



# Report of the Treasurer

for the year ended  
June 30, 2011





# Report of the Treasurer

for the year ended June 30, 2011



**Massachusetts  
Institute of  
Technology**

## **The Corporation**

**2010–2011**

as of June 30, 2011

Chairman: John S. Reed\*

President: Susan Hockfield\*

Executive Vice President and Treasurer: Theresa M. Stone\*

Vice President for Institute Affairs and Secretary: Kirk D. Kolenbrander

### **Life Members**

Shirley A. Jackson; David H. Koch; Patrick J. McGovern; Robert A. Muh; Denis A. Bovin\*; James A. Champy\*; Judy C. Lewent; A. Neil Pappalardo\*; Arthur Gelb; Edie N. Goldenberg; Robert M. Metcalfe; Kenan E. Sahin; John K. Castle; Charles M. Vest; Susan E. Whitehead; Brian G. R. Hughes; Norman E. Gaut; L. Robert Johnson; Arthur J. Samberg\*; Gururaj Deshpande; Barrie R. Zesiger\*; James H. Simons; John A. Thain.

### **Members**

Thomas P. Gerrity; Mark P. Gorenberg; Scott P. Marks, Jr.; Marjorie M.T. Yang; Alan G. Spoon; Lawrence K. Fish; David D. Ho; Robert B. Millard\*; Carly S. Fiorina; Anita K. Jones\*; Martin Y. Tang; Raymond C. Kurzweil; Kenneth Wang; David A. Berry; James A. Lash; Paul F. Levy; Megan J. Smith; Henri A. Termeer; Chiquita V. White\*; O. Reid Ashe, Jr.; John W. Jarve; Harbo P. Jensen; Abigail P. Johnson; Frederick A. Middleton, Jr.; Barun Singh; Diana C. Walsh; Ursula M. Burns; Diane B. Greene; Helen Greiner; Marta M. Luczynska; Victor J. Menezes; Antonia D. Schuman; Peter L. Slavin; Laura D. Tyson; Raja H.R. Bobbili; Rafael del Pino; Mohammed A. L. Jameel; Cleve L. Killingsworth; Alejandro Padilla; Tony Keng Yam Tan; Samuel W. Bodman; Sarah Stewart Johnson; Reginald Van Lee

### **President of the Association of Alumni and Alumnae**

K. Anne Street

### **Representatives of the Commonwealth**

Governor: Deval L. Patrick

Chief Justice of the Supreme Judicial Court: Roderick L. Ireland

Secretary of Education: S. Paul Reville

### **Life Members Emeritus**

Irénée duPont, Jr.; Norman B. Leventhal; George P. Gardner; Mitchell W. Spellman; D. Reid Weedon, Jr.; Colby H. Chandler; Carl M. Mueller; Louis W. Cabot; Christian J. Matthew; Paul M. Cook; William S. Edgerly; Frank Press; Edward E. David, Jr.; Emily V. Wade; Angus N. MacDonald; George N. Hatsopoulos; Charles H. Spaulding; Mary Frances Wagley; Michael M. Koerner; Morris Tanenbaum; Breene M. Kerr; W. Gerald Austen; Richard P. Simmons; Morris Chang; Paul E. Gray; Alexander W. Dreyfoos, Jr.; Ronald A. Kurtz; DuWayne J. Peterson, Jr.; Raymond S. Stata; Brit J. d'Arbeloff; Gordon M. Binder; Dana G. Mead

Members' names are listed in chronological order of election to each category.

*\*member of the Executive Committee*

## **Table of Contents**

■ <b>Report of the Treasurer</b> .....	5-9
--	-----

### **■ Financial Statements**

*The financial statements summarize the finances of MIT for the fiscal years 2010 and 2011.*

Statements of Financial Position .....	11
--	----

Statements of Activities .....	12-13
--------------------------------	-------

Statements of Cash Flows .....	14
--------------------------------	----

Notes to Financial Statements .....	15-39
-------------------------------------	-------

Report of Independent Auditors .....	41
--------------------------------------	----

### **■ Additional Information**

Five-Year Trend Analysis .....	42-44
--------------------------------	-------



## Report of the Treasurer

### To Members of the Corporation

In fiscal 2011, MIT continued to improve its financial strength as it celebrated and reflected on its 150 years as an Institute and took important steps to embrace its future thoughtfully and responsibly.

Over the 150 days leading up to commencement, the global MIT community celebrated MIT's 150 years of excellence and innovation. MIT marked this milestone with symposia, performances, exhibitions and gatherings, including the Sesquicentennial Convocation, through which we reflected on the Institute's past contributions and drew inspiration for our future. These events have reminded us that MIT serves as a beacon to the world as the embodiment of excellence in science, technology and entrepreneurship.

The Institute's financial strengthening can be highlighted in several ways.

On an ongoing basis, MIT's financial strength is measured by its total net assets. This gauge of our net worth increased by 17.3 percent from fiscal 2010 to \$12,105.7 million at June 30, 2011. Key elements of this balance sheet measure are investments, physical plant and other assets, offset by debt and other liabilities. This year's advance brings us closer to our historic peak of \$12,770.0 million reached at fiscal 2008 year-end. The most important driver of this improvement was the excellent performance of our invested assets which are managed by our MIT Investment Management Company (MITIMCo).

For the fourth consecutive year, MIT's consolidated operating activities were in fiscal balance, generating a cumulative four-year surplus of revenues over expenses totaling \$756.9 million. While our results of operations always reflect some timing differences between receipt and expenditure of funds in various units across MIT as well as endowment payout decisions, four successive years of operating surpluses since 2008 point to the fundamental overall financial discipline exercised by the MIT community. Importantly, in fiscal 2011, we completed the multi-year adjustment process required to sustain that balance after the 2008 market downturn. These adjustments included a significant reduction in endowment payout accompanied by the final phase of our three-year, fifteen percent general budget rebasing. The collaboration of faculty, staff, students and alumni to achieve those budget reductions and to develop numerous initiatives from the Institute-wide Planning Task Force has strengthened the fabric of MIT.

With respect to our physical resources, in fiscal 2011, we placed in service two important academic and research buildings, the Koch Institute for Integrative Cancer Research and the new building for the Sloan School of Management; and in recent weeks, the newly renovated Maseeh Hall (formerly W1 or Ashdown House) welcomed 468 undergraduates.

All three buildings opened on time and below their combined \$577.0 million budgets, thanks to strong partnerships between our research and academic colleagues and our facilities and other staff professionals. Other capital projects, primarily renovations, have been, or are being, executed with similar success.

Looking to the future of MIT's physical resources, fiscal 2011 saw the launch of MIT 2030, which was presented to the Corporation last October. MIT 2030 provides a comprehensive framework, which will continuously evolve over time, to guide campus renovation and construction planning over the coming decades, and to form the basis of fundraising and MIT's borrowing plans to support capital projects and initiatives. MIT 2030 was developed through a multi-year process led by our academic leadership to envision the future of the Institute's academic and research mission and to identify the physical resources required to fulfill that mission.

In fiscal 2011, the debt portion of the funding to support the capital investments envisioned in the first decade of MIT 2030 was secured. In May 2011, MIT completed an historic issuance of \$750 million of hundred-year taxable bonds, taking advantage not only of favorable interest rates but also unprecedented investor demand for MIT's AAA credit, which was affirmed based on the comprehensive view offered by the MIT 2030 framework.

These hundred-year bonds are a stable, low cost source of funds for campus renovation and construction, and, in conjunction with anticipated gift funding in about an equal amount, will enable the roughly \$1.5 billion level of capital projects we deem actionable, given our current financial resources, to advance the first decade of the overall MIT 2030 campus vision.

Following are additional details on MIT's fiscal 2011 Statements of Financial Position and Statements of Activities.



## Statements of Financial Position

The following discussion highlights key elements of MIT's financial position – net assets, investments, endowment, land, buildings and equipment, borrowings, retirement plan assets and accrued benefit liabilities.

### Net Assets

Total net assets increased to \$12,105.7 million, up 17.3 percent from fiscal 2010 and approaching MIT's historic peak level achieved at fiscal year-end 2008 of \$12,770.0 million.

Net assets are presented in three categories to recognize the significant ways in which universities are different from profit-making organizations. These categories reflect the nature of the restrictions placed on gifts by donors.

Permanently restricted net assets represent those gifts for which the original principal is to be preserved. This category includes gifts and pledges to true endowment together with assets held in trust, such as life income funds, which, when received or matured, will be added to the endowment. The increase in permanently restricted net assets of \$356.0 million, or 16.9 percent, to a total of \$2,457.9 million, primarily reflects new gifts and pledges made to permanently restricted endowment funds.

Temporarily restricted net assets represent those gifts that ultimately can be used to fund operating or capital expenditures. They require an event or lapse of time to occur before they are available for spending. Approximately 90 percent of the assets in this category are accumulated market gains on permanently restricted endowment funds. This category also includes pledges not permanently restricted, gifts for construction projects that have not been completed and put into use, and life income funds, which, upon maturity, will be available for spending. The increase in temporarily restricted net assets of \$581.5 million, or 13.0 percent, to a total of \$5,044.5 million, primarily resulted from the increase in the market value of assets held in permanently restricted funds. The Commonwealth of Massachusetts requires that all universities located within the Commonwealth report accumulated market gains on both permanently and temporarily restricted net assets as temporarily restricted net assets until appropriated for use.

Unrestricted net assets comprise all the remaining economic resources available to MIT. This category includes MIT's working capital and those assets, designated by MIT as "funds functioning as endowment," to be invested over the long term to generate support for MIT's operations and capital projects. Also included in this category are current funds received from donors

for restricted purposes that, under generally accepted accounting principles (GAAP) in the United States of America, are categorized as unrestricted if MIT spends an equivalent amount of unrestricted funds for the same purpose. Unrestricted net assets increased \$844.0 million, or 22.5 percent, to a total of \$4,603.3 million. The increase in unrestricted net assets is due primarily to the increase in unrestricted endowment value, investment gain on other invested funds, release of temporarily restricted funds when the buildings are put into use and the improvement of the retirement plan's overfunded status. During fiscal 2010, unrestricted net assets were decreased by \$4.8 million to offset investment losses on permanently restricted net assets where market value dropped below book value. These investment losses reversed in fiscal 2011 and an adjustment of \$22.0 million was made to increase unrestricted net assets.

### Investments

Investments at fair value were \$12,199.5 million at June 30, 2011, an increase of \$2,285.6 million, or 23.1 percent, from \$9,913.9 million in the previous year. Over the past five years, total invested assets have increased to \$12,199.5 million from \$9,500.2 million while distributions for expenditures have totaled \$2,367.1 million. More specific information is included in Note B to the financial statements.

The financial statements include both realized and unrealized gains and losses on investments. Realized and unrealized gains and losses, including those related to the disposition of fixed assets, increased from a gain of \$784.3 million in fiscal 2010 to a gain of \$1,483.7 million in fiscal 2011.

MIT's investment policy is based on the primary goal of generating high real rates of return without exceptional volatility. To reduce volatility, the portfolio is broadly diversified. To generate high real rates of return, MIT's investment policy favors equity investments over fixed income instruments and is heavily weighted towards inefficient markets such as private equity, real estate, and marketable alternatives. Marketable alternatives include investments in absolute return strategies, distressed debt, and hedge funds. Total asset allocation among equity, marketable alternatives, and real estate investments in fiscal 2011 was slightly lower than that in fiscal 2010. Equity, marketable alternatives, and real estate investments at market value were 81.1 percent of investments as of June 30, 2011, as compared to 83.7 percent at June 30, 2010.

MIT primarily invests through external fund managers, thereby allowing MIT to tap into the best investment talent globally. By identifying a wide variety of top-tier



investment managers with specific competencies, MIT is able to construct a broadly diversified portfolio while accessing deep sector expertise. Decisions regarding the selection of managers, direct investments, and asset allocation are conducted by MITIMCo. The Board of Directors of MITIMCo holds four regularly scheduled meetings during the fiscal year where investment policy, performance, and asset allocation are reviewed with MITIMCo professionals.

### **Endowment and Similar Funds**

Endowment assets are managed to maximize total investment return relative to appropriate risk. The market value of investments in the endowment and similar funds, excluding pledges for endowed purposes, totaled \$9,712.6 million as of June 30, 2011 and \$8,317.3 million as of June 30, 2010 and approached the peak year-end level reached in fiscal 2008 of \$9,947.6 million

This year, MIT's core Pool A endowment produced a return of 17.9 percent. Investment income and a portion of gains are distributed for spending in a manner that over the long term preserves for reinvestment an amount at least equal to annual inflation on the value of the investment at the beginning of that year. Endowment funds invested in Pool A, MIT's primary investment pool, receive distributions based on relative ownership which is valued monthly.

### **Land, Buildings, and Equipment**

Land, buildings and equipment had a net book value of \$2,451.5 million as of June 30, 2011, an increase of 5.3 percent from \$2,327.8 million as of June 30, 2010, driven by expenditures for research and educational facilities, including the completion of the new 367,000 square-foot Koch Institute for Integrative Cancer Research as well as a new 217,000 square-foot building for the Sloan School of Management.

In addition to the buildings placed in service by fiscal year-end, the newly-renovated Fariborz Maseeh Hall welcomed students last month. This historic 1900 building at the corner of Massachusetts Avenue and Memorial Drive was constructed before MIT's move to Cambridge in 1916 and for many years served as graduate student housing, with the name of Ashdown House, before the completion of New Ashdown graduate dormitory, which opened in August 2008. Maseeh Hall supports the Institute's goal of returning MIT's undergraduate population to the 4,500 level. This major renovation was put on hold after the market downturn in 2008, but was subsequently made possible as funding was provided through generous gifts of alumni donors.

These three projects, among others, are part of ongoing campus development that adds state-of-the-art facilities for emerging areas of research, increases educational infrastructure to support residential and community life, and renews and renovates our existing physical resources.

### **MIT 2030**

This year, we launched MIT 2030 as a comprehensive framework for planning for our physical resources. MIT 2030 grew out of a long term visioning process by MIT's academic leadership aimed at assuring MIT's premiere position in education and research in the coming decade. MIT 2030 lays out options to provide the physical platform worthy of that mission. This framework makes provision for new buildings where required for cutting edge science and technology research. In addition, MIT 2030 incorporates a strong commitment to campus renovation and renewal through proposed whole-building and Main Group section renovations, selective interventions in long-serving buildings, as well as broadly distributed updating of basic campus infrastructure. The aspirations for our physical resources set forth in MIT 2030 will take many years to achieve. As a first step, an actionable set of options for the 2010-2020 decade has been identified, carrying an estimated cost of \$1.5 billion. Based on our current financial position, a program of that magnitude can be accomplished if funded equally by fundraising and debt.

An important dimension of the MIT 2030 process has been to integrate into the broad vision of our campus the campus neighborhood development activity which is conducted by the MITIMCo real estate group. This program continues to achieve its goals of providing attractive commercial real estate returns for the endowment, improving the campus neighborhood and providing opportunities for large and small companies and institutes to locate in close proximity to MIT.

### **Debt and Other Assets and Liabilities**

In May 2011, based on the MIT 2030 vision of capital programs for the coming decade, MIT took the opportunity offered by the favorable interest rate environment and receptivity to MIT's AAA credit, which was affirmed based on the comprehensive view offered by the MIT 2030 framework, to issue an historic \$750 million of hundred-year maturity taxable bonds. These funds will be held until required for capital projects envisioned in the 2010-2020 decade of MIT 2030. At fiscal year-end 2011, MIT's total borrowings, which primarily support completed or future capital projects, were \$2,467.8 million, up from \$1,728.5 million a year ago.

MIT's defined benefit pension plan had assets of \$2,572.3 million and liabilities of \$2,458.6 million, resulting in a net pension asset of \$113.7 million at fiscal year-end 2011. MIT also maintains a postretirement welfare benefit plan with assets of \$311.6 million and liabilities of \$509.8 million, resulting in a net benefits liability of \$198.2 million at fiscal year-end 2011. The funding status of both plans improved in fiscal 2011 primarily due to favorable investment results. The investments of both plans are managed by MITIMCo. MIT also offers a 401k plan to its employees, which is not reflected on the balance sheet, invested at the direction of participants in a broad array of investment funds.

## Statements of Activities

### Operating Activities

In fiscal 2011, we grew our research activity and maintained excellence in our education mission while exercising expense control in core administrative areas. MIT ended the year with a surplus from operations of \$179.5 million, \$101.0 million lower than the fiscal 2010 result. The MIT community has demonstrated its commitment to financial discipline by achieving an operating surplus in each of the past four years.

Operating revenues increased \$87.5 million, or 3.3 percent, to \$2,750.6 million, while operating expenses increased \$188.6 million, or 7.9 percent, to a total of \$2,571.1 million.

Year-over-year comparisons of the components of operating results are influenced by fundamental trends, as well as such drivers as timing differences between receipt of revenues and related expenditures in various units across the Institute and policy decisions on endowment payout. The Operating Activities section of our Statements of Activities on pages 12 and 13 sets forth details on these trends. Some of the specific trends in various revenue and expense categories are described below.

### Operating Revenues

MIT's operating revenues include tuition, research, unrestricted gifts and bequests for current use, fees and services, other programs, investment income, the portion of net investment gains distributed to funds under MIT's spending policy, auxiliaries, and payments on pledges for unrestricted gifts.

Tuition revenue for graduate, undergraduate and non-degree executive programs net of financial aid grew by \$15.2 million, or 6.4 percent, to \$253.5 million. Reflecting MIT's commitment to increasing the affordability of undergraduate education, financial aid for undergraduate students grew to \$85.9 million, or 2.6

percent, from fiscal 2010, and has increased a total of \$31.4 million, or 57.6 percent, over the last five years.

MIT demonstrated strong growth in and diversity of research funding in fiscal 2011. Total research revenues increased to \$1,447.2 million, up \$77.6 million, or 5.7 percent, from the previous year. Of these amounts, campus labs and centers at MIT experienced a \$14.8 million, or 2.4 percent, increase in research revenues to \$618.9 million, and research revenues at Lincoln Laboratory totaled \$804.8 million, an increase of \$60.5 million, or 8.1 percent. The Singapore-MIT Alliance for Research and Technology (SMART) generated \$23.5 million of research revenue during fiscal 2011, an increase of \$2.4 million, or 11.2 percent, for research activities taking place in Singapore. Cumulative research awards and other funding received via the American Recovery and Reinvestment Act of 2009 (ARRA) totaled \$150.4 million as of June 30, 2011. Of this figure, amounts expended for research in fiscal 2011 are included in the figures above.

Research revenues include reimbursement from sponsors for both direct and indirect (facilities and administration) costs. MIT's modified total direct research expenditures, which form the basis for recovery of indirect costs, increased by \$52.9 million, or 6.8 percent.

Growth in MIT's campus research is being driven by both Federal and non-Federal sponsors. Total Federal sponsorship of research grew \$31.6 million, or 7.2 percent, to \$469.5 million. Research volume sponsored by the Department of Health and Human Services grew \$8.1 million, or 5.6 percent, to \$152.7 million. Similarly, research volume sponsored by the Department of Defense increased \$0.9 million, or 0.8 percent, to \$107.8 million; Department of Energy volume grew by \$16.3 million, or 22.2 percent, to \$89.6 million; National Science Foundation volume grew by \$5.1 million, or 7.2 percent, to \$74.9 million; and volume sponsored by the National Aeronautics and Space Administration decreased \$2.5 million, or 8.3 percent, from last year to \$28.1 million.

Non-Federal funding for campus research increased by \$0.9 million, or 0.5 percent, to \$178.2 million, with the greatest increase coming from industry sponsors, offset by a decrease in non-profit funding.

While research is our largest source of revenue, we experienced growth in other revenue categories as well, the largest being revenues from fees and services at \$199.0 million, an increase of 22.6 percent. MIT's investment income and gain distribution to support operations declined by \$62.0 million to \$496.8 million in fiscal 2011 as we implemented the planned payout reduction required

to reach sustainable payout levels after the 2008 market downturn. The distribution rate on endowed funds was 5.3 percent, or 4.9 percent on a three-year-average basis, in fiscal 2011. Growth in MIT's combined revenue categories was sufficient to offset the endowment distribution decrease and resulted in our overall operating revenue growth of 3.3 percent to \$2,750.6 million.

### **Operating Expenses**

Operating expenses grew to \$2,571.1 million, an increase of 7.9 percent. This consolidated result combines differing underlying trends in units funded by the general Institute unrestricted budget, the research enterprise and expenditures from accumulated unit fund balances.

Overall Institute salary costs rose 4.1 percent while employee benefits costs rose 23.4 percent. The benefit increase results from amortization of pension investment losses of fiscal 2009 as required by US GAAP. Behind the overall salary increase, salaries funded centrally through the general Institute unrestricted budget remained flat, while salaries paid from research or designated funds grew.

Research expenses on campus and at Lincoln Laboratory grew at 4.6 percent and 7.1 percent, with salary growth in those units at 6.2 percent and 7.7 percent, respectively. Expenditures from units' funds grew by 16.1 percent with salaries from this source growing 3.3 percent.

Expenses in administrative and educational units grew 6.9 percent. Salaries were flat as units completed planned reductions in their expense levels by implementing disciplined and targeted initiatives begun in fiscal 2009 as outgrowths of the Institute-wide Planning Task Force. Though the planned rebasing of budgets has been completed, we expect to reap additional benefits from the efforts of the Task Force as we adopt further improvements in administrative and operating practices in the coming years.

Expense increases were concentrated in operating categories other than salaries. Supplies and services grew by 10.7 percent; depreciation increased by 12.0 percent; and interest expense grew by 29.9 percent. The cost of utilities, rent and repairs declined by 8.8 percent primarily due to an adjustment to MIT's obligations for asset retirements.

### **Non-Operating Revenues, Gains and Losses Summary**

While operating activities contributed \$179.5 million to MIT's increase in net assets, non-operating activities added \$1,601.9 million to MIT's final fiscal 2011 total net asset balance of \$12,105.7 million. Growth in invested assets net of distribution, gifts and bequests,

favorable pledge activity and improvements of funding status of retirement plans were the principal contributors to positive non-operating performance.

### **Gifts and Pledges**

As of June 30, 2011, the Campaign for Students had surpassed its goal of \$500.0 million with over \$578.0 million raised. The campaign was concluded concurrently with MIT's celebrations of its 150th anniversary. Gifts to the Campaign support scholarships, fellowships, educational programming, and student life activities. Another important program, the MIT Energy Initiative (MITEI) now has received funds from 1,576 donors and has raised \$87.0 million in philanthropic dollars.

Gifts and pledges for fiscal 2011 totaled \$522.4 million, an increase of 111.9 percent from the fiscal 2010 total of \$246.6 million. Gifts from individuals represented 65.5 percent of new gifts and pledges, up from 54.5 percent in the previous year. Gifts from foundations represented 14.7 percent of new gifts and pledges in fiscal 2011, down from 21.8 percent in the previous year. Gifts from corporations and other sources represented 19.8 percent, down from 23.7 percent in fiscal 2010. New gifts and pledges for general purposes were the largest category of gifts for fiscal 2011.

MIT's full financial statements and footnotes, describing our financial position and activities through June 30, 2011 are included on the following pages.

### **Closing Remarks**

This is my fifth and final report to the MIT Corporation as its Executive Vice President and Treasurer. It has been an honor and privilege to work with colleagues throughout the MIT community whose passion for the Institute and its mission assures its continued preeminence. I am deeply grateful to President Hockfield and to the Corporation for allowing me to serve the Institute in this position of trust.

In closing, on behalf of the Institute, I wish to thank the MIT community for its generous financial support, advice, and collaboration throughout the year and to reaffirm our optimism for the future.

Respectfully submitted,



Theresa M. Stone  
Executive Vice President and Treasurer

September 15, 2011



# Massachusetts Institute of Technology

## Statements of Financial Position

at June 30, 2011 and 2010

(in thousands of dollars)

	2011	2010
<b>Assets</b>		
Cash . . . . .	\$ 131,221	\$ 133,973
Accounts receivable, net . . . . .	261,206	203,116
Pledges receivable, net, at fair value. . . . .	422,965	412,310
Contracts in progress, principally U.S. Government . . . . .	68,411	68,344
Deferred charges, inventories and other assets . . . . .	70,127	54,306
Student notes receivable, net . . . . .	49,757	49,496
Investments, at fair value. . . . .	12,199,451	9,913,877
Minority interests . . . . .	282,041	230,433
Retirement plan asset-overfunded status . . . . .	113,715	18,841
Land, buildings & equipment (at cost \$3,406,169 for June 2011; \$3,208,140 for June 2010), net of accumulated depreciation. . . . .	2,451,479	2,327,810
Total assets. . . . .	<u>\$ 16,050,373</u>	<u>\$ 13,412,506</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable, accruals and other liabilities . . . . .	\$ 366,161	\$ 309,098
Liabilities due under life income fund agreements, at fair value. . . . .	84,225	74,256
Minority interests . . . . .	282,041	230,433
Deferred revenue and other credits . . . . .	123,215	112,516
Advance payments. . . . .	389,253	362,147
Borrowings. . . . .	2,467,825	1,728,526
Government advances for student loans. . . . .	33,754	33,590
Accrued benefit liabilities . . . . .	198,209	237,635
Total liabilities. . . . .	<u>3,944,683</u>	<u>3,088,201</u>
Net Assets:		
Unrestricted. . . . .	4,603,280	3,759,301
Temporarily restricted. . . . .	5,044,519	4,463,066
Permanently restricted . . . . .	2,457,891	2,101,938
Total net assets . . . . .	<u>12,105,690</u>	<u>10,324,305</u>
Total liabilities and net assets . . . . .	<u>\$ 16,050,373</u>	<u>\$ 13,412,506</u>

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



# Massachusetts Institute of Technology

## Statements of Activities

for the years ended June 30, 2011 and 2010

(in thousands of dollars)

	Unrestricted		Temporarily Restricted	
	2011	2010	2011	2010
<b>Operating Activities</b>				
<b>Operating Revenues:</b>				
Tuition and similar revenues, net of discount of \$240,299 in 2011 and \$230,269 in 2010	\$ 253,478	\$ 238,301	\$ -	\$ -
Research revenues:				
Direct	1,250,388	1,172,406	-	-
Indirect	196,818	197,197	-	-
Total research revenues	1,447,206	1,369,603	-	-
Gifts and bequests for current use	111,114	108,674	-	-
Fees and services	198,971	162,300	-	-
Other programs	87,133	70,439	-	-
Investment income	117,004	99,669	-	-
Net gains on investments, distributed	379,793	459,138	-	-
Auxiliary enterprises	100,135	96,015	-	-
Net asset reclassifications and transfers	55,813	58,964	-	-
Total operating revenues	2,750,647	2,663,103	-	-
<b>Operating Expenses:</b>				
Salaries and wages	1,006,458	967,190	-	-
Employee benefits	223,568	181,116	-	-
Supplies and services	898,284	811,780	-	-
Subrecipient agreements	120,977	117,442	-	-
Utilities, rent, and repairs	131,539	144,201	-	-
Depreciation	116,385	103,910	-	-
Interest expense	73,936	56,927	-	-
Total operating expenses	2,571,147	2,382,566	-	-
Results of operations	179,500	280,537	-	-
<b>Non-Operating Revenues, Gains and Losses</b>				
Pledges	-	-	97,807	67,716
Gifts and bequests	-	-	7,401	3,507
Investment Income	-	-	1,226	2,861
Net gain on investments and other assets	573,528	359,337	898,180	419,054
Distribution of accumulated investment gains	(133,843)	(152,081)	(245,950)	(307,057)
Net change in life income funds	2,406	675	8,731	5,324
Pension-related charges other than net periodic pension benefit income (cost)	105,408	(238,137)	-	-
Transfer of net assets to The Broad Institute	-	(90,975)	-	-
Net asset reclassifications and transfers	116,980	40,020	(185,942)	(129,354)
Total non-operating activities	664,479	(81,161)	581,453	62,051
Increase in net assets	843,979	199,376	581,453	62,051
Net assets at the beginning of the year	3,759,301	3,559,925	4,463,066	4,401,015
Net assets at the end of the year	\$ 4,603,280	\$ 3,759,301	\$ 5,044,519	\$ 4,463,066

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





# Massachusetts Institute of Technology

## Statements of Cash Flows

for the years ended June 30, 2011 and 2010

(in thousands of dollars)

	2011	2010
<b>Cash Flow from Operating Activities:</b>		
Increase in net assets . . . . .	\$ 1,781,385	\$ 377,917
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments . . . . .	(1,483,669)	(784,348)
Change in retirement plan asset, net of change in accrued benefit liability . . . . .	(134,300)	209,499
Depreciation . . . . .	116,385	103,910
Gifts of securities . . . . .	(1,921)	(4,135)
Net gain on life income funds . . . . .	(25,383)	(5,144)
Transfer of land, buildings and equipment to The Broad Institute . . . . .	–	82,563
Amortization of bond premiums and discounts and other adjustments . . . . .	(7,949)	(3,823)
Change in operating assets and liabilities:		
Pledges receivable . . . . .	(10,655)	52,426
Accounts receivable . . . . .	(58,090)	37,908
Contracts in progress . . . . .	(67)	17,477
Deferred charges, inventories and other assets . . . . .	(15,821)	9,246
Accounts payable, accruals and other liabilities, excluding building and equipment accruals . . . . .	68,948	4,765
Liabilities due under life income fund agreements . . . . .	9,969	1,650
Deferred revenue and other credits . . . . .	10,699	(62,554)
Advance payments . . . . .	27,106	18,851
Reclassify investment income . . . . .	(8,706)	(7,303)
Reclassify contributed securities received as payment on pledges . . . . .	(27,380)	(28,121)
Reclassify contributions restricted for long-term investment . . . . .	(300,718)	(41,539)
Net cash used in operating activities . . . . .	<u>(60,167)</u>	<u>(20,755)</u>
<b>Cash Flow from Investing Activities:</b>		
Purchase of land, buildings and equipment . . . . .	(251,932)	(387,908)
Purchases of investments . . . . .	(41,050,404)	(37,941,462)
Proceeds from sale of investments, including contributed securities . . . . .	40,570,574	38,373,562
Student notes issued . . . . .	(9,967)	(9,641)
Collections from student notes . . . . .	9,282	8,863
Net cash (used in) provided by investing activities . . . . .	<u>(732,447)</u>	<u>43,414</u>
<b>Cash Flow from Financing Activities:</b>		
Proceeds from contributions restricted for:		
Investment in endowment . . . . .	293,317	38,032
Investment in plant and other . . . . .	7,401	3,507
Less: contributed securities, gifts for endowment, plant and other . . . . .	(267,356)	(7,080)
Total proceeds from contributions . . . . .	33,362	34,459
Increase in investment income for restricted purposes . . . . .	8,706	7,303
Proceeds from borrowings . . . . .	750,000	–
Repayment of borrowings . . . . .	(2,370)	(2,260)
Increase in government advances for student loans . . . . .	164	249
Net cash provided by financing activities . . . . .	<u>789,862</u>	<u>39,751</u>
Net (decrease) increase in cash . . . . .	(2,752)	62,410
Cash at the beginning of the year . . . . .	133,973	71,563
Cash at the end of the year . . . . .	<u>\$ 131,221</u>	<u>\$ 133,973</u>

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

## Notes to Financial Statements

---

### A. Accounting Policies

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The financial statements include MIT and its wholly-owned subsidiaries.

Net assets, revenues, expenses, gains and losses are classified into three categories based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted, and unrestricted net assets. Unconditional promises to give (pledges) are recorded as receivables and revenues within the appropriate net asset category.

Permanently restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that are required by donors to be permanently retained. Pledges, trusts, and remainder interests are reported at their estimated fair values.

Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds), or by interpretations of law (net gains on permanently restricted gifts that have not been appropriated for spending). Gifts specified for the acquisition or construction of long-lived assets are reported as temporarily restricted net assets until the monies are expended and the buildings are put into use, at which point they are reclassified to unrestricted net assets. Net unrealized losses on permanently restricted endowment funds for which the book value exceeds market value are recorded as a reduction to unrestricted net assets.

Unrestricted net assets are all the remaining net assets of MIT. Donor-restricted gifts and unexpended restricted endowment income that are received and either spent, or the restriction is otherwise met within the same year, are reported as unrestricted revenue. Gifts of long-lived assets are reported as unrestricted revenue.

Net asset reclassifications and transfers consist primarily of payments on unrestricted pledges and use of building funds in accordance with donor restrictions for buildings put into use during the year. Expirations of temporary restrictions on net assets, release of permanent restrictions by a donor, and change of restrictions imposed by donors are also reported as reclassifications of net assets among unrestricted, temporarily and permanently restricted net assets.

MIT administers its various funds, including endowments, funds functioning as endowments, school or departmental funds, and related accumulated gains in accordance with the principles of "Fund Accounting." Gifts are recorded in fund accounts and investment income is distributed to funds annually. Income distributed to funds may be a combination of capital appreciation and yield pursuant to MIT's total return investment and spending policies. Each year, the Executive Committee of the Corporation approves the rates of distribution of investment return to the funds from MIT's investment pools. See Note K for further information on income distributed to funds.

MIT's operations include tuition, research revenues, unrestricted gifts and bequests for current use, fees and services, other programs, investment income, the portion of net investment gains distributed to funds under MIT's spending policy, auxiliary revenues, payments on pledges for unrestricted gifts, and operating expenditures. Results of operations are displayed in the Statements of Activities.

MIT is a nonprofit organization that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, originally recognized in October 1926, with the most recent affirmation letter dated July 2001.

#### Restricted Cash

Certain cash balances, totaling \$42.5 million and \$83.1 million at June 30, 2011 and 2010, respectively, are restricted for use under certain sponsored research agreements.

#### Sponsored Research

Revenue associated with contracts and grants is recognized as related costs are incurred. The capital costs of buildings and equipment are depreciated over their estimated life cycle and the sponsored research recovery allowance for depreciation is treated as indirect research revenue. MIT has recorded reimbursement of indirect costs relating to sponsored research at negotiated fixed billing rates. The income generated by the negotiated rates is adjusted each fiscal year to reflect any variance between the negotiated fixed rates and rates based on actual cost. The actual cost rate is audited by the Defense Contract Audit Agency (DCAA) and a final fixed-rate agreement is signed by the U.S. Government and MIT. The variance between the negotiated fixed rate and the final audited rate results in a carry forward (over or under-recovery). The carry forward is included in the calculation of negotiated fixed billing rates in future years. Any adjustment in the rate is charged or credited to unrestricted net assets.

## A. Accounting Policies (continued)

### Land, Buildings and Equipment

Land, buildings and equipment are shown at cost when purchased or fair value as of the date of a gift when received as gifts, net of accumulated depreciation. When expended, costs associated with the construction of new facilities are shown as construction in progress until such projects are completed. Depreciation is computed on a straight-line basis over the estimated useful lives of 25 to 50 years for buildings, 3 to 25 years for equipment, and 4 to 6 years for software. Fully depreciated assets were removed from the financial statements in the amount of \$37.5 million and \$98.2 million during 2011 and 2010, respectively. Land, buildings and equipment at June 30, 2011 and 2010 are shown in Table 1 below.

**Table 1. Land, Buildings and Equipment**

<i>(in thousands of dollars)</i>	2011	2010
Land . . . . .	\$ 59,598	\$ 59,598
Land improvements . . . . .	60,795	61,830
Educational buildings . . . . .	2,936,816	2,425,618
Equipment . . . . .	164,909	149,320
Software . . . . .	29,938	36,733
<b>Total . . . . .</b>	<b>3,252,056</b>	<b>2,733,099</b>
Less: accumulated depreciation . . . . .	(954,690)	(880,330)
Construction in progress . . . . .	142,788	471,514
Software projects in progress . . . . .	11,325	3,527
<b>Land, buildings and equipment . . . . .</b>	<b>\$ 2,451,479</b>	<b>\$ 2,327,810</b>

Depreciation expense was \$116.4 million in 2011 and \$103.9 million in 2010. Net interest expense of \$6.6 million and \$17.6 million was capitalized during 2011 and 2010, respectively, in relation to MIT's construction projects.

### Tuition and Financial Aid

Tuition and similar revenues, shown in Table 2 below, include tuition and fees in degree programs as well as tuition and fees for executive and continuing education programs at MIT.

**Table 2. Tuition and Similar Revenues**

<i>(in thousands of dollars)</i>	2011	2010
Tuition revenue . . . . .	\$ 457,494	\$ 432,778
Executive and continuing education revenues . . . . .	36,283	35,792
<b>Total . . . . .</b>	<b>493,777</b>	<b>468,570</b>
Less: tuition discount . . . . .	(240,299)	(230,269)
<b>Net tuition &amp; similar revenue . . . . .</b>	<b>\$ 253,478</b>	<b>\$ 238,301</b>

Tuition support is awarded to undergraduate students by MIT based on need. Graduate students are provided with tuition support in connection with research assistance, teaching assistance, and fellowship appointments. Total financial aid granted to students was \$409.8 million and \$397.4 million in 2011 and 2010, respectively. Of that amount, \$125.8 million in 2011 and \$125.5 million in 2010 were aid from sponsors. Tuition support from MIT sources is displayed as tuition discount. Components of financial aid are detailed in Table 3 below.

**Table 3. Financial Aid**

<i>(in thousands of dollars)</i>	2011			2010		
	Institute sources	External sponsors	Total financial aid	Institute sources	External sponsors	Total financial aid
Tuition support . . . . .	\$ 240,299	\$ 53,756	\$ 294,055	\$ 230,269	\$ 54,722	\$ 284,991
Stipends . . . . .	17,680	12,755	30,435	15,850	12,254	28,104
Student salaries . . . . .	26,051	59,284	85,335	25,820	58,484	84,304
<b>Total . . . . .</b>	<b>\$ 284,030</b>	<b>\$ 125,795</b>	<b>\$ 409,825</b>	<b>\$ 271,939</b>	<b>\$ 125,460</b>	<b>\$ 397,399</b>

## A. Accounting Policies (continued)

### Gifts and Pledges

Gifts and pledges are recognized when received. Gifts of securities are recorded at their fair value at the date of contribution. Gifts of equipment received from manufacturers and other donors are put into use and recorded by MIT at fair value. Gifts of equipment totaled \$0.4 million and \$0.6 million in 2011 and 2010, respectively. Pledges in the amount of \$423.0 million and \$412.3 million were recorded as receivables at June 30, 2011 and 2010, respectively, with the revenue assigned to the appropriate classification of restriction. Pledges consist of unconditional written promises to contribute to MIT in the future and are recorded after discounting the future cash flows to the present value.

MIT records items of collections as gifts at nominal value. They are received for educational purposes and most are displayed throughout MIT. In general, collections are not disposed of for financial gain or otherwise encumbered in any manner.

### Advance Payments

Amounts received by MIT from the U.S. Government, corporations, industrial sources, foundations, and other non-MIT sponsors under the terms of agreements that generally require the exchange of assets, rights, or privileges between MIT and the sponsor are recorded as advance payments. Revenue is recognized when MIT fulfills the terms of the agreement.

### Life Income Funds

MIT's life income fund agreements with donors consist primarily of irrevocable charitable gift annuities, pooled income funds, and charitable remainder trusts for which MIT serves as trustee. Assets are invested and payments are made to donors and other beneficiaries in accordance with the respective agreements. MIT records the assets that are associated with each life income fund at fair value and records as liabilities the present value of the estimated future payments at current interest rates to be made to the donors and beneficiaries under these agreements.

A rollforward of liabilities due under life income fund agreements is presented in Table 4.

### Recently Adopted Accounting Standards

On July 1, 2010, MIT adopted new guidance enhancing the *Fair Value Measurement* standard. This standard requires further disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements, including the reasons for the transfers, and requires discussions of their fair value measurement disclosures on a disaggregated basis. Refer to Note B for further details.

On July 1, 2010, MIT adopted the accounting standard, *Credit Quality*. This standard requires the disclosure about the credit quality of financing receivables and the related allowance for credit losses. The disclosures are included in Note E.

On July 1, 2009, MIT adopted the *Fair Value Measurements* standard for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with, US GAAP. As a practical expedient, MIT is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with US GAAP. MIT's investments in private equity, real estate and marketable alternatives are fair-valued based on the most current NAV.

On July 1, 2009, MIT adopted the accounting standard, *Disclosures about Derivative Instruments*. This standard requires specific tabular disclosures presenting the fair value amounts of derivative instruments for assets and liabilities and their location on the balance sheet, as well as disclosure of derivative gains and losses and their location on the income statement. The new disclosure requirements call for specific fair value and gain/loss information by the derivative instrument's primary underlying risk exposure (for example, interest rate, credit, foreign exchange rate, or overall price) on a gross basis.

**Table 4. Liabilities Due Under Life Income Funds**

(in thousands of dollars)

	2011	2010
Balance at beginning of year . . . . .	\$ 74,256	\$ 72,606
Additions for new gifts . . . . .	8,907	5,123
Terminations and payments to beneficiaries . . . . .	(12,164)	(10,845)
Net investment and actuarial gain . . . . .	13,226	7,372
<b>Balance at end of year . . . . .</b>	<b>\$ 84,225</b>	<b>\$ 74,256</b>



---

## A. Accounting Policies (continued)

On July 1, 2009, MIT adopted the accounting standard, *Disclosures about Postretirement Benefit Plan Assets*. This standard provides guidance on expanded disclosures for plan assets of a defined benefit pension or other postretirement plan. The adoption has no impact on the valuation of MIT's postretirement benefit plans. It does however require additional disclosures included in Note J.

### Minority Interests

MIT is the general partner for several private equity funds and has displayed the noncontrolling interests as minority interests on the Statements of Financial Position.

### Non-Cash Items

Non-cash transactions excluded from the Statements of Cash Flows include the increase in minority interest of \$51.6 million and \$62.1 million, as well as \$23.2 million and \$35.1 million of accrued liabilities related to plant and equipment purchases for 2011 and 2010, respectively.

---

## B. Investments

Investment transactions are accounted for on the trade date. Realized gains and losses are recorded by MIT using the average cost basis. Dividend income is recorded on the ex-dividend date.

As discussed in Note A, MIT values its investments in accordance with the principles of accounting standards which establish a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. MIT follows a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by MIT for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from relevant exchange or dealer markets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

Certain June 30, 2010 balances and amounts previously reported have been reclassified to conform to the June 30, 2011 presentation.

### Subsequent Events

MIT has evaluated subsequent events through September 15, 2011, the date the financial statements were issued. There were no subsequent events that occurred after the balance sheet date that have a material impact on MIT's financial statements.

similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Investments may be classified as Level 2 when market information (observable net asset values) is available, yet the investment is not traded in an active market. Market information, including observable net asset values, subscription and redemption activity, if applicable, and the length of time until the investment will become redeemable are considered when determining the proper categorization of the investment's fair value measurement within the fair valuation hierarchy. Fund investments that have observable market inputs (published net asset values) and from which MIT has the ability to redeem within twelve months of June 30 are classified in the fair value hierarchy as Level 2.

Investment funds that have unobservable inputs or from which MIT does not have the ability to redeem within twelve months are classified in the fair value hierarchy as Level 3.



## B. Investments (continued)

Table 5 below presents MIT's investments at fair value as of June 30, 2011, grouped by the valuation hierarchy as defined in this note. There were no significant transfers in and out of Level 1 and Level 2 fair value measurements in 2011.

<i>(in thousands of dollars)</i>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant un- observable inputs (Level 3)	Total fair value
<b>Fiscal year 2011</b>				
Cash and cash equivalents . . . . .	\$ 1,175,776	\$ –	\$ –	\$ 1,175,776
Fixed income . . . . .	601,874	319,033	76,652	997,559
Long equities . . . . .	1,664,111	156,424	5,229,110	7,049,645
Short equities . . . . .	(628,455)	(122)	–	(628,577)
Marketable alternatives . . . . .	–	470,086	1,341,920	1,812,006
Real estate . . . . .	–	–	1,659,027	1,659,027
Perpetual trusts . . . . .	–	–	64,040	64,040
Interest rate, credit & other derivatives . . . . .	(1,752)	71,727	–	69,975
<b>Total investments . . . . .</b>	<b>\$ 2,811,554</b>	<b>\$ 1,017,148</b>	<b>\$ 8,370,749</b>	<b>\$ 12,199,451</b>
<b>Fiscal year 2010</b>				
Cash and cash equivalents . . . . .	\$ 788,453	\$ –	\$ –	\$ 788,453
Fixed income . . . . .	582,090	126,108	73,406	781,604
Long equities . . . . .	1,377,596	137,280	4,130,241	5,645,117
Short equities . . . . .	(518,545)	–	–	(518,545)
Marketable alternatives . . . . .	–	415,808	1,399,085	1,814,893
Real estate . . . . .	–	–	1,352,644	1,352,644
Perpetual trusts . . . . .	–	–	53,134	53,134
Interest rate, credit & other derivatives . . . . .	(1,592)	(1,831)	–	(3,423)
<b>Total investments . . . . .</b>	<b>\$ 2,228,002</b>	<b>\$ 677,365</b>	<b>\$ 7,008,510</b>	<b>\$ 9,913,877</b>

Cash and cash equivalents include cash, money market funds, repurchase agreements and negotiable certificates of deposit and are valued at cost, which approximates fair value. Fixed income investments include US government, agency, and other obligations. Fixed income investments are generally valued using independent pricing sources that use broker quotes or models using market observable inputs. Equity investments include public equities and private equity investment funds. Public equities are generally valued based on the closing price listed on a public securities exchange. Marketable alternatives include investments in absolute return strategies, distressed debt, and hedge funds. Private equity and marketable alternative investments generally consist of funds and limited partnerships managed by external managers. Securities held in these external

investment vehicles that do not have readily determinable fair values are determined by the external managers and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the external managers taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Using these valuations, most of these external managers calculate MIT's capital account or net asset value (NAV) in accordance with, or in a manner consistent with, US GAAP. As a practical expedient, MIT is permitted under US GAAP to estimate the fair value of its investments with external managers using the external

## B. Investments (continued)

managers' reported NAV without further adjustment unless MIT expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with US GAAP. Direct real estate holdings are valued at fair market value based on external appraisals. Perpetual trusts held by third parties are valued at the present value of the future distributions expected to be received over the term of the agreement. Over-the-counter positions such as interest rate swaps, credit default swaps, options, exchange agreements, and interest rate cap and floor agreements are valued using broker quotes or models using market observable inputs. Because the interest rate swaps and other derivative instruments have inputs that can generally be corroborated by market data, they are generally classified within Level 2.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. MIT has performed due diligence around its private equity and marketable alternative investments to

ensure they are recorded at fair value as of June 30, 2011 and 2010.

Furthermore, while MIT believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Table 6 is a rollforward of the investments classified by MIT within Level 3 of the fair value hierarchy defined on page 18 at June 30, 2011 and 2010.

All net realized and unrealized gains and losses relating to financial instruments held by MIT and shown in Table 5 are reflected in the Statements of Activities. Cumulative unrealized gains related to Level 3 investments totaled \$2,012.9 million at June 30, 2011 and \$1,260.0 million at June 30, 2010.

**Table 6. Rollforward of Level 3 Investments**

<i>(in thousands of dollars)</i>	Fixed income	Equities	Marketable alternatives	Real estate	Perpetual trusts	Total investments
<b>Fiscal year 2011</b>						
Fair value, July 1, 2010 . . . . .	\$ 73,406	\$ 4,130,241	\$ 1,399,085	\$ 1,352,644	\$ 53,134	\$ 7,008,510
Realized gains (losses). . . . .	(8)	9,965	(1)	–	–	9,956
Unrealized gains . . . . .	919	572,184	156,892	174,570	10,906	915,471
Net purchases, sales, and settlements . . . . .	2,335	516,720	(165,830)	131,813	–	485,038
Transfer of assets between levels	–	–	(48,226)	–	–	(48,226)
<b>Fair Value, June 30, 2011 . . .</b>	<b>\$ 76,652</b>	<b>\$ 5,229,110</b>	<b>\$ 1,341,920</b>	<b>\$ 1,659,027</b>	<b>\$ 64,040</b>	<b>\$ 8,370,749</b>
<b>Fiscal year 2010</b>						
Fair value, July 1, 2009 . . . . .	\$ 63,833	\$ 3,979,877	\$ 2,203,965	\$ 1,256,126	\$ 47,618	\$ 7,551,419
Realized gains (losses). . . . .	–	(46)	1,868	(389)	–	1,433
Unrealized gains . . . . .	9,270	282,355	203,573	76,600	5,516	577,314
Net purchases, sales, and settlements . . . . .	303	(113,178)	(594,513)	20,307	–	(687,081)
Transfer of assets between levels	–	(18,767)	(415,808)	–	–	(434,575)
<b>Fair Value, June 30, 2010 . . .</b>	<b>\$ 73,406</b>	<b>\$ 4,130,241</b>	<b>\$ 1,399,085</b>	<b>\$ 1,352,644</b>	<b>\$ 53,134</b>	<b>\$ 7,008,510</b>

MIT enters into short sales whereby it sells securities which may or may not be owned by MIT in anticipation of a decline in the price of such securities or in order to hedge portfolio positions. On June 30, 2011 and 2010, cash collateral and certain securities owned by MIT were held at counterparty brokers to collateralize these positions and are included in investments on the Statements of Financial Position.

Certain investments in real estate, equities, and private investments may be subject to restrictions that (i) limit MIT's ability to withdraw capital after such investment and (ii) may be subject to limitations that limit the amount that may be withdrawn as of a given redemption date. Most marketable alternative investments are held in funds where withdrawal is limited to monthly, quarterly, or other periods, and may require notice periods. In addition,

## B. Investments (continued)

certain of these funds are able to designate a portion of the investments as “illiquid” in “side-pockets,” and these funds may not be available for withdrawal until liquidated by the investing fund. Generally, MIT has no discretion as to withdrawal with respect to its investment in private equity and real estate funds. Distributions are made when sales of assets are made within these funds and the investment cycle for these funds can be as long as fifteen to twenty years. These restrictions may limit MIT’s ability

to respond quickly to changes in market conditions. MIT does have various sources of internal liquidity at its disposal, including cash, cash equivalents, marketable debt and equity securities, and lines of credit.

The unfunded commitments that MIT has made to various investments at June 30, 2011 and 2010 are listed in Table 7 below. MIT expects these funds to be called currently and for a period to extend up to fifteen years.

**Table 7. Unfunded Commitments**

<i>(in thousands of dollars)</i>	2011	2010
Equities . . . . .	\$ 1,275,577	\$ 1,362,357
Marketable alternatives . . . . .	66,410	111,897
Real estate . . . . .	510,321	456,656
<b>Total unfunded commitments</b>	<b>\$ 1,852,308</b>	<b>\$ 1,930,910</b>

## C. Derivative Financial Instruments

Effective July 1, 2009, MIT adopted an accounting standard which required entities to provide additional disclosures regarding derivative instruments held.

During the year ended June 30, 2011, MIT maintained two interest rate swap agreements to manage the interest cost and risk associated with its variable rate debt, further described in Note G. On June 5, 2011, one of these swap agreements expired. Under the terms of the expired agreement, MIT paid a fixed rate of 4.46% on a notional amount of \$125 million and received a payment indexed to the Securities Industry and Financial Market Association (SIFMA) municipal swap index rate. Under the remaining agreement, MIT pays a fixed rate of 4.91% and receives a payment indexed to SIFMA on a notional amount of \$125 million. At June 30, 2011, the remaining swap agreement had a total fair value of \$(32.8) million and at June 30, 2010 had a fair value of \$(35.5) million. This swap portfolio had a total net gain for 2011 of \$7.7 million and had \$4.9 million in losses for 2010. The notional amounts of these derivatives are not recorded on MIT’s Statements of Financial Position.

For its investment management, MIT uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement. MIT uses these instruments primarily to decrease its exposure to extreme market events and to partially offset exchange rate movements with respect to any currency exposure. These instruments include futures, credit default swaps, and interest rate cap and swaption agreements. The futures are exchange-traded and the swap, swaptions, and

cap agreements are executed over the counter.

MIT’s portfolio of interest rate caps and swaptions is designed for protection from significant increases in interest rates. An interest rate swaption is an option to enter into an interest rate swap agreement on pre-set terms at a future date. The purchaser and seller of the swaption agree on the expiration date, option type, exercise style, the terms of the underlying swap and the type of settlement. As the expiration date approaches, the swaption holder can either notify the seller of its intention to exercise or let the option expire. An interest rate cap places a ceiling on a floating rate of interest on a specified notional principal amount for a specific term. The buyer of the cap uses the cap contract to limit its maximum interest rate exposure. If the buyer’s floating rate rises above the cap strike, the cap contract provides for payments from the seller to the buyer of the cap for the difference between the floating rate and the cap strike. If the floating rate remains below the cap strike, no payments are required. The cap buyer is required to pay an upfront fee or premium for the cap. The cap premium charged by the seller depends upon the market’s assessment of the probability that rates will move through the cap strike over the time horizon of the deal. The payoff is expected to occur in extreme market conditions that would negatively impact other of MIT’s assets.

Table 8 summarizes the notional exposure and net ending fair value relative to the financial instruments with off-balance sheet risk as of June 30, 2011 and 2010 related to MIT’s investment management.

## C. Derivative Financial Instruments (continued)

**Table 8. Derivative Financial Instruments**

<i>(in thousands of dollars)</i>	Notional exposure		Net ending fair value *	Net gain (loss)**
	Long	Short		
<b>Fiscal year 2011</b>				
Fixed income instruments				
Fixed income futures . . . . .	\$ 2,500	\$ (19,400)	\$ (67)	\$ 459
Options on interest rate exchange agreements .	1,284,436	–	2,715	2,612
Interest rate caps and floors . . . . .	2,884,777	(2,863,000)	50,947	5,413
Total fixed income instruments . . . . .	4,171,713	(2,882,400)	53,595	8,484
Currency instruments				
Currency forwards . . . . .	61,541	(16,884)	(126)	(830)
Total currency instruments . . . . .	61,541	(16,884)	(126)	(830)
Commodity instruments				
Commodity futures . . . . .	15,993	–	(110)	(379)
Equity index future . . . . .	–	(29,159)	(1,449)	(1,449)
Total commodity futures . . . . .	15,993	(29,159)	(1,559)	(1,828)
Credit instruments . . . . .	732,533	(2,617,037)	50,873	(5,561)
<b>2011 Total . . . . .</b>	<b>\$ 4,981,780</b>	<b>\$ (5,545,480)</b>	<b>\$ 102,783</b>	<b>\$ 265</b>
<b>Fiscal year 2010</b>				
Fixed income instruments				
Fixed income futures . . . . .	\$ –	\$ (32,700)	\$ (526)	\$ (1,494)
Options on interest rate exchange agreements .	1,084,172	(82,198)	20,371	(17,547)
Interest rate caps and floors . . . . .	2,750,000	(1,950,000)	5,287	11,638
Total fixed income instruments . . . . .	3,834,172	(2,064,898)	25,132	(7,403)
Currency instruments				
Currency forwards . . . . .	52,496	(53,829)	(1,333)	(1,007)
Total currency instruments . . . . .	52,496	(53,829)	(1,333)	(1,007)
Commodity instruments				
Commodity futures . . . . .	1,364	–	269	(3,424)
Total commodity futures . . . . .	1,364	–	269	(3,424)
Credit instruments . . . . .	200,607	(1,553,312)	12,969	35,390
<b>2010 Total . . . . .</b>	<b>\$ 4,088,639</b>	<b>\$ (3,672,039)</b>	<b>\$ 37,037</b>	<b>\$ 23,556</b>

\*The fair value of all derivative financial instruments is reflected in investments at fair value in the Statements of Financial Position.

\*\*Net gain (loss) from the derivative financial instruments is located in the non-operating section as net gain on investments and other assets in the Statements of Activities.

## C. Derivative Financial Instruments (continued)

Table 9 provides further details related to MIT's credit instruments. The act of entering into a credit default swap contract is often referred to as "buying protection" or "selling protection" on an underlying reference obligation. The buyer is obligated to make premium payments to the seller over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to the underlying obligation. The seller bears the obligation to "protect" the buyer in the event of default of the underlying issuer. Upon this event, the cash payment which the buyer receives is equal to the clearing price established by an auction of credit default swap claims, which is designed to approximate the recovery value of an unsecured claim on the issuer in default. The swap will last for a predetermined amount of time, typically five years. Upon termination of the swap, the buyer is no longer obligated to make any premium payments and there is no other exchange of capital.

Financial instruments with off-balance sheet risk involve counterparty credit exposure. MIT requires collateral to the maximum extent possible under normal trading practices. Collateral is moved on a daily basis as required by fluctuations in the market. The collateral is generally in the form of debt obligations issued by the U.S. Treasury or cash. In the event of counterparty default, MIT has the right to use the collateral to offset the loss associated with the replacement of the agreements. MIT enters into arrangements only with counterparties believed to be creditworthy.

The following table summarizes the notional amounts and fair value of the purchased and written credit derivatives, classified by the expiration terms and the external credit ratings of the reference obligations at June 30, 2011 and 2010.

<i>(in thousands of dollars)</i>	Purchased protection				Written protection notional amount			
	Purchased notional amounts	Purchased fair value*	Years to maturity		Written notional amounts	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
			< 5 years	5-10 years				
<b>Fiscal year 2011</b>								
Credit rating on underlying or index								
A- to AAA	\$ 861,248	\$ (7,213)	\$ 270,653	\$ 590,595	\$ 732,533	\$ (732,533)	\$ -	\$ 30,348
BBB- to BBB+	917,741	(7,363)	187,098	730,643	-	-	-	-
Non-investment grade	25,000	914	-	25,000	-	-	-	-
Non-rated	20,000	(180)	-	20,000	-	-	-	-
ABX - AA index	60,515	34,367	-	60,515	-	-	-	-
<b>2011 Total</b>	<b>\$ 1,884,504</b>	<b>\$ 20,525</b>	<b>\$ 457,751</b>	<b>\$ 1,426,753</b>	<b>\$ 732,533</b>	<b>\$ (732,533)</b>	<b>\$ -</b>	<b>\$ 30,348</b>
<b>Fiscal year 2010</b>								
Credit rating on underlying or index								
A- to AAA	\$ 547,155	\$ (3,897)	\$ 36,000	\$ 511,155	\$ 200,607	\$ (200,607)	\$ -	\$ 6,651
BBB- to BBB+	709,450	(6,819)	87,450	622,000	-	-	-	-
Non-investment grade	47,000	1,296	-	47,000	-	-	-	-
Non-rated	20,000	(292)	-	20,000	-	-	-	-
ABX - AA index	29,100	16,030	-	29,100	-	-	-	-
<b>2010 Total</b>	<b>\$ 1,352,705</b>	<b>\$ 6,318</b>	<b>\$ 123,450</b>	<b>\$ 1,229,255</b>	<b>\$ 200,607</b>	<b>\$ (200,607)</b>	<b>\$ -</b>	<b>\$ 6,651</b>

\* The fair value of all credit derivative instruments is reflected in investments, at fair value in the Statements of Financial Position.  
\*\*Net gain (loss) of the credit derivative instruments is located in the non-operating section as net gain on investments and other assets in the Statements of Activities.

## D. Pledges Receivable

Table 10 below shows the time periods in which pledges receivable at June 30, 2011 and 2010 are expected to be realized.

	2011	2010
In one year or less . . . . .	\$ 109,181	\$ 99,057
Between one year and five years . . . . .	187,608	193,666
More than five years . . . . .	173,776	165,997
Less: allowance for unfulfilled pledges . . . . .	<u>(47,600)</u>	<u>(46,410)</u>
<b>Pledges receivable, net . . . . .</b>	<b><u>\$ 422,965</u></b>	<b><u>\$ 412,310</u></b>

A review of pledges is periodically made with regard to collectability. As a result, the allowance for pledges that may not be fulfilled is adjusted, and some pledges have been canceled and are no longer recorded in the financial statements. In addition, pledges are discounted in the amount of \$55.0 million and \$59.0 million in 2011 and 2010, respectively. MIT has gross conditional pledges, not recorded, for the promotion of education and research in the amount of \$26.9 million and \$44.1 million as of June 30, 2011 and 2010, respectively.

Pledges receivable are classified as Level 3 under the valuation hierarchy described in Note B.

Table 11 below is a rollforward of the pledges receivable for 2011 and 2010.

	2011	2010
Balance at beginning of year . . . . .	\$ 412,310	\$ 464,736
New pledges . . . . .	107,830	61,630
Pledge payments received . . . . .	(99,922)	(139,549)
Decrease in pledge discount . . . . .	3,937	30,494
(Increase) decrease in reserve for unfulfilled pledges . . . . .	(1,190)	5,470
Transfer to The Broad Institute . . . . .	-	(10,471)
<b>Balance at end of year . . . . .</b>	<b><u>\$ 422,965</u></b>	<b><u>\$ 412,310</u></b>

## E. Student Notes Receivable

Table 12 below details the components of student notes receivable at June 30, 2011 and 2010.

	2011	2010
Institute-funded student notes receivable . . . . .	\$ 15,191	\$ 16,570
Perkins student notes receivable . . . . .	37,566	35,926
<b>Total student notes receivable . . . . .</b>	<b><u>52,757</u></b>	<b><u>52,496</u></b>
Less: allowance for doubtful accounts . . . . .	(3,000)	(3,000)
<b>Student notes receivable, net . . . . .</b>	<b><u>\$ 49,757</u></b>	<b><u>\$ 49,496</u></b>



## E. Student Notes Receivable (continued)

Perkins student notes receivable are funded by the U.S. Government and by MIT to the extent required by the Perkins National Direct Student Loan Program. Funds advanced by the U.S. Government for this program, \$33.8 million and \$33.6 million at June 30, 2011 and 2010, respectively, are ultimately refundable to the U.S. Government and are classified as liabilities. Due to the nature and terms of the student loans, which are subject to significant restrictions, it is not feasible to determine the fair value of such loans.

### Allowance for Credit Losses

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. MIT's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the U.S. Government in certain non-repayment situations. In these situations the Federal portion of the loan balance is guaranteed.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

Loans less than 120 days delinquent are deemed to have a minimal delay in payment and are generally not written off but are reserved in accordance with the terms discussed above. Loans more than 120 days delinquent are subject to standard collection practices including litigation. Only loans that are deemed uncollectible are written off and this only occurs after several years of unsuccessful collection, including placement at more than one external collection agency.

Considering the other factors already discussed herein, management considers the allowance for credit losses at June 30, 2011 and 2010 to be prudent and reasonable. Furthermore, MIT's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 2011 is adequate to absorb credit losses inherent in the portfolio as of that date.

Changes in the allowance for credit losses for the year ended June 30, 2011 were as shown in the following table.

**Table 13. Rollforward of Allowance for Credit Losses**

<i>(in thousands of dollars)</i>	Student notes receivables
Balance at beginning of year . . . . .	\$ 3,000
Provision for credit losses . . . . .	171
Net charge-offs . . . . .	(171)
<b>Balance at end of year . . . . .</b>	<b>\$ 3,000</b>

## F. Accounts Payable, Accruals and Other Liabilities

MIT's accounts payable, accruals and other liabilities at June 30, 2011 and 2010 are shown in Table 14 below.

	2011	2010
Accounts payable and accruals . . . . .	\$ 310,476	\$ 256,213
Accrued vacation . . . . .	55,685	52,885
<b>Total</b> . . . . .	<b>\$ 366,161</b>	<b>\$ 309,098</b>

## G. Borrowings

	2011	2010
<b>EDUCATIONAL PLANT</b>		
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Series I, 4.75%–5.20%, due 2028, par value \$59,200 . . . . .	\$ 59,613	\$ 59,638
Series J-1, variable rate, due 2031 . . . . .	125,000	125,000
Series J-2, variable rate, due 2031 . . . . .	125,000	125,000
Series K, 5.25%–5.50%, due 2012–2032, par value \$230,000 . . . . .	242,242	243,041
Series L, 3.0%–5.25%, due 2004–2033, par value \$170,160. . . . .	182,072	185,394
Series M, 5.25%, due 2014–2030, par value \$131,110 . . . . .	143,897	144,968
Series N, 3.5%–5.0%, due 2014–2038, par value \$325,195 . . . . .	331,594	332,815
Series O, 4.0%–6.0%, due 2016–2036, par value \$266,460 . . . . .	272,218	273,368
<b>Total MHEFA</b> . . . . .	<b>1,481,636</b>	<b>1,489,224</b>
Medium Term Notes Series A, 7.125%, due 2026 . . . . .	17,355	17,351
Medium Term Notes Series A, 7.25%, due 2096 . . . . .	45,443	45,441
Notes payable to bank, variable rate, due 2014 . . . . .	83,033	83,033
Taxable Bonds, Series B, 5.60%, due 2111, par value \$750,000 <sup>1</sup> . . . . .	746,881	–
<b>Total educational plant</b> . . . . .	<b>2,374,348</b>	<b>1,635,049</b>
<b>OTHER</b>		
Notes payable to bank, variable rate, due 2014 . . . . .	93,477	93,477
<b>Total borrowings</b> . . . . .	<b>\$ 2,467,825</b>	<b>\$ 1,728,526</b>

<sup>1</sup> The proceeds of Taxable Bonds, Series B were held as liquid investments as of June 30, 2011 and have not yet been invested in physical assets.

Fair value of the outstanding debt is approximately 5.0% and 7.0% greater than the carrying value in 2011 and 2010, respectively. Carrying value is based on estimates using current interest rates available for similarly rated debt of the same remaining maturities.

## G. Borrowings (continued)

The aggregate amounts of debt payments and sinking fund requirements for each of the next five fiscal years are shown in Table 16 below.

**Table 16. Debt Obligations**  
(in thousands of dollars)

2012 .....	\$ 2,490
2013 .....	26,500
2014 .....	202,509
2015 .....	59,110
2016 .....	9,585

MIT maintains a line of credit with a major financial institution for an aggregate commitment of \$500.0 million. As of June 30, 2011, \$323.5 million was available under this line of credit. The line of credit expires on March 28, 2014.

Cash paid for interest on long-term debt in 2011 and 2010 was \$78.7 million and \$79.4 million, respectively.

Variable interest rates at June 30, 2011 are shown in Table 17 below.

**Table 17. Variable Interest Rates**

(in thousands of dollars)	Amount	Rate
MHEFA Series J-1 .....	\$ 125,000	0.04%
MHEFA Series J-2 .....	125,000	0.04%
Notes payable to bank. ....	176,510	1.21%

In the event that MIT receives notice of any optional tender on its Series J-1 and Series J-2 variable-rate bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, MIT will be obligated to purchase the bonds tendered at 100 percent of par on the tender date.

During 2011, MIT issued \$750.0 million in taxable bonds at a rate of 5.6% for a period of 100 years. This will be used to finance a comprehensive strategy for the next phase of MIT's physical plant development.

## H. Commitments and Contingencies

### Federal Government Funding

MIT receives funding or reimbursement from Federal agencies for sponsored research under Government grants and contracts. These grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Office of Naval Research (ONR), MIT's cognizant Federal agency. MIT's indirect cost reimbursements have been based on fixed rates with carry forward of under or over-recoveries. At June 30, 2011 and 2010, MIT recorded a net over-recovery of \$48.1 million and \$12.3 million, respectively.

The DCAA is responsible for auditing indirect charges to grants and contracts in support of ONR's negotiating responsibility. MIT has final audited rates through 2009. MIT's 2011 research revenues of \$1,447.2 million include reimbursement of indirect costs of \$196.8 million, which includes the adjustment for the variance between the indirect cost income determined by the fixed rates and actual costs for 2011. In 2010, research revenues were \$1,369.6 million, which included reimbursement of indirect costs of \$197.2 million.

### Leases

At June 30, 2011, there were no capital lease obligations. MIT is committed under certain operating (rental) leases. Rent expense incurred under operating lease obligations was \$33.3 million and \$33.1 million in 2011 and 2010, respectively. Future minimum payments under operating leases are shown in Table 18 below.

**Table 18. Lease Obligations**

(in thousands of dollars)

2012 .....	\$ 31,815
2013 .....	30,599
2014 .....	23,458
2015 .....	10,304
2016 .....	8,335

### Investments

As of June 30, 2011, \$9.3 million of investments were pledged as collateral to various supplier and government agencies.

---

## H. Commitments and Contingencies (continued)

### Future Construction

MIT has contracted for educational plant in the amount of \$65.4 million at June 30, 2011. It is expected that the resources to satisfy these commitments will be provided from unexpended plant funds, anticipated gifts, and unrestricted funds. MIT will be committing additional resources to planned major construction projects and improvements to the current infrastructure over the next several years.

### Related Entities

MIT has entered into agreements, including collaborations with third-party not-for-profit and for-profit entities, for

education, research, and technology transfers. Some of these agreements involve funding from foreign governments. These agreements subject MIT to greater financial risk than do its normal operations. In the opinion of management, the likelihood of realization of increased financial risks by MIT under these agreements is remote.

### General

MIT is subject to certain other legal proceedings and claims that arise in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on MIT's financial position.

---

## I. Functional Expense Classification

MIT's expenditures on a functional basis are shown in Table 19 below.

	2011	2010
General and administrative . . . . .	\$ 523,676	\$ 461,186
Instruction and unsponsored research . . . . .	659,839	613,345
Sponsored research . . . . .	1,265,776	1,192,041
Auxiliary enterprises . . . . .	110,631	104,489
Operation of Alumni Association . . . . .	11,225	11,505
<b>Total operating expense . . . . .</b>	<b>\$ 2,571,147</b>	<b>\$ 2,382,566</b>

---

## J. Retirement Benefits

MIT offers a defined benefit plan and a defined contribution plan to its employees. The plans cover substantially all of MIT's employees.

MIT also provides retiree welfare benefits (certain health care and life insurance benefits) for retired employees. Substantially all of MIT's employees may become eligible for those benefits if they reach a qualifying retirement age while working for MIT. Retiree health plans are paid for in part by retirees, their covered dependents, and beneficiaries. Benefits are provided through various insurance companies whose charges are based either on the claims and administrative expenses paid during the year or annual insured premiums. Retiree life insurance plans are non-contributory and cover the retiree only. MIT maintains a trust to pay for retiree welfare benefits.

MIT contributes to the defined benefit plan amounts that are actuarially determined to provide the retirement plan with sufficient assets to meet future benefit requirements. There were no contributions to the defined benefit plan in 2011 or 2010.

For purposes of calculating net periodic pension cost for the defined benefit plan, plan amendments are amortized on a straight-line basis over the average future service to expected retirement of active participants at the date of the amendment. Cumulative gains and losses (including changes in assumptions) in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to \$1 million.

## J. Retirement Benefits (continued)

The amount contributed and expenses recognized during 2011 and 2010 related to the defined contribution plan were \$40.8 million and \$39.2 million, respectively.

For purposes of calculating net periodic postretirement welfare benefit cost, a portion of the current obligation, related to the transition to the accounting standard *Employers' Accounting for Postretirement Benefits Other than Pensions*, is being amortized on a straight-line basis over 20 years from the date of adoption of that statement in 1994. Plan

amendments are amortized on a straight-line basis over the average future service to full eligibility of active participants at the date of amendment. Cumulative gains and losses (including changes in assumptions) in excess of 10 percent of the greater of the plan's obligation or the market-related value of assets are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to \$1 million.

### Components of Net Periodic Benefit (Income) Cost

Table 20 summarizes the components of net periodic benefit (income) cost recognized in operating activity and other amounts recognized in non-operating activity in unrestricted net assets in the Statements of Activities for the years ended June 30, 2011 and 2010.

<i>(in thousands of dollars)</i>	Defined benefit plan		Postretirement welfare benefit plan	
	2011	2010	2011	2010
<b>Components of net periodic benefit (income) cost</b>				
Service cost . . . . .	\$ 59,892	\$ 54,179	\$ 19,957	\$ 16,581
Interest cost . . . . .	134,756	131,994	27,380	25,901
Expected return on plan assets . . . . .	(221,135)	(222,291)	(20,142)	(20,422)
Amortization of transition amount . . . . .	—	—	4,776	4,776
Amortization of net actuarial (gain) loss . . . . .	(2,323)	(29,500)	10,266	4,409
Amortization of prior service cost . . . . .	2,180	2,180	3,556	3,556
<b>Net periodic benefit (income) cost recognized in operating activity . . . . .</b>	<b>(26,630)</b>	<b>(63,438)</b>	<b>45,793</b>	<b>34,801</b>
<b>Other amounts recognized in non-operating activity in unrestricted net assets</b>				
Current year actuarial (gain) loss . . . . .	\$ (68,388)	\$ 183,119	\$ (18,565)	\$ 40,438
Amortization of actuarial gain (loss) . . . . .	2,323	29,500	(10,266)	(4,409)
Amortization of prior service cost . . . . .	(2,180)	(2,180)	(3,556)	(3,556)
Amortization of transition obligation . . . . .	—	—	(4,776)	(4,776)
<b>Total other amounts recognized in non-operating activity . . . . .</b>	<b>(68,245)</b>	<b>210,439</b>	<b>(37,163)</b>	<b>27,697</b>
<b>Total recognized in Statements of Activities . . . . .</b>	<b>\$ (94,875)</b>	<b>\$ 147,001</b>	<b>\$ 8,630</b>	<b>\$ 62,498</b>

The estimated net actuarial gain and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit income during the next fiscal year are \$1.0 million and \$2.0 million, respectively. The estimated net actuarial loss and transition

obligation for the postretirement welfare benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost during the next fiscal year are \$11.4 million and \$4.8 million, respectively.

## J. Retirement Benefits (continued)

Cumulative amounts recognized as non-operating changes in unrestricted net assets are summarized in the following table for the years ended June 30, 2011 and 2010.

<i>(in thousands of dollars)</i>	Defined benefit plan		Postretirement welfare benefit plan	
	2011	2010	2011	2010
<b>Amounts recognized in unrestricted net assets consist of:</b>				
Net actuarial loss . . . . .	\$ 126,184	\$ 192,248	\$ 156,141	\$ 184,972
Prior service cost . . . . .	6,821	9,002	–	3,556
Transition liability . . . . .	–	–	9,551	14,327
<b>Total cumulative amounts recognized in unrestricted net assets . . . . .</b>	<b>\$ 133,005</b>	<b>\$ 201,250</b>	<b>\$ 165,692</b>	<b>\$ 202,855</b>

### Benefit Obligations and Fair Value of Assets

Table 22 summarizes the benefit obligations, plan assets, and amounts recognized in the Statements of Financial Position for MIT's retirement benefit plans. MIT uses a June 30 measurement date for its defined benefit pension and postretirement welfare benefit plans.

<i>(in thousands of dollars)</i>	Defined benefit plan		Postretirement welfare benefit plan	
	2011	2010	2011	2010
<b>Change in projected benefit obligations</b>				
Projected benefit obligations at beginning of year . . . .	\$ 2,293,877	\$ 2,118,977	\$ 472,170	\$ 409,738
Service cost . . . . .	59,892	54,179	19,957	16,581
Interest cost . . . . .	134,756	131,994	27,380	25,901
Retiree contributions . . . . .	–	–	3,496	3,200
Net benefit payments, transfers and other expenses . . .	(115,523)	(117,535)	(23,574)	(23,474)
Assumption changes and actuarial net loss . . . . .	85,590	106,262	10,409	40,224
<b>Projected benefit obligations at end of year . . . . .</b>	<b>2,458,592</b>	<b>2,293,877</b>	<b>509,838</b>	<b>472,170</b>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year . . . . .	2,312,718	2,284,819	234,535	234,601
Actual return on plan assets . . . . .	375,112	145,434	49,116	20,209
Employer contributions . . . . .	–	–	50,399	2,038
Retiree contributions . . . . .	–	–	3,496	3,200
Net benefit payments, transfers and other expenses . . .	(115,523)	(117,535)	(25,917)	(25,513)
<b>Fair value of plan assets at end of year . . . . .</b>	<b>2,572,307</b>	<b>2,312,718</b>	<b>311,629</b>	<b>234,535</b>
<b>Funded (unfunded) status at end of year . . . . .</b>	<b>\$ 113,715</b>	<b>\$ 18,841</b>	<b>\$ (198,209)</b>	<b>\$ (237,635)</b>
<b>Amounts recognized in the Statements of Financial Position consist of:</b>				
Benefit assets . . . . .	\$ 113,715	\$ 18,841	\$ –	\$ –
Benefit liability . . . . .	–	–	(198,209)	(237,635)
<b>Total . . . . .</b>	<b>\$ 113,715</b>	<b>\$ 18,841</b>	<b>\$ (198,209)</b>	<b>\$ (237,635)</b>



## J. Retirement Benefits (continued)

The accumulated benefit obligation for MIT's defined benefit pension plan was \$2,305.8 million and \$2,157.9 million at June 30, 2011 and 2010, respectively.

MIT has recognized the effect of the expected Medicare subsidy by reducing its accumulated postretirement benefit obligation by \$64.6 million and \$62.6 million as of June 30, 2011 and 2010, respectively. This initial reduction was recognized as an actuarial gain. Additionally, the service and interest cost components of postretirement benefits cost were reduced in 2011 and future periods.

### Assumptions and Health Care Trend Rates

The expected long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses and the potential to outperform market index returns.

**Table 23. Assumptions**

	Defined benefit plan		Postretirement welfare benefit plan	
	2011	2010	2011	2010
<b>Assumptions used to determine benefit obligation as of June 30:</b>				
Discount rate . . . . .	5.65%	5.84%	5.56%	5.71%
Rate of compensation increase <sup>1</sup> . . . . .	4.00%	4.00%		
<b>Assumptions used to determine net periodic benefit (income) cost for year ended June 30:</b>				
Discount rate . . . . .	5.84%	6.25%	5.71%	6.25%
Expected long-term return on plan assets . . . . .	8.00%	8.00%	7.00%	7.00%
Rate of compensation increase <sup>1</sup> . . . . .	4.00%	4.00%		
<b>Assumed health care cost trend rates:</b>				
Health care cost trend rate assumed for next year . . . . .			7.50%	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) . . . . .			5.00%	5.00%
Year that the rate reaches the ultimate trend rate . . . . .			2018	2015

<sup>1</sup> The average rate of salary increase is assumed to be 3% for 2012, and 4% thereafter.

As an indicator of sensitivity, a one percentage point change in the assumed health care cost trend rate would effect 2011 as shown in Table 24 below.

**Table 24. Health Care Cost Trend Rate Sensitivity**

<i>(in thousands of dollars)</i>	1% point increase	1% point decrease
Effect on 2011 postretirement service and interest cost . . . . .	\$ 7,970	\$ (6,439)
Effect on postretirement benefit obligation as of June 30, 2011 . . . . .	\$ 64,215	\$ (52,361)

### Plan Investments

The investment objectives for the assets of the plans are to minimize expected funding contributions and to meet or exceed the rate of return assumed for plan funding purposes over the long term. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives.

Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers, the maintenance of a portfolio diversified by asset class, investment approach, security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

## J. Retirement Benefits (continued)

Table 25 presents investment at fair value of MIT's defined benefit plan and postretirement welfare benefit plan, which are included in plan net assets as of June 30, 2011 and 2010, grouped by the valuation hierarchy detailed in Note B. There were no significant transfers in and out of Level 1 and Level 2 fair value measurements in 2011.

<i>(in thousands of dollars)</i>	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant un- observable inputs (Level 3)	Total fair value
<b>Table 25. Plan Investments</b>				
<b>Defined Benefit Plan</b>				
<b>Fiscal year 2011</b>				
Cash and cash equivalents . . . . .	\$ 34,644	\$ —	\$ —	\$ 34,644
Fixed income . . . . .	188,705	75,077	—	263,782
Equities . . . . .	220,211	192,537	893,351	1,306,099
Marketable alternatives . . . . .	—	228,546	444,384	672,930
Real estate . . . . .	—	—	282,404	282,404
Interest rate futures . . . . .	(17)	—	—	(17)
<b>Total plan investment . . . . .</b>	<b>\$ 443,543</b>	<b>\$ 496,160</b>	<b>\$ 1,620,139</b>	<b>\$ 2,559,842</b>
<b>Fiscal year 2010</b>				
Cash and cash equivalents . . . . .	\$ 17,594	\$ —	\$ —	\$ 17,594
Fixed income . . . . .	196,123	65,130	—	261,253
Equities . . . . .	325,635	112,441	727,149	1,165,225
Marketable alternatives . . . . .	—	42,150	597,032	639,182
Real estate . . . . .	—	—	225,241	225,241
Interest rate futures . . . . .	(196)	—	—	(196)
	<b>\$ 539,156</b>	<b>\$ 219,721</b>	<b>\$ 1,549,422</b>	<b>\$ 2,308,299</b>
Less: Amounts held in 401(h) accounts . .				(4,371)
<b>Total plan investment . . . . .</b>				<b>\$ 2,303,928</b>
<b>Postretirement Welfare Benefit Plan</b>				
<b>Fiscal year 2011</b>				
Cash and cash equivalents . . . . .	\$ 4,382	\$ —	\$ —	\$ 4,382
Fixed income . . . . .	—	67,730	—	67,730
Equities . . . . .	52,957	76,603	43,391	172,951
Marketable alternatives . . . . .	—	34,183	22,134	56,317
Real estate . . . . .	—	—	10,344	10,344
<b>Total plan investment . . . . .</b>	<b>\$ 57,339</b>	<b>\$ 178,516</b>	<b>\$ 75,869</b>	<b>\$ 311,724</b>
<b>Fiscal year 2010</b>				
Cash and cash equivalents . . . . .	\$ 4,211	\$ —	\$ —	\$ 4,211
Fixed income . . . . .	—	52,857	—	52,857
Equities . . . . .	21,779	73,176	29,527	124,482
Marketable alternatives . . . . .	—	5,488	34,116	39,604
Real estate . . . . .	—	—	7,140	7,140
<b>Total plan investment . . . . .</b>	<b>\$ 25,990</b>	<b>\$ 131,521</b>	<b>\$ 70,783</b>	<b>\$ 228,294</b>

## J. Retirement Benefits (continued)

Table 26 is a rollforward of the investments classified by MIT's defined benefit plan and postretirement welfare benefit plan within Level 3 of the fair value hierarchy defined in Note B as at June 30, 2011 and 2010.

**Table 26. Rollforward of Level 3 Plan Investment**

<i>(in thousands of dollars)</i>	Equities	Marketable alternatives	Real estate	Total investments
<b>Defined Benefit Plan</b>				
Fair value, July 1, 2010 . . . . .	\$ 727,149	\$ 597,032	\$ 225,241	\$ 1,549,422
Realized losses . . . . .	(3,041)	–	–	(3,041)
Unrealized gains . . . . .	92,678	54,558	19,074	166,310
Net purchases, sales, settlements. . . . .	97,421	(30,696)	38,089	104,814
Transfers of assets between levels . . . . .	(20,856)	(176,510)	–	(197,366)
<b>Fair value, June 30, 2011 . . . . .</b>	<b><u>\$ 893,351</u></b>	<b><u>\$ 444,384</u></b>	<b><u>\$ 282,404</u></b>	<b><u>\$ 1,620,139</u></b>
Fair value, July 1, 2009 . . . . .	\$ 718,968	\$ 625,515	\$ 239,666	\$ 1,584,149
Realized gains (losses) . . . . .	(53)	755	–	702
Unrealized gains (losses) . . . . .	21,745	34,408	(38,337)	17,816
Net purchases, sales, settlements. . . . .	(4,432)	(21,496)	23,912	(2,016)
Transfers of assets between levels . . . . .	(9,079)	(42,150)	–	(51,229)
<b>Fair value, June 30, 2010 . . . . .</b>	<b><u>\$ 727,149</u></b>	<b><u>\$ 597,032</u></b>	<b><u>\$ 225,241</u></b>	<b><u>\$ 1,549,422</u></b>
<b>Postretirement Welfare Benefit Plan</b>				
Fair value, July 1, 2010 . . . . .	\$ 29,527	\$ 34,116	\$ 7,140	\$ 70,783
Realized losses . . . . .	(3)	–	–	(3)
Unrealized gains . . . . .	5,101	3,274	1,717	10,092
Net purchases, sales, settlements. . . . .	16,910	(1,241)	1,487	17,156
Transfers of assets between levels . . . . .	(8,145)	(14,014)	–	(22,159)
<b>Fair value, June 30, 2011 . . . . .</b>	<b><u>\$ 43,390</u></b>	<b><u>\$ 22,135</u></b>	<b><u>\$ 10,344</u></b>	<b><u>\$ 75,869</u></b>
Fair value, July 1, 2009 . . . . .	\$ 23,511	\$ 32,919	\$ 6,519	\$ 62,949
Realized gains (losses) . . . . .	(5)	105	–	100
Unrealized gains (losses) . . . . .	2,948	(1,365)	(108)	1,475
Net purchases, sales, settlements. . . . .	4,299	7,944	729	12,972
Transfers of assets between levels . . . . .	(1,226)	(5,487)	–	(6,713)
<b>Fair value, June 30, 2010 . . . . .</b>	<b><u>\$ 29,527</u></b>	<b><u>\$ 34,116</u></b>	<b><u>\$ 7,140</u></b>	<b><u>\$ 70,783</u></b>

## J. Retirement Benefits (continued)

The unfunded commitments which MIT's defined benefit plan and postretirement welfare benefit plan have made to various investments as of June 30, 2011 and 2010 are listed in Table 27 below.

<i>(in thousands of dollars)</i>	Defined benefit plan		Postretirement welfare benefit plan	
	2011	2010	2011	2010
Equities .....	\$ 254,057	\$ 303,601	\$ 20,253	\$ 26,662
Marketable alternatives .....	33,009	38,084	2,844	3,839
Real estate .....	191,106	183,496	16,461	11,280
<b>Total .....</b>	<b>\$ 478,172</b>	<b>\$ 525,181</b>	<b>\$ 39,558</b>	<b>\$ 41,781</b>

Target allocations and weighted-average asset allocations of the investment portfolio for the MIT defined benefit plan and postretirement welfare benefit plan at June 30, 2011 and 2010 are shown in Table 28.

	Defined benefit plan Plan assets as of June 30			Postretirement welfare benefit plan Plan assets as of June 30		
	Target Allocation	2011	2010	Target Allocation	2011	2010
Cash & cash equivalents .....	–	2%	1%	–	2%	2%
Fixed income .....	8%	10%	11%	20%	23%	22%
Equities .....	48%	51%	50%	50%	55%	55%
Marketable alternatives .....	33%	26%	28%	25%	17%	18%
Real estate .....	11%	11%	10%	5%	3%	3%
<b>Total .....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## J. Retirement Benefits (continued)

The following table summarizes the notional exposure and net ending fair value of derivative financial instruments held by the MIT defined benefit plan at June 30, 2011 and 2010. Refer to Note C for detailed discussion

regarding derivative financial instruments. The post-retirement welfare benefit plan did not have any outstanding derivative financial instruments at June 30, 2011 and 2010.

<i>(in thousands of dollars)</i>	Notional exposure		Net ending fair value amount	Net loss
	Long	Short		
<b>Fiscal year 2011</b>				
Fixed income instruments				
Fixed income futures . . . . .	\$ 1,000	\$ (6,600)	\$ (17)	\$ (179)
Total fixed income instruments . . . . .	1,000	(6,600)	(17)	(179)
Currency and other instruments				
Currency forwards and other instruments	—	138	—	—
Total currency instruments . . . . .	—	138	—	—
<b>2011 Total</b> . . . . .	<b>\$ 1,000</b>	<b>\$ (6,462)</b>	<b>\$ (17)</b>	<b>\$ (179)</b>
<b>Fiscal year 2010</b>				
Fixed income instruments				
Fixed income futures . . . . .	\$ —	\$ (11,900)	\$ (196)	\$ (649)
<b>2010 Total</b> . . . . .	<b>\$ —</b>	<b>\$ (11,900)</b>	<b>\$ (196)</b>	<b>\$ (649)</b>

### Contributions

MIT does not expect to contribute to its defined benefit pension plan, and expects to contribute approximately \$34.9 million to its postretirement welfare benefit plan in 2012. These contributions have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2011. MIT also contributed \$50.4 million and \$2.0 million to the postretirement welfare benefit plan in 2011 and 2010, respectively.

### Expected Future Benefit Payments

Table 30 reflects total expected benefit payments for the defined benefit and postretirement welfare benefit plans, as well as expected receipt of the federal subsidy. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2011.

<i>(in thousands of dollars)</i>	Pension benefits	Other benefits <sup>1</sup>	Federal subsidy <sup>2</sup>
2012 . . . . .	\$ 124,449	\$ 30,644	\$ 2,421
2013 . . . . .	135,456	33,260	2,681
2014 . . . . .	139,877	35,680	2,954
2015 . . . . .	144,080	37,955	3,216
2016 . . . . .	148,273	40,200	3,496
2017–2021 . . . . .	803,934	232,511	21,544

<sup>1</sup>Other benefits reflect the total net benefits expected to be paid from the plans (i.e., gross benefit reimbursements offset by retiree contributions).

<sup>2</sup>Federal subsidy reflects the amount MIT is expected to receive from the government and reflects MIT's expected drugs claims experience.

## K. Components of Net Assets and Endowment

Table 31 below presents the three categories of net assets by purpose as of June 30, 2011. The amounts listed in the unrestricted column under endowment funds principal are those gifts and other funds received over the years that MIT designated as funds functioning as endowment and

invested with the endowment funds. A large component of temporarily restricted net assets in other invested funds is pledges, the majority of which will be reclassified to unrestricted net assets when cash is received.

**Table 31. Fund Category**

<i>(in thousands of dollars)</i>	2011				2010 Total
	Unrestricted	Temporarily restricted	Permanently restricted	Total	
<b>Endowment funds principal</b>					
General purpose . . . . .	\$ 654,259	\$ 787,370	\$ 471,651	\$ 1,913,280	\$ 1,483,930
Departments and research. . . . .	420,093	697,712	415,123	1,532,928	1,349,620
Library . . . . .	9,079	15,908	7,858	32,845	29,349
Professorships . . . . .	405,253	1,856,041	608,366	2,869,660	2,523,743
Graduate general . . . . .	55,946	93,359	81,758	231,063	202,914
Graduate departments. . . . .	75,437	220,755	187,255	483,447	414,230
Undergraduate. . . . .	165,028	775,685	320,896	1,261,609	1,115,077
Prizes . . . . .	6,403	19,582	17,123	43,108	38,465
Miscellaneous. . . . .	814,555	132,339	114,252	1,061,146	906,434
Investment income held for distribution . . . . .	283,542	–	–	283,542	253,559
Endowment funds before pledges. . . . .	2,889,595	4,598,751	2,224,282	9,712,628	8,317,321
Pledges. . . . .	–	–	140,946	140,946	146,137
<b>Total endowment funds. . . . .</b>	<b>2,889,595</b>	<b>4,598,751</b>	<b>2,365,228</b>	<b>9,853,574</b>	<b>8,463,458</b>
<b>Other invested funds</b>					
Student loan funds. . . . .	20,289	–	16,343	36,632	37,108
Building funds . . . . .	47,979	48,257	–	96,236	188,769
Designated purposes:					
– Departments and research . . . . .	280,162	–	–	280,162	265,207
– Other purposes . . . . .	89,883	–	–	89,883	83,620
Reserve funds. . . . .	123,903	–	–	123,903	95,168
Real estate gifts held for sale. . . . .	6,261	–	–	6,261	6,275
Life income funds . . . . .	6,960	46,903	76,320	130,183	108,287
Pledges. . . . .	–	282,019	–	282,019	264,945
Other funds available for current expenses	579,450	68,589	–	648,039	402,187
Funds expended for educational plant . . . . .	558,798	–	–	558,798	409,281
<b>Total other funds . . . . .</b>	<b>1,713,685</b>	<b>445,768</b>	<b>92,663</b>	<b>2,252,116</b>	<b>1,860,847</b>
<b>Total net assets at fair value. . . . .</b>	<b>\$ 4,603,280</b>	<b>\$ 5,044,519</b>	<b>\$ 2,457,891</b>	<b>\$ 12,105,690</b>	<b>\$10,324,305</b>



## K. Components of Net Assets and Endowment (continued)

MIT's endowment consists of approximately 3,300 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Executive Committee of the MIT Corporation (Executive Committee) to function as endowment. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Executive Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Committee of MIT has interpreted the Massachusetts-enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing MIT to appropriate for expenditure or accumulate so much of an endowment fund as MIT determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Executive Committee.

As a result of this interpretation, MIT has not changed the way permanently restricted net assets are classified. See Note A for further information on net asset classification. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Executive Committee considers the following factors in making a determination to appropriate or accumulate endowment funds:

- i. the duration and preservation of the fund
- ii. the purposes of MIT and the endowment fund
- iii. general economic conditions
- iv. the possible effects of inflation and deflation
- v. the expected total return from income and the appreciation of investments
- vi. other resources of MIT
- vii. the investment policies of MIT

**Table 32. Endowment Net Asset Composition by Type of Fund**

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Fiscal year 2011</b>				
Donor-restricted endowment funds . . . . .	\$ (7,071)	\$ 4,598,751	\$ 2,365,228	\$ 6,956,908
Board-designated endowment funds . . . . .	2,896,666	—	—	2,896,666
<b>Total endowment funds . . . . .</b>	<b><u>\$ 2,889,595</u></b>	<b><u>\$ 4,598,751</u></b>	<b><u>\$ 2,365,228</u></b>	<b><u>\$ 9,853,574</u></b>
<b>Fiscal year 2010</b>				
Donor-restricted endowment funds . . . . .	\$ (29,106)	\$ 3,945,500	\$ 2,019,530	\$ 5,935,924
Board-designated endowment funds . . . . .	2,527,534	—	—	2,527,534
<b>Total endowment funds . . . . .</b>	<b><u>\$ 2,498,428</u></b>	<b><u>\$ 3,945,500</u></b>	<b><u>\$ 2,019,530</u></b>	<b><u>\$ 8,463,458</u></b>

## K. Components of Net Assets and Endowment (continued)

**Table 33. Changes in Endowment Net Assets**

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>Fiscal year 2011</b>				
Endowment net assets, June 30, 2010 .....	\$ 2,498,428	\$ 3,945,500	\$ 2,019,530	\$ 8,463,458
Investment return:				
Investment income .....	24,744	47,678	17,057	89,479
Net appreciation (realized and unrealized).....	423,568	906,844	11,961	1,342,373
Total investment return.....	448,312	954,522	29,018	1,431,852
Contributions .....	-	-	313,644	313,644
Appropriation of endowment assets for expenditure...	(134,428)	(300,831)	(9,577)	(444,836)
Other changes:				
Underwater gain adjustment.....	22,035	(22,035)	-	-
Net asset reclassifications and transfers to create board-designated endowment funds.....	55,248	21,595	12,613	89,456
<b>Endowment net assets, June 30, 2011 .....</b>	<b><u>\$ 2,889,595</u></b>	<b><u>\$ 4,598,751</u></b>	<b><u>\$ 2,365,228</u></b>	<b><u>\$ 9,853,574</u></b>
<b>Fiscal year 2010</b>				
Endowment net assets, June 30, 2009 .....	\$ 2,328,856	\$ 3,807,297	\$ 1,913,952	\$ 8,050,105
Investment return:				
Investment income .....	20,403	42,293	8,406	71,102
Net appreciation (realized and unrealized).....	276,468	414,261	5,957	696,686
Total investment return.....	296,871	456,554	14,363	767,788
Contributions .....	-	-	58,815	58,815
Appropriation of endowment assets for expenditure...	(158,022)	(364,531)	(3,964)	(526,517)
Other changes:				
Underwater loss adjustment and funds held for reinvestment.....	(4,794)	4,794	630	630
Net asset reclassifications and transfers to create board-designated endowment funds.....	35,517	41,386	35,734	112,637
<b>Endowment net assets, June 30, 2010 .....</b>	<b><u>\$ 2,498,428</u></b>	<b><u>\$ 3,945,500</u></b>	<b><u>\$ 2,019,530</u></b>	<b><u>\$ 8,463,458</u></b>

### Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted

net assets. Total underwater endowment funds reported in unrestricted net assets were \$7.1 million and \$29.1 million as of June 30, 2011 and 2010, respectively. The underwater status of these funds resulted from unfavorable market fluctuations.

---

## K. Components of Net Assets and Endowment (continued)

### Investment and Spending Policies

MIT maintains its investments primarily in two investment pools: Pool A, principally for endowment and funds functioning as endowment, and Pool C, principally for investment of current funds of MIT's schools and departments and MIT's operating funds. Pool A operates as a mutual fund with units purchased and redeemed based on the previous month's unit market value of Pool A. The total market value of Pool A was \$10,041.1 million at June 30, 2011 and \$8,603.4 million at June 30, 2010. Pool A includes certain operating and life income funds totaling \$754.5 million at June 30, 2011 and \$454.7 million at June 30, 2010. Certain assets are also maintained in separately invested funds. Separately invested funds totaled \$424.4 million as of June 30, 2011 and \$168.6 million as of June 30, 2010.

MIT has adopted endowment investment and spending policies designed to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of endowment assets. An additional investment goal is to maximize return relative to appropriate risk such that performance exceeds appropriate benchmark returns at the total pool, asset class and individual manager levels.

To achieve its long-term rate-of-return objectives, MIT relies on a total return strategy in which investment returns are realized through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). MIT targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Executive Committee of the Corporation votes to distribute funds for operational support from general investments. In accordance with MIT's spending policy, these distributions are funded from both investment income and market appreciation. The distribution rates were \$56.75 and \$69.21 per Pool A unit as of June 30, 2011 and 2010, respectively. In 2011, the amount distributed for spending from Pool A and Pool C totaled \$513.6 million, compared to \$581.8 million distributed in the prior year. During 2011, distributions from separately invested funds were \$10.5 million, compared to \$4.2 million in 2010. The income earned in Pool C, or currently invested funds, was fully distributed. In addition to the aforementioned distributions, there was also a special distribution of \$10.8 million from gains in Pool C in 2011. No such distribution was made in 2010.

---

## L. The Broad Institute

On July 1, 2009, The Broad Institute, previously a unit of MIT, became a separately incorporated entity. The Broad Institute is a research center located adjacent to the MIT campus. Before July 1, 2009, MIT administered The Broad Institute as a collaboration among MIT, Harvard University and its affiliated hospitals, and The Whitehead Institute for Biomedical Research. Following the separation, The

Broad Institute is a self-administered collaboration of MIT, Harvard University, and its affiliated hospitals.

At separation on July 1, 2009, MIT transferred assets to the separately incorporated The Broad Institute.





## Report of Independent Auditors

To the Audit Committee of the  
Massachusetts Institute of Technology

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of the Massachusetts Institute of Technology (the "Institute") at June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

September 15, 2011

---

*PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110  
T: (617) 530 5000, F: (617) 530 5004, [www.pwc.com/us](http://www.pwc.com/us)*

**Massachusetts Institute of Technology**  
**Five-Year Trend Analysis – Financial Highlights**

(in thousands of dollars)

	2011	2010	2009	2008	2007
<b>Financial Position:</b>					
Investments, at fair value . . . . .	\$12,199,451	\$ 9,913,877	\$ 9,517,348	\$ 11,316,293	\$ 11,068,922
Land, buildings, and equipment, at cost less accumulated depreciation . .	2,451,479	2,327,810	2,122,606	1,940,912	1,745,196
Borrowings . . . . .	2,467,825	1,728,526	1,735,843	1,335,393	1,078,234
Total assets . . . . .	16,050,373	13,412,506	12,949,552	15,458,982	14,946,369
Total liabilities . . . . .	3,944,683	3,088,201	3,003,164	2,689,008	2,251,065
Unrestricted net assets . . . . .	4,603,280	3,759,301	3,559,925	5,086,270	5,216,844
Temporarily restricted net assets . . . . .	5,044,519	4,463,066	4,401,015	5,765,302	5,684,006
Permanently restricted net assets . . . . .	2,457,891	2,101,938	1,985,448	1,918,402	1,794,454
Total net assets . . . . .	12,105,690	10,324,305	9,946,388	12,769,974	12,695,304
Total endowment funds before pledges . . .	9,712,628	8,317,321	7,880,321	9,947,636	9,943,111
<b>Principal Sources of Revenue:</b>					
Tuition and similar revenues . . . . .	\$ 493,777	\$ 468,570	\$ 431,772	\$ 421,230	\$ 394,652
Research revenues:					
Campus direct . . . . .	456,416	431,611	497,493	448,065	407,650
Campus indirect . . . . .	162,497	172,525	193,289	173,455	163,148
Lincoln Laboratory direct . . . . .	770,672	719,883	642,101	587,076	573,696
Lincoln Laboratory indirect . . . . .	34,111	24,449	27,667	32,611	32,234
SMART direct . . . . .	23,300	20,912	14,026	3,857	–
SMART indirect . . . . .	210	223	496	106	–
Gifts, bequests and pledges . . . . .	522,409	246,580	303,890	385,952	332,874
Net gain (loss) on investments and other assets .	1,483,668	784,348	(1,854,380)	154,765	1,673,275
Investment income and distributions . . . . .	505,503	566,110	586,576	422,457	331,242
<b>Principal Purposes of Expenditures:</b>					
Total operating expenditures . . . . .	\$ 2,571,147	\$ 2,382,566	\$ 2,461,286	\$ 2,294,247	\$ 2,201,696
General and administrative . . . . .	523,676	461,186	497,043	486,444	482,527
Instruction and unsponsored research . . . .	659,839	613,345	680,848	641,241	608,423
Direct cost of sponsored research – current dollars . . . . .	1,265,776	1,192,041	1,167,036	1,054,474	1,001,144
Direct cost of sponsored research – constant dollars (2007 = 100) . . . . .	1,168,737	1,122,756	1,109,842	1,016,797	1,001,144



# Massachusetts Institute of Technology

## Five-Year Trend Analysis – Financial Highlights (continued)

(in thousands of dollars)

	2011	2010	2009	2008	2007
<b>Research Revenues:<sup>(A)</sup></b>					
<b>Campus:</b>					
Federal government sponsored:					
Health and Human Services . . . . .	\$ 152,664	\$ 144,561	\$ 255,896	\$ 226,307	\$ 201,557
Department of Defense . . . . .	107,753	106,890	97,528	87,370	90,571
Department of Energy . . . . .	89,562	73,274	65,773	65,611	64,899
National Science Foundation . . . . .	74,859	69,801	61,386	64,973	65,057
National Aeronautics and Space Administration . . . . .	28,080	30,629	27,358	25,479	27,889
Other Federal . . . . .	16,602	12,717	14,559	14,169	14,431
Total Federal . . . . .	<u>469,520</u>	<u>437,872</u>	<u>522,500</u>	<u>483,909</u>	<u>464,404</u>
Non-Federally sponsored:					
State/local/foreign governments . . . . .	32,969	33,339	27,145	18,549	13,055
Non-profits . . . . .	44,436	50,639	60,538	47,695	32,200
Industry . . . . .	100,763	93,330	99,219	82,194	79,725
Total non-Federal . . . . .	<u>178,168</u>	<u>177,308</u>	<u>186,902</u>	<u>148,438</u>	<u>124,980</u>
Total Federal & non-Federal . . . . .	<u>647,688</u>	<u>615,180</u>	<u>709,402</u>	<u>632,347</u>	<u>589,384</u>
F&A and other adjustments . . . . .	(28,775)	(11,044)	(18,620)	(10,827)	(18,586)
Total campus . . . . .	<u>618,913</u>	<u>604,136</u>	<u>690,782</u>	<u>621,520</u>	<u>570,798</u>
<b>Lincoln Laboratory:</b>					
Federal government sponsored . . . . .	803,599	749,974	675,329	606,850	607,270
Non-Federally sponsored . . . . .	2,511	3,068	2,989	3,602	4,602
F&A and other adjustments . . . . .	(1,327)	(8,710)	(8,550)	9,235	(5,942)
Total Lincoln Laboratory . . . . .	<u>804,783</u>	<u>744,332</u>	<u>669,768</u>	<u>619,687</u>	<u>605,930</u>
<b>SMART:<sup>(B)</sup></b>					
Non-Federal sponsored . . . . .	<u>23,510</u>	<u>21,135</u>	<u>14,522</u>	<u>3,963</u>	<u>–</u>
Total SMART . . . . .	<u>23,510</u>	<u>21,135</u>	<u>14,522</u>	<u>3,963</u>	<u>–</u>
<b>Total Research Revenues . . . . .</b>	<b><u>\$ 1,447,206</u></b>	<b><u>\$ 1,369,603</u></b>	<b><u>\$ 1,375,072</u></b>	<b><u>\$ 1,245,170</u></b>	<b><u>\$ 1,176,728</u></b>

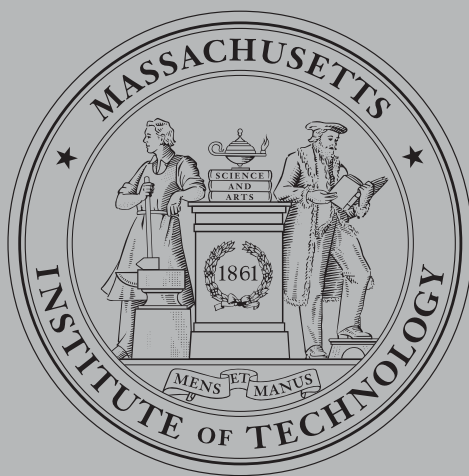
<sup>(A)</sup> The amounts in this table reflect revenues from the original source of funds and The Broad Institute.

<sup>(B)</sup> The amounts represent research that has taken place in Singapore.

**Massachusetts Institute of Technology**  
**Five-Year Trend Analysis – Financial Highlights (continued)**

	2011	2010	2009	2008	2007
<b>Students:</b>					
Undergraduate					
Full-time . . . . .	4,252	4,201	4,118	4,119	4,068
Part-time . . . . .	47	31	35	53	59
Undergraduate Applications					
Applicants . . . . .	16,632	15,663	13,396	12,445	11,374
Accepted . . . . .	1,676	1,676	1,589	1,553	1,514
Acceptance rate . . . . .	10%	11%	12%	12%	13%
Enrolled . . . . .	1,067	1,072	1,048	1,067	1,002
Yield . . . . .	64%	64%	66%	69%	66%
Freshmen ranking in the top 10% of their class . . . . .	98%	95%	97%	97%	97%
Average SAT scores (math and verbal) . . . . .	1,473	1,455	1,453	1,458	1,461
Graduate					
Full-time . . . . .	6,108	6,022	5,991	5,837	5,924
Part-time . . . . .	159	130	155	211	202
Graduate applications					
Applicants . . . . .	22,139	19,336	17,323	16,208	15,968
Accepted . . . . .	3,431	2,994	3,215	3,058	3,002
Acceptance rate . . . . .	15%	15%	19%	19%	19%
Enrolled . . . . .	2,141	1,939	2,000	1,823	1,877
Yield . . . . .	62%	65%	62%	60%	63%
<b>Tuition (in dollars):</b>					
Tuition and fees . . . . .	\$ 39,212	\$ 37,782	\$ 36,390	\$ 34,986	\$ 33,600
Average room and board . . . . .	11,234	11,360	10,860	10,400	9,950
<b>Student Financial Aid:</b> (in thousands of dollars)					
Undergraduate tuition support . . . . .	\$ 92,060	\$ 89,813	\$ 78,534	\$ 70,157	\$ 65,529
Graduate tuition support . . . . .	201,995	195,178	187,732	174,847	172,021
Fellowship stipends . . . . .	30,435	28,104	27,509	25,647	25,020
Student loans . . . . .	9,968	9,641	9,641	8,766	8,962
Student employment . . . . .	85,335	84,304	82,287	78,892	77,732
<b>Total financial assistance . . . . .</b>	<b>\$ 419,793</b>	<b>\$ 407,040</b>	<b>\$ 385,703</b>	<b>\$ 358,309</b>	<b>\$ 349,264</b>
<b>Faculty and staff (including unpaid appointments):</b>					
Faculty . . . . .	1,017	1,025	1,008	1,007	997
Staff and fellows . . . . .	12,662	12,577	13,393	12,852	12,454





## Report of the Treasurer

for the year ended  
June 30, 2011

