

Yale

FINANCIAL REPORT
2009–2010

Highlights

Five-Year Financial Overview (\$ in millions)	Fiscal years				
	2010	2009	2008	2007	2006
Operating Budget Bottom Line (see page 4)	\$ ---	\$ ---	\$ ---	\$ ---	\$14.5

Financial Position Highlights (see page 14):

Total assets	\$27,296.1	\$25,937.8	\$33,864.8	\$ 32,165.3	\$ 27,711.6
Total liabilities	9,755.4	8,543.3	9,586.5	8,079.5	8,213.3
Total net assets	\$17,540.7	\$17,394.5	\$24,278.3	\$24,085.8	\$19,498.3

Endowment:

Net investments, at fair value	\$16,504.2	\$16,103.5	\$22,686.3	\$22,364.7	\$17,949.1
Total return on investments	8.9%	(24.6%)	4.5%	28.0%	22.9%
Spending from endowment	6.9%	5.2%	3.8%	3.8%	4.1%

Facilities:

Land, buildings and equipment, net of accumulated depreciation	\$ 3,975.8	\$ 3,715.1	\$ 3,199.6	\$ 2,746.4	\$ 2,486.9
Disbursements for building projects	407.1	599.6	568.9	373.3	265.1

Debt	\$ 4,054.5	\$ 3,376.0	\$ 3,067.2	\$ 1,954.6	\$1,954.3
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Statement of Activities Highlights (see page 15):

Operating revenues	\$ 2,725.8	\$ 2,600.7	\$ 2,347.5	\$ 2,121.2	\$ 1,971.0
Operating expenses	2,572.1	2,493.5	2,314.5	2,108.5	1,963.6
Increase in net assets from operating activities	\$ 153.7	\$ 107.2	\$ 33.0	\$ 12.7	\$ 7.4

Five-Year Enrollment Statistics

	2010	2009	2008	2007	2006
Student Fees:					
Yale College term bill	\$ 47,500	\$ 46,000	\$ 45,000	\$ 43,050	\$ 41,000

Freshmen Enrollment:

Class of:	'13	'12	'11	'10	'09
Freshmen applications	26,003	22,817	19,323	21,101	19,451
Freshmen admitted	1,958	1,952	1,911	1,878	1,880
Admissions rate	7.5%	8.6%	9.9%	8.9%	9.7%
Freshmen enrollment	1,307	1,320	1,320	1,315	1,321
Yield	67.8%	68.7%	70.6%	70.9%	71.3%

Total Enrollment:

Yale College	5,268	5,266	5,300	5,319	5,380
Graduate and professional schools	6,252	6,107	6,064	6,004	6,000

Message from the Vice President for Finance and Business Operations

The University closed the fiscal year with positive operating results while continuing to respond to the challenges arising from the financial crisis. While the University's largest financial asset, the endowment, partially rebounded this year, it will take some time to return to pre-crisis levels. As such, adjustments to financial plans and operating budgets as well as the deferral of capital construction projects continue to be necessary to fully attain financial equilibrium. Departments and schools responded with appropriate expense reductions and have developed plans to manage through these challenging times.

The University's endowment investments increased by \$401 million during the year to a total of \$16.5 billion, the net of 8.9% endowment returns plus 0.5% endowment giving less endowment spending of 6.9%. Endowment spending represented 41% of the operating revenue in fiscal 2010 compared to 45% in fiscal 2009.

The University's capital spending for fiscal 2010 was budgeted at \$625 million, with actual spending of \$453 million. While conditions necessitate a slowdown, the University has prioritized spending within the capital program to complete projects already underway and to begin those with significant gift funding in hand, such as the renovation of the Yale Art Gallery and the new campus for the Yale School of Management. Though it is necessary to defer some exciting plans for a time, steady investment in capital maintenance of existing buildings remains a key priority and the use of capital replacement funds set aside in the operating budget for this purpose will continue.

The University's seven-year "Yale Tomorrow" fund raising campaign has now completed its sixth year and, as of June 30, 2010, has received \$3.03 billion in gifts and documented commitments, reaching the 86.5% mark toward the campaign goal of \$3.5 billion (surpassing a year ahead of schedule the original campaign goal of \$3 billion, which was raised to \$3.5 billion in June 2008). Because of continued financial turmoil and uncertainty, many donors have remained reluctant to make very large commitments, and so, not surprisingly, the \$317.3 million in gifts and new pledges recorded during the fiscal year is the lowest of any year of the campaign. Nonetheless, having broken the \$3 billion mark, the University remains confident the campaign is on track to reach \$3.5 billion by June 2011. One very encouraging sign is the fact that despite donor skittishness about making large commitments, the \$383.5 million received during FY10 in the form of new gifts and payments on commitments was an increase over the prior year and came close to equaling the average amount in new gifts and payments of the six completed years of the campaign. Although FY10 was not a record-breaking year, the continued strong support of Yale alumni and friends remains crucial for achieving the University's strategic goals while mitigating the effects of the economic downturn on the endowment.

Yale has continued to make progress with efforts to reorganize for efficiency and improved delivery of its financial and administrative services to students, faculty and staff. As an example, several previously decentralized information technology resources have been consolidated into the central Information Technology Division so system development efforts can be better coordinated and technology investments leveraged across multiple units. Additionally, desktop service has been made more efficient through deployment of managed desktop software that allows trouble shooting and remediation from remote locations. Efforts to standardize business practices and optimize processes and systems continue as well. In addition, Yale has begun deploying a shared service model to support various back office finance and procurement functions, with a goal of delivering improved services at significantly lower cost. Yale's Shared Business Support Center has launched and is providing services to several units. Once a proven operating model can be demonstrated, the shared service model will be broadened to additional units. The University remains committed to introducing new processes and systems that can adapt to growth in a cost effective manner while providing high-quality support services and improved information and analysis for decision makers.

President Levin recently announced a Sustainability Strategic Plan for 2010 to 2013 that assigns certain goals and responsibilities to various units within the University. The plan encourages involvement of the entire Yale community in initiatives aimed at doing our part to create a more sustainable environment, such as the reduction of paper consumption and printed materials. The University, as a result, has decided not to print the 2009–2010 Yale Annual Report, but we are pleased to make it available on the web at www.yale.edu/fr09-10. As always, we look for your support as we embark on this very important strategic plan.

Though financial challenges remain, Yale University is financially strong and continues to compete in education and research with its accustomed distinction. We appreciate the commitment shown by students, faculty, staff, alumni, donors and all who support the University in maintaining the highest standards for delivering excellence in all aspects of our core mission: the creation, preservation and dissemination of knowledge.



Shauna R. King
Vice President for Finance and Business Operations

Financial Results

Overview

The University manages its operations to achieve long-term financial equilibrium. It is committed to sustaining both the programs and the capital assets (Endowment and facilities) supporting those programs over multiple generations. Endowment income, Yale's largest source of revenue, is allocated to the Operating Budget based on a spending policy that preserves the Endowment asset values for future generations, while providing a robust revenue stream for current programs. Similarly, the Operating Budget increasingly provides the funds needed, through the Capital Replacement Charge (CRC), to replenish the capital base necessary to ensure that buildings are maintained to support current programs.

The Statement of Activities in the audited financial statements is presented in accordance with generally accepted accounting principles (GAAP). GAAP recognizes revenue when earned and expenses when incurred. The Operating Budget is focused more on resources available and used in the fiscal period presented. The Budget does not include certain expenses that are paid out over the long term, such as unused vacation time, and certain revenue that will not be received within the next fiscal year, such as pledged contribution revenue. Another significant difference is that the Operating Budget treats the CRC as an expense rather than the historical cost depreciation expensed in the Statement of Activities. The GAAP financial statements do not present fund balance transfers between the operating, physical, and financial categories, as the Operating Budget does.

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

	2010	2009
Operating Budget Bottom Line	\$ -	\$ -
Operating Budget add to / (use of) fund balances	115,602	68,843
Pledge activity	20,814	(12,565)
Expenses related to long-term liabilities	(56,134)	(49,499)
Capital funding in excess of depreciation	17,337	42,475
Yale Press operating results	-	1,875
Interest hedge realized loss	34,928	14,554
Energy hedge realized loss	17,300	11,439
Funding transfers	3,847	30,069
Increase in net assets from operations per the Statement of Activities	\$153,694	\$107,191

The Budget presents operating activity by funding source. The category "General Appropriations" includes the cost of education for the University. The category "Other" includes programs supported by endowments and gifts, sponsored research, patient care, and other revenue sources. Endowment and gift activities are separated to facilitate and monitor the University's fiduciary responsibility for compliance with donor intentions for restricted activity. Sponsored research includes the funding from federal, state, and non-governmental entities and the direct costs of the related research. Other activity includes health services provided by the Yale Medical Group as part of Yale's role in the Academic Health Center of Yale-New Haven Health Systems.

Yale University Operating Budget Revenue and Expense

for the year ended June 30, 2010 (\$ in thousands)

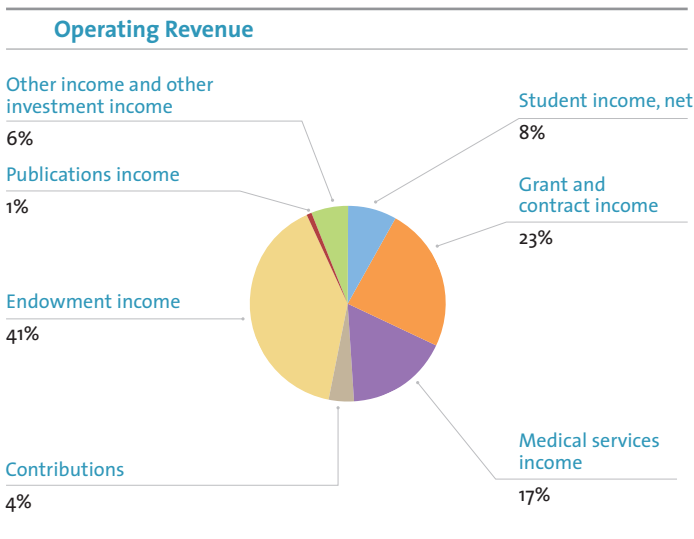
	General Appropriations	Other	Actual June 30, 2010	Budget June 30, 2010
<i>Revenues:</i>				
Tuition, room and board	\$ 433,352	\$ 12,286	\$ 445,638	\$ 438,146
Funded scholarships	(180,219)	(35,038)	(215,257)	(211,667)
Net Tuition, room and board	253,133	(22,752)	230,381	226,479
Sponsored agreement income	157,763	483,598	641,361	585,840
Medical services income	39,375	422,743	462,118	427,858
Contributions	30,692	51,514	82,206	85,102
Allocation of Endowment spending	103,740	1,004,699	1,108,439	1,105,034
Unrestricted and recovery income	658,465	(658,465)	-	-
Other investment income	11,607	14,736	26,343	25,604
Other income	52,653	87,082	139,735	127,568
Transfers	(19,973)	10,733	(9,240)	(8,670)
Total Revenue	1,287,455	1,393,888	2,681,343	2,574,815
<i>Expenses:</i>				
Faculty salaries	185,702	353,823	539,525	522,595
Staff salaries and wages	433,303	239,902	673,205	642,814
Total Salaries and wages	619,005	593,725	1,212,730	1,165,409
Employee benefits	158,061	186,745	344,806	339,212
Total Salaries and benefits	777,066	780,470	1,557,536	1,504,621
Student stipends	28,340	47,737	76,077	69,657
Other expenses	143,585	449,707	593,292	594,540
Interest and capital replacement	267,594	14,664	282,258	309,407
Utilities	70,870	(14,292)	56,578	69,711
Total Expenses	1,287,455	1,278,286	2,565,741	2,547,936
<i>Operating results-budgeted activity</i>	-	115,602	115,602	26,879
Add to fund balances	-	(115,602)	(115,602)	(26,879)
Operating Budget Bottom Line	\$ -	\$ -	\$ -	\$ -

FY10 Operating Budget Results

The University ended the year with an increase to its operating fund balances of \$115.6 million. Actual operating revenues were higher than budgeted by 4% and actual operating expenses were higher than budgeted by only 1%. Cost cutting measures initiated in FY 2009 continued through FY 2010 and resulted in overall lower expenses in all areas except research and patient care. Revenues were higher in net tuition, room and board, sponsored agreements, medical services, allocation of Endowment spending, and other income. Grants and contract revenue was significantly higher than budget, as the School of Medicine and the Faculty of Arts and Sciences experienced higher growth in research funding than budgeted. Medical services income was favorable to budget because of continued growth at the Yale Medical Group.

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 publications.



Student Income, Net

Student income, which includes revenue from tuition, fees, and room and board, net of certain scholarships and fellowships, decreased 1.9% during 2010 and amounted to \$225.0 million, or 8% of operating revenues. Of the total amount, tuition and fees accounted for \$383.9 million, a 5.4% increase over 2009. Revenue from room and board increased 3.8% to \$61.7 million. In accordance with generally accepted accounting principles, student income is presented net of certain scholarships and fellowships, which totaled \$220.6 million and \$194.3 million for 2010 and 2009, respectively.

During the 2009–2010 academic year, 11,520 students were enrolled at the University; 5,268 were undergraduate students attending programs at Yale College, and 6,252 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 \$36,500 for tuition and \$11,000 for room and board, bringing the total term bill to \$47,500 for the 2009–2010 academic year. The increase in the Yale College term bill was 3.3% over the 2008–2009 academic year. Students enrolled in the Graduate School of Arts and Sciences paid \$32,500 for tuition, a 3.2% increase over the 2008–2009 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 2009–2010 academic year, 2,936 undergraduates, representing 55.5% of eligible Yale College enrollment, received financial aid. In the Graduate School of Arts and Sciences, 2,623 students, or 98.8% of those eligible, received financial aid. In the professional schools, 2,960 students, or 85.5% of those eligible, received financial aid. In all, 8,519 University students, or 74.7% 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 an 8.9% growth from \$589.1 million in 2009 to \$641.4 million in 2010. The Yale School of Medicine, which received 74% of the University’s grant and contract income in fiscal 2010, reported an increase of 8.2% for 2010, while the remaining University sectors had an increase of 11.5%.

The federal government funded \$510.4 million, or 80% of 2010 grant and contract income, in support of Yale’s research and training programs. The largest federal sponsor was the National Institutes of Health (NIH), which provided revenues of \$398.0 million during 2010, an increase of 8.4% over the

prior year. Research funding received related to the American Recovery and Reinvestment Act (ARRA), enacted in February 2009, generated \$39.5 million of revenue in fiscal 2010, which is 6.2% of the fiscal 2010 revenue. Fiscal 2011 should also have a significant benefit, since \$56.7M of unspent funding remains on these stimulus awards. ARRA awards supported major programs and supplemented ongoing research. Two notable examples of ARRA support are the creation of the Yale Center for Genome Analysis as well as a project to develop an Atlas of Human Brain Development. The University also receives significant research support from the National Science Foundation, the Department of Energy, the Department of Defense, and student aid awards from the Department of Education. Nonfederal sources, which include foundations, voluntary health agencies, corporations, and the State of Connecticut, provided an additional \$131.0 million in research, training, and other purposes during 2010.

In addition to funding the direct cost of sponsored programs, grant and contract awards generally include reimbursement for a portion of the costs related to research laboratories and other facilities, as well as administrative and support costs incurred for research and other sponsored activities. These reimbursements for facility and administrative costs amounted to \$157.8 million in 2010, which is an increase of 9.8% over the prior year. Recovery of facility and administrative costs allocable to federally sponsored programs is recorded at rates negotiated with the University's cognizant agency, the Department of Health and Human Services. Yale's current rate agreement is effective through June 30, 2014.

The primary regulations governing federal grants and contracts are encompassed in Office of Management and Budget

Circular A-21, *Cost Principles for Educational Institutions*, and Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

Medical Services Income

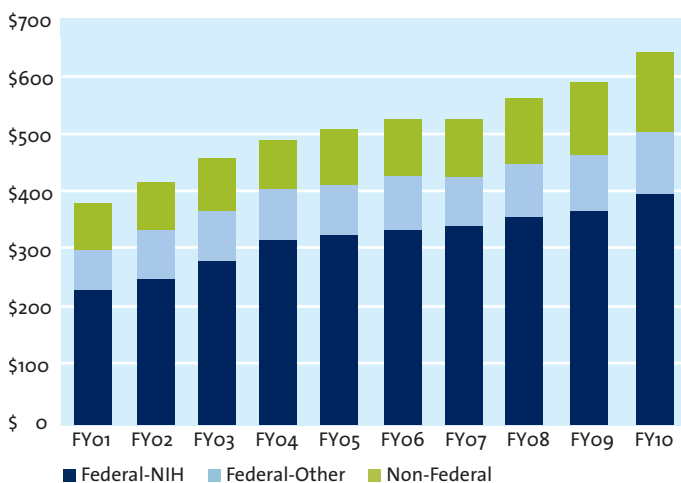
Medical services income totaled \$462.1 million in fiscal 2010, an increase of 10.9% from 2009, and represented 17% of the University's operating revenue. The largest portion of this revenue stream (approximately \$450.0 million) is derived from patient care services provided by the School of Medicine's Yale Medical Group (YMG), one of the largest academic multi-specialty practices in the country and the largest in Connecticut. YMG is composed of 852 full-time and 127 part-time physicians. Another growing component of medical services income is contracts with affiliated hospitals, including Yale-New Haven Hospital (YNHH) and the West Haven Veterans Administration Medical Center.

New York magazine's 2010 list of the region's top doctors includes 50 Yale Medical Group physicians – practicing in 36 specialties, from dermatology to medical oncology to vascular surgery. "Our strong representation on the *New York* magazine list in so many different specialties confirms that, as Yale Medical Group expands, it is increasingly being seen as the medical care destination of choice in the region," said David J. Leffell, MD, CEO of Yale Medical Group. "We are honored to be able to care for a broader range of patients, including many who might not have thought of coming to Yale before."

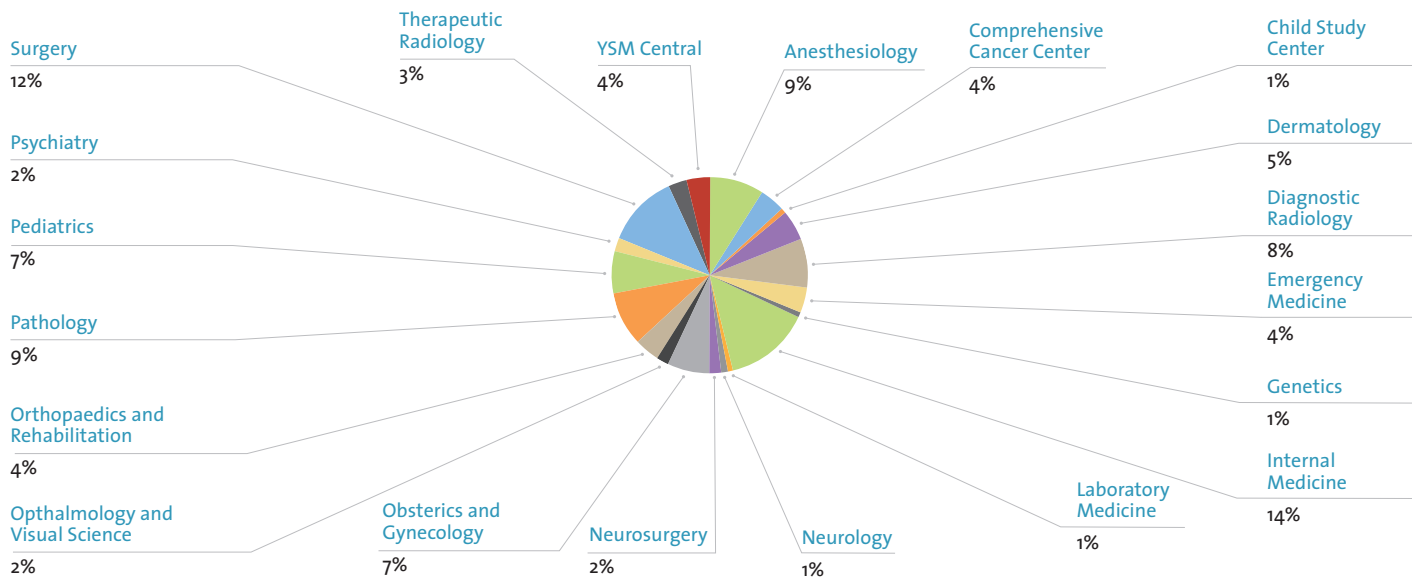
The Smilow Cancer Hospital opened in October 2009 representing a major change in YMG's clinical operating model in partnership with Yale-New Haven Hospital. The Yale Cancer Center is southern New England's only comprehensive cancer center designated by the National Cancer Institute (NCI) and one of only 40 in the nation. When the NCI created the first eight comprehensive cancer centers in 1971, Yale's was among them. The Yale Cancer Center is a collaborative venture between Yale School of Medicine and Yale-New Haven Hospital which enables the Center to provide the newest advances and best approaches for the detection, diagnosis and treatment of the disease.

With support from Yale-New Haven Hospital to recruit new faculty in critical areas and by opening new sites of service, several departments saw double-digit increases in medical services revenues including Neurology, Internal Medicine, Ophthalmology, Pathology, Surgery and Therapeutic Radiology. Total YNHH support increased 15% to \$115 million. In addition, 45 new faculty FTEs were added to the clinical enterprise in FY10.

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



Yale University School of Medicine
FY10 Clinical Income by Department



Allocation of Endowment Spending

Each year a portion of accumulated Endowment investment returns is allocated to support operational activity. This important source of revenue represents 41% of total operating income this year and is the largest source of operating revenue for the University. The level of spending is computed in accordance with an Endowment spending policy that has the effect of smoothing year-to-year market swings. Endowment investment returns allocated to operating activities decreased by 5.0% to \$1,104.2 million. Additional information on the Endowment spending policy is provided in the Endowment section of this report and in the footnotes to the financial statements.

Other Income and Other Investment Income (Loss)

Other income of \$110.4 million includes such items as royalty income, ticket sales, admission revenue, parking revenue, and application and enrollment fees. Other investment income of \$49.2 million represents interest, dividends, and gains on non-Endowment investments.

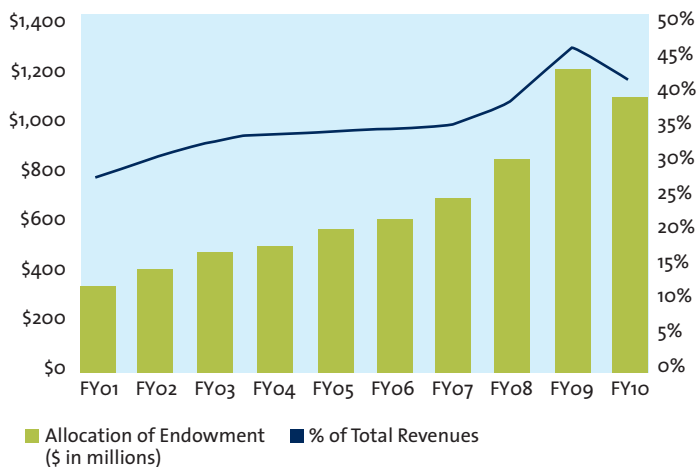
Contributions

Donations from individuals, corporations and foundations represent a vitally important source of revenue for the University to fund current operations as well as long term investments in the physical infrastructure and, in the case of gifts to the Endowment, to provide resources for core activities into the future. The Statement of Activities presents contribution revenue in three categories: operating revenue, donations supporting physical capital (building construction and renovation), and contributions added to the Endowment as financial capital. In aggregate, contributions included in the University Financial Statements total \$225.2 million.

The University is in a capital campaign: Yale Tomorrow. FY10 was the fourth year of a five year public campaign (preceded by a two-year silent or nucleus fund phase). The goal is \$3.5 billion (the original goal of \$3 billion was increased to \$3.5 billion in June 2008). As of June 30, 2010, the campaign had raised \$3.026 billion in “outright” gifts and new commitments. At the end of FY10, 68.7% of the \$3.026 billion raised by the Yale Tomorrow campaign had already been received. For FY10, the total amount of contributions received, as determined by fund raising industry-standard guidelines, totaled \$383.5 million – slightly higher than the previous year’s total of \$367.9 million.

It is important to note that certain gifts commonly reported in fund raising results are not recognized as contributions in the

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



University Financial Statements. For example, “in-kind” gifts such as works of art and books are not recognized as financial transactions in the University Financial Statements. Grants from private, non-governmental sources (i.e., corporations and foundations) reported as gifts for fund raising purposes are included in the Statement of Activities as grant and contract income. Generally accepted accounting principles require the University to recognize outstanding future donor commitments as institutional receivables. These anticipated future payments (i.e., donor commitments) are counted as part of the Yale Tomorrow campaign total; however, they are not counted as contributions received in accordance with fund raising industry-standard guidelines.

Publications Income

Publications income is primarily generated through Yale University Press (Press), a separately endowed department of the University. The Press published approximately 400 titles in 2010 and has published approximately 8,000 titles in total. Many of these books are winners of prizes, including four Pulitzer Prizes. Its authors are academic and professional people from around the world. Publishing related revenue for the Press was \$31.1 million in 2010 and \$30.7 million in 2009.

Operating Expenses

Operating expenses totaled \$2.6 billion, representing a 3.2% increase for the year. The largest component of expenses – salaries and wages and employee benefits – rose 6.4%. This category of expenses represents 63% of total University operating costs. This

increase was in line with the University’s overall plans to maintain moderate growth and a competitive position with peer institutions. Faculty salaries and staff compensation increased 5.3% and 2.9% respectively.

The cost of providing employee benefits, including various pension, postretirement health, and insurance plans in addition to Social Security and other statutory benefits, increased by approximately 10.2% to \$379.3 million.

Other operating expenditures include services, materials and supplies, and other expenses. These expenditures decreased by approximately 2.9%.

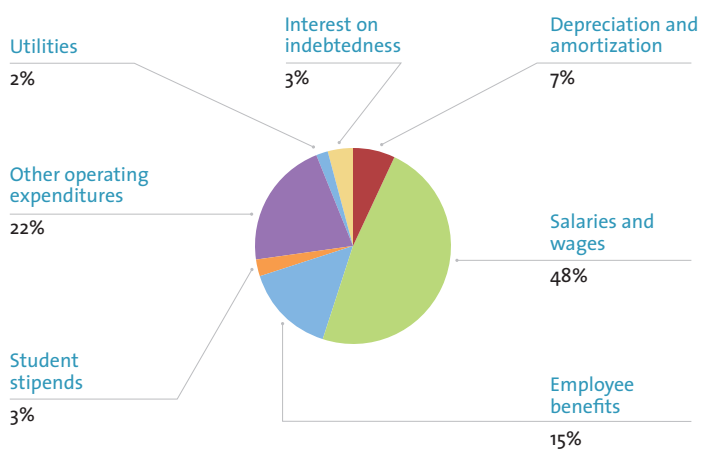
In accordance with generally accepted accounting principles, Yale reports its operating expenses by functional classification in the Statement of Activities. Expenses in each classification increased primarily as a result of the salary and wage increases mentioned above.

The University spends 51% of its operating resources on academic activities including libraries as well as student aid and services. Organized research represents 18% and patient care 16% of spending. Organized research and patient care activities are integral to the academic and learning experiences at the University.

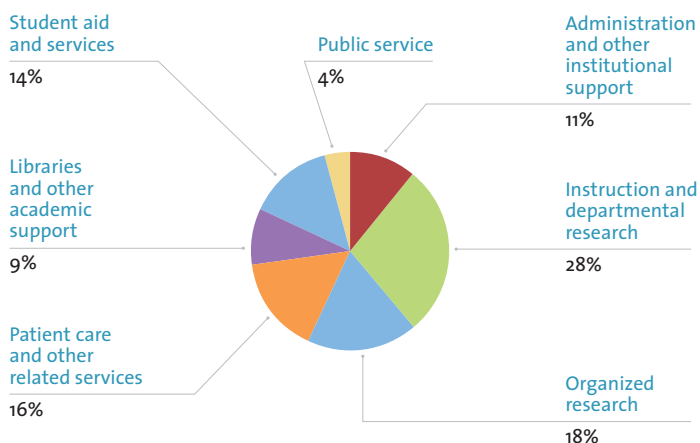
Faculty and Staff Compensation

The University employs 3,227 faculty and an additional 1,024 postdoctoral associates. There are approximately 4,203 managerial and professional staff, and 4,720 unionized clerical, technical, service, and maintenance personnel. The employment figures are fulltime equivalent headcounts as of fall 2009.

Operating Expenses by Natural Classification



Operating Expenses by Functional Classification



Physical Capital

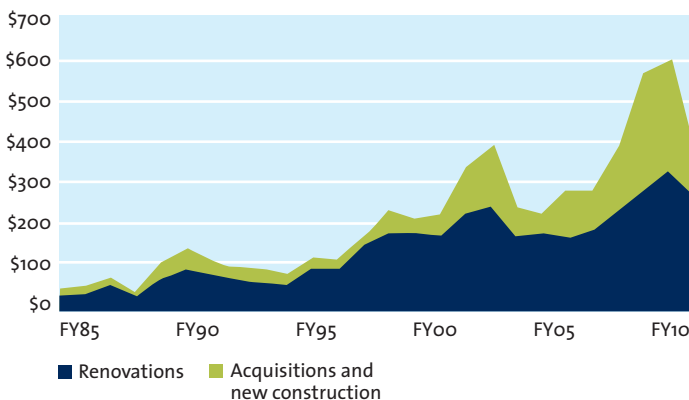
Capital spending on facilities in fiscal year 2010 totaled \$407.1 million. This represents a 32% decrease from the 2009 spending level and a significant favorable variance to the 2010 capital budget for facilities. The lower spending level reflects the University's commitment to complete projects in construction and to continue to act prudently when evaluating the need for maintenance and programmatic renovations while adjusting to lower than expected available resources. The capital plan will continue at a slower pace until greater funding becomes available.

The largest share of the University's capital spending in 2010, approximately one-third, was used to fund Administrative Building projects already in construction. The new University Health Services Center Building and Science Park Garage were finalized during the 2010 fiscal year. Additional administrative space in the area was renovated and constructed as the University continues to consolidate operations.

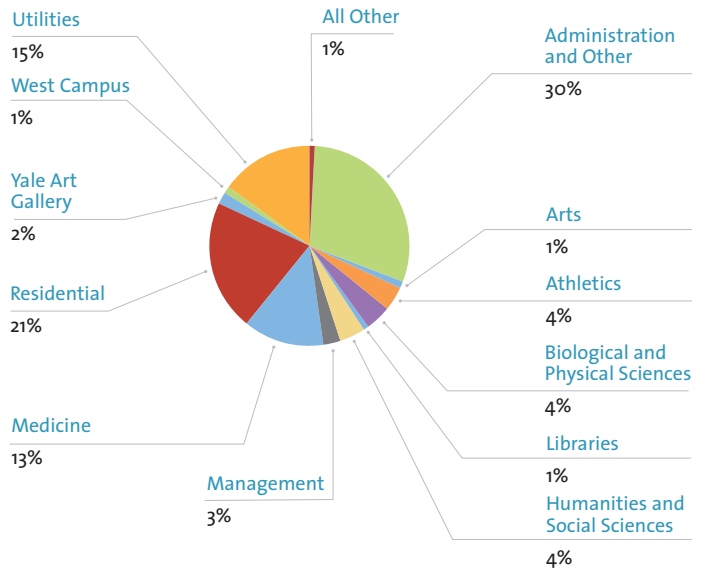
The new building for the University Health Services includes updated health care practice facilities, and additional program spaces related to better operational efficiencies and anticipated growth in the Yale Health Plan membership.

With the completion of Calhoun College in August 2009 and Morse College in August 2010, eleven of the twelve residential colleges will have been renovated. Berkeley, Branford, Davenport, Timothy Dwight, Jonathan Edwards, Pierson, Saybrook, Silliman and Trumbull were all comprehensively renovated in prior years and continue to receive smaller scale renovations and routine maintenance as required. Ezra Stiles College will be fully renovated in August 2011. University planners set aside funds each year to pay for building maintenance, making sure the campus never falls

Capital Spending by Year
(in 2010 dollars, in millions)



Capital Spending by Campus Area



into disrepair. Each residential college is scheduled to be refreshed every three to four years.

Fifteen percent of the University's capital spending was allocated to large utility projects. The Sterling Power Plant Cogeneration and Expansion project was completed in fiscal year 2010. The project called for the upgrading of the existing chiller/boiler arrangement at the Sterling Power Plant to a cogeneration plant capable of producing electricity and steam. Utilization of cogeneration technology will result in more efficient plant operations, reduced fuel consumption and lower greenhouse gas emissions. The Science Area Chiller Plant was another large project in the design and beginning of construction phase last year, approved to continue in 2010.

Capital spending was also concentrated in the School of Medicine. The School of Medicine accounted for approximately 13% of the University's 2010 capital expenditures; consistent with the 2009 spending percentage. One of the major milestones in the capital plan within the School of Medicine was the opening of the Smilow Cancer Hospital in October of 2009 where the School of Medicine multi-disciplinary oncology practice will now be located. This new Yale-New Haven Hospital building not only provides world-class treatment and patient care but also has state of the art research facilities that will advance cancer teaching and training for the next generation of clinicians and investigators. Two major lab renovations and one research support renovation accounted for 25% of the funds expended this past fiscal year.

They include Sterling Hall of Medicine laboratory and research support renovations and as well as renovations in the Hunter Building. The scope of work for these projects included the design and implementation of new wet bench laboratories, support spaces, microscope rooms and administrative offices all with new energy efficient mechanical, electrical and plumbing systems required to operate these facilities. Other significant projects completed include three additional major laboratory renovations, one major office renovation, one major classroom renovation, one additional major research support renovation, and multiple capital maintenance and clinical facility projects.

Design and site work was begun to build a new campus for the School of Management. The new 236,000 square foot building will accommodate the growing community and expanded programs as well as facilitate new teaching methodologies and learning practices required by the new curriculum. Over \$11 million was spent in fiscal year 2010 for this project.

The University's ambitious renovation and building plans were funded by a combination of gifts, debt and, increasingly, funds from the operating budget. The University continues to rely heavily on the extraordinary generosity of its alumni/ae and friends. Gifts for facilities in 2010 totaled \$62 million. The University has been the beneficiary of an outstanding response from donors. The residential college renovations, the School of Management Campus, the Yale University Art Gallery, the Cullman-Heyman Tennis Center, Calhoun College, Ingalls Rink Renovation, Kenney Family Field Center and Jensen Plaza, Smilow Cancer Hospital, 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 borrowed an additional \$450 million through CHEFA to finance planned renovation and capital additions. The resulting affirmation of Yale's long term (AAA/Aaa) and short term (A-1 / P-1) ratings were made with the new tax-exempt issuance.

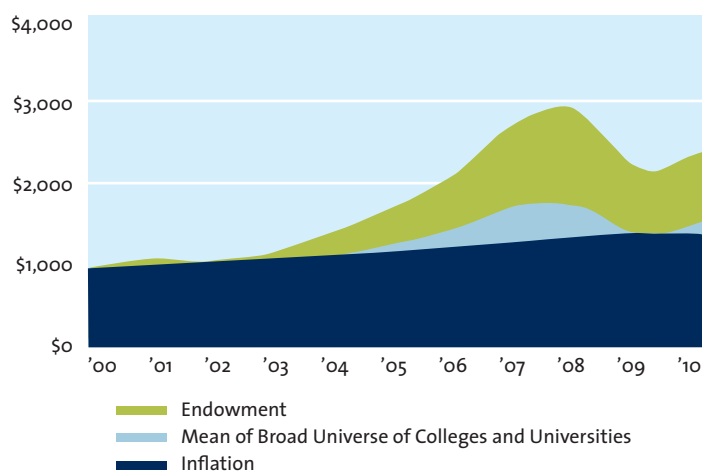
Endowment

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, 2010, net assets in the Endowment totaled approximately \$16.6 billion, after the allocation of Endowment spending of \$1.1 billion to the Operating Budget during the year.

Investment Performance

For the fiscal year ended June 30, 2010, the Endowment earned an 8.9% investment return. During the past decade, the Endowment earned an annualized 8.9% return, which added \$7.9 billion relative to the mean return of a broad universe of colleges and universities.

Growth of \$1,000 Invested in the Yale Endowment
2000 – 2010



Endowment Spending

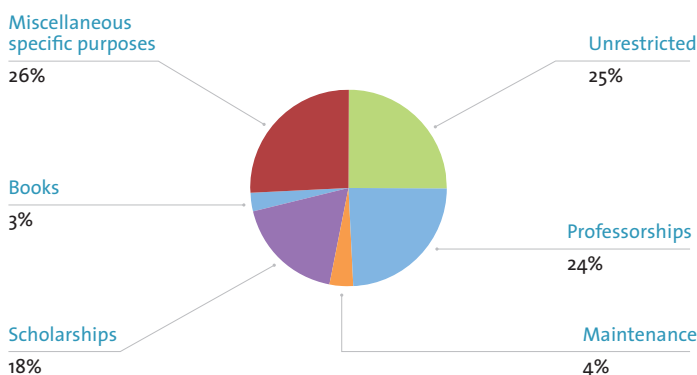
The Endowment spending policy, which allocates Endowment earnings to operations, balances the competing objectives of providing a stable flow of income to the Operating Budget and protecting the real value of the Endowment over time.

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 prior year market value. The smoothing rule and the diversified nature of the Endowment mitigate the impact of short-term market volatility on the flow of funds to support Yale's operations.

The Endowment provided income of \$1.1 billion to current operations in 2010, representing 41% of the University's operating revenues. Ten years ago, Endowment distributions contributed approximately \$281 million, or 22% of the budget. Over the past decade, Endowment distributions have increased at an annualized rate of approximately 15%.

Endowment Fund Allocation, Fiscal Year 2010



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 95% 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 marketable securities, reallocating assets to nontraditional asset classes. In 1990, 85% of the Endowment was committed to marketable stocks, bonds, and cash. Today, marketable securities account for approximately 20% of the portfolio, and private equity, absolute return strategies, and real assets represent around 80% of the Endowment.

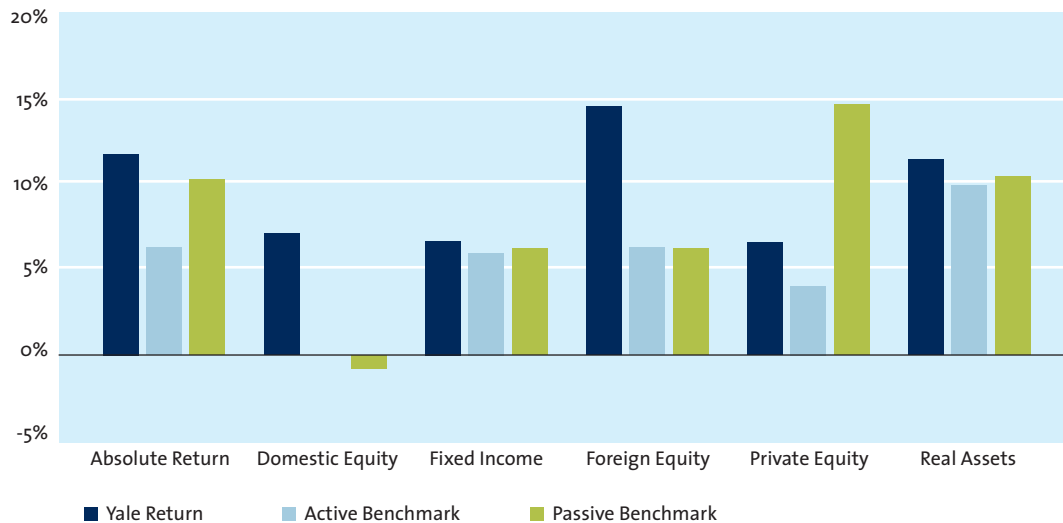
The heavy allocation to nontraditional asset classes stems from the diversifying power they provide to the portfolio as a whole. Alternative assets, by their nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management. Today's portfolio has significantly higher expected returns and lower volatility than the 1990 portfolio.

Asset Class	June 30, 2010	Current Target
Absolute Return	21.0%	19.0%
Domestic Equity	7.0%	7.0%
Fixed Income	4.0%	4.0%
Foreign Equity	9.9%	9.0%
Private Equity	30.3%	33.0%
Real Assets	27.5%	28.0%
Cash	0.3%	0.0%
Total	100.0%	100.0%

Yale Endowment

Asset classes vs. benchmarks:

Annualized return net of fees, ten years ended June 30, 2010



Active Benchmarks

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

Passive Benchmarks

Absolute Return: 1-year Constant Maturity Treasury + 6%
Domestic Equity: Wilshire 5000
Fixed Income: BarCap 1-5 Yr Treasury
Foreign Equity: 40% MSCI EAFE Index, 30% MSCI EM Index,
30% Opportunistic Benchmark (custom China/India blend)
Private Equity: University Inflation + 10%
Real Assets: University Inflation + 6%

Summary

Yale's approach to portfolio management relies on the principles of equity orientation and diversification. 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.