Yale

FINANCIAL REPORT

2012–2013

TABLE OF CONTENTS

Front Cover: The Yale University Art Gallery, the oldest college art museum in the United States, was founded in 1832 when the patriot-artist John Trumbull gave more than one hundred of his paintings to Yale College. Since then its collections have grown to more than 200,000 objects ranging in date from ancient times to the present.

In December 2012, the Gallery celebrated the grand opening of the renovated and expanded museum. This important initiative, which was accompanied by parallel growth in the museum's holdings, enabled the Gallery not only to enhance its role as one of the nation's preeminent teaching institutions, but also to join the ranks of the country's leading public art museums. The completed expansion and renovation project united its three buildings—the landmark Louis Kahn building (1953), the Old Yale Art Gallery building (1928), and Street Hall (1866)—into a cohesive whole with a rooftop addition by Ennead Architects (2012). *Photography by Elizabeth Felicella*

Highlights

Five-Year Financial Overview ($ in millions)	Fiscal years 2013	2012	2011	2010	2009
Net Operating Results–Management View	$ 15.7	$ 67.3	$ 109.7	$ 115.6	$ 68.8
Financial Position Highlights:					
Total assets	$ 31,265.2	$31,322.4	$ 31,044.3	$27,296.1	$ 25,937.8
Total liabilities	8,808.3	10,830.7	10,045.8	9,755.4	8,543.3
Total net assets	$22,456.9	$20,491.7	$20,998.5	$17,540.7	$ 17,394.5
Endowment:					
Net investments, at fair value	$20,708.8	$19,264.3	$ 19,174.4	$16,504.2	$ 16,103.5
Total return on investments	12.5%	4.7%	21.9%	8.9%	(24.6%)
Spending from endowment	5.3%	5.1%	5.9%	6.9%	5.2%
Facilities:					
Land, buildings and equipment, net of accumulated depreciation	$ 4,347.3	$ 4,254.7	$ 4,109.8	$ 3,975.8	$ 3,715.1
Disbursements for building projects	277.0	284.5	280.7	407.1	599.6
Debt	$ 3,594.4	$ 4,108.0	$ 4,041.5	$ 4,054.5	$ 3,376.0
Statement of Activities Highlights:					
Operating revenues	$ 2,936.9	$ 2,818.6	$ 2,787.7	$ 2,725.8	$2,600.7
Operating expenses	2,976.1	2,812.8	2,684.0	2,572.1	2,493.5
(Decrease) increase in net assets from operating activities	$ (39.2)	$ 5.8	$ 103.7	$153.7	$107.2

Five-Year Enrollment Statistics	2013	2012	2011	2010	2009
Student Fees:					
Yale College term bill	$ 55,300	$ 52,700	$ 49,800	$ 47,500	$ 46,000
Freshman Enrollment Class of:	’16	’15	’14	’13	’12
Freshman applications	28,977	27,283	25,869	26,003	22,817
Freshmen admitted	2,043	2,109	2,039	1,958	1,952
Admissions rate	7.1%	7.7%	7.9%	7.5%	8.6%
Freshman enrollment	1,356	1,351	1,344	1,307	1,320
Yield	68.4%	65.2%	67.0%	67.8%	68.7%
Total Enrollment:					
Yale College	5,399	5,345	5,296	5,268	5,266
Graduate and professional schools	6,424	6,440	6,321	6,252	6,107

Message from the Vice President for Finance and Business Operations

Yale University finished the year ending June 30, 2013, with continued excellence and impressive achievement in its core mission of teaching and research. With a strong balance sheet to support its future, Yale continues to adjust its operations to a new fiscal reality and the remaining effects of the endowment's substantial drop in 2008-09.

Highlights from the Year

Perhaps the most significant highlight of the year was a transition in the institution's leadership. Yale wished a hearty farewell to Richard Levin, its president for twenty years, and welcomed Peter Salovey–who had previously served as provost, dean of Yale College, and dean of the graduate school–as Yale's 23rd president. Shortly thereafter, President Salovey named Benjamin Polak as Yale's new provost, a central figure in setting the University's academic and financial direction. In addition, the Yale Corporation, Yale's governing board, named Margaret Marshall as senior fellow, the first woman to hold this important position. The leadership transition has been a smooth one, and the University has continued to move forward with excellence to advance, disseminate, and preserve knowledge.

Among the other highlights for the year were a record nine Yale College students named as Rhodes Scholars and three faculty members named to the National Academy of Sciences. Yale opened its new Energy Sciences Institute, initiated renovations of the Sterling Chemistry Laboratory and the nave of the Sterling Memorial Library, and completed the breathtaking renovation of the Yale University Art Gallery. The campus was filled with other exciting accomplishments in teaching, research, and practice in the Faculty of Arts and Sciences, and the schools of Medicine, Law, Management, Forestry and Environmental Sciences, Divinity, Nursing, Drama, Music, Architecture, and Art.

These accomplishments and many more were the result of our exceptional faculty, students, and staff as well as incredibly generous alumni and other benefactors. This generosity has continued into the 2013-14 fiscal year with President Salovey's announcement of the largest gift in Yale University history, $250 million from Charles B. Johnson '54, to build two new residential colleges and increase undergraduate enrollment by 15%–the first expansion of Yale College since 1969. For more information on this and other exciting news please visit news.yale.edu.

Strong Balance Sheet

Yale remains financially strong, blessed with a robust balance sheet thanks to the $20.8 billion Yale Endowment managed by the Investments Office led by David Swensen. In 2013, Yale's balance sheet strengthened further, with net assets growing by $2.0 billion or 10% for the year, driven by a strong 12.5% endowment return as well as the repayment of $900 million in debt. From a balance sheet perspective, this was a terrific year.

In addition to the obvious strength of the Yale Endowment, Yale's balance sheet remained strong in two areas that might be less apparent. Universities spend the overwhelming majority of their financial resources on buildings and people. Overall, the condition of Yale's buildings–including the signature residential colleges, its magnificent museums and libraries, and the many other academic and administrative buildings on campus–are in excellent shape, thanks to Yale's established discipline of setting aside enough capital replacement funds each year in our operating budget for building renovations. This has allowed Yale, after a concerted two decade-long effort, to reach the point where its building stock is roughly in equilibrium. This is no small accomplishment. Deferred maintenance on buildings was a serious issue at Yale several decades ago, and, if unattended, it would have represented a hidden liability amounting to billions of dollars, albeit unrecorded on a public balance sheet. The fact that Yale no longer faces the type of deferred maintenance liability so common in higher education is now a hidden asset, but a real one.

Regarding the cost of people working at Yale, our outstanding faculty and staff, most outlays, like salaries, wages and benefits, are funded as they are incurred. Cash is expended throughout the year as people are paid for their services to the University. However, like many other universities, we also have significant obligations for retirement plans with defined future pension benefits and support for retiree health care. The payments for these benefits will be made over long time frames (decades), so securing the funds to meet these future obligations requires ongoing and responsible stewardship. These types of liabilities have received a lot of press recently, particularly related to the challenges facing federal, state, and

municipal governments. Yale has roughly $2 billion of liabilities associated with its retirement plans. We have been and remain committed to funding these plans at responsible levels. As with many organizations, Yale's level of funding for its defined benefit plans for retirees (assets set aside as a percent of the outstanding liabilities) dropped considerably with the twin events of the stock market decline in 2008-09 and record-low interest rates. We have continued on a responsible path of contributing additional funds each year. This year, thanks to continued funding, strong investment returns, and rising interest rates, Yale's overall funding levels improved by over $200 million.

In short, Yale remains a place with ample resources to support its varied and important mission.

Continued Repositioning of Operations

With a balance sheet that remains strong and grew even stronger this year we are continuing the work to improve Yale's operating results which were significantly impacted by the endowment's decline in 2008-09.

For the year ending June 30, 2013, Yale is reporting a small deficit ($39 million or about 1% of revenue). We are continuing to take actions to reposition Yale's operations, adjusting expenses to match the drop in expected revenue resulting from the endowment's decline in 2008-09. Yale has already made substantial adjustments in this regard. Five years ago we were projecting annual deficits for this point in time, absent any action, of $350 million. We have traveled much of the way, and the work to close the remaining gap is underway.

Yale's ongoing goal, challenge, and great opportunity is to align our resources to support an exciting and positive vision for the future of this wonderful place. With a new president at the helm, this is an opportune time to define what Yale's vision will be. President Salovey has already begun to describe what he envisions as a "more unified, accessible, innovative, and altogether excellent Yale." A balanced budget is an essential means to this vital end, including providing resources to invest in new areas of exploration and innovation that are the lifeblood of a major research university.

Yale's decision in the wake of the endowment decline was to neither over- nor under-react to what was an unprecedented and sudden fall. Yale, excluding its medical school, is more reliant on endowment income than nearly any other major research university, and thus the impacts felt at Yale were significant. Our approach was to adjust to the decline over a multi-year period in order to shield the core activities of teaching and research as much as possible from the downturn. We delayed many new programs imagined but did not eliminate existing ones, and we continued to expand research and invest in clinical activities because of great opportunities for Yale's exceptional scientists and clinicians.

Five years after the endowment's decline, Yale has ample resources to carry out its mission with excellence for years to come, and we are identifying ways to reposition the costs of operating Yale in line with expected revenue growth. We are well along the way and are heartened by the outstanding character, intellect, and collaboration present on campus among faculty and staff that will be essential to making this happen. This is an important challenge to address, but one that with a handful of choices–in support of a positive and exciting vision–is readily achievable at Yale.

I look forward to reporting our progress in future years, and I remain confident Yale will emerge an even stronger place that continues to educate exceptionally talented men and women from across the nation and around the world for leadership in scholarship and society.

Shauna Ryan 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 provides the major portion of 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 Consolidated 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 Management View is focused more on resources available and used in the fiscal period presented. The Management View 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 Management View treats the CRC as an expense rather than the historical cost depreciation expensed in the Consolidated Statement of Activities. The GAAP financial statements do not present fund balance transfers between the operating, physical, and financial categories, as the Management View does.

A summary of the differences between the Management View and GAAP presentations of the University's net operating results is as follows ($ in thousands):

	2013	2012
Total net operating results	$ 15,704	$ 67,268
Operating pledge activity	(11,005)	4,331
Expenses related to long-term liabilities	(88,901)	(77,475)
Capital funding:		
CRC in excess of depreciation	7,747	1,350
CRC funded by capital gifts	(26,585)	(26,048)
CRC used for non-capital costs	(13,179)	(13,348)
Interest hedge realized loss	46,340	44,811
Energy hedge realized loss	11,900	17,432
Funding transfers	18,725	(12,461)
(Decrease) increase in net assets from operations per the Consolidated Statement of Activities	$(39,254)	$ 5,860

The Management View 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 Results – Management View

for the year ended June 30, 2013 ($ in thousands)

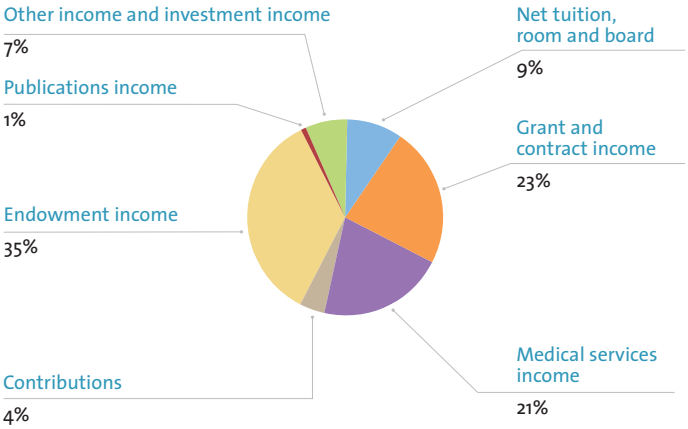
	General Appropriations	Other	Actual June 30, 2013	Actual June 30, 2012
Revenues:				
Tuition, room and board–gross	$ 505,439	$ 13,342	$ 518,781	$ 493,726
Tuition discount	(199,663)	(46,678)	(246,341)	(238,172)
Tuition, room and board–net	305,776	(33,336)	272,440	255,554
Grants and contract income	170,942	509,357	680,299	699,265
Medical services income	46,767	568,843	615,610	541,416
Contributions	61,736	73,049	134,785	115,056
Endowment income	719,460	304,548	1,024,008	994,244
Investment and other income	101,422	140,019	241,441	242,248
Total external income	1,406,103	1,562,480	2,968,583	2,847,783
Expenses:				
Faculty salaries	198,662	491,260	689,922	627,984
All other salaries	423,583	286,627	710,210	679,533
Employee benefits	182,944	230,914	413,858	386,665
Total salaries and benefits	805,189	1,008,801	1,813,990	1,694,182
Fellowships and stipends	35,079	53,444	88,523	84,133
Non-salary expenses	232,615	488,532	721,147	712,647
Interest, CRC and other amortization	297,065	13,429	310,494	302,014
Total expenses	1,369,948	1,564,206	2,934,154	2,792,976
Transfers	(30,837)	12,112	(18,725)	12,461
Total net operating results	$ 5,318	$ 10,386	$ 15,704	$ 67,268

Fiscal Year 2013 Management View Results
The University ended the year with an increase to its operating fund balances of $16 million. Actual operating revenues increased 4.2% and actual operating expenses, excluding transfers, increased 5.1% compared to 2012. Medical services income and faculty salaries were significantly higher than the prior year, as the School of Medicine clinical practice grew at a rapid pace. Revenues were also higher in tuition, room and board, endowment income, and contributions. Grants and contracts income was lower than prior year primarily due to a decline in funding related to federal grants under the American Recovery and Reinvestment Act.

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



Net Tuition, Room and Board
Tuition, room and board totaled $518.8 million in 2013, an increase of 5.1% from 2012. Of this amount, $447.0 million represents tuition, a 4.9% increase over 2012 and $71.8 million represents revenue from room and board which increased 6.3% from 2012. In accordance with generally accepted accounting principles, student income is presented net of certain scholarships and fellowships, which totaled $247.8 million and $247.1 million for 2013 and 2012, respectively. Net tuition, room and board represents 9.2% of the University's operating revenues in 2013 compared to 8.8% in 2012.

During the 2012–2013 academic year, 11,823 students were enrolled at the University; 5,399 were undergraduate students attending programs at Yale College, and 6,424 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 $42,300 for tuition and $13,000 for room and board, bringing the total term bill to $55,300 for the 2012-2013 academic year. The increase in the Yale College term bill was 4.9% over the 2011–2012 academic year. Students enrolled in the Graduate School of Arts and Sciences paid $35,500 for tuition, a 2.9% increase over the 2011–2012 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 2012-13 academic year, 2,997 undergraduates, representing 54.9% of eligible Yale College enrollment, received financial aid. In the Graduate School of Arts and Sciences, 2,879 students, or 98.3% of those eligible, received financial aid. In the professional schools, 3,029 students, or 82.6% of those eligible, received financial aid. In all, 8,905 University students, or 73.9% 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 2.7% decrease from $699.3 million in 2012 to $680.3 million in 2013. The Yale School of Medicine, which received 79% of the University's grant and contract income in fiscal 2013, reported a decrease of 3.3% for 2013, while the remaining University sectors had a decrease of 0.6%.

The federal government funded $535.8 million, or 78.8% of 2013 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, which provided revenue of $393.2 million during 2013, a decrease of 6.2% compared to the prior year. 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 $144.5 million in research, training, clinical, and other sponsored agreements during 2013.

Grants under the American Recovery and Reinvestment Act of 2009 provided $151M of funding, since the program began. There was a $21M decrease from fiscal 2012 to 2013, and there is minimal funding remaining for 2014.

In addition to the reimbursement of direct costs charged to sponsored awards, sponsoring agencies reimburse the University for its facilities and administrative costs (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 $171.7 million in 2013. 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.

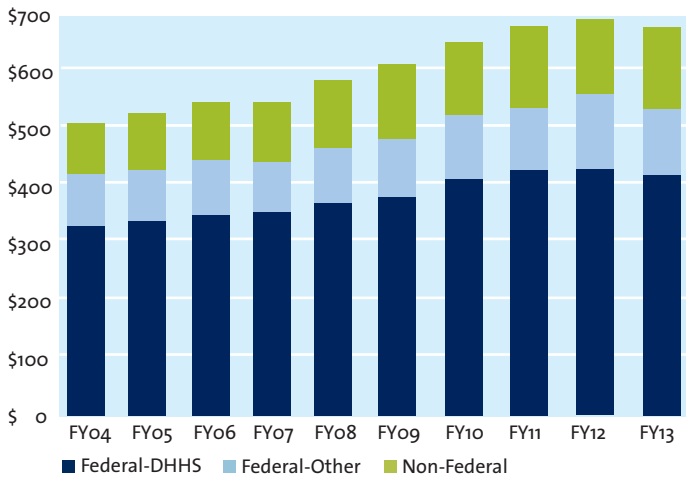
Medical Services Income

Medical services income totaled $615.6 million in fiscal 2013, an increase of 13.7% from 2012, and represented 21% of the University's operating revenue. The largest portion of this revenue stream (approximately $580.1 million) is derived from medical 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.

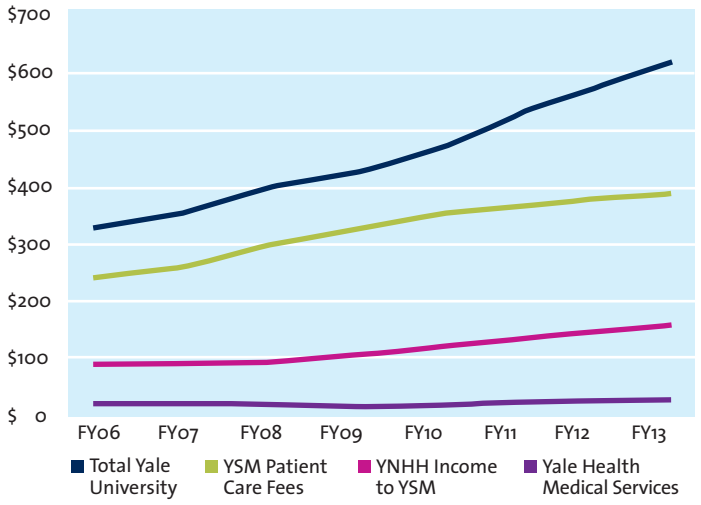
Many School of Medicine departments saw double-digit increases in medical services revenues during fiscal year 2013 including the Cancer Center, Emergency Medicine, Internal Medicine-Cardiology Section, Neurology, Neurosurgery, Therapeutic Radiology and Urology. Total Yale New Haven Hospital funding increased 19% to $181 million mainly related to the Yale Cancer Center (merger with a community oncology group and increased support to Hematology) and Internal Medicine (due to expansion in Cardiology).

The implementation of an electronic health record system across YMG and Yale-New Haven Health System continued into 2013 with most of the departments converting as of April 2013. The School of Medicine continued its focus on improving clinical research as well as ensuring compliance. New systems continued to be implemented during 2012-2013 to manage clinical trials and clinical research billing. Staffing to support clinical trials, patient care and data management increased.

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



Medical Services Income
Eight-year trend analysis ($ in millions)

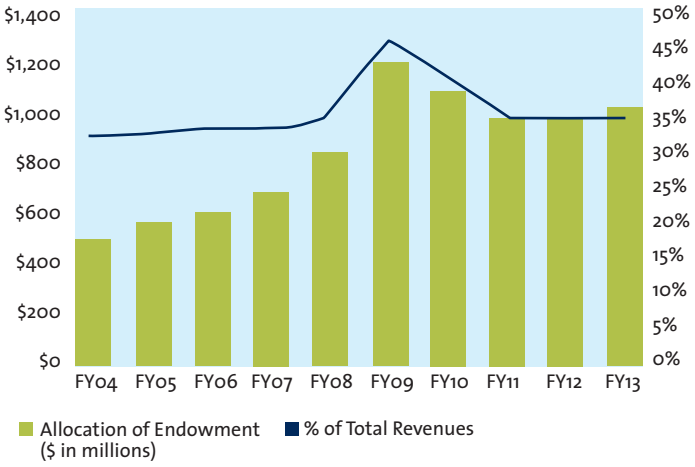


Allocation of Endowment Spending
Each year a portion of accumulated Endowment investment returns is allocated to support operational activity. This important source of revenue represents 34.7% of total operating income this year and it remains the largest source of operating revenue for the University. The level of spending is computed in accordance with an Endowment spending policy that has the effect of smoothing year-to-year market swings. Endowment investment returns allocated to operating activities increased by 2.8% in 2013 to $1,018.7 million. Additional information on the Endowment spending policy is provided in the Endowment section of this report and in the Notes to the Consolidated Financial Statements.

Contributions
Donations from individuals, corporations and foundations represent a vitally important source of revenue for the University. Gifts to the University provide necessary funding for current operations, for long-term investments in the University's physical infrastructure and, in the case of gifts to the Endowment, to provide permanent resources for core activities for future generations. Gifts made by donors to support the operations of the University are reflected as contribution revenue in the operating section of the Consolidated Statement of Activities whereas gifts to the University's Endowment and for building construction and renovation are reflected as contribution revenue in the non-operating section. In aggregate, contributions included in the University consolidated financial statements total $289.9 million in 2013 compared to $284.8 million in 2012.

Certain gifts commonly reported in fund-raising results are not recognized as contributions in the University consolidated financial statements. For example, "in-kind" gifts such as works of art and books are not recognized as financial transactions in the University consolidated financial statements. Grants from private, non-governmental sources (i.e., corporations and foundations) reported as gifts for fund-raising purposes are included in the Consolidated 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 not counted as contributions received in accordance with fund-raising industry-standard guidelines.

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



Investment and Other Income
Investment and other income includes $64.0 million of interest, dividends, and gains on non-Endowment investments and $132.1 million of royalty income, admissions revenue, parking revenue, special event and seminar fees, application and enrollment fees, and a variety of other sources.

Publications Income
Publications income is primarily generated through Yale University Press (Press), a separately endowed department of the University. The Press published over 400 titles in 2013. The Press' authors are academic and other professionals from around the world. Publishing-related revenue for the Press decreased by 10.9% or $3.8 million.

Operating Expenses

Operating expenses totaled $3.0 billion for 2013, representing a 5.8% increase for the year. With 4,140 faculty, 1,089 postdoctoral associates, 4,195 managerial and professional staff, and 5,128 unionized clerical, technical, service, and maintenance personnel, personnel costs are the single largest component (63%) of the University's total operating expenses. (Headcounts represent full-time equivalents as of fall 2012.)

Personnel costs were $1,882.3 million in 2013, an 8.3% increase over 2012. Faculty salary expenses increased 11.6% driven primarily by growth in clinical activities and staff compensation increased 1.6% from 2012 to 2013. These increases were in line with the University's overall plans to maintain moderate growth and a competitive position with peer institutions.

The cost of providing employee benefits, including various pension, post-retirement health, and insurance plans in addition to Social Security and other statutory benefits, increased by approximately 11.7% to $492.9 million.

Non-salary expenses include services, materials and supplies, and other expenses and totaled $673.7 million in 2013, a decrease of 0.8% from 2012.

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

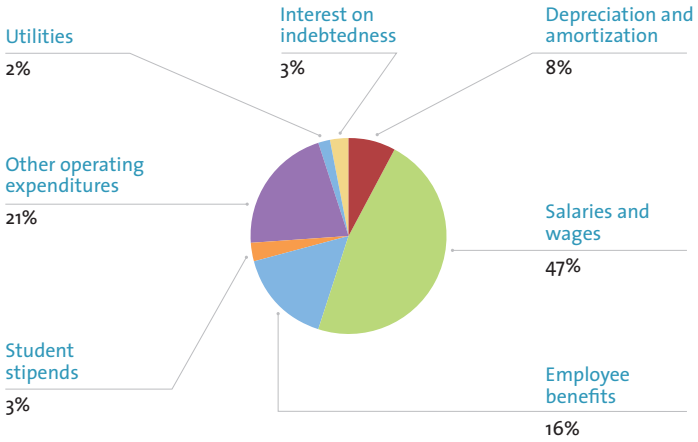
The University spends 51.2% of its operating resources on academic activities including libraries as well as student aid and services. Organized research represents 16.4% and patient care 19.9% of spending. Organized research and patient care activities are integral to the academic and learning experiences at the University.

Physical Capital

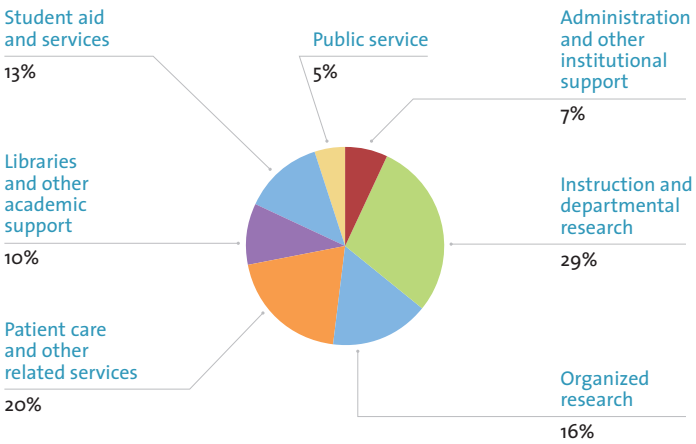
Capital spending on facilities in fiscal year 2013 totaled $277.0 million. This represents a decrease of 2.6% from the 2012 spending level and a significant favorable variance to the 2013 capital budget for facilities. Over the past four years, the University has reshaped its capital plan in response to the national economic downturn in 2008 and continues to act prudently when evaluating the need for maintenance and programmatic renovations. The capital plan will proceed at a slower pace until greater funding becomes available.

Consistent with last year, the largest share of the University's capital spending, 22%, was used to fund the construction of Edward P. Evans Hall–a new campus for the School of Management. While the glass exterior and infrastructure were largely completed in 2013, construction is still underway on the classrooms and other interior finishes. The 16 classrooms, which are specifically designed to maximize interactive learning due to their elliptical shape, will contain advanced video equipment allowing faculty and students to communicate with business experts at different locations in real time which complements the school's efforts to globalize its

Operating Expenses by Natural Classification



Operating Expenses by Functional Classification



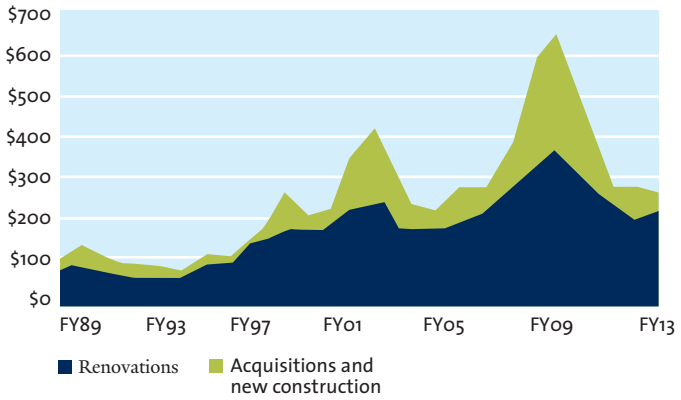
curriculum. The building is scheduled to open in January 2014.

Fifteen percent of the University's capital spending was allocated to administrative building projects for planned capital maintenance and the support of programmatic initiatives. In 2013, work was performed at 12 locations throughout the central campus to correct exterior façade deterioration, supporting the University's commitment to maintaining its buildings to avoid deferred maintenance issues.

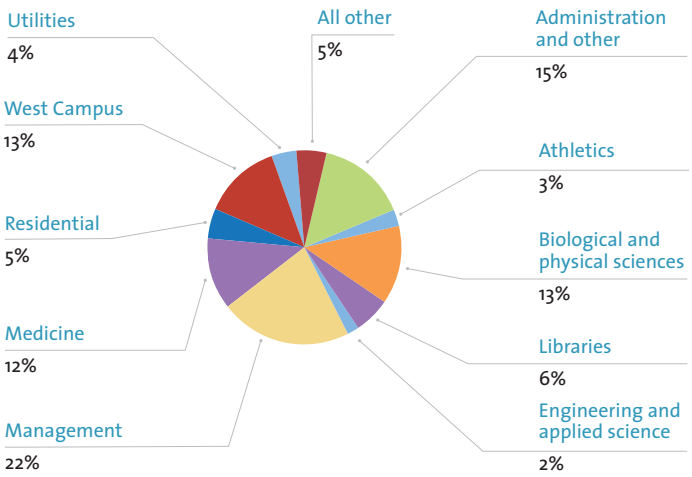
Thirteen percent of the University's capital spending for 2013 was used to fund science buildings. This includes a comprehensive renovation of the exterior envelope, mechanical, electrical and plumbing systems and labs in Kline Chemistry Laboratory, and other smaller scale renovations and required maintenance in Sloan Physics Laboratory and Sterling Chemistry Laboratory.

The University also made a significant investment in its West Campus with the comprehensive renovation of roughly 77,000 square feet of vacant space to accommodate the relocation of the School of Nursing. One of the building's main features, the "hub", is on the first floor. The hub, an area with tables, a refrigerator and vending machines, is where students and faculty can gather when they are not in class. The first floor also has one of two very large classrooms, accommodating up to 120 people. The lower level, offers additional classrooms, laboratory space and a mock hospital room where students can train while being observed by faculty in an adjacent room. Faculty and staff offices fill the two upper floors of the building. Other investments in West Campus were made to support various research, technology and art conservation programs. The total investment equaled 13% of the University's capital spending for the year.

Capital Spending by Year
(in 2013 dollars, in millions)



Capital Spending by Campus Area



Capital spending was also concentrated in the School of Medicine with investments in research support and capital maintenance. The School of Medicine accounted for approximately 12% of the University's 2013 capital expenditures. Major capital spending included comprehensive renovations to the 7th floor of the Laboratory of Epidemiology and Public Health and the 4th and 6th floors of the Clinic Building. The remaining expenditures related to other programmatic renovation and capital maintenance projects throughout the School.

The University's renovation and building plans were funded by a combination of gifts, debt, and funds from the operating budget. The University continues to rely heavily on the extraordinary generosity of its alumni and friends. Gifts for facilities in 2013 totaled $75.6 million. The University has been the beneficiary of an outstanding response from donors. The design for the new residential colleges 13/14, the School of Management –Evans Hall, the Yale University Art Gallery, Becton Center for Engineering, Sterling Memorial Library Nave Restoration, West Campus W-A21 Building, and indeed, nearly all of the University's recent major capital projects have been funded at least partially through gifts.

The major source of funding for the capital program is debt provided through the Connecticut Health and Facilities Authority (CHEFA) which allows the University to borrow at tax exempt rates. This funding source is critical to keeping the cost of funding

at lower levels which allows the University to maximize the use of its resources in the fulfillment of its mission of teaching and research. The University exhausted the bond 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.

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, 2013, net assets in the Endowment totaled approximately $20.8 billion, after the allocation of Endowment spending of $1.0 billion to the Operating Budget during the year.

Investment Performance

For the fiscal year ending June 30, 2013, the Endowment earned a 12.5% investment return. During the past decade, the Endowment earned an annualized 11.0% return, which added $5.0 billion of value relative to a composite passive benchmark and $7.0 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.

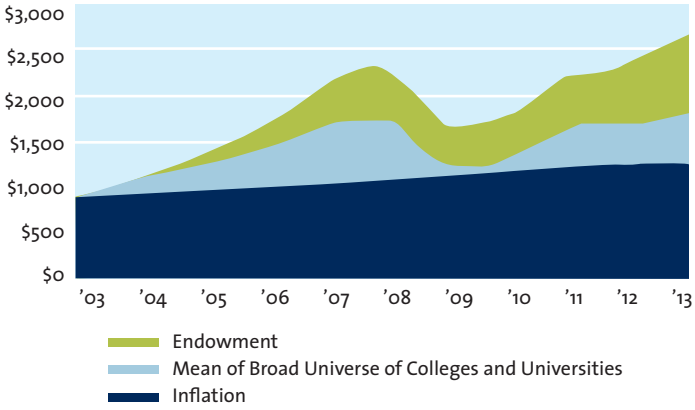
Asset Allocation

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 1993, just under 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.

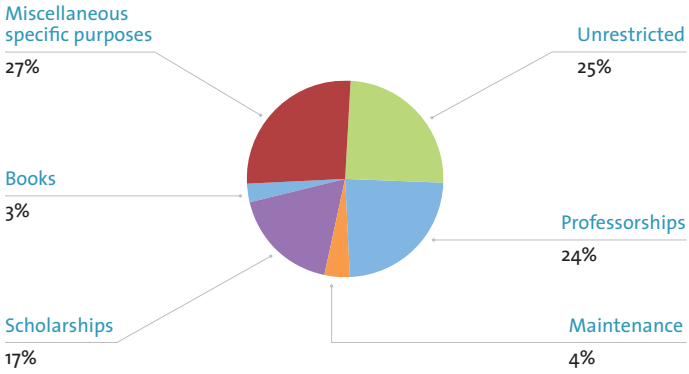
Growth of $1,000 Invested in the Yale Endowment
2003 – 2013



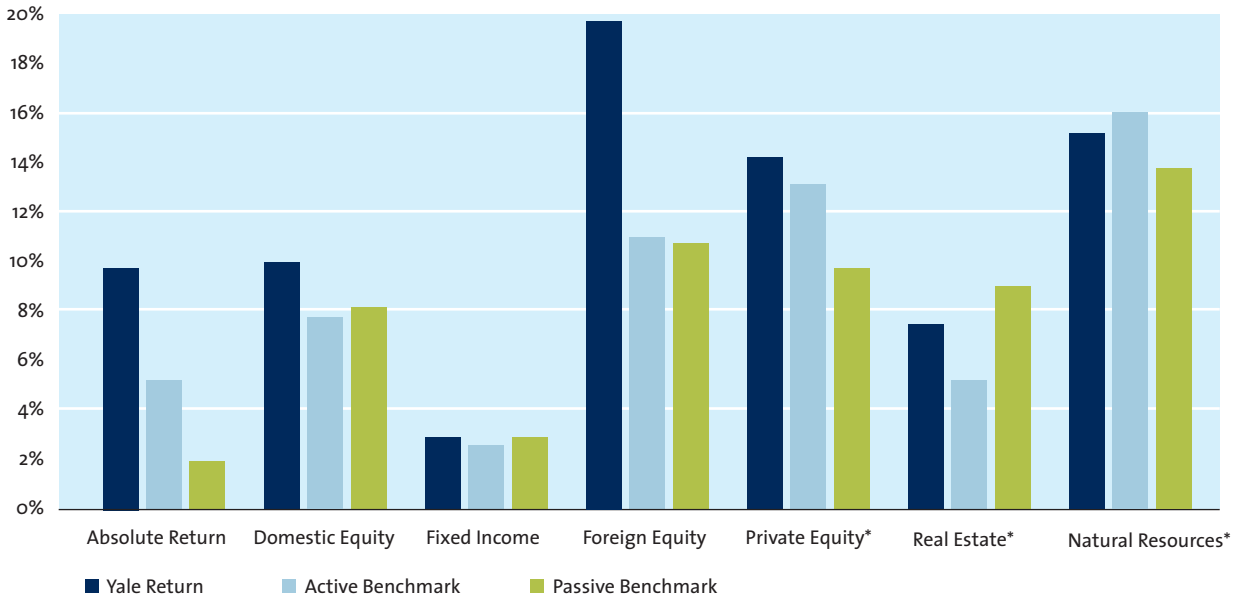
The heavy allocation to nontraditional asset classes stems from the diversifying power they provide to the portfolio as a whole. Alternative assets, by their nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management. Today's portfolio has significantly higher expected returns and lower volatility than the 1993 portfolio.

Asset Class	June 30, 2013	Current Target
Absolute Return	17.8%	20.0%
Domestic Equity	5.9%	6.0%
Fixed Income	4.9%	5.0%
Foreign Equity	9.8%	11.0%
Private Equity	32.0%	31.0%
Real Estate	20.2%	19.0%
Natural Resources	7.9%	8.0%
Cash	1.5%	0.0%
Total	100.0%	100.0%

Endowment Fund Allocation, Fiscal Year 2013



Yale Endowment
Annualized Returns vs. Benchmarks by Asset Class
Net of fees, ten years ended June 30, 2013



*Yale's returns are money-weighted.

Active Benchmarks
Absolute Return: Dow Jones Credit Suisse 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 Estate: Cambridge Associates Real Estate
Natural Resources: Cambridge Associates Natural Resources

Passive Benchmarks
Absolute Return: Barclays 9-12 Mo Treasury
Domestic Equity: Wilshire 5000
Fixed Income: Barclays 1-5 Yr Treasury
Foreign Equity: MSCI EAFE Investable Market Index / MSCI Emerging Markets Investable Market Index + MSCI China A-Shares / Custom Opportunistic Benchmark, weighted according to target emerging, developed, and opportunistic equity allocations
Private Equity: Russell 2000 (50%)/ Russell 2000 Technology (25%)/ MSCI ACWI ex-US Small-Cap Index (25%)
Real Estate: MSCI REIT Index
Natural Resources: Custom Timber REIT basket / S&P OG Exploration & Production Index / HSBC Global Mining Index, weighted according to target timber, oil and gas, and mining allocations

Summary

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.

Independent Auditor's Report

To the President and Fellows of Yale University:

We have audited the accompanying consolidated financial statements of Yale University (the "University"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and of cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University at June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited Yale University's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Hartford, Connecticut
October 24, 2013

Yale University Consolidated Statement of Financial Position

June 30, 2013 with comparative totals for June 30, 2012 ($ in thousands)

	2013	2012
Assets:		
Cash and cash equivalents	$ 289,102	$ 533,002
Accounts receivable, net	182,376	152,121
Contributions receivable, net	419,456	467,027
Notes receivable	128,484	124,632
Investments, at fair value	25,740,975	25,638,610
Other assets	157,561	152,245
Land, buildings and equipment, net of accumulated depreciation	4,347,257	4,254,728
Total assets	$ 31,265,211	$ 31,322,365
Liabilities:		
Accounts payable and accrued liabilities	$ 367,341	$ 320,617
Advances under grants and contracts and other deposits	89,342	85,262
Other liabilities	952,541	1,157,442
Liabilities under split-interest agreements	101,697	87,612
Bonds and notes payable	3,594,420	4,108,001
Liabilities associated with investments	3,670,313	5,038,264
Advances from Federal government for student loans	32,674	33,490
Total liabilities	8,808,328	10,830,688
Net assets: non-controlling interests	182,693	108,756
Net assets: Yale University	22,274,190	20,382,921
Total net assets	22,456,883	20,491,677
Total liabilities and net assets	$ 31,265,211	$ 31,322,365

Detail of net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Non-operating:					
Endowment and funds functioning as endowment	$ 3,117,661	$ 14,507,907	$ 3,167,254	$ 20,792,822	$19,379,108
Student loans	9,852	-	33,692	43,544	40,201
Physical capital investment	760,043	437,227	-	1,197,270	945,114
Defined benefit plan deficit	(309,915)	-	-	(309,915)	(616,765)
Operating	232,831	317,638	-	550,469	635,263
Net assets: Yale University	3,810,472	15,262,772	3,200,946	22,274,190	20,382,921
Net assets: non-controlling interests	182,693	-	-	182,693	108,756
Total net assets	$ 3,993,165	$ 15,262,772	$ 3,200,946	$ 22,456,883	$20,491,677

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

Yale University Consolidated Statement of Activities

June 30, 2013 with comparative totals for the year ended June 30, 2012 ($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Operating					
Revenues and reclassifications:					
Net tuition, room and board	$ 271,003	$ -	$ -	$ 271,003	$ 246,670
Grant and contract income, primarily for research and training	680,261	-	-	680,261	699,266
Medical services income	615,611	-	-	615,611	541,416
Contributions	33,871	89,909	-	123,780	119,632
Allocation of endowment spending from financial capital	312,398	706,284	-	1,018,682	990,965
Other investment income	55,704	8,327	-	64,031	49,691
Publications income	31,423	-	-	31,423	35,176
Other income	132,087	-	-	132,087	135,789
Total revenues	2,132,358	804,520	-	2,936,878	2,818,605
Net assets released from restrictions	831,196	(831,196)	-	-	-
Total revenues and reclassifications	2,963,554	(26,676)	-	2,936,878	2,818,605
Expenses:					
Instruction and departmental research	856,132	-	-	856,132	797,759
Organized research	489,029	-	-	489,029	508,920
Patient care and other related services	593,627	-	-	593,627	502,493
Libraries and other academic support	293,602	-	-	293,602	271,879
Student aid and services	374,655	-	-	374,655	358,186
Public service	149,826	-	-	149,826	131,964
Administration and other institutional support	219,261	-	-	219,261	241,544
Total expenses	2,976,132	-	-	2,976,132	2,812,745
(Decrease) increase in net assets from operating activities	(12,578)	(26,676)	-	(39,254)	5,860
Non-operating					
Contributions	3,159	27,126	135,873	166,158	165,183
Total endowment return	381,527	1,907,237	6,061	2,294,825	877,883
Allocation of endowment spending to operations	(167,758)	(854,217)	3,293	(1,018,682)	(990,965)
Other Investment gain (loss)	186,314	16,660	-	202,974	(414,651)
Change in funding status of defined benefit plans	306,850	-	-	306,850	(160,162)
Other (decreases) increases	(58,153)	33,257	3,294	(21,602)	(21,961)
Net assets released from restrictions	30,955	(30,955)	-	-	-
Increase (decrease) in non-operating activities	682,894	1,099,108	148,521	1,930,523	(544,673)
Total increase (decrease) in net assets -Yale University	670,316	1,072,432	148,521	1,891,269	(538,813)
Change in non-controlling interests	73,937	-	-	73,937	31,987
Total increase (decrease) in net assets	744,253	1,072,432	148,521	1,965,206	(506,826)
Net assets, beginning of year	3,248,912	14,190,340	3,052,425	20,491,677	20,998,503
Net assets, end of year	$ 3,993,165	$ 15,262,772	$ 3,200,946	$ 22,456,883	$20,491,677

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

Yale University Consolidated Statement of Cash Flows

June 30, 2013 with comparative totals for the year ended June 30, 2012 ($ in thousands)

	2013	2012
Operating activities:		
Change in net assets	$ 1,965,206	$ (506,826)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	244,596	232,996
Unrealized (gain) loss on other investments	(199,212)	388,543
Net Endowment investment gain	(1,893,258)	(501,255)
Change in non-controlling interests	(73,937)	(31,987)
Restricted contributions	(166,158)	(171,278)
Contributed securities	(79,818)	(67,782)
Other adjustments	(9,549)	(21,086)
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	(30,255)	(1,489)
Contributions receivable	46,037	178,327
Other operating assets	3,782	4,238
Accounts payable and accrued expenses	26,646	12,849
Advances under grants and contracts and other deposits	4,080	(5,465)
Other liabilities	(204,901)	245,044
Net cash used in operating activities	(366,741)	(245,171)
Investing activities:		
Student loans repaid	12,266	8,272
Student loans granted	(15,487)	(15,527)
Purchases related to capitalized software costs and other assets	(23,809)	(21,037)
Proceeds from sales and maturities of investments	7,237,708	7,122,850
Purchases of investments	(6,429,559)	(6,543,696)
Purchases of land, buildings and equipment	(309,768)	(427,621)
Net cash provided by investing activities	471,351	123,241
Financing activities:		
Proceeds from restricted contributions	147,373	165,183
Contributions received for split-interest agreements	15,169	6,095
Payments made under split-interest agreements	(10,510)	(10,407)
Proceeds from long-term debt	-	102,000
Repayments of long-term debt	(501,234)	(25,136)
Interest earned and advances from Federal government for student loans	692	723
Net cash (used in) provided by financing activities	(348,510)	238,458
Net (decrease) increase in cash and cash equivalents	(243,900)	116,528
Cash and cash equivalents, beginning of year	533,002	416,474
Cash and cash equivalents, end of year	$ 289,102	$ 533,002

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

Yale University
Notes to Consolidated 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 consolidated 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 consolidated 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.

Measure of Operations – The University's measure of operations as presented in the consolidated 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 consolidated 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 consolidated statement of activities includes contributions, investment returns and other activities related to endowment and student loan net assets utilized for long-term investment purposes and contributions and other activities related to land, buildings and equipment that are not part of the University's measure of operations.

Capital Replacement Equilibrium – 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 2013 is $196.8 million (unaudited). In 2013, the large majority of this amount was funded with operating funds and capital gifts, with the remainder of $20 million funded through an internal bank. Total renovations for the year were $212.5 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 in the long term investment pool are reported as investments and totaled $424.4 million and $516.6 million at June 30, 2013 and 2012, 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:

	2013	2012
Cash paid during the year for:		
Interest	$169,752	$165,179
Noncash investing activities:		
Land, buildings and equipment purchases payable to vendor	$ 20,078	$ 11,300
Transfer of leasehold asset	$ -	$ 51,300

d. Investments

Fair Value – The University's investments are recorded in the consolidated 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 determined based on the following valuation techniques:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities; and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing 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.

Management Fees – The University records the cost of managing its endowment portfolio as a decrease in non-operating activity within the applicable net asset class in the consolidated 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.

Total Return – 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%. The spending amount is calculated using 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 actual rate of spending for 2013 and 2012, when measured against the previous year's June 30th endowment market value, was 5.3% and 5.1%, 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 consolidated 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 consolidated 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 consolidated 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. Net Tuition, Room and Board
Tuition, room and board revenue is generated from an enrolled student population of approximately 11,823. The undergraduate population of approximately 5,399 is a diverse group attracted from across the United States and from many foreign countries. Foreign students account for approximately 10.0% of the undergraduate population. Net tuition revenue from undergraduate enrollment represents approximately 52.5% of total net tuition revenue in 2013.

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, room and board revenue has been reduced by certain scholarships and fellowships in the amounts of $247.8 million and $247.1 million in 2013 and 2012, 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 2013 and 2012, grant and contract income received from the Federal government totaled $535.8 million and $562.6 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. Restricted operating activity including 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. Non-operating restricted net assets associated with building costs 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, 2012, the University adopted new reporting standards requiring quantitative disclosures about unobservable inputs used for recurring Level 3 fair value measurements and other qualitative disclosures about Level 3 fair value measurements. The implementation of these standards had no material impact on financial statement amounts reported.

In fiscal 2014, new reporting requirements addressing classification of donated securities in the statement of cash flows will be implemented. The impact to the 2013 financial statements in not expected to be significant.

s. Summarized 2012 Financial Information
The accompanying 2013 financial statements include selected comparative summarized financial information for 2012. 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 2012 financial statements, from which the summarized financial information was derived. In addition, certain amounts have been reclassified to conform to the current-year presentation.

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), real estate, and natural resources (timber, energy and minerals), 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:

	2013	2012
Endowment investments:		
Long term investment pool	$20,283,145	$18,856,239
Other	425,648	408,050
Total net endowment investments	20,708,793	19,264,289
Non-endowment investments:		
Long term investment pool	315,361	242,843
Bonds	452,109	347,932
Derivatives	(191,479)	(438,459)
Other	353,328	325,698
Total non-endowment investments	929,319	478,014
Net investments, at fair value	$ 21,638,112	$19,742,303

As described in Note 1d, investments are recorded at 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	2013	2012
Investments, at fair value:					
Cash and cash equivalents	$1,012,510	$ -	$ -	$ 1,012,510	$ 1,432,980
Fixed income:					
US government securities	1,596,280	46,863	34	1,643,177	1,739,712
Foreign government securities	-	89,739	-	89,739	124,681
Corporate and other securities	69,595	1,340,964	216,556	1,627,115	1,475,006
Total fixed income	1,665,875	1,477,566	216,590	3,360,031	3,339,399
Common stock:					
Domestic	1,260,712	4,545	64,627	1,329,884	1,216,824
Foreign	1,058,887	62,951	96,533	1,218,371	1,173,532
Total common stock	2,319,599	67,496	161,160	2,548,255	2,390,356
Equity investments:					
Absolute return	-	-	2,411,824	2,411,824	1,956,068
Domestic	-	-	972,871	972,871	1,109,319
Foreign	-	-	1,057,912	1,057,912	772,429
Private	-	-	6,866,097	6,866,097	6,906,243
Real estate	-	-	4,326,728	4,326,728	4,012,800
Natural resources	-	-	1,741,227	1,741,227	2,124,855
Total equity investments	-	-	17,376,659	17,376,659	16,881,714
Other investments	243,395	898,608	301,517	1,443,520	1,594,161
Total investments, at fair value	5,241,379	2,443,670	18,055,926	25,740,975	25,638,610
Liabilities associated with investments:					
Securities sold, not yet purchased	902,162	110,921	25,350	1,038,433	1,691,476
Reverse repurchase agreements	-	824,655	56,250	880,905	987,233
Other liabilities	433,008	640,955	677,012	1,750,975	2,359,555
Total liabilities associated with investments	1,335,170	1,576,531	758,612	3,670,313	5,038,264
	$3,906,209	$ 867,139	$17,297,314	22,070,662	20,600,346
Less: Medium-term notes Series B (See Note 9)				249,857	749,287
Non-controlling interests				182,693	108,756
Net investments, at fair value				$ 21,638,112	$ 19,742,303

Medium-term notes Series B are general liabilities of the University not tied to investment activity but incurred during 2009 to support endowment spending for operations under the spending policy.

Assets and liabilities of investment companies that are controlled by the University are consolidated for reporting purposes. Certain consolidated subsidiaries are controlled but 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.

Other liabilities in 2012 include a $400 million note which was paid during 2013.

The fair value of consolidated investment company assets and liabilities included in the University financial statements, in thousands of dollars, include:

	2013	2012
Consolidated Investment Company Assets	$ 3,832,715	$3,796,298
Consolidated Investment Company Liabilities	2,096,989	2,483,436
	$ 1,735,726	$ 1,312,862

Level 3 investments are valued by external managers using valuation techniques standard in the industry in which they operate. The Yale Investments Office reviews these valuation methods and evaluates the appropriateness of these valuations each year. In certain circumstances, when the general partner does not provide a valuation or the valuation provided is not considered appropriate the Investments Office will determine those values. The following table summarizes quantitative inputs and assumptions used for Level 3 investments at June 30, 2013 for which fair value is based on unobservable inputs that are not developed by the external managers. Significant increases or decreases in these unobservable inputs may result in significantly higher or lower valuation results.

Asset Class	Fair Value (in 000's)	Valuation Technique	Significant Unobservable Input	Range	Weighted Average
Fixed Income	$75,137	Discounted cash flow	Counter party default risk	12%	NA
Real Estate	$14,900	Discounted cash flow	Weighted average cost of capital	11%-30%	18%
		Comparable public sales	Price per acre Price per lot	$5,060-$16,901 $16,667-$59,328	$8,760 $25,156
Natural Resources	$44,200	Market comparable properties	Discount for uneconomic production at current prices	0%-75%	25%
	$19,500	Market comparable sales	Discount for litigation risk	0%-50%	25%
	$407,707	Discounted cash flow	Weighted average cost of capital	8%-10%	8%

The valuation process for investments categorized in Level 3 of the fair value hierarchy includes evaluating the operations and valuation procedures of the managers of the Investment Companies and the transparency of those processes through background and reference checks, attendance at investor meetings and periodic site visits. In determining the fair value of investments, Investments Office staff reviews periodic investor reports, interim and annual audited financial statements received from the Investment Companies, reviews material quarter over quarter changes in valuation and assesses the impact of macro market factors on the performance. The Investments Office meets with the Investment Committee quarterly to review investment transactions and monitor performance of the managers of these Investment Companies.

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:

	2013	2012
Beginning balance	$ 17,024,026	$ 17,115,715
Realized and unrealized gain, net	1,798,891	729,194
Purchases	2,082,007	2,042,866
Sales	(3,597,411)	(2,777,783)
Transfers in	51,313	79,358
Transfers out	(61,512)	(165,324)
Ending balance	$ 17,297,314	$ 17,024,026

Realized gains and losses are reported in total endowment return, net of fees. Included in net realized and unrealized gain in Level 3 reported above were unrealized gains (losses) that relate to assets held at June 30, 2013 and 2012 of $724.0 million and ($180.1) million, respectively.

Agreements with investment companies include certain redemption terms and restrictions as noted in the following table:

Asset Class	Fair Value (in 000's)	Remaining Life	Unfunded Commitments (in 000's)	Redemption Terms	Redemption Restrictions
Absolute Return	$ 2,411,824	No Limit	$ 8,142	Redemption terms range from monthly with 30 days notice to annually with 90 days notice.	Lock-up provisions range from none to 5 years.
Domestic Equity	972,871	No Limit	61,879	Redemption terms range from monthly with 3 days notice to annually with 90 days notice.	Lock-up provisions range from none to 7 years.
Foreign Equity	1,057,912	No Limit	92,495	Redemption terms range from monthly with 15 days notice to closed end structures not available for redemption.	Lock-up provisions range from none to 7 years.
Private Equity	6,866,097	1–10 years	2,479,408	Closed end funds not eligible for redemption.	Not redeemable.
Real Estate	4,326,728	1–10 years	1,372,252	Closed end funds not eligible for redemption.	Not redeemable.
Natural Resources	1,741,227	1–35 years	271,815	Closed end funds not eligible for redemption.	Not redeemable.
Total	$17,376,659		$4,285,991		

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, 2013, management estimates that it could have liquidated approximately $4.0 billion of investments within 90 days (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 $1.1 billion were provided at June 30, 2013 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 $1.0 billion at June 30, 2013 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.

Endowment investments include beneficial interests in outside trusts of $136.5 million and $127.5 million at June 30, 2013 and 2012, respectively. Non-endowment investments at June 30, 2012 included CHEFA proceeds available for approved construction and campus renovation projects of $24.6 million.

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

	2013	2012
Charitable gift annuities	$ 134,601	$ 118,601
Charitable remainder trusts	98,785	94,346
Pooled income funds	13,388	14,930
	$ 246,774	$ 227,877

Split interest liabilities reported in the consolidated statement of financial position total $101.7 million and are recorded at fair value using Level 2 measurements.

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, 2013 and related gain (loss) for the year, in thousands of dollars, were as follows:

	Assets	Liabilities	Gain (Loss)
Endowment:			
Credit default swaps	$226,999	$ (98,541)	$(66,603)
Interest rate swaps	28,212	(116,739)	11,590
Other	78,731	(49,386)	(12,537)
	333,942	(264,666)	(67,550)
Other:			
Interest rate swaps	-	(182,900)	234,094
Energy swaps	-	(8,579)	425
	-	(191,479)	234,519
	$ 333,942	$(456,145)	$ 166,969

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, 2013, the total notional amount of credit default swap contracts for buy protection amounts to $2.9 billion and the notional amount related to sell protection is $1.4 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, 2013 were $2.0 billion. The notional amount of contracts that pay based on variable rates and receive based on fixed rates were $397.2 million at June 30, 2013.

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 consolidated 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 part of total endowment return and gains and losses related to University debt management and energy consumption are reported as other investment loss in the consolidated statement of activities as non-operating activity.

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 $389.6 million at June 30, 2013.

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

	2013	2012
Investment income	$ 401,567	$ 376,628
Realized and unrealized gain, net of investment management fees	1,893,258	501,255
Total endowment return	2,294,825	877,883
Other investment income	64,031	49,691
	$2,358,856	$ 927,574

Endowment investment returns totaling $1,018.7 million and $991.0 million were allocated to operating activities in 2013 and 2012, 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:

	2013	2012
Medical services, net	$ 72,176	$ 51,086
Grants and contracts	57,776	50,503
Affiliated organizations	44,680	43,513
Publications	6,921	9,165
Other	13,787	13,217
	195,340	167,484
Less: Allowance for doubtful accounts	(12,964)	(15,363)
	$ 182,376	$ 152,121

Medical services receivables are net of an allowance for contractual adjustments of $103.9 million and $69.0 million at June 30, 2013 and 2012, respectively. Collections for patient care services are primarily based on negotiated contracts from managed care companies (64%), Medicare (15%), and Medicaid (10%). In addition, payments are received directly from patients (6%) and commercial insurance and others (5%).

The University assesses credit losses on all accounts receivable on a regular basis to determine the allowance for doubtful accounts.

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 $34.8 million and $28.9 million at June 30, 2013 and 2012, respectively. Balances are settled in the ordinary course of business. The University recognized $180.8 million in revenue and incurred $57.4 million in expenses related to activities with the Hospital during the period ended June 30, 2013. In addition, the Hospital has invested $330.0 million in the University Long Term Investment Pool with a fair value at June 30, 2013 of $444.4 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:

	2013	2012
Purpose:		
Endowment	$ 259,962	$ 275,052
Capital purposes	59,068	82,950
Operating programs	165,095	185,570
Gross unconditional promises to give	484,125	543,572
Less: Discount to present value	(12,602)	(20,161)
Allowance for uncollectible accounts	(52,067)	(56,384)
	$ 419,456	$ 467,027

Amounts due in:		
Less than one year	$ 228,271	$ 262,786
One to five years	242,097	264,893
More than five years	13,757	15,893
	$ 484,125	$ 543,572

Discount rates used to calculate the present value of contributions receivable ranged from 0.33% to 5.49% at June 30, 2013, and from 0.33% to 5.16% at June 30, 2012.

At June 30, 2013, the University had conditional pledges that depend on the occurence of a future and uncertain event of approximately $251.0 million. Conditional pledges are recognized when the condition is met.

5. Notes Receivable

Notes receivable at June 30, in thousands of dollars, include:

	2013	2012
Institutional student loans	$ 48,257	$ 44,700
Federally-sponsored student loans	35,025	33,609
Notes receivable	54,429	54,774
	137,711	133,083
Less: Allowance for doubtful accounts	(9,227)	(8,451)
	$ 128,484	$ 124,632

Student Loans

Institutional student 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. Federally-sponsored student loans have mandated interest rates and repayment terms subject to restrictions as to their transfer and disposition.

Management regularly assesses the adequacy of the allowance for credit losses for student loans 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 consolidated statement of financial position. The recorded value of student loan instruments approximates fair value.

Notes Receivable

The University and Yale New Haven Hospital (the "Hospital") entered into an agreement during 2012 under which the Hospital will pay the University $2.7 million a year over a 40 year term to reimburse the University for advances made in connection with the construction of Hospital facilities. The payment includes interest based on the 5 year Treasury bill plus 175 basis points.

6. Other Assets

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

	2013	2012
Software costs, net of accumulated amortization	$ 76,437	$ 73,981
Deferred expenses	31,954	28,374
Insurance receivable	19,719	20,778
Inventories	17,482	17,280
Bond issue costs, net of accumulated amortization	11,969	11,832
	$ 157,561	$ 152,245

Amortization expense included in operating expenses amounted to $21.2 million and $20.3 million in 2013 and 2012, respectively.

7. Land, Buildings and Equipment

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

	2013	2012
Land and real estate improvements	$ 128,883	$ 113,648
Buildings	5,252,132	5,163,854
Buildings under capital leases	61,665	61,665
Equipment	632,231	627,584
	6,074,911	5,966,751
Less: Accumulated depreciation and amortization	(2,150,913)	(2,006,372)
	3,923,998	3,960,379
Construction in progress	423,259	294,349
	$ 4,347,257	$ 4,254,728

Depreciation expense included in operating expenses amounted to $221.2 million and $210.5 million in 2013 and 2012, respectively. Amortization expense on capital lease assets amounted to $2.2 million in both 2013 and 2012.

8. Other Liabilities

Other liabilities consist of obligations of the University that will be paid over extended periods and consist of the following, in thousands of dollars:

	2013	2012
Employee benefit obligations	$ 775,893	$ 979,161
Compensated absences	66,929	65,706
Asset retirement obligations	36,800	38,000
Financial aid grant obligations	44,650	43,213
Other	28,269	31,362
	$ 952,541	$ 1,157,442

Included in employee benefit obligations are defined benefit plan liabilities in excess of plan assets. These liabilities amounted to $704.2 million at June 30, 2013 and $922.8 million at June 30, 2012. (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	
	2013	2013	2013	2012
Connecticut Health and Educational Facilities Authority (CHEFA) tax-exempt bonds:				
Series S	0.15%	2027	$ 135,865	$ 135,865
Series T	2.41%	2029	250,000	250,000
Series U	0.12%	2033	250,000	250,000
Series V	0.10%	2036	200,000	200,000
Series X	3.20%	2037/2042	350,000	350,000
Series Y	3.15%	2035	308,188	308,558
Series Z	4.85%	2042	611,935	612,346
Series 2010A	2.70%	2025/2040/2049	551,140	558,600
Total CHEFA bonds			2,657,128	2,665,369
Medium-term notes	7.38%	2096	124,614	124,596
Medium-term notes Series B	2.90%	2014	499,723	999,049
Commercial paper	0.16%	2013	181,410	181,430
Capital leases–buildings	5.75%	2032/2048	56,548	57,523
Other notes payable	7.85%	2020	2,669	2,930
U.S. Department of Energy	2.72%	2029	72,328	77,104
			$ 3,594,420	$4,108,001

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 were 2% for $14.7 million and 4% for $135.3 million; 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 $21.2 million as of June 30, 2013. The premium associated with the issuance is being amortized over the interest rate period. Series 2010A-1 and 2010A-2 bonds are subject to an optional redemption by the University in July 2018. In February 2013 Series 2010A-3 was reissued at a fixed rate of 0.875% to be applied through February 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 $11.9 million as of June 30, 2013. 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 $8.2 million as of June 30, 2013. 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 were set to mature on July 1, 2042; 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. The $100 million Series X-1 bonds were redeemed on July 1, 2013 by the issuance of CHEFA Series 2013A with an initial interest rate of 1.35% set to mature on July 1, 2042.

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 $386 thousand at June 30, 2013. The notes mature in the year 2096, with an optional redemption provision in the year 2026. The notes bear interest at a fixed rate of 7.38%.

Medium-term notes Series B in the amount of $499.7 million are recorded net of discount of $277 thousand at June 30, 2013. The notes mature in 2014 and bear interest at a fixed rate of 2.9%. Medium-term notes Series B bonds in the amount of $500 million were redeemed in fiscal year 2013.

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.

Certain lease agreements entered into by the University qualify as capital leases with obligations of $56.5 million and $57.5 million at June 30, 2013 and 2012, respectively. The agreements call for the University to lease the buildings through 2032 and 2048.

The University partially financed a wind energy project, Record Hill Wind, LLC, through a financing arrangement with the Department of Energy. The financing arrangement is non-recourse debt to the University and bears interest at rates ranging from 2.236% to 2.776%.

Total interest expense incurred on indebtedness was $160.3 million and $159.5 million in 2013 and 2012 respectively. Interest capitalized to land, buildings and equipment totaled $3.6 million and $5.8 million in 2013 and 2012, respectively.

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

2014	$ 186,601
2015	505,295
2016	5,444
2017	5,602
2018	5,770
2019–2030	546,305
Thereafter	2,298,813

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 the University's variable rate demand notes.

The fair value of the University's fixed rate debt, $2.4 billion at June 30, 2013, is estimated based on quoted market prices for the same or similar issues. The carrying value of the fixed rate debt is $54.4 million less than its fair value. The carrying value of commercial paper and variable rate bonds 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 $88.8 million and $84.5 million in 2013 and 2012, 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 consolidated statement of financial position at June 30, in thousands of dollars:

	Pension		Postretirement	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 1,182,679	$ 1,043,345	$ 898,679	$ 822,746
Service cost, excluding assumed administration expenses	48,180	40,826	39,006	36,807
Interest cost	52,704	51,324	38,751	40,012
Benefit payments	(34,290)	(32,530)	(22,220)	(24,773)
Assumption changes	(104,681)	75,518	(79,051)	34,325
Amendments	-	6,258	-	12
Actuarial loss (gain)	3,439	(2,062)	(23,714)	(10,450)
Benefit obligation, end of year	$ 1,148,031	$ 1,182,679	$ 851,451	$ 898,679
Change in plan assets:				
Fair value, beginning of year	$ 810,984	$ 822,242	$ 347,532	$ 340,925
Actual return on plan assets	107,655	9,707	48,844	8,000
University contributions	20,620	13,190	18,880	24,402
Benefits and expenses paid	(36,095)	(34,155)	(23,133)	(25,795)
Fair value, end of year	$ 903,164	$ 810,984	$ 392,123	$ 347,532
Funded Status	$ (244,867)	$ (371,695)	$ (459,328)	$ (551,147)

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, 2013, as an adjustment to non-operating unrestricted net assets presented as change in funding status of defined benefit plans in the consolidated statement of activities. The components of this adjustment for the year ended June 30, 2013, in thousands of dollars, include:

	Pension	Postretirement	Total
Unrecognized net actuarial gain	$(149,017)	$(125,611)	$(274,628)
Amortization	(13,748)	(18,474)	(32,222)
	$(162,765)	$(144,085)	$(306,850)

The cumulative amounts of these adjustments reported as deductions to net assets in the consolidated statement of financial position at June 30, 2013, in thousands of dollars, include:

	Pension	Postretirement	Total
Unrecognized net actuarial loss	$ 58,971	$ 205,072	$ 264,043
Unrecognized prior service cost	41,842	4,030	45,872
	$ 100,813	$ 209,102	$ 309,915

Amounts recorded as an adjustment at June 30, 2013 that are expected to be amortized into operating activity during fiscal year 2014, in thousands of dollars, include:

	Pension	Postretirement	Total
Net actuarial loss	$ 405	$ 8,767	$ 9,172
Prior service cost	9,971	1,434	11,405
	$10,376	$10,201	$20,577

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 has been fully amortized.

Benefit Obligation

The benefit obligation 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 $919.5 million at June 30, 2013, and $922.0 million at June 30, 2012. 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, 2013, as follows, in thousands of dollars:

	Pension	Postretirement	Total
Discount rate	$ (96,060)	$ (76,238)	$ (172,298)
Demographic	-	(2,813)	(2,813)
Salary scale	(8,621)	-	(8,621)
	$(104,681)	$ (79,051)	$ (183,732)

The discount rate was changed from 4.50% in 2012 to 5.00% in 2013 for all plans. Adjustments were made to the salary increase assumptions for managerial and professional staff participants based on an actuarial review of salaries. Additionally, in 2013, the retirement, withdrawal and salary scale assumptions were updated for the life insurance and sick pay plans to be consistent with the assumptions used for the postretirement medical plan.

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

	2013	2012
Weighted-average discount rate	5.00%	4.50%
Increase in future compensation levels	4.52%	4.52%
Projected health care cost trend rate (pre-65/post-65)	7.50%/7.00%	7.75%/7.25%
Ultimate trend rate (pre-65/post-65)	5.00%/5.00%	5.00%/5.00%
Year ultimate trend rate is achieved	2020	2020
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, 2013, a one percent change in the health care cost trend rate would cause the postretirement benefit obligation at June 30, 2013, to change by approximately 14.5% and would also cause the sum of the service cost and interest cost components of postretirement expense to change by approximately 18.0%.

Net Periodic Benefit Cost

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

	Pension		Postretirement	
	2013	2012	2013	2012
Service cost	$ 50,001	$ 42,646	$ 40,106	$ 37,906
Interest cost	52,704	51,323	38,751	40,012
Expected return on plan assets	(59,895)	(72,341)	(26,185)	(31,132)
Net amortization:				
Transition obligation	-	-	3,717	3,717
Prior service cost	10,047	9,697	1,434	1,434
Net loss	3,701	616	13,323	13,468
Net periodic benefit cost	$ 56,558	$ 31,941	$ 71,146	$ 65,405

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

	2013	2012
Weighted-average discount rate	4.50%	5.00%
Expected long-term rate of return	7.00%	8.50%
Compensation increase	4.52%	4.49%
Health care cost increase (pre-65/post-65)	7.75%/7.25%	8.00%/7.50%
Ultimate trend rate (pre-65/post-65)	5.00%/5.00%	5.00%/5.00%
Year ultimate trend rate is achieved	2020	2020
Mortality	RP2000CH, generational projection	RP2000CH, generational projection

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	2013	2012
Investments, at fair value:					
Cash and cash equivalents	$ 5,006	$ -	$ -	$ 5,006	$ 2,414
US government securities	87,746	-	-	87,746	75,254
Common stock:					
Domestic	49,303	-	1,227	50,530	45,231
Foreign	42,986	-	-	42,986	13,385
Total common stock	92,289	-	1,227	93,516	58,616
Common collective trusts	-	33,478	-	33,478	32,578
Registered investment companies:					
Domestic	51,201	-	-	51,201	41,212
Foreign	54,599	-	-	54,599	77,012
Total registered investment companies	105,800	-	-	105,800	118,224
Limited partnerships:					
Absolute return	-	-	189,352	189,352	165,755
Domestic	-	-	48,752	48,752	31,928
Foreign	-	-	59,641	59,641	38,639
Private	-	-	126,742	126,742	127,697
Real estate	-	-	116,216	116,216	102,994
Natural resources	-	-	49,874	49,874	57,965
Total limited partnerships	-	-	590,577	590,577	524,978
Total investments, at fair value	290,841	33,478	591,804	916,123	812,064
Liabilities associated with investments	12,959	-	-	12,959	1,080
Net investments, at fair value	$277,882	$33,478	$591,804	$903,164	$810,984

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	2013	2012
Investments, at fair value:					
Cash and cash equivalents	$ 164	$ -	$ -	$ 164	$ 24
Common stock:					
Domestic	10,308	-	-	10,308	7,676
Foreign	17,531	-	-	17,531	5,321
Total common stock	27,839	-	-	27,839	12,997
Common collective trusts	-	11,497	-	11,497	11,191
Registered investment companies:					
Domestic	39,680	-	-	39,680	55,057
Foreign	37,740	-	-	37,740	39,600
Total registered investment companies	77,420	-	-	77,420	94,657
Limited partnerships:					
Absolute return	-	-	80,837	80,837	71,023
Domestic	-	-	29,499	29,499	15,665
Foreign	-	-	20,688	20,688	12,042
Private	-	-	51,612	51,612	47,572
Real estate	-	-	69,219	69,219	60,958
Natural resources	-	-	25,027	25,027	28,280
Total limited partnerships	-	-	276,882	276,882	235,540
Total investments, at fair value	105,423	11,497	276,882	393,802	354,409
Liabilities associated with investments	54	-	-	54	37
Net investments, at fair value	$105,369	$11,497	$276,882	$ 393,748	$354,372

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, 2013, in thousands of dollars:

	Pension	Retiree Health
Beginning balance	$ 525,916	$ 235,540
Realized and unrealized gain, net	84,564	27,363
Purchases	66,248	34,878
Sales	(84,924)	(20,899)
Ending balance	$ 591,804	$ 276,882

The unrealized portion of the gain in Level 3 reported above that relates to assets held at June 30, 2013 by the staff pension plan and the retiree health plan, represents a net gain of $33.1 million and a net gain of $18.8 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	
	2013	2012	2013	2012
Absolute return	21.0%	20.5%	20.5%	20.1%
Domestic equity	14.3%	13.9%	17.7%	17.7%
Fixed income	9.7%	9.3%	0.0%	0.0%
Foreign equity	19.6%	19.9%	19.9%	19.2%
Private equity	14.0%	16.1%	13.1%	13.7%
Real estate	12.9%	12.8%	17.6%	17.4%
Natural resources	7.2%	7.1%	8.7%	7.8%
Cash	1.3%	0.4%	2.5%	4.1%

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

Contributions

Annual contributions for the pension and retiree health plans are determined by the University considering calculations prepared by the plans' actuary as well as other factors. Expected contributions in fiscal 2014 to the pension plan are $46.2 million, no contribution is planned to 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
2014	$40,960	$ 26,500
2015	43,585	28,600
2016	46,225	30,800
2017	49,432	33,600
2018	52,971	36,400
2019-2023	321,617	227,400

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 2013, the subsidy is expected to be approximately $1.5 million, or approximately 6% of retiree health benefits.

12. Endowment Funds

Yale's endowment consists of approximately 7,600 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	2013	2012
Donor-restricted endowment	$ (11,954)	$ 14,308,442	$ 3,167,254	$ 17,463,742	$16,267,448
Board-designated endowment	3,129,615	199,465	-	3,329,080	3,111,660
	$ 3,117,661	$ 14,507,907	$3,167,254	$ 20,792,822	$19,379,108

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Endowment net assets, beginning of year	$ 2,933,418	$13,426,063	$ 3,019,627	$ 19,379,108	$ 19,395,603
Investment return:					
Investment income	65,234	335,260	1,073	401,567	376,628
Net appreciation	316,293	1,571,977	4,988	1,893,258	501,255
Total investment return	381,527	1,907,237	6,061	2,294,825	877,883
Contributions	2,901	9,140	134,990	147,031	137,655
Allocation of endowment spending	(167,773)	(854,217)	2,741	(1,019,249)	(992,149)
Other (decreases) increases	(32,412)	19,684	3,835	(8,893)	(39,884)
Endowment net assets, end of year	$ 3,117,661	$14,507,907	$ 3,167,254	$ 20,792,822	$ 19,379,108

At June 30, 2013, the total amount of cumulative losses to individual funds in excess of permanently restricted amounts totaled $12.0 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, 2013, under agreements to lease space, in thousands of dollars, are as follows:

	Operating Lease Payments	Capital Lease Payments
2014	$ 8,310	$ 9,902
2015	7,993	9,956
2016	7,337	9,919
2017	6,453	9,756
2018	4,696	9,812
Thereafter	50,404	149,530
	85,193	198,875
Executory costs	-	(95,589)
Interest on capital leases	-	(46,738)
	$ 85,193	$ 56,548

The University has outstanding commitments on contracts to construct campus facilities in the amount of $222.1 million at June 30, 2013. 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 $111.3 million at June 30, 2013.

14. Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2013, through October 24, 2013, the date the consolidated financial statements were available to be issued.

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Detail of the top of Memorial Quadrangle Gate (1918–1922) located at the base of Harkness Tower. This wrought iron gate is one of Yale's ten hand-forged gates by Samuel Yellin, a master craftsman known for designing works of art out of a single piece of iron. *Photo by Michael Marsland*

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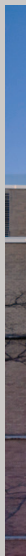

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