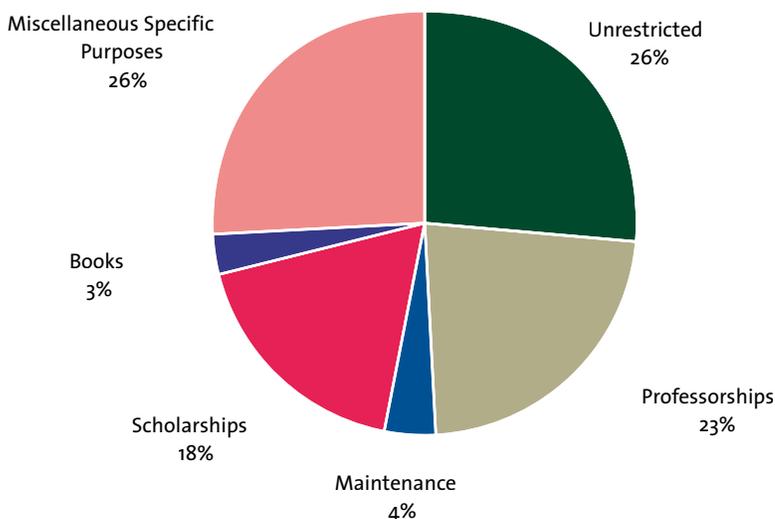
## Endowment

The Endowment provides the largest source of support for the academic programs of the University. To balance current and future needs, Yale employs investment and spending policies designed to preserve Endowment asset values while providing a substantial flow of income to the Operating Budget. At June 30, 2007, net assets in the Endowment totaled more than \$22.5 billion, after the allocation of Endowment spending of \$684.5 million to the Operating Budget during the year.

### Growth of \$1,000 Invested in the Yale Endowment 1997-2007



### Endowment Fund Allocation, Fiscal Year 2007



### Investment Performance

For the fiscal year ended June 30, 2007, the Endowment achieved a 28.0% investment return. During the past decade, the Endowment earned an annualized 17.8% return, placing the University at 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, 2007, Yale's superior investment returns added \$11.0 billion relative to a composite passive benchmark and \$11.9 billion relative to the mean 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.

The target spending rate approved by the Yale Corporation currently stands at 5.25%. The smoothing rule limits Endowment spending in a given year to the sum of 80% of the previous year's spending and 20% of the targeted long-term spending rate applied to the market value two years prior. The spending amount determined by the formula is adjusted for inflation and by a factor that relates to the difference between the target rate and the prior year's spending rate. 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 income of \$684.5 million to current operations in 2007, representing 32% of the University's operating revenues. Ten years ago, Endowment distributions contributed approximately \$191 million, or 17% of the budget. Over the past decade, Endowment distributions have increased at an annualized rate of approximately 14%.

### Asset Allocation

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

Both the need to provide resources for current operations and the desire to preserve the purchasing power of assets dictate 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 assets, and private equity.

Over the past twenty years, Yale significantly reduced the Endowment's exposure to traditional domestic marketable securities, reallocating assets to nontraditional asset classes. At the end of fiscal year 1987, around four-fifths of the Endowment

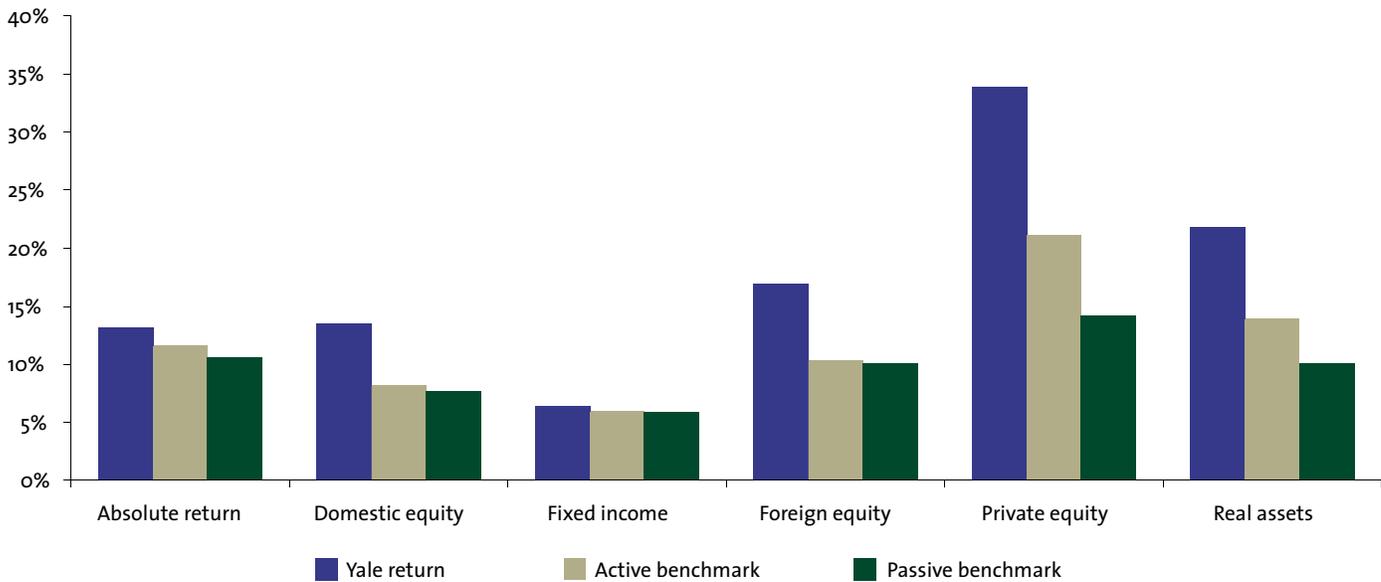
was committed to U.S. stocks, bonds, and cash. Today, domestic marketable securities account for less than one-fifth of the portfolio, and foreign equity, private equity, absolute return strategies, and real assets represent more than four-fifths of the Endowment.

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 portfolio has significantly higher expected returns and lower volatility than the 1987 portfolio.

Asset Class	June 2007	Current Target
Absolute Return	23.3%	23.0%
Domestic Equity	11.0%	11.0%
Fixed Income	4.0%	4.0%
Foreign Equity	14.1%	15.0%
Private Equity	18.6%	19.0%
Real Assets	27.2%	28.0%
Cash	1.8%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Yale Endowment

Asset classes versus benchmarks: annualized returns net of fees, ten years ended June 30, 2007



### Active Benchmarks

- Absolute Return: CSFB Composite
- 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
- Private Equity: Cambridge Associates Composite
- Real Assets: NCREIF and Cambridge Associates Composite

### Passive Benchmarks

- Absolute Return: 1-year Constant Maturity Treasury + 6%
- Domestic Equity: Wilshire 5000
- Fixed Income: Lehman Brothers Treasury Index
- Foreign Equity: 53% MSCI EAFE Index, 47% MSCI EMF Index
- Private Equity: University Inflation + 10%
- Real Assets: University Inflation + 6%

**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, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2006 financial statements, and in our report dated October 26, 2006, we expressed an unqualified opinion, which included a reference to the adoption of FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations an Interpretation of FASB Statement No. 143", on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 11 to the financial statements, the University adopted FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

*PricewaterhouseCoopers LLP*

October 12, 2007

# Yale University Statements of Financial Position

June 30, 2007 and 2006 (\$ in thousands)

	June 30, 2007	June 30, 2006
<b>Assets:</b>		
Cash and cash equivalents	\$ 239,837	\$ 366,527
Accounts receivable, net	157,445	130,141
Contributions receivable, net	442,927	364,863
Student loans receivable, net	53,179	52,230
Investments, at fair value	28,325,331	24,242,768
Other assets	200,233	68,183
Land, buildings and equipment, net of accumulated depreciation	2,746,373	2,486,930
<b>Total assets</b>	<b>\$ 32,165,325</b>	<b>\$ 27,711,642</b>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 254,955	\$ 232,537
Advances under grants and contracts and other deposits	78,012	62,909
Other liabilities	319,992	171,399
Liabilities under split-interest agreements	98,867	117,319
Bonds and notes payable	1,954,631	1,954,253
Liabilities associated with investments	5,336,800	5,640,751
Advances from Federal government for student loans	36,289	34,200
<b>Total liabilities</b>	<b>8,079,546</b>	<b>8,213,368</b>
<b>Net assets:</b>		
Unrestricted	11,728,783	9,788,012
Temporarily restricted	10,136,477	7,664,293
Permanently restricted	2,220,519	2,045,969
<b>Total net assets</b>	<b>24,085,779</b>	<b>19,498,274</b>
<b>Total liabilities and net assets</b>	<b>\$ 32,165,325</b>	<b>\$ 27,711,642</b>

## Detail of net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2007	June 30, 2006
Endowment and student loans	\$ 6,759,762	\$ 9,476,012	\$ 2,220,519	\$ 18,456,293	\$ 14,805,377
Funds functioning as Endowment	3,914,968	192,031	-	4,106,999	3,299,239
Physical capital investment	684,860	299,587	-	984,447	919,388
Operating:					
Accumulated general budget deficit	(70,904)	-	-	(70,904)	(70,904)
Designated and restricted for specific purposes	440,097	168,847	-	608,944	545,174
	<b>\$ 11,728,783</b>	<b>\$ 10,136,477</b>	<b>\$ 2,220,519</b>	<b>\$ 24,085,779</b>	<b>\$ 19,498,274</b>

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

# Yale University Statement of Activities

for the year ended June 30, 2007 with summarized information for the year ended June 30, 2006  
(\$ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007	2006
<b>Operating</b>					
<i>Revenues and reclassifications:</i>					
Student income, net	\$ 236,774	\$ -	\$ -	\$ 236,774	\$ 235,931
Grant and contract income, primarily for research and training	526,339	-	-	526,339	525,670
Medical services income	343,758	-	-	343,758	302,911
Contributions	22,050	72,288	-	94,338	91,293
Allocation of Endowment spending from financial capital	203,349	481,133	-	684,482	615,745
Other investment income	99,258	-	-	99,258	64,952
Publications income	34,351	-	-	34,351	30,704
Other income	101,909	-	-	101,909	103,813
<b>Total revenues</b>	<b>1,567,788</b>	<b>553,421</b>	<b>-</b>	<b>2,121,209</b>	<b>1,971,019</b>
Net assets released from restrictions	554,622	(554,622)	-	-	-
<b>Total revenues and reclassifications</b>	<b>2,122,410</b>	<b>(1,201)</b>	<b>-</b>	<b>2,121,209</b>	<b>1,971,019</b>
<i>Expenses:</i>					
Instruction and departmental research	599,160	-	-	599,160	555,799
Organized research	383,524	-	-	383,524	396,306
Patient care and other related services	328,066	-	-	328,066	287,520
Libraries and other academic support	193,048	-	-	193,048	182,639
Student aid and services	311,789	-	-	311,789	293,134
Public service	113,456	-	-	113,456	106,215
Administration and other institutional support	179,471	-	-	179,471	141,959
<b>Total expenses</b>	<b>2,108,514</b>	<b>-</b>	<b>-</b>	<b>2,108,514</b>	<b>1,963,572</b>
<b>Increase (decrease) in net assets from operating activities</b>	<b>13,896</b>	<b>(1,201)</b>	<b>-</b>	<b>12,695</b>	<b>7,447</b>
<b>Non-operating</b>					
<i>Physical capital:</i>					
Contributions	-	67,961	-	67,961	56,950
Gain (loss) on swap contracts	(3,073)	-	-	(3,073)	51,404
Other increases	13,690	-	-	13,690	11,752
Net assets released from restrictions	58,477	(58,477)	-	-	-
<b>Increase in net assets from physical capital activities</b>	<b>69,094</b>	<b>9,484</b>	<b>-</b>	<b>78,578</b>	<b>120,106</b>
<i>Financial capital:</i>					
Contributions	145	79,200	140,390	219,735	168,538
Total Endowment return, net of management fees	1,484,451	3,428,620	11,485	4,924,556	3,339,856
Other (decreases) increases	(26,669)	(4,965)	22,675	(8,959)	(6,661)
Allocation of Endowment spending to operating	(203,349)	(481,133)	-	(684,482)	(615,745)
Net assets released from restrictions	557,821	(557,821)	-	-	-
<b>Increase in net assets from financial capital activities</b>	<b>1,812,399</b>	<b>2,463,901</b>	<b>174,550</b>	<b>4,450,850</b>	<b>2,885,988</b>
Increase in net assets before changes in accounting principles	1,895,389	2,472,184	174,550	4,542,123	3,013,541
Changes in accounting principles (Note 11 and 8)	45,382	-	-	45,382	(16,500)
<b>Total increase in net assets</b>	<b>1,940,771</b>	<b>2,472,184</b>	<b>174,550</b>	<b>4,587,505</b>	<b>2,997,041</b>
Net assets, beginning of period	9,788,012	7,664,293	2,045,969	19,498,274	16,501,233
<b>Net assets, end of period</b>	<b>\$ 11,728,783</b>	<b>\$ 10,136,477</b>	<b>\$ 2,220,519</b>	<b>\$ 24,085,779</b>	<b>\$ 19,498,274</b>

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

# Yale University Statements of Cash Flows

for the years ended June 30, 2007 and 2006 (\$ in thousands)

	2007	2006
<b>Operating activities:</b>		
Change in net assets	\$ 4,587,505	\$ 2,997,041
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	148,980	138,574
Unrealized loss (gain) on swap contracts	2,148	(58,342)
Net investment gains	(4,361,950)	(2,917,080)
Contributions restricted for physical and financial capital	(287,696)	(225,488)
Other adjustments	16,909	9,057
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	(27,304)	(20,659)
Contributions receivable	4,153	1,168
Other operating assets	(139,283)	(8,011)
Accounts payable and accrued expenses	15,628	19,327
Advances under grants and contracts and other deposits	15,103	5,530
Other liabilities	148,593	105,791
<b>Net cash provided by operating activities</b>	<b>122,786</b>	<b>46,908</b>
<b>Investing activities:</b>		
Student loans repaid	8,651	11,162
Proceeds from sale of student loans	13,542	17,213
Student loans granted	(23,980)	(26,431)
Purchases related to capitalized software costs and other assets	(4,253)	(4,101)
Proceeds from sales and maturities of investments	11,101,252	11,897,781
Purchases of investments	(11,066,827)	(12,176,988)
Purchases of land, buildings and equipment	(390,373)	(277,648)
<b>Net cash used in investing activities</b>	<b>(361,988)</b>	<b>(559,012)</b>
<b>Financing activities:</b>		
Contributions restricted for physical and financial capital	114,267	74,734
Contributions received for split-interest agreements	5,528	22,827
Payments made under split-interest agreements	(10,294)	(9,744)
Proceeds from long-term debt	-	311,030
Repayments of long-term debt	(167)	(150)
Interest earned and advances from Federal government for student loans	3,178	2,618
<b>Net cash provided by financing activities</b>	<b>112,512</b>	<b>401,315</b>
Net decrease in cash and cash equivalents	(126,690)	(110,789)
Cash and cash equivalents at beginning of year	366,527	477,316
<b>Cash and cash equivalents at end of year</b>	<b>\$ 239,837</b>	<b>\$ 366,527</b>

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 has been granted tax exempt status under section 501(c)(3) of the Internal Revenue Code. 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 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. Net assets are reported as unrestricted, temporarily restricted and permanently restricted and serve as the foundation of the accompanying financial statements. 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 of Endowment investments when temporary restrictions expire.

*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. When temporary restrictions expire due to the passage of time or the incurrence of expenditures that fulfill the donor-imposed restrictions, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets are established with restricted contributions from donors and restricted income generated from Endowments. Restrictions include support of specific schools or departments of the University, for professorships, research, faculty support, scholarships and fellowships, library and art museums, building construction and other 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 for operations 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’s non-operating activity includes 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 part of 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.

Recognizing the critical importance of maintaining its physical 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 be reserved from annual operating funding sources to maintain Yale’s facilities in good condition on a consistent basis, thus avoiding deferred maintenance and the need to borrow to meet the ongoing costs of maintaining its facilities. While not an exact science, an estimate of the full capital replacement equilibrium level for 2007 is \$177 million (unaudited). In 2007, the University set aside \$142 million from operating funds and gifts for capital replacement and used \$199 million to fund renovations of its facilities. Total renovations for the year were \$233 million.

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 cost which approximates fair value and include institutional money market funds and similar temporary investments with maturities of three months or less at the time of purchase. Cash and cash

equivalents awaiting investment are reported as investments and totaled \$286.7 million and \$192.5 million at June 30, 2007 and 2006, respectively. Cash and cash equivalents do not include cash balances held as collateral.

Supplemental disclosures of cash flow information include the following, in thousands of dollars:

	2007	2006
Cash paid during the year for:		
Interest	\$ 77,200	\$ 70,400
Noncash investing activities:		
Capital lease obligations	-	\$ 61,421
Land, buildings and equipment purchases payable to vendor	\$ 54,389	\$ 47,599

Included in contributions restricted for physical and financial capital of \$287,696 for 2007 and \$225,488 for 2006 are contributions in the form of investments of \$85,684 and \$169,574, 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 direct real estate investments is determined from periodic valuations prepared by independent appraisers.

Fair values for certain private equity, real asset (oil and gas, timber and real estate) and absolute return investments held through limited partnerships or commingled funds are estimated by the respective external investment managers, including general partners, 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 applicable net asset class in the statement of activities. Management fees consist of the internal costs of the Investments Office, outside custodian fees and asset based fees for external investment managers and general partners.

The University invests its Endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of Endowment return that is independent of the cash yield and appreciation of investments earned during the year is provided for program support. The University has adopted an Endowment spending policy designed specifically to stabilize annual spending levels and to preserve the real value of the Endowment portfolio over time. The spending policy attempts to achieve these two objectives by using a long-term targeted spending rate combined with

a smoothing rule, which adjusts spending gradually to changes in the Endowment market value.

The University uses a long-term targeted spending rate of 5.25%, with an 80/20 allocation of prior year spending to market value, effective in 2005. The actual rate of spending for 2007 and 2006, when measured against the previous year's market value, was 3.81% and 4.09%, respectively. Actual spending rates have been lower than long-term targets in recent years due to strong investment returns.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the University's financial statements.

e. *Derivatives*

Derivative financial instruments in the investment portfolio include interest rate swaps, equity swaps, credit default swaps, commodity swap contracts and currency forward contracts and 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. Buildings leased under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Annual depreciation is calculated on a straight-line basis over useful lives, or over the lease term for capital leases, 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. Capitalized software costs are amortized on a straight line basis over the estimated useful lives of the software, ranging from 5 to 10 years. Bond issue costs are amortized over the term of the related debt.

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. Collections are not capitalized; purchases of collection items are recorded as operating expenses in the University's financial statements 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 approximate 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 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 11,320. The undergraduate population of approximately 5,320 is a diverse group attracted from across the United States and from many foreign countries. Foreign students account for approximately 8 percent of the undergraduate population. Net tuition revenue from undergraduate enrollment represents approximately 62 percent of total net tuition revenue in 2007.

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 \$153.3 million and \$135.6 million in 2007 and 2006, 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 2007 and 2006, grant and contract income received from the Federal government totaled \$427.6 million and \$429.7 million, respectively. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Recovery of facilities and administrative costs of Federally sponsored programs is at rates negotiated with the University's cognizant agency, the Department of Health and Human Services. The University and the Federal government are currently operating under an agreement that establishes facilities and administrative cost reimbursement rates under Federal grants and contracts through June 30, 2009.

n. *Medical Services Income*

The University has agreements with third-party payers, 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 payers 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. Contributions and net investment returns earned, which are restricted, 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 made by management include the valuation of investments, the estimated net realizable value of receivables, estimated asset retirement obligations, and the actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from those estimates.

q. *Summarized 2006 Financial Information*

The accompanying 2007 financial statements include comparative summarized financial information for the year ended June 30, 2006. 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, 2006, from which the summarized financial information was derived. In addition, certain expenses reported in the statement of activities have been reclassified to conform to the current-year presentation.

## 2. Investments

As described in Note 1d, investments are recorded at fair value. The fair values of the University's investments by major type and related liabilities are as follows, as of June 30, in thousands of dollars:

	2007	2006
Investments, at fair value:		
Cash	\$ 1,014,462	\$ 812,980
Bonds	1,086,186	1,060,385
Common stock	4,451,359	3,702,998
Equity investments	15,178,029	11,512,657
Other investments	393,046	445,646
Assets held in trust	298,618	269,379
Consolidated investment company assets	5,903,631	6,438,723
Total investments, at fair value	28,325,331	24,242,768
Liabilities associated with investments:		
Securities sold, not yet purchased	1,039,238	958,883
Reverse repurchase agreements	179,692	409,354
Other liabilities	276,614	240,099
Consolidated investment company liabilities	3,841,256	4,032,415
Total liabilities associated with investments	5,336,800	5,640,751
Net investments, at fair value	\$ 22,988,531	\$ 18,602,017

Consolidated investment company assets hold fixed income and equity 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 these entities, their liabilities are not legal obligations of the University and will be settled utilizing the assets of the investment company.

The University is required to provide collateral for securities sold, not yet purchased. Fixed income securities of \$3.1 billion were provided at June 30, 2007 to collateralize these positions initiated by the University and by its consolidated companies. University policy with respect to repurchase agreements, including those initiated by consolidated investment companies, is to take possession of the underlying assets. Fixed income securities were obtained in the amount of \$2.3 billion at June 30, 2007 as collateral for repurchase agreements. 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 University Endowment maintains a diversified investment portfolio with a strong orientation to equity investments and 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. Net Endowment investments are presented below by asset class as of June 30, in thousands of dollars:

	2007	2006
Endowment investments:		
Absolute return	\$ 5,220,171	\$ 4,202,357
Domestic equities	2,257,636	2,429,502
Fixed-income	1,134,990	258,428
International equities	3,161,720	2,753,030
Private equities	4,235,979	2,973,806
Real assets	6,093,492	5,101,960
Other	260,729	230,005
Total Endowment investments	22,364,717	17,949,088
Non-Endowment investments	623,814	652,929
Net investments, at fair value	\$ 22,988,531	\$ 18,602,017

The Endowment portfolio includes beneficial interests in outside trusts of \$153.4 million and \$133.0 million at June 30, 2007 and 2006, respectively. Non-Endowment investments include CHEFA Y proceeds available for approved construction and campus renovation projects of \$23.4 million and \$208.7 million at June 30, 2007 and 2006, respectively.

The following investments held under split-interest agreements are included in the Endowment portfolio in the schedule above, in thousands of dollars:

	2007	2006
Charitable gift annuities	\$ 131,117	\$ 107,869
Pooled income funds	24,536	23,368
Charitable remainder trusts	107,348	96,984
	\$ 263,001	\$ 228,221

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, currency and commodity swaps, call and put options, debt and equity futures contracts, equity swaps and other investment vehicles in certain circumstances. Yale does not invest in derivatives for speculation.

Yale derivative positions directly held and those held by consolidated investment companies include interest rate swap, equity swap, credit default swap, commodity swap contracts and currency forward contracts. The fair value of these derivatives was \$98.6 million at June 30, 2007. A gain of \$140.4 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. Collateral provided by Yale and its consolidated investment companies related to derivative transactions amounted to \$119.7 million at June 30, 2007.

At June 30, 2007, approximately 75 percent of the University's investments portfolio were invested in limited partnerships or limited liability companies. The total return for fiscal year ended June 30, 2007 related to these entities was \$4.0 billion. 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, 2007, the University had uncalled commitments of approximately \$6.5 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 at June 30, 2007, management estimates that it could have liquidated approximately \$7.3 billion (unaudited) 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:

	2007	2006
Investment income	\$ 562,606	\$ 448,300
Realized and unrealized gains, net of investment management fees	4,361,950	2,891,556
Return on the Endowment	4,924,556	3,339,856
Other investment income	99,258	64,952
<b>Total return on investments</b>	<b>\$ 5,023,814</b>	<b>\$ 3,404,808</b>

Endowment investment returns totaling \$684.5 million and \$615.7 million were allocated to operating activities in 2007 and 2006, respectively, using the spending policy described in Note 1d.

### 3. Accounts Receivable

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

	2007	2006
Medical services	\$ 38,895	\$ 36,305
Grants and contracts	66,545	48,031
Investment income receivable	16,250	15,183
Affiliated organizations	29,506	27,140
Yale University Press receivables	6,480	6,253
Other	20,352	17,273
	178,028	150,185
Less: Allowance for doubtful accounts	(20,583)	(20,044)
	<b>\$ 157,445</b>	<b>\$ 130,141</b>

Medical services receivables are net of an allowance for contractual adjustments in the amount of \$34.9 million and \$32.4 million at June 30, 2007 and 2006, 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 and its related entities amounted to \$23.6 million and \$22.0 million at June 30, 2007 and 2006, respectively. Balances are settled in the ordinary course of business.

## 4. Contributions Receivable

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

	2007	2006
Purpose:		
Endowment	\$ 322,472	\$ 258,978
Capital purposes	149,135	96,646
Operating programs	115,639	123,813
Gross unconditional promises to give	587,246	479,437
Less: Discount	(58,052)	(40,883)
Allowance for uncollectible accounts	(86,267)	(73,691)
Net unconditional promises to give	\$ 442,927	\$ 364,863

Amounts due in:

Less than one year	\$ 161,362	\$ 126,177
One to five years	372,872	330,303
More than five years	53,012	22,957
	\$ 587,246	\$ 479,437

Discount rates used to calculate the present value of contributions receivable ranged from .98 percent to 6.37 percent at June 30, 2007 and June 30, 2006.

## 5. Student Notes Receivable

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

	2007	2006
Perkins Loan Program	\$ 33,335	\$ 32,811
Yale Student Loan Program	18,049	18,524
Other student loans	5,285	4,319
	56,669	55,654
Less: Allowance for doubtful accounts	(3,490)	(3,424)
	\$ 53,179	\$ 52,230

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 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 statement 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:

	2007	2006
Software costs, net of accumulated amortization	\$ 25,785	\$ 32,711
Inventories	14,993	12,868
Bond issue costs, net of accumulated amortization	6,057	6,363
Other notes receivable	2,684	3,617
Deferred expenses	10,885	12,624
Employee benefit assets	139,829	-
	\$ 200,233	\$ 68,183

Amortization expense included in operating expenses amounted to \$12.1 million and \$11.8 million in 2007 and 2006, respectively.

Upon adoption of SFAS NO. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS NO. 158), the University recognized \$139.8 million of employee benefit assets representing the excess of plan assets over projected benefit obligations of certain defined benefit plans. See Note 11.

## 7. Land, Buildings and Equipment

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

	2007	2006
Land and real estate improvements	\$ 77,424	\$ 76,103
Buildings	3,081,464	2,830,073
Buildings under capital leases	61,665	61,665
Equipment	405,692	391,948
	3,626,245	3,359,789
Less: Accumulated depreciation and amortization	(1,295,381)	(1,181,156)
	2,330,864	2,178,633
Construction in progress	415,509	308,297
	\$ 2,746,373	\$ 2,486,930

Depreciation expense included in operating expenses amounted to \$135.3 million and \$125.7 million in 2007 and 2006, respectively. Amortization expense on capital lease assets amounted to \$2.2 million and \$1.1 million in 2007 and 2006, respectively.

## 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:

	2007	2006
Employee benefit obligations	\$ 229,147	\$ 94,136
Compensated absences	48,614	42,579
Financial aid grant obligations	19,393	15,703
Asset retirement obligations	18,500	16,500
Other	4,338	2,481
	\$ 319,992	\$ 171,399

Upon adoption of SFAS No. 158, the University recognized \$120 million of employee benefit obligations representing the unfunded balance of certain defined benefit plans. See Note 11.

The adoption of FIN No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No.143", during 2006 required recognition of an asset retirement obligation. The effect of this adoption, reflected as a cumulative effect change in accounting principle in the University's statement of activities for the year ended June 30, 2006, amounted to \$16.5 million.

## 9. Debt Obligations

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

	Effective Interest Rate	Year of Maturity	Outstanding Balance	
			2007	2006
Connecticut Health and Educational Facilities Authority (CHEFA) tax- exempt bonds				
Series S	3.55%	2027	\$ 135,865	\$ 135,865
Series T	3.55%	2029	250,000	250,000
Series U	3.54%	2033	250,000	250,000
Series V	3.53%	2036	200,000	200,000
Series W	5.13%	2027	87,980	87,903
Series X	3.96%	2037/2042	350,000	350,000
Series Y	4.24%	2035	310,412	310,783
Total CHEFA bonds			1,584,257	1,584,551
Medium-term notes	7.38%	2096	124,527	124,516
Taxable commercial paper	5.38%	2007	180,918	179,642
Capital Leases - Buildings	5.75%	2032/2048	60,974	61,421
Other notes payable	7.85%	2020	3,955	4,123
			\$ 1,954,631	\$ 1,954,253

CHEFA Series Y bonds consist of 1) \$200 million Series Y-1 bonds at a fixed interest rate of 5%; 2) \$50 million Series Y-2 variable rate bonds, currently bearing interest at a daily rate; 3) \$50 million Series Y-3 variable rate bonds, currently bearing interest at a daily rate. Series Y-1, Y-2 and Y-3 bonds mature on July 1, 2035. Series Y-1 bonds are subject to an optional redemption in July 2015. Series Y-2 and Y-3 bonds may be converted to other variable rate modes or to a fixed rate at the discretion of the University. Series Y-2 and Y-3 bonds may be tendered for purchase on any business day. The original premium associated with this issuance is \$11 million, which is being amortized over the life of the bond.

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%. 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 CHEFA Series T from a weekly mode to a daily mode. Series T bonds in daily mode may be tendered for purchase on any business day.

CHEFA Series S bonds 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 \$473 thousand at June 30, 2007. 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. In April 2007 the Yale Corporation approved the expansion of the Yale University Commercial Note program to a limit of \$1 billion to finance approved programs as the need arises.

Certain lease agreements entered into by the University qualify as capital leases with obligations of \$61.0 million and \$61.4 million at June 30, 2007 and 2006, respectively. The agreements call for the University to lease the buildings through 2032 and 2048.

Total interest expense incurred on indebtedness was \$87.4 million and \$77.8 million in 2007 and 2006, respectively. Interest capitalized to land, buildings and equipment totaled \$10.2 million and \$7.4 million in 2007 and 2006, respectively.

Scheduled maturities of the facilities debt obligations, in thousands of dollars, are as follows:

2008	\$ 181,608
2009	790
2010	890
2011	997
2012	1,112
2013-2027	256,747
Thereafter	1,512,487

The University has revolving credit agreements available totaling \$600 million to provide alternative liquidity to support Yale's variable rate demand notes.

#### *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 4.51% 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:

	2007	2006
Notional amount of contract	\$ 490,000	\$ 540,000
Fair value of swap contract	\$ 1,371	\$ 3,519
Net loss (gain) on swap contracts	\$ 3,073	\$ (51,404)

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.

#### *Fair Value*

The fair value of the University's fixed rate bonds, \$544.3 million at June 30, 2007, is estimated based on quoted market prices for the same or similar issues. The carrying value of commercial paper, variable rate bonds and notes payable, approximates fair value because of the variable nature of the interest rates and 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 \$55.5 million and \$51.6 million in 2007 and 2006, respectively.

## 11. Pension and Postretirement Plans – Defined Benefit

The University has a noncontributory, defined benefit pension plan for staff employees as well as a defined benefit faculty retirement incentive plan. The staff pension plan provides payments based on years of participation and the employee's highest annual rate of earnings during the last five years of employment. The faculty plan provides a lump sum payment, based on service and the last three years salary, for tenured faculty who retire at certain ages.

In addition, the University provides postretirement benefits including health benefits and life insurance based on years of service and a pay-out of unused sick time. 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.

SFAS NO. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS NO. 158) was issued by the Financial Accounting Standards Board during the year. SFAS NO. 158 requires that employers recognize the funded status of their defined benefit pension and other postretirement plans on the statement of financial position and recognize the gains and losses and prior service costs that have not been

recognized as components of net periodic benefit costs as an adjustment to net assets in the year of adoption. Yale University adopted the recognition and related disclosure provisions of SFAS NO. 158, on June 30, 2007.

The following table sets forth the Pension and Postretirement plans' funded status that are reported in the statement of financial position at June 30, in thousands of dollars:

Plans' Funded Status	Pension		Postretirement	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 609,875	\$ 646,739	\$ 484,865	\$ 423,602
Service cost, excluding assumed administration expenses	24,307	27,866	19,191	20,269
Interest cost	35,219	32,292	25,324	22,118
Benefit payments	(21,363)	(19,972)	(15,113)	(14,417)
Assumption changes	12,523	(87,183)	3,041	7,338
Amendments	6,676	(185)	599	-
Actuarial loss	4,710	10,318	(35,555)	25,955
Benefit obligation, end of year	\$ 671,947	\$ 609,875	\$ 482,352	\$ 484,865
Change in plan assets:				
Market value, beginning of year	\$ 664,464	\$ 591,796	\$ 227,137	\$ 202,345
- Actual return on plan assets	151,379	84,254	55,530	34,879
- University contributions	9,875	9,242	22,507	4,578
- Benefits and expenses paid	(22,314)	(20,828)	(15,545)	(14,665)
Market value, end of year	\$ 803,404	\$ 664,464	\$ 289,629	\$ 227,137
Funded status	\$ 131,457	\$ 54,589	\$ (192,723)	\$ (257,728)
Unrecognized transition obligation	-	-	-	26,021
Benefit payments advanced	-	-	-	4,703
Unrecognized net (gain) loss	-	(158,467)	-	158,508
Unrecognized prior service cost	-	79,059	-	13,447
Net asset/(liability) recognized	\$ 131,457	\$ (24,819)	\$ (192,723)	\$ (55,049)

In accordance with SFAS NO. 158 the University has recognized the difference between accrued benefit costs of its defined benefit plans and the funded status at June 30, 2007 as an adjustment to unrestricted net assets. The components of this adjustment include:

	Pension	Postretirement	Total
Unrecognized net actuarial loss (gain)	\$ (240,148)	\$ 82,946	\$ (157,202)
Unrecognized prior Service Cost	76,902	12,614	89,516
Unrecognized transition obligation	-	22,304	22,304
	\$ (163,246)	\$ 117,864	\$ (45,382)

Amounts recorded as an adjustment at June 30, 2007 that are expected to be amortized into operating activity during fiscal year 2008, as required by SFAS NO. 158, include:

	Pension	Postretirement	Total
Unrecognized net actuarial loss (gain)	\$ (2,505)	\$ 5,301	\$ 2,796
Unrecognized prior Service Cost	8,779	1,432	10,211
Unrecognized transition obligation	-	3,717	3,717
	\$ 6,274	\$ 10,450	\$ 16,724

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

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 \$533.7 million at June 30, 2007 and \$470.7 million at June 30, 2006. 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 to utilize an updated mortality table that is projected for experience through 2007. This change caused an increase in the benefit obligation of \$9.4 million for the Pension Plan and \$4.7 million for Postretirement Plans. In addition, plan amendments to the Pension Plan to add cost of living adjustments resulted in an increase of \$5.6 million to the pension benefit obligation.

#### 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.

Plan asset allocations by category at June 30 are as follows:

	Pension		Retiree Health	
	2007	2006	2007	2006
Absolute return	24.1%	23.8%	24.1%	24.6%
Domestic equity	14.7%	15.0%	22.4%	22.7%
Fixed income	15.0%	14.5%	0.0%	0.0%
Foreign equity	14.9%	13.9%	15.5%	14.5%
Private equity	10.3%	9.5%	7.1%	5.9%
Real assets	19.0%	19.6%	27.7%	29.2%
Cash	1.9%	3.7%	3.3%	3.1%

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.

#### 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 in fiscal 2008 to the Pension Plan are \$6.7 million and \$28.6 million for the Retiree Health Plan.

#### Benefit Payments

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

Fiscal year	Pension	Postretirement
2008	\$ 24,000	\$ 16,800
2009	25,800	18,400
2010	27,800	20,200
2011	30,100	21,900
2012	32,600	23,500
2013-2017	210,200	141,800

The University receives a Medicare part D subsidy from the federal government as reimbursement for certain retiree health benefits paid to plan participants. The subsidy is approximately 7% of retiree health benefits and was approximately \$1.0 million for fiscal 2007.

#### Benefit Obligations

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

	2007	2006
Weighted-average discount rate	5.75%	5.75%
Increase in future compensation levels	4.55%	4.54%
Projected health care cost trend rate	9.20%	10.20%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2013	2013

The health care cost trend rate assumption has a significant effect on the amounts reported. For the fiscal year ended June 2007, a one percent change in the health care cost trend rate would cause the postretirement benefit obligation at June 30, 2007 to change by approximately 12 percent and would also cause the sum of the service cost and interest cost components of postretirement expense to change by approximately 15 percent.

#### Net Periodic Benefit Cost

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

	Pension		Postretirement	
	2007	2006	2007	2006
Net periodic benefit cost for the fiscal year ended				
Service cost	\$ 25,157	\$ 28,466	\$ 19,516	\$ 20,479
Interest cost	35,219	32,292	25,324	22,118
Expected return on plan assets	(51,818)	(43,971)	(18,610)	(15,624)
Net amortization				
- Transition obligation	-	-	3,717	3,717
- Prior service cost	8,833	15,070	1,432	1,384
- Net (gain) loss	(544)	-	6,234	9,423
Net periodic benefit cost	\$ 16,847	\$ 31,857	\$ 37,613	\$ 41,497

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

	2007	2006
Weighted-average discount rate	5.75%	5.00%
Expected long-term rate of return	9.00%	8.50%
Compensation increase	4.54%	4.54%
Health care cost increase	10.2%	7.50%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2013	2011

## 12. Commitments and Contingencies

The University is involved in various legal actions arising in the normal course of activities and is also 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, except for the possible outcome resulting from the subpoenas received in June 2006 referred to below, should not have a material adverse effect, individually or in the aggregate, upon the University's financial position, results of operations or cash flows.

In June 2006, the University received subpoenas from the Department of Health and Human Services, the Department of Defense and the National Science Foundation for documents and information relating to financial management of grants supporting scientific research. The University is cooperating fully with the investigation and is in the process of providing material responsive to the subpoenas. It is too early at this time to determine what, if any, liability may result from this investigation.

Minimum lease commitments at June 30, 2007 under agreements to lease space, in thousands of dollars, are as follows:

	Operating Lease Payments	Capital Lease Payments
2008	\$ 7,631	\$ 9,284
2009	5,968	9,270
2010	4,242	8,476
2011	3,219	7,988
2012	2,189	7,491
Thereafter	3,421	138,750
	26,670	181,259
Executory costs	-	(53,056)
Interest on capital leases	-	(67,229)
	\$ 26,670	\$ 60,974

The University has outstanding commitments on contracts to construct campus facilities in the amount of \$257 million at June 30, 2007. Funding for these projects are expected to come from capital replacement reserves, gifts and future borrowing.

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 their obligations the University may be required to satisfy all or part of the remaining obligation. The total amount of these guarantees is approximately \$10.2 million at June 30, 2007.

### 13. Subsequent Events

On September 19, 2007, the University completed the offering documents for the expansion of its Commercial Note program to \$1 billion. The University received affirmation of the P-1/A-1+ rating for the expanded program from the rating agencies.

On September 25, 2007, the University purchased approximately 1,425,000 square feet of existing research and office facilities for a purchase price of \$109 million. Certain environmental remediation will be required on the site purchased, however it is not expected to exceed \$3 million (unaudited). The seller will continue to occupy the space for a one year period and will pay rent of \$8 million per year.

On October 1, 2007, the University entered into a loan agreement with the Connecticut Health and Educational Facilities Authority to borrow \$600 million for renovation and construction projects on the University campus. The debt is due on July 1, 2042 and consists of two \$100 million bond issues bearing interest at variable rates and a \$400 million bond issue bearing interest at 5%. The fixed rate bonds were sold at a premium, resulting in additional proceeds of \$14.3 million.

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The concourse level of the Ann T. and Robert Bass Library  
*Bottom:*  
Books from Yale's 1742 Library, now at the Beinecke Rare Book & Manuscript Library.

*Back cover*  
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