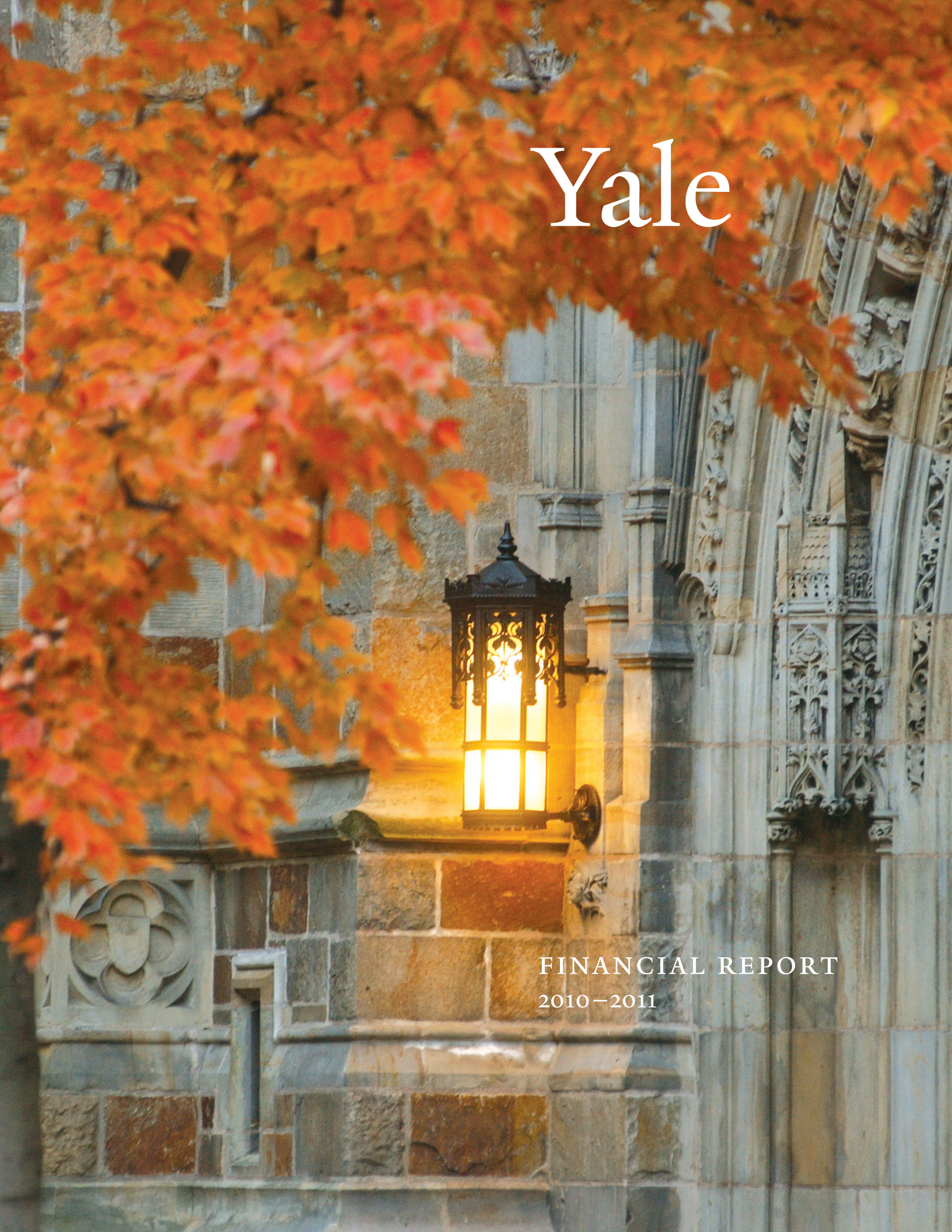


Yale

FINANCIAL REPORT

2010–2011

TABLE OF CONTENTS

Cover photography by Michael Marsland

Highlights

Five-Year Financial Overview ($ in millions)	Fiscal years 2011	2010	2009	2008	2007
Operating Budget Bottom Line (see page 4)	$ -	$ -	$ -	$ -	$ -
Financial Position Highlights (see page 14):					
Total assets	$ 31,044.3	$ 27,296.1	$ 25,937.8	$ 33,864.8	$ 32,165.3
Total liabilities	10,045.8	9,755.4	8,543.3	9,586.5	8,079.5
Total net assets	$ 20,998.5	$ 17,540.7	$ 17,394.5	$ 24,278.3	$ 24,085.8
Endowment:					
Net investments, at fair value	$ 19,174.4	$ 16,504.2	$ 16,103.5	$ 22,686.3	$ 22,364.7
Total return on investments	21.9%	8.9%	(24.6%)	4.5%	28.0%
Spending from endowment	5.9%	6.9%	5.2%	3.8%	3.8%
Facilities:					
Land, buildings and equipment, net of accumulated depreciation	$ 4,109.8	$ 3,975.8	$ 3,715.1	$ 3,199.6	$ 2,746.4
Disbursements for building projects	280.7	407.1	599.6	568.9	373.3
Debt	$ 4,041.5	$ 4,054.5	$ 3,376.0	$ 3,067.2	$ 1,954.6
Statement of Activity Highlights (see page 15):					
Operating revenue	$ 2,787.7	$ 2,725.8	$ 2,600.7	$ 2,347.5	$ 2,121.2
Operating expenses	2,684.0	2,572.1	2,493.5	2,314.5	2,108.5
Increase in net assets from operating activities	$ 103.7	$ 153.7	$ 107.2	$ 33.0	$ 12.7

Five-Year Enrollment Statistics	2011	2010	2009	2008	2007
Student Fees:					
Yale College term bill	$ 49,800	$ 47,500	$ 46,000	$ 45,000	$ 43,050
Freshman Enrollment Class of:	’14	’13	’12	’11	’10
Freshman applications	25,869	26,003	22,817	19,323	21,101
Freshmen admitted	2,039	1,958	1,952	1,911	1,878
Admissions rate	7.9%	7.5%	8.6%	9.9%	8.9%
Freshman enrollment	1,344	1,307	1,320	1,320	1,315
Yield	67.0%	67.8%	68.7%	70.6%	70.9%
Total Enrollment:					
Yale College	5,296	5,268	5,266	5,300	5,319
Graduate and professional schools	6,321	6,252	6,107	6,064	6,004

Message from the Vice President for Finance and Business Operations

Yale University's strong financial results for the 2011 fiscal year demonstrate that the University has successfully made the needed adjustments in response to the challenging financial environment. The University generated operating surpluses and met its capital budget this year while continuing to maintain the highest standards for delivering excellence in all aspects of our core mission. Total financial resources grew by 20% through the generosity of donors and the prudent management of University investments. The University completed the seven-year "Yale Tomorrow" capital campaign, surpassing its goal of raising $3.5 billion to support important expansions and improvements in Yale's programs. Yale Endowment net assets increased by $2.8 billion to $19.4 billion, the net of 21.9% endowment returns, 1.8% endowment giving, and endowment spending of 5.9%.

Operating revenues exceeded operating expenses by $104 million in fiscal 2011. Despite a drop of 11% in spending distribution from the Endowment, operating revenue totaled $2.788 billion, an increase of 2% over the prior year. Endowment spending represented 35% of total operating revenue in fiscal 2011 compared to 41% in fiscal 2010. All other operating revenue sources increased during the year, driven by both grant and contract income and medical services income, which each grew by 7% versus the prior year, and investment and other income growth of 26%. Fiscal year operating expenses of $2.684 billion grew by 4% over the prior year as organized research and patient care expenses increased commensurate with the increases in funded activity. Yale continues to prudently control other operating costs within the limits of its resources, enabling the University to meet its budget commitments while making strategic investments in programs to further its mission.

The University's capital spending for fiscal 2011 was budgeted at $440.1 million, with actual spending of $315.5 million. Financial conditions dictate a slower rate of capital investment, but donors have enabled important projects to continue, such as the Yale Art Gallery renovation and the construction of the new Yale School of Management campus, both of which are well underway. A fully renovated Morse College opened in the fall of this academic year, marking the completion of the thirteen-year college renovation program. Continued renovation of existing Yale buildings remains a priority and the implementation of the capital replacement strategy ensures that financial pressures do not return the University to a state of deferred maintenance.

The University completed its seven-year Yale Tomorrow fund raising campaign with a total of $3.9 billion in gifts and documented commitments. With an initial goal of $3.0 billion, which was increased in 2008 to $3.5 billion, Yale Tomorrow was the largest campaign in Yale's history. Over 40%, or $1.6 billion, of the campaign total is earmarked for Yale's Endowment. The University has already received more than 70% or $2.7 billion of the campaign commitments, which were made by more than 110,000 alumni, parents, friends, corporations, and foundations for the benefit of every school and unit of the University. The last year of the campaign saw contributions totaling more than $860 million, an all-time record for a single year and more than double the results of the previous year. Giving during the campaign averaged $555 million per year, almost double the average of $285 million during the seven years preceding the campaign. Similarly outstanding results were achieved for cash receipts; the $585 million received in fiscal year 2011 surpasses by more than $92 million the previous all-time high in fiscal year 2008.

Although it is unlikely that the extraordinary results of the last year of the campaign will be repeated in the near future, the enthusiastic response by Yale's many supporters provides a solid foundation for ongoing fund raising efforts targeting current University priorities, such as the building of two new residential colleges and improvement of science teaching and research facilities. The University's success is due in large part to alumni and friends who continue their active engagement on Yale's behalf. Students and faculty benefit greatly from this generous support, which has enabled the University to meet its commitments, keep pace with the growing challenges of academic leadership, and advance in innovative directions. Yale will continue to invest wisely to sustain and enhance its mission of education and research.

The Finance and Business Operations team seeks to continually improve its support of the University's education and research mission, enhance compliance programs to meet fiduciary responsibilities and to properly steward Yale's financial resources. Efforts to achieve these goals continue while we also seek ways to lower the overall cost of administrative support. We are collaborating with department administrators to identify ways to simplify and standardize business practices, utilize technology more fully and implement organizational models, such as shared services, to optimize staffing levels across the University. Early results in the Yale Shared Services Center, which is handling several back office business services such as expense management and accounts payable, are promising and we have begun expanding to additional academic departments. Additionally, we have determined that other administrative activities, such as grant support for faculty research and administrative support of faculty searches, will also benefit from a shared service approach and we have begun restructuring to achieve the expected enhancement of service at a lower cost in these areas as well. These efforts will evolve over several years, but we believe the right organizational structure and new systems can create a more efficient environment ensuring seamless support to students, faculty and staff at the level a great university like Yale deserves.

The strong fiscal 2011 results were certainly welcome, but we remain mindful that Yale is operating in very uncertain financial times. Our efforts to prudently manage Yale's resources will necessarily continue and we are grateful for the commitment shown by students, faculty, staff, alumni, donors and all who support the University as we look to identify and fund exciting new ideas in support of Yale's core mission: the creation, preservation and dissemination of knowledge.

In support of Yale's sustainability goals, we once again make the 2010-2011 Yale Annual Report available on the Web at www.yale.edu/fr10-11.

Shauna R. King
Vice President for Finance and Business Operations

Financial Results

Overview

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 GAAP financial statements do not present fund balance transfers between the operating, physical, and financial categories, as the Operating Budget does.

A summary of the differences between the Operating Budget presentation and the Statement of Activities is as follows ($ in thousands):

	2011	2010
Operating Budget Bottom Line	$ -	$ -
Operating Budget add to fund balances	109,668	115,602
Operating Pledge activity	43,389	20,814
Expenses related to long-term liabilities	(69,952)	(56,134)
(Depreciation in excess of capital funding)/ capital funding in excess of depreciation	(24,966)	17,337
Interest hedge realized loss	37,750	34,928
Energy hedge realized loss	16,167	17,300
Funding transfers	(8,364)	3,847
Increase in net assets from operations per the Statement of Activities	$ 103,692	$ 153,694

The Budget presents operating activity by funding source. The category "General Appropriations" includes the cost of education for the University. The category "Other" includes programs supported by endowments and gifts, sponsored research, patient care, and other revenue sources. 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 health services provided by the Yale Medical Group as part of Yale's role in the Academic Health Center of Yale-New Haven Health Systems.

Yale University Operating Budget Revenue and Expense

for the year ended June 30, 2011 ($ in thousands)

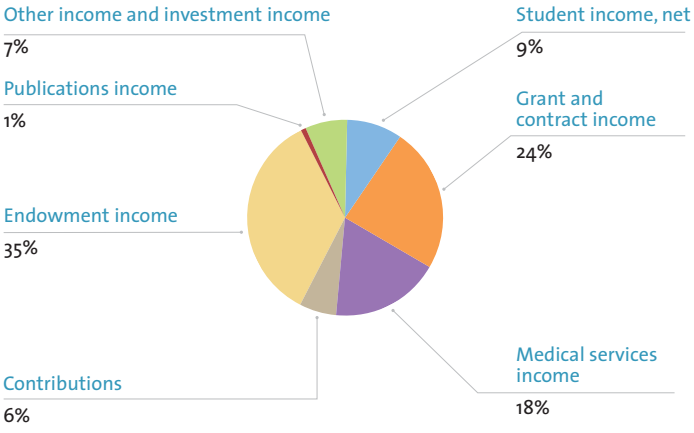
	General Appropriations	Other	Actual June 30, 2011	Budget June 30, 2011
Revenues:				
Tuition, room and board	$ 455,129	$ 12,379	$ 467,508	$ 462,331
Funded scholarships	(186,308)	(38,304)	(224,612)	(222,161)
Net Tuition, room and board	268,821	(25,925)	242,896	240,170
Sponsored agreement income	175,747	508,214	683,961	640,569
Medical services income	40,857	452,279	493,136	485,598
Contributions	29,364	80,972	110,336	96,134
Allocation of Endowment spending	90,997	895,826	986,823	985,568
Unrestricted and recovery income	573,454	(573,454)	-	-
Other investment income	34,481	22,406	56,887	12,454
Other income	59,602	90,401	150,003	117,412
Transfers	3,847	6,329	10,176	(21,434)
Total Revenue	1,277,170	1,457,048	2,734,218	2,556,471
Expenses:				
Faculty salaries	185,033	396,689	581,722	568,205
Staff salaries and wages	395,840	252,750	648,590	627,851
Total Salaries and wages	580,873	649,439	1,230,312	1,196,056
Employee benefits	171,825	200,022	371,847	363,438
Total Salaries and benefits	752,698	849,461	1,602,159	1,559,494
Student stipends	31,103	52,210	83,313	78,253
Other expenses	126,201	484,028	610,229	582,378
Interest and capital replacement	266,179	10,861	277,040	281,316
Utilities	69,577	(17,768)	51,809	65,701
Total Expenses	1,245,758	1,378,792	2,624,550	2,567,142
Operating results-budgeted activity	31,412	78,256	109,668	(10,671)
(Add to) / use of fund balances	(31,412)	(78,256)	(109,668)	10,671
Operating Budget Bottom Line	$ -	$ -	$ -	$ -

FY11 Operating Budget Results
The University ended the year with an increase to its operating fund balances of $110 million. Actual operating revenues were higher than budgeted by 7.0% and actual operating expenses were higher than budgeted by only 2.2%. Cost cutting measures initiated in FY 2009 continued through FY 2011 and resulted in overall lower expenses in all areas except research and patient care. Revenues were higher in sponsored agreements, medical services, contributions, and investment and other income. Grants and contract revenue was significantly higher than budget, as the School of Medicine and the Faculty of Arts and Sciences experienced higher growth in research funding than budgeted. Medical services income was favorable to budget because of continued growth at the Yale Medical Group. Returns generated in the long-term cash pool resulted in favorable investment and other income.

Operating Revenue

As shown in the chart below, the University derives its operating revenue from seven main sources: student income (net of certain scholarships and fellowships), grants and contracts, medical services, Endowment income, other income and investment income, contributions, and publication income.

Operating Revenue



Student Income, Net
Student income, which includes revenue from tuition, fees, and room and board, net of certain scholarships and fellowships, increased 6.9% during 2011 and amounted to $240.5 million, or 8.6% of operating revenues. Of the total amount, tuition and fees accounted for $403.1 million, a 5.0% increase over 2010. Revenue from room and board increased 4.4% to $64.4 million. In accordance with generally accepted accounting principles, student income is presented net of certain scholarships and fellowships, which totaled $227.0 million and $220.6 million for 2011 and 2010, respectively.

During the 2010-2011 academic year, 11,617 students were enrolled at the University; 5,296 were undergraduate students attending programs at Yale College, and 6,321 were pursuing their studies at the Graduate School of Arts and Sciences and the twelve professional schools. (Figures are based on full-time equivalents.)

Students enrolled in Yale College paid $38,300 for tuition and $11,500 for room and board, bringing the total term bill to $49,800 for the 2010-2011 academic year. The increase in the Yale College term bill was 4.8% over the 2009-2010 academic year. Students enrolled in the Graduate School of Arts and Sciences paid $33,500 for tuition, a 3.1% increase over the 2009-2010 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 2010-2011 academic year, 3,089 undergraduates, representing 58.1% of eligible Yale College enrollment, received financial aid. In the Graduate School of Arts and Sciences, 2,726 students, or 99.2% of those eligible, received financial aid. In the professional schools, 3,070 students, or 85.6% of those eligible, received financial aid. In all, 8,885 University students, or 76.2% 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.

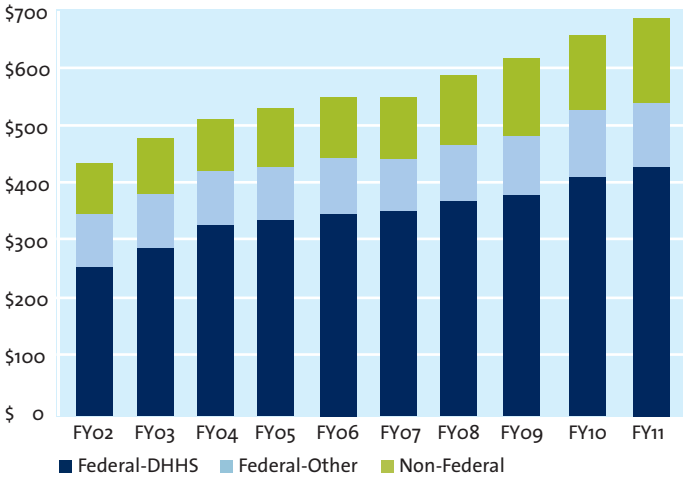
Grant and Contract Income
Grant and contract income experienced a 6.6% growth from $641.4 million in 2010 to $684.0 million in 2011. The Yale School of Medicine, which received 80% of the University's grant and contract income in fiscal 2011, reported an increase of 7.7% for 2011, while the remaining University sectors had an increase of 0.8%.

The federal government funded $551.8 million, or 81% of 2011 grant and contract income, in support of Yale's research and training programs. The largest federal sponsor was the Department of Health and Human Services (DHHS), which provided revenue of $427.9 million during 2011, an increase of

7.5% over the prior year. American Recovery and Reinvestment Act (ARRA), enacted in February 2009, generated $66.3 million of revenue, which is 9.7% of total revenue for fiscal 2011. In fiscal 2012, ARRA revenue should also have a significant influence, since $38.2 million of unspent funding remains on these awards. ARRA awards supported major programs and supplemented ongoing research. The University also receives significant research funding 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 $132.2 million in research, training, clinical and other sponsored agreements during 2011.

In addition to the reimbursement of direct costs charged to sponsored awards, sponsoring agencies reimburse the University for its facilities and administrative costs (often referred to as indirect costs), which include costs related to research laboratory space, facilities and utilities, as well as administrative and support costs incurred for sponsored activities. These reimbursements for facility and administrative costs amounted to $176.6 million in 2011, which is an increase of 11.3% over the prior year. Recovery of facility and administrative costs associated with federally sponsored awards 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 through June 30, 2014.

Grant and Contract Income
Ten-year trend analysis ($ in millions)



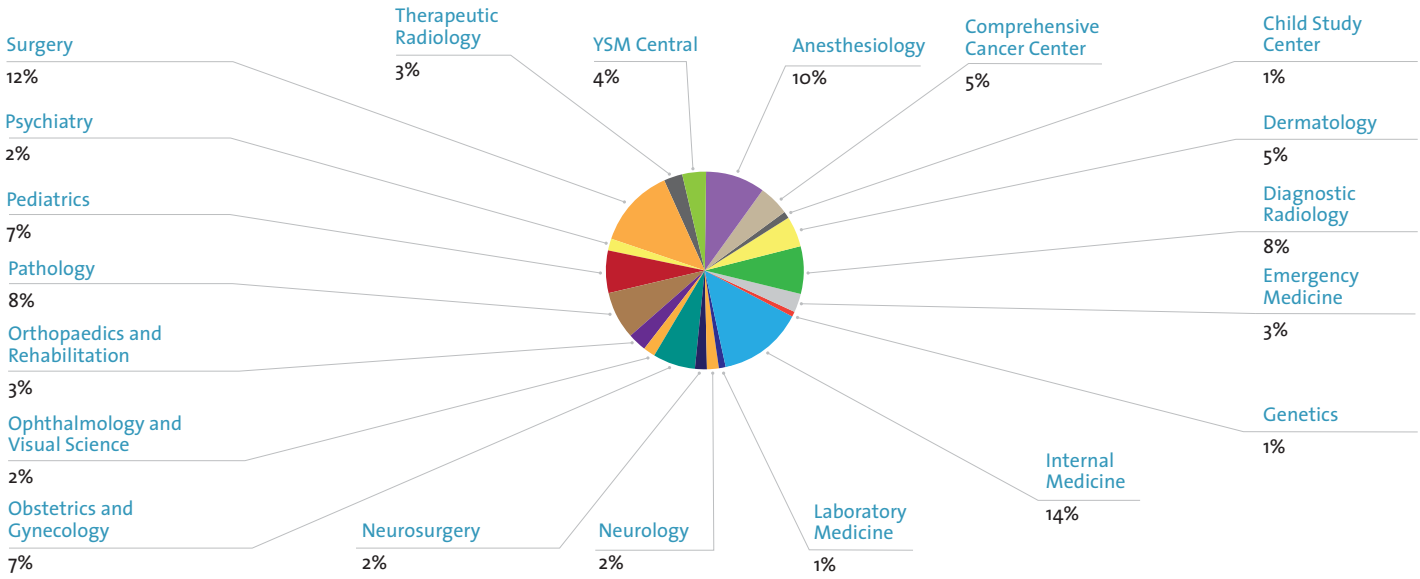
Medical Services Income

Medical services income totaled $493.1 million in fiscal 2011, an increase of 6.7% from 2010, and represented 18% of the University's operating revenue. The largest portion of this revenue stream (approximately $482.7 million) is derived from patient care services provided by the School of Medicine's Yale Medical Group (YMG), one of the largest academic multi-specialty practices in the country and the largest in Connecticut. YMG is composed of 887 full-time and 133 part-time physicians.

The Yale School of Medicine continues to plan strategic program expansion in partnership with Yale-New Haven Hospital (YNHH). Clinical programs under development include Cardiology, Cardiac Surgery and Pediatric Cardiology; Neuroscience including stroke, endovascular and Alzheimer's care; and expansion of the Yale Cancer Center programs located in the Smilow Cancer Hospital and distributed locations. Several departments saw double-digit increases in medical services revenues during FY 2011 including Anesthesiology, Cancer Center, Neurology, Neurosurgery, Ophthalmology and Surgery. Total YNHH support increased 14% to $131 million.

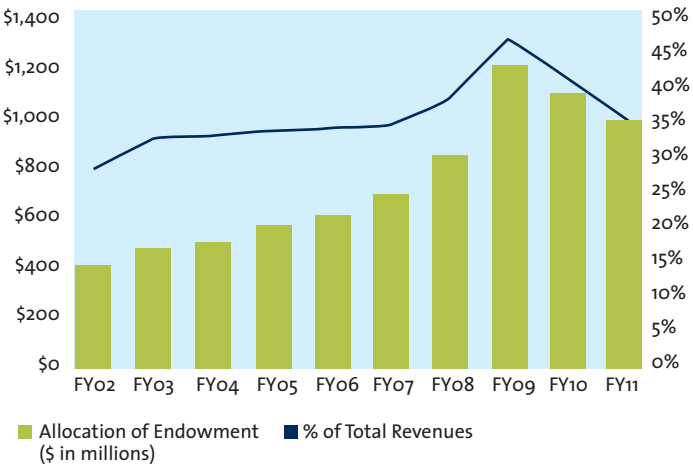
The School of Medicine continued its focus on improving clinical research as well as ensuring compliance. New systems began to be implemented during 2010-2011 to manage clinical trials and clinical research billing. Staffing to support clinical trials, patient care and data management increased. The implementation of an electronic health record system across YMG and the Yale-New Haven Health System continues with the first YMG clinical practice scheduled to convert in fall 2011.

Yale University School of Medicine
FY11 Clinical Income by Department



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 35% 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 decreased by 11.0% to $982.6 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.

Allocation of Endowment Spending
as a percentage of total revenues, ten-year trend analysis



Other Income and Other Investment Income
Other income of $124.6 million includes such items as royalty income, admission revenue, parking revenue, and application and enrollment fees. Other investment income of $72.5 million represents interest, dividends, and gains on non-Endowment investments.

Contributions
Donations from individuals, corporations and foundations represent a vitally important source of revenue for the University to fund current operations as well as long term investments in the physical infrastructure and, in the case of gifts to the Endowment, to provide resources for core activities into the future. The Statement of Activities presents contribution revenue in three categories: operating revenue, donations supporting physical capital (building construction and renovation), and contributions added to the Endowment as financial capital. In aggregate, contributions included in the University Financial Statements total $659.0 million.

The University completed its seven-year "Yale Tomorrow" fund raising campaign with a total of $3.886 billion in gifts and documented commitments. With an initial goal of $3 billion, which was increased in 2008 to $ 3.5 billion, it was the largest campaign in Yale's history.

Certain gifts commonly reported in fund raising results are not recognized as contributions in the University Financial Statements. For example, "in-kind" gifts such as works of art and books are not recognized as financial transactions in the University Financial Statements. Grants from private, non-governmental sources (i.e., corporations and foundations) reported as gifts for fund raising purposes are included in the Statement of Activities as grant and contract income. Generally accepted accounting principles require the University to recognize outstanding future donor commitments as institutional receivables. These anticipated

future payments (i.e., donor commitments) are counted as part of the Yale Tomorrow campaign total; however, they are not counted as contributions received in accordance with fund raising industry-standard guidelines.

Publications Income

Publications income is primarily generated through Yale University Press (Press), a separately endowed department of the University. The Press published approximately 450 titles in 2011 and has published approximately 8,500 titles in total. Many of these books are winners of prizes, including four Pulitzer Prizes. Its authors are academic and professional people from around the world. Publishing related revenue for the Press was $32.2 million in 2011 and $31.1 million in 2010. In the coming year, the Press will launch *Encounters: Chinese Language and Culture (Encounters)*, a ground-breaking Chinese language instructional program for English speakers. *Encounters* is a fully-integrated multimedia program for beginner-level Chinese that immerses students in the sounds of Mandarin Chinese, while simultaneously exposing them to the sights and culture of China. The program includes books, a broadcast-quality series filmed entirely in China, podcasts, rap songs, and a website providing access to all audio-visual material.

Operating Expenses

Operating expenses totaled $2.7 billion, representing a 4.3% increase for the year. The largest component of expenses – personnel costs – rose 3.5%. This category of expense represents 63% 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 increased 7.8% and staff compensation decreased 5.6%.

The cost of providing employee benefits, including various pension, postretirement health, and insurance plans in addition to Social Security and other statutory benefits, increased by approximately 12.9% to $428.5 million.

Other operating expenditures include services, materials and supplies, and other expenses. These expenditures increased by approximately 6.3%.

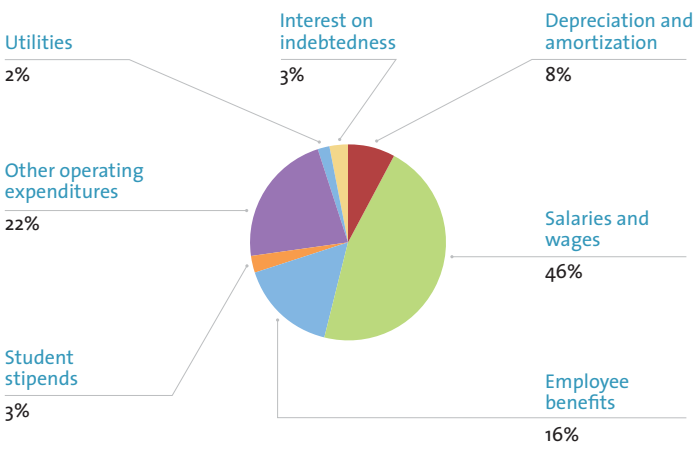
In accordance with generally accepted accounting principles, Yale reports its operating expenses by functional classification in the Statement of Activities. Expenses in each classification increased primarily as a result of the personnel increases mentioned above.

The University spends 51% of its operating resources on academic activities including libraries as well as student aid and services. Organized research represents 19% and patient care 17% of spending. Organized research and patient care activities are integral to the academic and learning experiences at the University.

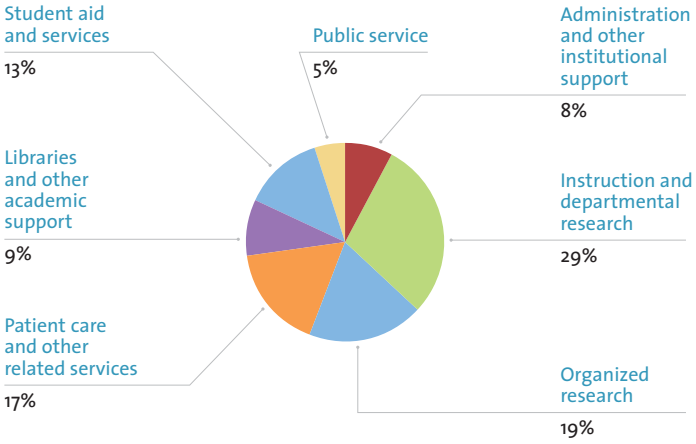
Faculty and Staff Compensation

The University employs 3,343 faculty and an additional 1,108 postdoctoral associates. There are approximately 4,116 managerial and professional staff, and 4,650 unionized clerical, technical, service, and maintenance personnel. The employment figures are fulltime equivalent headcounts as of fall 2010.

Operating Expenses by Natural Classification



Operating Expenses by Functional Classification



Physical Capital

Capital spending on facilities in fiscal year 2011 totaled $280.7 million. This represents a 31% decrease from the 2010 spending level and a significant favorable variance to the 2011 capital budget for facilities. The lower spending level reflects the University's commitment to complete projects in construction and to continue to act prudently when evaluating the need for maintenance and programmatic renovations while adjusting to lower than expected available resources. The capital plan will continue at a slower pace until greater funding becomes available.

The largest share of the University's capital spending in 2011, 23%, was used to fund projects for our undergraduate residential colleges. With the completion of work on Morse College in August 2010 and Stiles College in 2011, the University has achieved its goal of fully refurbishing all twelve of its undergraduate colleges. Each will continue to receive smaller scale renovations and routine maintenance as required and each is scheduled to be refreshed every three to four years.

Significant capital spending also took place in the School of Medicine with investments in research support and capital maintenance. The School of Medicine accounted for approximately 18% of the University's 2011 capital expenditures. Major capital spending included comprehensive renovations to the Sterling Hall of Medicine and the Laboratory of Epidemiology and Public Health. The remaining expenditures related to other programmatic renovation and capital maintenance projects throughout the School.

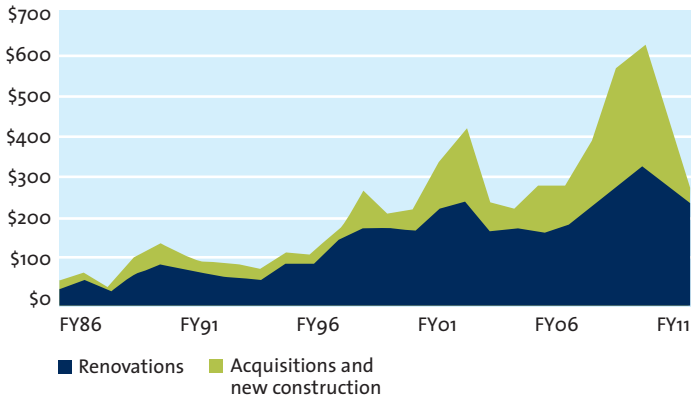
Spending for the renovation of the Yale University Art Gallery was over $33 million in fiscal year 2011 and accounted for 12% of the University's capital spending. This three-building facility consists of Kahn, Swartwout and Street Hall. (The renovation of the Kahn building was completed in 2007.) This current renovation of 99,700 square feet within Swartwout and Street Hall will provide needed gallery space for permanent collections and collection study and will complete the comprehensive renovation.

At the end of 2011, construction had just begun on the new campus for the School of Management. The new 236,000 square foot building will accommodate the growing community and expanded programs as well as facilitate new teaching methodologies and learning practices required by the new curriculum. Over $18 million was spent in fiscal year 2011 for this project.

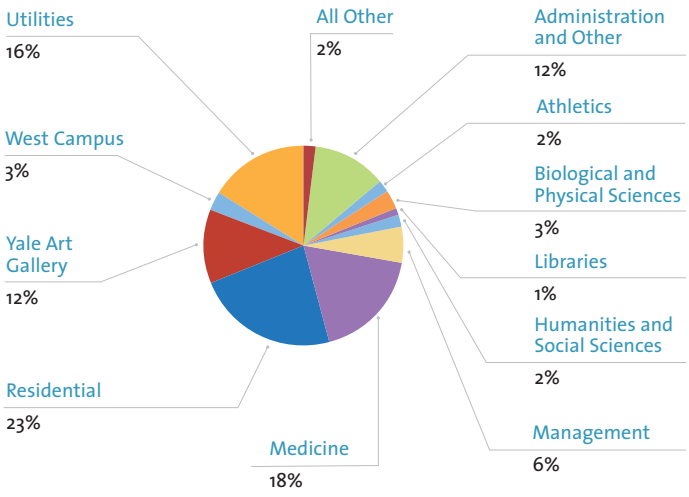
The University's ambitious renovation and building plans were funded by a combination of gifts, debt, and increasingly, funds from the operating budget. The University continues to rely heavily on the extraordinary generosity of its alumni and friends. In 2011, the University gift funded capital project costs in the amount of $30.5 million, which included the design for the new residential colleges, the School of Management campus, the Yale University Art Gallery, Reese Stadium, Morse/Stiles renovation, Ingalls Rink; 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 keeps the cost of funding at lower levels and allows the University to maximize the use of its resources in the fulfillment of its mission of teaching and research. The University continues to draw proceeds from the $450 million issued in Fiscal Year 2010 through CHEFA to finance planned renovation and capital additions. The University continues to receive the highest bond ratings available: AAA from Standard and Poor's and Aaa from Moody's.

Capital Spending by Year
(in 2011 dollars, in millions)



Capital Spending by Campus Area



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, 2011, net assets in the Endowment totaled approximately $19.4 billion, after the allocation of Endowment spending of $1.0 billion to the Operating Budget during the year.

Investment Performance

For the fiscal year ended June 30, 2011, the Endowment earned a 21.9% investment return. During the past decade, the Endowment earned an annualized 10.1% return, which added $1.0 billion of value relative to a composite passive benchmark and $7.4 billion relative to the mean return of a broad universe of colleges and universities.

Endowment Spending

The Endowment spending policy, which allocates Endowment earnings 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 target spending rate 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%. According to the smoothing rule, Endowment spending in a given year sums to 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 constrained so that the calculated rate is at least 4.5%, and not more than 6.0% of the Endowment's market value. 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 $1.0 billion to current operations in 2011, representing 36% of the University's operating revenues. Ten years ago, Endowment distributions contributed approximately $338 million, or 25% of the budget. Over the past decade, Endowment distributions have increased at an annualized rate of approximately 11%.

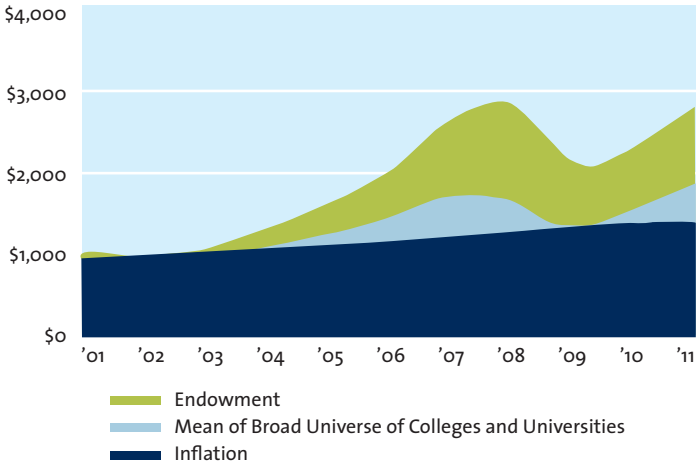
Asset Allocation

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, which leads 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. In 1991, over half of the Endowment was committed to U.S. stocks, bonds, and cash. Today, domestic marketable securities account for approximately one-tenth of the portfolio, and foreign equity, private equity, absolute return strategies, and real assets represent nearly nine-tenths of the Endowment.

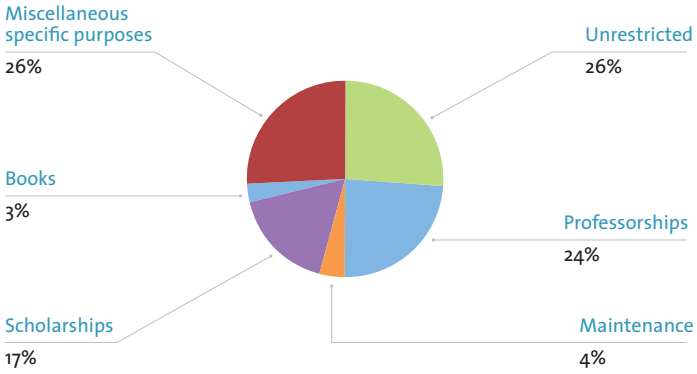
Growth of $1,000 Invested in the Yale Endowment
2001 – 2011



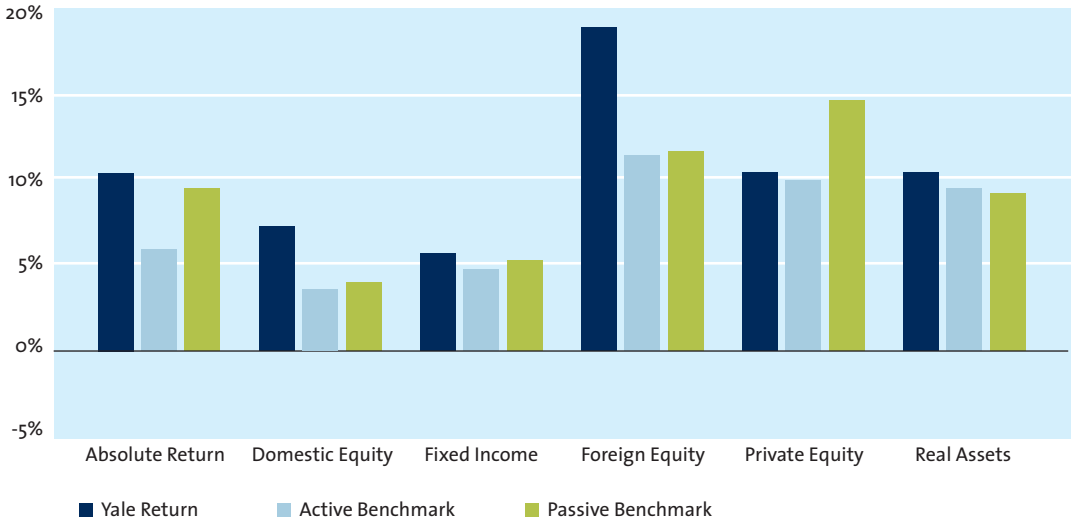
The heavy allocation to nontraditional asset classes stems from the diversifying power they provide to the portfolio as a whole. Alternative assets, by their nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management. Today's portfolio has significantly higher expected returns and lower volatility than the 1991 portfolio.

Asset Class	June 30, 2011	Current Target
Absolute Return	17.5%	17.0%
Domestic Equity	6.7%	7.0%
Fixed Income	3.9%	4.0%
Foreign Equity	9.0%	9.0%
Private Equity	35.1%	34.0%
Real Estate	20.2%	20.0%
Natural Resources	8.7%	9.0%
Cash	-1.1%	0.0%
Total	100.0%	100.0%

Endowment Fund Allocation, Fiscal Year 2011



Yale Endowment
Annualized Returns vs. Benchmarks by Asset Class
Net of fees, ten years ended June 30, 2011



Active Benchmarks
Absolute Return: CSFB/Tremont 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: BarCap 1-5 Yr Treasury
Foreign Equity: 44% MSCI EAFE Index, 28% MSCI EM Index, 28% Opportunistic Benchmark (custom China/India blend)
Private Equity: University inflation + 10%
Real Assets: University inflation + 6%

Summary

Even after the recent economic turmoil, Yale continues to rely on the principles of equity orientation and diversification. These principles continue to guide Yale's investment strategy, as equity orientation makes sense for investors with long horizons and diversification allows the construction of portfolios with superior risk and return characteristics. The University's equity-oriented, well-diversified portfolio positions the Endowment for long-term investment success.

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") as of June 30, 2011, 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 2010 financial statements and in our report dated October 21, 2010, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 1, the University adopted new guidance related to the presentation of non-controlling interests in consolidated entities.

PricewaterhouseCoopers LLP

October 21, 2011

PricewaterhouseCoopers LLP, 185 Asylum Street, Suite 2400, Hartford, CT 06103
T: (860) 241 7000, F: (860) 241 7590, www.pwc.com/us

Yale University Statement of Financial Position

June 30, 2011 with comparative totals for June 30, 2010 ($ in thousands)

	2011	2010
Assets:		
Cash and cash equivalents	$ 416,474	$ 597,034
Accounts receivable, net	150,632	152,741
Contributions receivable, net	645,354	440,904
Student loans receivable, net	63,949	59,863
Investments, at fair value	25,542,542	21,952,437
Other assets	115,523	117,345
Land, buildings and equipment, net of accumulated depreciation	4,109,839	3,975,783
Total assets	$ 31,044,313	$ 27,296,107
Liabilities:		
Accounts payable and accrued liabilities	$ 295,910	$ 308,874
Advances under grants and contracts and other deposits	90,727	80,841
Other liabilities	912,398	1,098,543
Liabilities under split-interest agreements	95,431	84,223
Bonds and notes payable	4,041,479	4,054,534
Liabilities associated with investments	4,575,522	4,093,336
Advances from Federal government for student loans	34,343	35,017
Total liabilities	10,045,810	9,755,368
Net assets:		
Unrestricted	3,671,365	2,746,327
Temporarily restricted	14,403,332	12,202,271
Permanently restricted	2,923,806	2,592,141
Total net assets	20,998,503	17,540,739
Total liabilities and net assets	$ 31,044,313	$ 27,296,107

Detail of net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Non-operating:					
Endowment and funds functioning as endowment	$ 2,908,636	$ 13,595,842	$ 2,891,125	$ 19,395,603	$ 16,621,514
Student Loans	4,900	-	32,681	37,581	40,954
Physical capital investment	843,592	461,445	-	1,305,037	1,041,125
Defined benefit plan deficit	(456,603)	-	-	(456,603)	(723,302)
Operating:					
Accumulated general budget deficit	(70,904)	-	-	(70,904)	(70,904)
Designated and restricted for specific purposes	364,975	346,045	-	711,020	631,352
Net assets–Yale University	3,594,596	14,403,332	2,923,806	20,921,734	17,540,739
Non-controlling Interests	76,769	-	-	76,769	-
Total net assets	$ 3,671,365	$ 14,403,332	$ 2,923,806	$ 20,998,503	$ 17,540,739

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

Yale University Statement of Activities

June 30, 2011 with comparative totals for the year ended June 30, 2010 ($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Operating					
Revenues and reclassifications:					
Student income, net	$ 240,508	$ -	$ -	$ 240,508	$ 225,039
Grant and contract income, primarily for research and training	683,961	-	-	683,961	641,361
Medical services income	493,136	-	-	493,136	462,118
Contributions	27,171	126,554	-	153,725	101,990
Allocation of endowment spending from financial capital	303,575	679,062	-	982,637	1,104,188
Other investment income	72,484	3,968	-	76,452	49,218
Publications income	32,730	-	-	32,730	31,522
Other income	124,557	-	-	124,557	110,395
Total revenues	1,978,122	809,584	-	2,787,706	2,725,831
Net assets released from restrictions	736,931	(736,931)	-	-	-
Total revenues and reclassifications	2,715,053	72,653	-	2,787,706	2,725,831
Expenses:					
Instruction and departmental research	765,111	-	-	765,111	723,156
Organized research	511,538	-	-	511,538	471,423
Patient care and other related services	450,913	-	-	450,913	411,285
Libraries and other academic support	253,840	-	-	253,840	223,274
Student aid and services	345,409	-	-	345,409	350,620
Public service	131,992	-	-	131,992	116,366
Administration and other institutional support	225,211	-	-	225,211	276,013
Total expenses	2,684,014	-	-	2,684,014	2,572,137
Increase in net assets from operating activities	31,039	72,653	-	103,692	153,694
Non-operating					
Physical capital:					
Contributions	-	201,788	-	201,788	38,133
Investment gain (loss)	20,415	14,875	-	35,290	(143,597)
Other increases (decreases)	6,465	(2,389)	-	4,076	37,817
Net assets released from restrictions	23,378	(23,378)	-	-	-
Increase (decrease) in net assets from physical capital activities	50,258	190,896	-	241,154	(67,647)
Financial capital:					
Contributions	2,988	6,783	293,736	303,507	85,075
Total endowment return, net of management fees	634,999	2,820,052	10,052	3,465,103	1,370,842
Allocation of endowment spending to operating	(161,453)	(821,820)	636	(982,637)	(1,104,188)
Change in funding status of defined benefit plans	266,699	-	-	266,699	(241,775)
Other increases (decreases)	23,739	(67,503)	27,241	(16,523)	(49,715)
Change in non-controlling interests	76,769	-	-	76,769	-
Increase in net assets from financial capital activities	843,741	1,937,512	331,665	3,112,918	60,239
Total increase in net assets	925,038	2,201,061	331,665	3,457,764	146,286
Net assets, beginning of period	2,746,327	12,202,271	2,592,141	17,540,739	17,394,453
Net assets, end of period	$ 3,671,365	$ 14,403,332	$ 2,923,806	$ 20,998,503	$ 17,540,739

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

Yale University Statement of Cash Flows

June 30, 2011 with comparative totals for the year ended June 30, 2010 ($ in thousands)

	2011	2010
Operating activities:		
Change in net assets	$ 3,457,764	$ 146,286
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	212,819	192,764
Unrealized (gain) loss on other investments	(83,498)	124,950
Net Endowment investment gain	(3,033,012)	(1,019,779)
Change in non-controlling interests	(76,769)	–
Restricted contributions	(187,951)	(151,708)
Contributed securities	(153,719)	(33,100)
Other adjustments	13,103	11,172
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	2,109	(8,840)
Contributions receivable	(204,450)	34,957
Other operating assets	1,385	239
Accounts payable and accrued expenses	(6,051)	33,177
Advances under grants and contracts and other deposits	9,886	569
Other liabilities	(186,145)	312,088
Net cash used in operating activities	(234,529)	(357,225)
Investing activities:		
Student loans repaid	9,965	6,300
Student loans granted	(14,334)	(10,799)
Purchases related to capitalized software costs and other assets	(14,454)	(25,123)
Proceeds from sales and maturities of investments	6,649,955	10,143,525
Purchases of investments	(6,410,876)	(9,878,862)
Purchases of land, buildings and equipment	(343,908)	(467,929)
Net cash used in investing activities	(123,652)	(232,888)
Financing activities:		
Proceeds from restricted contributions	180,716	146,581
Contributions received for split-interest agreements	7,235	5,127
Payments made under split-interest agreements	(10,839)	(9,817)
Proceeds from long-term debt	–	1,578,657
Repayments of long-term debt	(222)	(899,725)
Interest earned and advances from Federal government for student loans	731	703
Net cash provided by financing activities	177,621	821,526
Net (decrease) increase in cash and cash equivalents	(180,560)	231,413
Cash and cash equivalents at beginning of year	597,034	365,621
Cash and cash equivalents at end of year	$ 416,474	$ 597,034

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 is governed by the Yale Corporation (the "Corporation"), a body of nineteen Trustees consisting of the President, ten Successor Trustees who are Successors to the original Trustees, six Alumni Fellows, and the Governor and Lieutenant Governor of Connecticut, ex officio.

The University provides educational services primarily to 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.

The University has been granted tax exempt status under section 501(c)(3) of the Internal Revenue Code.

b. Basis of Presentation

The financial statements of the 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 and net asset activity 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 gains on board designated funds functioning as endowment.

Temporarily Restricted Net Assets – Net assets subject to explicit donor-imposed restrictions on the expenditure of contributions or income and gains on contributed assets and net assets from endowments not yet appropriated for spending by the governing board. 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. In addition, temporarily restricted net assets include restricted contributions from donors classified as funds functioning as endowment. 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 – Permanently restricted net assets include donor restricted endowments and student loan funds.

The University records as permanently restricted net assets the original amount of gifts which donors have given to be maintained in perpetuity ("donor restricted endowment funds"). For financial reporting purposes, all subsequent accumulated gains on such donor restricted endowment funds that are not so classified as permanently restricted net assets are recorded as temporarily restricted net assets until appropriated for expenditure by the Corporation through the application of the endowment spending policy. The Corporation understands its policies on retaining and spending from endowment to be consistent with the requirements of Connecticut law.

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 within the statement of activities includes physical capital and financial capital. Physical capital includes contributions and other activities related to land, buildings and equipment that are not part of the University's measure of operations. Similarly, financial capital 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 allocates 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 2011 is $166.9 million (unaudited). In 2011, the University fully funded the capital replacement costs from operating funds and capital. Total renovations for the year were $230.1 million.

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 $78.8 million and $191.9 million at June 30, 2011 and 2010, 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:

	2011	2010
Cash paid during the year for:		
Interest	$ 153,826	$ 134,049
Noncash investing activities:		
Land, buildings and equipment purchases payable to vendor	$ 31,309	$ 38,222

Included in contributions restricted for physical and financial capital of $502.3 million for 2011 and $123.2 million for 2010 are contributions in the form of investments of $153.7 million and $33.1 million, respectively.

d. Investments

The University's investments are recorded in the financial statements at fair value.

Fair value is a market-based measurement based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, a three-tier fair value hierarchy has been established which prioritizes the inputs used in measuring fair value. The hierarchy of inputs used to measure fair value and the primary methodologies used by the University to measure fair value include:

- *Level 1* – Quoted prices for identical assets and liabilities in active markets. Market price data is generally obtained from relevant exchange or dealer markets.
- *Level 2* – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable.
- *Level 3* – Unobservable inputs in which there is little or no market data, requiring the University to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques which include:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The fair 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 based on the net asset value of such investments as determined 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.

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.

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 fees for external investment managers and general partners.

The University invests its endowment 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. An administrative charge is assessed against the funds when distributed.

The University uses a long-term targeted spending rate of 5.25%, with an 80/20 allocation of prior year spending to market value. The actual rate of spending for 2011 and 2010, when measured against the previous year's June 30th endowment market value, was 5.9% and 6.9%, respectively.

The University determines the expected return on endowment investments with the objective of producing a return exceeding the sum of inflation and the target spending rate. Asset allocation is the key factor driving expected return. 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 leads the endowment to be weighted toward equity.

The University manages the majority of its endowment in the University Long Term Investment Pool ("the Pool"). The Pool is unitized and allows for efficient investment among a diverse group of funds with varying restricted purposes. In addition to University funds, the Pool includes assets of affiliated entities where the University has established investment management agreements.

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 which 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 15 years for furnishings and equipment.

g. Other Assets
Capitalized software and bond issuance costs are included in other assets in the statement of financial position. 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 date the agreements are established. In addition, the fair value of the estimated future payments to be made to the beneficiaries under these agreements is recorded as a liability. 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.

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 11,600. The undergraduate population of approximately 5,300 is a diverse group attracted from across the United States and from many foreign countries. Foreign students account for approximately 10 percent of the undergraduate population. Net tuition revenue from undergraduate enrollment represents approximately 52 percent of total net tuition revenue in 2011.

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 $227.0 million and $220.6 million in 2011 and 2010, 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, which includes estimates for potential uncollectible receivables. The discount on those contributions is computed using an interest rate that reflects fair value 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 recorded 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 2011 and 2010, grant and contract income received from the Federal government totaled $551.8 million and $510.4 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, 2014.

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 return 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. Self Insurance
The University self-insures at varying levels for unemployment, disability, workers' compensation, property losses, certain healthcare plans, general and professional liability; and obtains coverage through a captive insurance company for medical malpractice and related general liability losses. Insurance is purchased to cover liabilities above self-insurance limits. Estimates of retained exposures are accrued.

q. 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 alternative investments, the estimated net realizable value of receivables, estimated asset retirement obligations, liabilities under split-interest agreements, and the actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from those estimates.

r. Implementation of Accounting Standards
Effective July 1, 2010, the University prospectively adopted new accounting guidance requiring the University to report non-controlling interests in consolidated entities as a separate component of net assets on the Statement of Financial Position and the change in net assets attributable to the non-controlling interests separately within the Statement of Activities.

s. Summarized 2010 Financial Information
The accompanying 2011 financial statements include selected comparative summarized financial information for 2010. Such information does not include sufficient detail 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, 2010, from which the summarized financial information was derived.

2. Investments

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. The University's heavy allocation to non-traditional asset classes, such as absolute return (hedge strategies), private equity (venture capital and leveraged buy-outs) and real assets (real estate, timber and energy), generates return potential and diversification in the portfolio.

The components of endowment and non-endowment investments, net of related liabilities at June 30 are presented below in thousands of dollars:

	2011	2010
Endowment investments:		
Long term investment pool	$ 18,805,001	$ 16,167,743
Other	369,386	336,425
Total net endowment investments	19,174,387	16,504,168
Non-endowment investments:		
Long term investment pool	204,682	158,199
Bonds	441,062	136,183
Other	321,144	311,887
Total non-endowment investments	966,888	606,269
Net investments, at fair value	$ 20,141,275	$ 17,110,437

As described in Note 1d, investments are recorded at fair value. The University endeavors to utilize the best available information in measuring fair value. The following table summarizes the fair values of the University's investments by major type and related liabilities as of June 30, in thousands of dollars:

	Level 1	Level 2	Level 3	2011	2010
Investments, at fair value:					
Cash and cash equivalents	$ 786,888	$ -	$ -	$ 786,888	$ 548,759
US government securities	1,329,776	75,286	-	1,405,062	1,576,622
Common stock:					
Domestic	1,024,286	232,592	45,116	1,301,994	1,144,315
Foreign	823,984	-	15,176	839,160	610,394
Total common stock	1,848,270	232,592	60,292	2,141,154	1,754,709
Equity investments:					
Absolute return	-	-	2,303,606	2,303,606	2,331,537
Domestic	-	-	1,153,195	1,153,195	1,021,690
Foreign	-	-	715,141	715,141	604,589
Private	-	-	6,783,800	6,783,800	5,211,204
Real estate	-	-	3,516,908	3,516,908	2,692,261
Natural resources	-	-	2,091,662	2,091,662	1,807,324
Total equity investments	-	-	16,564,312	16,564,312	13,668,605
Other investments	367	52,598	266,023	318,988	448,238
Consolidated investment company assets	1,380,017	2,500,040	446,081	4,326,138	3,955,504
Total investments, at fair value	5,345,318	2,860,516	17,336,708	25,542,542	21,952,437
Liabilities associated with investments:					
Securities sold, not yet purchased	842,172	-	-	842,172	547,139
Other liabilities	1,248	618,826	370,963	991,037	1,026,446
Consolidated investment company liabilities	1,189,166	1,509,035	44,112	2,742,313	2,519,751
Total liabilities associated with investments	2,032,586	2,127,861	415,075	4,575,522	4,093,336
	$ 3,312,732	$ 732,655	$ 16,921,633	20,967,020	17,859,101
Medium-term notes (See Note 9)				748,976	748,664
Non-controlling interests				76,769	-
Net investments, at fair value				$ 20,141,275	$ 17,110,437

For internal investment management purposes, the University groups assets and liabilities by asset class. Medium-term notes are general liabilities of the University not tied directly to investment activity but incurred to support endowment spending for operations under the spending policy.

Certain consolidated subsidiaries are not wholly owned by the University. The portion of a consolidated entity that is not owned by the University is reported as a non-controlling interest.

Included in other liabilities associated with investments, above, is a $400 million note, bearing interest at 4.599%, and due October 1, 2014. The University has guaranteed this note and pledged certain partnership interests in the amount of $501 million at June 2011 as collateral for the note.

The table below presents the change in fair value measurements for the University's Level 3 investments during the year ended June 30, in thousands of dollars:

	2011	2010
Beginning balance	$ 14,273,107	$ 13,264,393
Realized and unrealized gain, net	2,846,157	508,971
Purchases	2,246,212	2,681,392
Sales	(2,344,850)	(2,234,595)
Transfers in (out)	(98,993)	52,946
Ending balance	$ 16,921,633	$ 14,273,107

Realized gains and losses are reported in total endowment return, net of fees. The unrealized portion of gains in Level 3 reported above that relate to assets held at June 30, 2011 were $2.2 billion.

Assets and liabilities of investment companies that are controlled by the University are consolidated for reporting purposes. Based on the legal structure of consolidated entities, their liabilities are not legal obligations of the University and will be settled utilizing the assets of the investment company. The fair value measurements of consolidated investment company assets and liabilities, in thousands of dollars, include:

	Level 1	Level 2	Level 3	2011	2010
Consolidated investment company assets:					
Common stock:					
Domestic	$ 134,682	$ 21,082	$ 21,858	$ 177,622	$ -
Foreign	524,751	20,418	54,601	599,770	440,600
Total common stock	659,433	41,500	76,459	777,392	440,600
Fixed income:					
US government securities	376,700	51,784	64	428,548	505,067
Foreign government securities	-	131,956	1,133	133,089	528,741
Corporate and other securities	-	1,225,418	309,172	1,534,590	1,280,313
Total fixed income	376,700	1,409,158	310,369	2,096,227	2,314,121
Other investments	343,884	1,049,382	59,253	1,452,519	1,200,783
Total	$ 1,380,017	$ 2,500,040	$ 446,081	$ 4,326,138	$ 3,955,504
Consolidated investment company liabilities:					
Securities sold, not yet purchased	$ 87,372	$ 3,557	$ -	$ 90,929	$ 713,124
Reverse repurchase agreements	-	1,065,412	-	1,065,412	1,177,816
Other liabilities	1,101,794	440,066	44,112	1,585,972	628,811
Total	$ 1,189,166	$ 1,509,035	$ 44,112	$ 2,742,313	$ 2,519,751

The table below sets forth significant terms of the agreements with certain investment companies.

Asset Class	Fair Value (in 000's)	Remaining Life	Unfunded Commitments (in 000's)	Redemption Terms	Redemption Restrictions
Domestic Equity	$ 1,153,195	No Limit	$ 5,000	Redemption terms range from monthly with 3 days notice to annually with 90 days notice.	Lock-up provisions range from none to 4 years.
Foreign Equity	1,039,889	No Limit	96,000	Redemption terms range from monthly with 15 days notice to closed end structures not available for redemption.	Lock-up provisions range from none to not redeemable.
Absolute Return	3,380,697	No Limit	33,000	Redemption terms range from monthly with 30 days notice to annually with 90 days notice.	Lock-up provisions range from none to 4 years. Eight of twelve funds include side pocket investments.
Private Equity	6,796,268	1 - 10 years	2,933,000	Closed end funds not eligible for redemption	Not redeemable.
Real Assets	5,657,322	1 - 35 years	2,387,000	Closed end funds not eligible for redemption	Not redeemable.
Total			$ 5,454,000		

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, 2011, management estimates that it could have liquidated approximately $3.6 billion of investments (unaudited) to meet short-term needs.

The University is required to provide collateral for securities sold, not yet purchased and reverse repurchase agreements. Fixed income securities of $890.6 million were provided at June 30, 2011 to collateralize these positions initiated by the University and by its consolidated investment 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 $1.2 billion at June 30, 2011 as collateral for these positions. 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 endowment portfolio includes beneficial interests in outside trusts of $141.0 million and $120.4 million at June 30, 2011 and 2010, respectively. Non-endowment investments include CHEFA proceeds available for approved construction and campus renovation projects of $128.0 million and $274.8 million at June 30, 2011 and 2010, respectively.

The following investments held under split-interest agreements are included in the endowment investment portfolio, in thousands of dollars:

	2011	2010
Charitable gift annuities	$ 99,865	$ 98,461
Charitable remainder trusts	100,640	85,405
Pooled income funds	17,217	15,953
	$ 217,722	$ 199,819

The University may employ derivatives and other strategies to (1) manage against market risks, (2) arbitrage mispricings of related securities and (3) replicate long or short positions more cost effectively. The University does not invest in derivatives for speculation. The fair value of derivative positions held at June 30, 2011 and related gain (loss) for the year, in thousands of dollars, were as follows:

	Assets	Liabilities	Gain (Loss)
Financial capital:			
Credit default swaps	$ 294,721	$ (105,712)	$ (51,024)
Interest rate swaps	24,101	(105,813)	(8,183)
Energy swaps	-	-	(19,258)
Other	87,833	(8,241)	(69,722)
	406,655	(219,766)	(148,187)
Physical capital:			
Interest rate swaps	39,280	(92,297)	31,930
Energy swaps	-	(19,552)	(11,475)
	39,280	(111,849)	20,455
	$ 445,935	$ (331,615)	$ (127,732)

Credit default swaps

Credit default swaps are used to simulate long or short positions that are unavailable in the market or to reduce credit risk where exposure exists. The buyer of a credit default swap is obligated to pay to the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon occurrence of a contracted credit event. As of June 30, 2011, the total notional amount of credit default swap contracts for buy protection amounts to $2.8 billion and the notional amount related to sell protection is $1.5 billion.

Interest rate swaps

Interest rate swaps are used to manage exposure to interest rate fluctuations. The notional amount of contracts that pay based on fixed rates and receive based on variable rates at June 30, 2011 were $1.9 billion. The notional amount of contracts that pay based on variable rates and receive based on fixed rates were $739 million at June 30, 2011.

Energy swaps

Energy swaps are used in connection with settling planned purchases of energy consumption and adjusting market exposures.

Derivative assets are reported as investments in the statement of financial position and derivative liabilities are reported as liabilities associated with investments. Gains and losses on derivatives used for investing are reported as total endowment return in the financial capital section of the statement of activities and gains and losses related to University debt management and energy consumption are reported as physical capital investment losses.

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 $252.2 million at June 30, 2011.

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

	2011	2010
Investment income	$ 380,000	$ 357,934
Realized and unrealized gain, net of investment management fees	3,085,103	1,012,908
Return on investments	3,465,103	1,370,842
Other investment income	76,452	49,218
	$ 3,541,555	$ 1,420,060

Endowment investment returns totaling $982.6 million and $1,104.2 million were allocated to operating activities in 2011 and 2010, 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:

	2011	2010
Grants and contracts	$ 54,919	$ 60,888
Medical services, net	51,320	51,112
Affiliated organizations	34,675	33,213
Publications	10,005	9,059
Investment income receivable	1,286	6,862
Other	10,989	11,029
	163,194	172,163
Less: Allowance for doubtful accounts	(12,562)	(19,422)
	$ 150,632	$ 152,741

Medical services receivables are net of an allowance for contractual adjustments of $61.2 million and $61.9 million at June 30, 2011 and 2010, respectively. Collections for patient care services are primarily based on negotiated contracts from managed care companies (64%), Medicare (15%), and Medicaid (11%). In addition, payments are received directly from patients (5%) and commercial insurance and others (5%).

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. The University provides professional services from faculty of the Yale School of Medicine and a variety of other administrative and clinical services. The net receivable from the Hospital amounted to $31.5 million and $28.6 million at June 30, 2011 and 2010, respectively. Balances are settled in the ordinary course of business. The University recognized $131.0 million in revenue and incurred $49.0 million in expenses related to activities with the Hospital during the period ended June 30, 2011. In addition, the Hospital has invested $180.0 million in the University Long Term Investment Pool through June 30, 2011. The Hospital owns 91,004.8 units in the Pool with a fair value at June 30, 2011 of $231.7 million. This balance is recorded as a liability associated with investments.

4. Contributions Receivable

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

	2011	2010
Purpose:		
Endowment	$ 419,687	$ 281,795
Capital purposes	145,472	101,480
Operating programs	188,672	137,773
Gross unconditional promises to give	753,831	521,048
Less: Discount	(48,208)	(32,243)
Allowance for uncollectible accounts	(60,269)	(47,901)
	$ 645,354	$ 440,904
Amounts due in:		
Less than one year	$ 350,758	$ 155,084
One to five years	363,822	314,528
More than five years	39,251	51,436
	$ 753,831	$ 521,048

Discount rates used to calculate the present value of contributions receivable ranged from 0.45 percent to 5.27 percent at June 30, 2011 and 0.61 percent to 6.37 percent at June 30, 2010.

5. Student Notes Receivable

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

	2011	2010
Institutional loans	$ 39,305	$ 31,981
Federally-sponsored loans	32,205	33,066
	71,510	65,047
Less: Allowance for doubtful accounts	(7,561)	(5,184)
	$ 63,949	$ 59,863

Student notes receivable include institutional and Federally-sponsored student loans with mandated interest rates and repayment terms subject to restrictions as to their transfer and disposition. Institutional loans include donor funds restricted for student loan purposes and University funds made available to meet demonstrated need in excess of all other sources of student loan borrowings. Interest accrues at fixed rates upon loan disbursement.

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Federally-sponsored loans represent amounts due from current and former students under certain Federal Loan Programs. Loans disbursed under these programs are able to be assigned to the Federal government in certain non-repayment situations. In these situations the Federal portion of the loan balance is guaranteed.

Amounts received from the Federal government to fund a portion of the Federally-sponsored student loans are ultimately refundable to the Federal government and have been reported as advances from Federal government for student loans in the statement of financial position. The recorded value of student loan instruments approximates fair value.

6. Other Assets

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

	2011	2010
Software costs, net of accumulated amortization	$ 73,614	$ 73,378
Inventories	16,570	16,036
Deferred expense	13,036	14,052
Bond issue costs, net of accumulated amortization	9,723	10,396
Other notes receivable	2,580	3,483
	$ 115,523	$ 117,345

Amortization expense included in operating expenses amounted to $14.7 million and $8.2 million in 2011 and 2010, respectively.

7. Land, Buildings and Equipment

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

	2011	2010
Land and real estate improvements	$ 107,580	$ 107,580
Buildings	4,822,884	4,513,750
Buildings under capital leases	61,665	61,665
Equipment	522,948	474,884
	5,515,077	5,157,879
Less: Accumulated depreciation and amortization	(1,842,865)	(1,684,512)
	3,672,212	3,473,367
Construction in progress	437,627	502,416
	$ 4,109,839	$ 3,975,783

Depreciation expense included in operating expenses amounted to $196.0 million and $182.0 million in 2011 and 2010, respectively. Amortization expense on capital lease assets amounted to $2.2 million in both 2011 and 2010.

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, in thousands of dollars:

	2011	2010
Employee benefit obligations	$ 750,441	$ 945,841
Compensated absences	65,011	68,711
Asset retirement obligations	34,000	36,500
Financial aid grant obligations	34,328	30,283
Other	28,618	17,208
	$ 912,398	$ 1,098,543

Included in employee benefit obligations are defined benefit plan liabilities in excess of plan assets. These liabilities amounted to $702.9 million at June 30, 2011 and $910.0 million at June 30, 2010. (See Note 11)

9. Debt Obligations

Bonds, notes and capital lease obligations outstanding at June 30, in thousands of dollars, include:

	Effective Interest Rate	Year of Maturity	Outstanding Balance	
	2011	2011	2011	2010
Connecticut Health and Educational Facilities Authority (CHEFA) tax-exempt bonds:				
Series S	0.28%	2027	$ 135,865	$ 135,865
Series T	2.44%	2029	250,000	250,000
Series U	0.18%	2033	250,000	250,000
Series V	0.15%	2036	200,000	200,000
Series X	3.23%	2037/2042	350,000	350,000
Series Y	3.16%	2035	308,929	309,300
Series Z	4.84%	2042	612,758	613,169
Series 2010A	2.19%	2025/2040/2049	567,770	579,436
Total CHEFA bonds			2,675,322	2,687,770
Medium-term notes	7.38%	2096	124,580	124,566
Medium-term notes Series B	2.90%	2014	998,635	998,219
Commercial paper	0.23%	2011	181,378	181,420
Capital leases–buildings	5.75%	2032/2048	58,395	59,169
Other notes payable	7.85%	2020	3,169	3,390
			$ 4,041,479	$ 4,054,534

CHEFA Series 2010A bonds consist of 1) $80 million Series 2010A-1 bonds maturing July 2025 at a fixed interest rate of 5%; 2) $150 million Series 2010A-2 bonds maturing July 2040 at a fixed interest rate of 5%; 3) $150 million Series 2010A-3 bonds maturing July 2049, the initial fixed interest rates are 2% for $14.7 million and 4% for $135.3 million applied until February 2013; and 4) $150 million Series 2010A-4 bonds maturing July 2049, the initial fixed interest rates are 2.5% for $20.2 million and 5% for $129.8 million applied until February 2015. These bonds include a net premium of $37.8 million as of June 30, 2011. The premium associated with the issuance is being amortized over the life of the bonds. Series 2010A-1 and 2010A-2 bonds are subject to an optional redemption by the University in July 2018.

CHEFA Series Z bonds consist of 1) $400 million Series Z-1 bonds at a fixed interest rate of 5%; 2) $100 million Series Z-2 bonds at a fixed interest rate of 5.05%; and 3) $100 million Series Z-3 bonds at a fixed interest rate of 5.05%. Z-1 bonds include a net premium of $12.8 million as of June 30, 2011. The original premium associated with this issuance is being amortized over the life of the bonds. Series Z-1, Z-2 and Z-3 bonds mature on July 1, 2042. Series Z-1 bonds are subject to an optional redemption in July 2016. Series Z-2 and Z-3 bonds are subject to an optional redemption in July 2017.

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; and 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. Y-1 bonds include a net premium of $8.9 million as of June 30, 2011. The original premium associated with this issuance is being amortized over the life of the bonds. 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.

CHEFA Series X bonds consist of 1) $100 million Series X-1 bonds at a fixed interest rate of 5%, which 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; and 3) $125 million Series X-3 variable rate bonds, bearing interest at a daily rate, which were converted to a fixed interest rate of 4.85% on May 1, 2008. Series X-2 and X-3 bonds mature on July 1, 2037. Series X-2 bonds may be converted to other variable rate modes or to a fixed rate at the discretion of the University. Series X-3 bonds are subject to an optional redemption in July 2017.

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.

CHEFA Series U bonds 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.

CHEFA Series T bonds consist of 1) $125 million Series T-1 bonds at a fixed rate of 4.7%; and 2) $125 million Series T-2 bonds currently bearing interest at a weekly rate. Series T-1 bonds are subject to an optional redemption on July 2017.

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.

Medium-term notes in the amount of $124.6 million are recorded net of a discount of $420 thousand at June 30, 2011. The notes mature in the year 2096, with a call provision in the year 2026. The notes bear interest at a fixed rate of 7.38%.

Medium-term Series B are recorded net of discount of $1.4 million at June 30, 2011. The notes mature in 2014 and bear interest at a fixed rate of 2.9%.

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. The Commercial paper is recorded net of a discount of $67 thousand at June 30,2011.

Certain lease agreements entered into by the University qualify as capital leases with obligations of $58.4 million and $59.2 million at June 30, 2011 and 2010, respectively. The agreements call for the University to lease the buildings through 2032 and 2048.

Total interest expense incurred on indebtedness was $148.3 million and $132.2 million in 2011 and 2010 respectively. Interest capitalized to land, buildings and equipment totaled $8.9 million and $13.5 million in 2011 and 2010, respectively.

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

2012	$ 182,490
2013	1,234
2014	1,364
2015	1,503
2016	1,652
2017-2030	513,313
Thereafter	3,339,923
	$ 4,041,479

The series Y-2 and Y-3, X-2, V, U, S, and one-half of the T bonds are subject to tender by bondholders. To the extent all bonds subject to tender could not be remarketed, $935.9 million of bonds scheduled for maturity between 2015 and 2035 would be due when tendered.

The University has revolving credit agreements available totaling $1.1 billion to provide alternative liquidity to support Yale's variable rate demand notes.

The fair value of the University's fixed rate debt, $2.95 billion at June 30, 2011, is estimated based on quoted market prices for the same or similar issues. The carrying value of the fixed rate debt approximates fair value. 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.

Fair value for debt is determined using Level 2 fair value measurements.

10. Pension Plans — Defined Contribution

The University maintains certain defined contribution plans 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 $81.4 million and $76.2 million in 2011 and 2010, 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 based on years of service, life insurance and a pay-out of unused sick time. While the University's subsidy of the cost of comprehensive health care benefits 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 50% of unused sick time and receive life insurance benefits upon retirement from active status.

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

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

	Pension		Postretirement	
	2011	2010	2011	2010
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 1,064,117	$ 871,226	$ 819,638	$ 665,005
Service cost, excluding assumed administration expenses	45,663	37,657	38,897	29,824
Interest cost	47,517	44,121	36,064	31,692
Benefit payments	(30,454)	(23,040)	(20,440)	(21,756)
Assumption changes	(89,199)	115,410	(42,875)	133,750
Amendments	-	15,536	-	-
Actuarial (gain) loss	5,701	3,207	(8,538)	(18,877)
Benefit obligation, end of year	$ 1,043,345	$ 1,064,117	$ 822,746	$ 819,638
Change in plan assets:				
Fair value, beginning of year	$ 699,665	$ 657,924	$ 274,120	$ 241,854
Actual return on plan assets	145,611	64,298	59,739	20,497
University contributions	8,947	2,051	28,500	34,517
Benefits and expenses paid	(31,981)	(24,608)	(21,434)	(22,748)
Fair value, end of year	$ 822,242	$ 699,665	$ 340,925	$ 274,120
Funded Status	$ (221,103)	$ (364,452)	$ (481,821)	$ (545,518)

Funded Status

The University has recognized the difference between accrued benefit costs of its defined benefit plans and the funded status for the year ended June 30, 2011 as an adjustment to unrestricted net assets presented as other increases in the financial capital section of the statement of activities. The components of this adjustment, in thousands of dollars, include:

	Pension	Postretirement	Total
Unrecognized net actuarial gain	$ 154,213	$ 79,469	$ 233,682
Amortization	10,428	22.589	33,017
	$ 164,641	$ 102,058	$ 266,699

Actuarial gains or losses and prior service costs resulting from plan amendments are amortized over the average remaining years of service of active participants. The transition obligation for the retiree health plan is being amortized over a remaining period of two years.

Amounts recorded as an adjustment at June 30, 2011 that are expected to be amortized into operating activity during fiscal year 2012, in thousands of dollars, include:

	Pension	Postretirement	Total
Net actuarial loss	$ 557	$ 14,018	$ 14,575
Prior service cost	9,697	1,432	11,129
Transition obligation	-	3,717	3,717
	$ 10,254	$ 19,167	$ 29,421

Benefit Obligation

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 plans was $821.1 million at June 30, 2011 and $847.4 million at June 30, 2010. The accumulated benefit obligation differs from the benefit obligation above in that it does not consider assumptions about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels.

Changes in assumptions during the year resulted in a decrease to the pension benefit obligation and a decrease to the postretirement benefit obligation at June 30, 2011 as follows, in thousands of dollars:

	Pension	Postretirement	Total
Discount rate	$ (89,199)	$ (71,651)	$ (160,850)
Health care trend rates	-	28,776	28,776
	$ (89,199)	$ (42,875)	$ (132,074)

The discount rate was changed from 4.50% in 2010 to 5.00% in 2011 for all plans. For the Postretirement Medical Plan, the trend rate was updated by resetting initial trend, splitting pre-65 and post-65 trends, and extending attainment of the ultimate rate to 2019/2020.

Assumptions used in determining the year end obligation of the pension and postretirement plans are:

	2011	2010
Weighted-average discount rate	5.00%	4.50%
Increase in future compensation levels	4.49%	4.49%
Projected health care cost trend rate (pre-65/post-65)	8.00%/7.50%	8.20%/8.20%
Ultimate trend rate (pre-65/post-65)	5.00%/5.00%	5.00%/5.00%
Year ultimate trend rate is achieved	2020	2016
Mortality	RP2000CH, generational projection	RP2000CH, generational projection

The health care cost trend rate assumption has a significant effect on the amounts reported. For the fiscal year ended June 30, 2011, a one percent change in the health care cost trend rate would cause the postretirement benefit obligation at June 30, 2011 to change by approximately 15% percent and would also cause the sum of the service cost and interest cost components of postretirement expense to change by approximately 19% percent.

Net Periodic Benefit Cost

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

	Pension		Postretirement	
	2011	2010	2011	2010
Service cost	$ 47,483	$ 38,878	$ 39,897	$ 30,624
Interest cost	47,517	44,121	36,065	31,692
Expected return on plan assets	(75,190)	(72,490)	(31,689)	(29,208)
Net amortization:				
Transition obligation	-	-	3,717	3,717
Prior service cost	9,776	9,776	1,432	1,432
Net loss	652	656	17,440	9,113
Net periodic benefit cost	$ 30,238	$ 20,941	$ 66,862	$ 47,370

Assumptions used in determining the net periodic benefit cost of the pension and postretirement plans are:

	2011	2010
Weighted-average discount rate	4.50%	5.00%
Expected long-term rate of return	9.25%	9.00%
Compensation increase	4.49%	4.49%
Health care cost increase (pre-65/post-65)	8.20%/8.20%	8.20%/8.20%
Ultimate trend rate (pre-65/post-65)	5.00%/5.00%	5.00%/5.00%
Year ultimate trend rate is achieved	2016	2015
Mortality	RP2000CH, generational projection	RP2000CH, projected to 2009

Plan Assets

The defined benefit plan assets are valued utilizing the same fair value hierarchy as the University's investments as described in Note 1d.

The following table summarizes the fair values of investments by major type held by the staff pension plan at June 30, in thousands of dollars:

	Level 1	Level 2	Level 3	2011	2010
Investments, at fair value:					
Cash	$ 14,669	$ -	$ -	$ 14,669	$ 27,204
Bonds	78,424	-	-	78,424	70,094
Common stock	61,618	-	-	61,618	37,893
Equity investments	-	-	504,601	504,601	407,246
Other investments	87,586	75,344	-	162,930	157,228
Net investments, at fair value	$ 242,297	$ 75,344	$ 504,601	$ 822,242	$ 699,665

The following table summarizes the fair values of investments by major type held by the retiree health plan at June 30, in thousands of dollars:

	Level 1	Level 2	Level 3	2011	2010
Investments, at fair value:					
Cash	$ 22,924	$ -	$ -	$ 22,924	$ 35,763
Common stock	13,874	-	-	13,874	3,985
Equity investments	-	-	213,655	213,655	143,405
Other investments	65,117	30,955	-	96,072	96,534
Net investments, at fair value	$ 101,915	$ 30,955	$ 213,655	$ 346,525	$ 279,687

The table below represents the change in fair value measurements for Level 3 investments held by the staff pension plan and the retiree health plan for the plans' year ended June 30, 2011, in thousands of dollars:

	Pension	Retiree Health
Beginning balance	$ 407,246	$ 143,405
Realized and unrealized gain, net	73,596	26,702
Purchases (sales), net	23,759	43,548
Ending balance	$ 504,601	$ 213,655

The unrealized portion of the gain in Level 3 reported above that relates to assets held at June 30, 2011 by the staff pension plan and the retiree health plan, represents a net gain of $55.2 million and $21.2 million respectively.

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	
	2011	2010	2011	2010
Absolute return	20.6%	21.6%	19.4%	15.8%
Domestic equity	14.3%	13.9%	18.2%	17.3%
Fixed income	9.6%	10.1%	0.0%	0.0%
Foreign equity	21.1%	18.9%	19.6%	18.7%
Private equity	14.9%	14.2%	12.7%	11.2%
Real assets	19.7%	19.2%	25.7%	26.5%
Cash	-0.2%	2.1%	4.3%	10.5%

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 plans' actuary as well as other factors. Expected contributions in fiscal 2012 to the pension plan are $13.5 million and $19 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
2012	$ 34,957	$ 24,200
2013	37,650	26,700
2014	40,480	29,300
2015	43,360	31,700
2016	46,110	34,700
2017-2021	282,374	218,500

The federal government provides the University with a Medicare part D subsidy as reimbursement for certain retiree health benefits paid to plan participants. For fiscal 2011, the subsidy is expected to be approximately $1.4 million, or approximately 6% of retiree health benefits.

12. Endowment Funds

Yale's endowment consists of approximately 7,400 funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Yale Corporation to function as endowments. The University endowment fund composition by fund type as of June 30, in thousands of dollars, includes:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Donor-restricted endowment	$ (18,132)	$ 13,418,783	$ 2,891,125	$ 16,291,776	$ 13,901,473
Board-designated endowment	2,926,768	177,059	-	3,103,827	2,720,041
	$ 2,908,636	$ 13,595,842	$ 2,891,125	$ 19,395,603	$ 16,621,514

Changes in endowment net assets for the fiscal year ended June 30, in thousands of dollars, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Endowment net assets, beginning of period	$ 2,406,525	$ 11,658,329	$ 2,556,660	$ 16,621,514	$ 16,300,488
Investment return:					
Investment income	61,588	317,342	1,070	380,000	406,656
Net appreciation	573,411	2,502,710	8,982	3,085,103	964,186
Total investment return	634,999	2,820,052	10,052	3,465,103	1,370,842
Contributions	2,975	6,783	293,686	303,444	84,878
Allocation of endowment spending to operations	(161,453)	(821,821)	92	(983,182)	(1,104,803)
Other increases (decreases)	25,590	(67,501)	30,635	(11,276)	(29,891)
Endowment net assets, end of period	$ 2,908,636	$ 13,595,842	$ 2,891,125	$ 19,395,603	$ 16,621,514

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under Connecticut UPMIFA. At June 30, 2011, the total amount of cumulative losses to individual funds in excess of permanently restricted amounts totaled $18.1 million. These losses are classified as unrestricted net assets.

13. 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 should not have a material adverse effect upon the University's financial position.

Minimum lease commitments at June 30, 2011 under agreements to lease space, in thousands of dollars, are as follows:

	Operating Lease Payments	Capital Lease Payments
2012	$ 9,386	$ 9,936
2013	7,937	9,849
2014	6,477	9,902
2015	5,636	9,956
2016	3,850	9,919
Thereafter	24,329	169,244
	57,615	218,806
Executory costs	-	(107,009)
Interest on capital leases	-	(53,403)
	$ 57,615	$ 58,394

The University has outstanding commitments on contracts to construct campus facilities in the amount of $301 million at June 30, 2011. Funding for these projects is 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 $169.6 million at June 30, 2011.

14. Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2011 through October 21, 2011, the date the financial statements were available to be issued.

The President and Fellows of Yale University

President
Richard Charles Levin, B.A., B. LITT., PH.D.

Fellows
His Excellency the Governor
of Connecticut, *ex officio*

Her Honor the Lieutenant Governor
of Connecticut, *ex officio*

George Leonard Baker, Jr., B.A., M.B.A.
Palo Alto, California

Edward Perry Bass, B.S., M.D.
Fort Worth, Texas

Roland Whitney Betts, B.A., J.D.
New York, New York

Jeffrey Lawrence Bewkes, B.A., M.B.A.
New York, New York

Francisco G. Cigarroa, B.S., M.D.
Austin, Texas

Peter Brendan Dervan, B.S., PH.D.
San Marino, California

Donna Lee Dubinsky, B.A., M.B.A.
Portola Valley, California

Mimi Gardner Gates, B.A., M.A., PH.D.
Seattle, Washington

Paul Lewis Joskow, B.A., M.PHIL., PH.D.
New York, New York

Neal Keny-Guyer, B.A., M.P.P.M.
Portland, Oregon

William Irwin Miller, B.A., M.B.A.
Columbus, Indiana

Indra Krishnamurthy Nooyi, B.S., M.B.A., M.P.P.M.
Greenwich, Connecticut

Barrington Daniels Parker, B.A., LL.B.
Brooklyn, New York

Douglas Alexander Warner III, B.A.
Locust Valley, New York

Margaret Garrard Warner, B.A.
Washington, D.C.

Fareed Zakaria, B.A., PH.D.
New York, New York

The Officers of Yale University

President
Richard Charles Levin, B.A., B. LITT., PH.D.

Provost
Peter Salovey, A.B., M.A., PH.D.

Vice President and Secretary
Linda Koch Lorimer, B.A., J.D.

Vice President and General Counsel
Dorothy Kathryn Robinson, B.A., J.D.

Vice President for New Haven and State Affairs and Campus Development
Bruce Donald Alexander, B.A., J.D.

Vice President for Development
Ingeborg Theresia Reichenbach, STAATSEXAMEN

Vice President for Finance and Business Operations
Shauna Ryan King, B.S., M.B.A.

Vice President for Human Resources and Administration
Michael Allan Peel, B.S., M.B.A.

Design and Printing: Yale Printing & Publishing Services
♻ Printed on recycled paper

www.yale.edu/fr10-11