2012

Report of the Treasurer

for the year ended

June 30, 2012

Massachusetts Institute of Technology

Report of the Treasurer

for the year ended June 30, 2012

Massachusetts
Institute of
Technology

The Corporation

2011–2012

as of June 30, 2012

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

**member of the Executive Committee*

Table of Contents

Report of the Treasurer

To Members of the Corporation

MIT ends fiscal 2012 in a robust financial position. Net assets increased 3.3 percent to end the year at $12.8 billion, with the Institute's endowment before pledges reaching $10.1 billion and both surpassing the peaks achieved in fiscal 2008 before the financial crisis. Operating revenues approached the $3 billion mark, almost doubling from a decade earlier, and exceeded expenses by $245.7 million, compared to $179.5 million in fiscal 2011. The year was marked by significant contributions to education innovation, expanded international collaborations and ongoing excellence in research and technological achievement.

In fiscal 2012, MIT benefited from solid investment returns and giving, healthy research growth, and unwavering fiscal stewardship by the entire MIT community. These successes further strengthen the Institute's foundation, position MIT to take advantage of compelling opportunities as they arise, and enable us to address the critical need for renewing our aging campus. We are well poised to balance these needs with sound fiscal management, recognizing that some revenue sources may come under pressure in the continuing uncertain funding climate.

Over the year following the Institute's 150th anniversary, MIT's exceptional faculty and students continued to generate groundbreaking discoveries and research and achieve educational milestones. Additionally, MIT continued to actively pursue initiatives to expand the Institute's role in bringing new learnings and technologies to bear in solving the nation's and the world's great challenges. Among the most significant fiscal 2012 initiatives, the Institute announced the launch of edX/MITx, a joint partnership with Harvard University to enhance campus-based teaching and learning, build a global community of online learners and research how students learn and how technologies can facilitate effective teaching both on campus and online. MIT also embarked upon other new global initiatives, notably an international collaboration to help develop the Skolkovo Institute of Science and Technology (SkTech) in Russia, and continues to explore other opportunities to engage with the global community in higher education, research and innovation.

Turning to MIT's financial position and activities, the Institute's solid condition can be highlighted in many ways:

The Institute's financial strength, as measured by the increase of 3.3 percent in total net assets, improved primarily due to endowment performance, gifts and operating results, offset by an increase in unfunded postretirement benefit obligations.

MIT's operating revenues approached $3 billion driven by growth in all revenue sources, and almost doubled from a decade earlier. Tuition net of financial aid increased 8.9 percent driven by an increase of students and moderate financial aid growth. Research revenues showed healthy growth of 5.6 percent in spite of the diminishing contribution from the American Reinvestment and Recovery Act (ARRA) funding received in the previous years. Fees and services, principally driven by one-time technology licensing results, grew 10.3 percent. Finally, operating gifts increased by 40.6 percent and contribution from investments into the Institute's operating revenue, driven by the endowment and other invested assets, grew 10.2 percent.

Strong operating revenue growth, up 8.7 percent from fiscal 2011, complemented by managed, moderate expense growth, up 6.7 percent from the previous year, led to operating results of $245.7 million in fiscal 2012, a 36.9 percent increase from fiscal 2011 results. This marks the fifth consecutive year of positive operating results for MIT. Through continued focus on fiscal management, MIT has reversed the trend of operating losses that existed from fiscal 2003 through fiscal 2007 and significantly improved MIT's financial strength and flexibility for the future as illustrated in the Summary of Key Financial Highlights.

SUMMARY OF KEY FINANCIAL HIGHLIGHTS (10-year trend)

(in millions of dollars)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating Revenues	1,658	1,832	2,031	2,141	2,180	2,408	2,644	2,663	2,751	2,990
Operating Expenses	1,687	1,840	2,037	2,182	2,208	2,294	2,461	2,383	2,571	2,744
Operating Results	(29)	(8)	(6)	(41)	(28)	114	183	280	180	246
Net Assets	6,931	7,741	8,626	10,060	12,695	12,770	9,946	10,324	12,388	12,799
Endowment	5,134	5,870	6,712	8,368	9,943	9,948	7,880	8,317	9,713	10,150
Borrowings	912	1,286	1,250	1,278	1,078	1,335	1,736	1,729	2,468	2,460

In fiscal 2011, MIT announced its development framework for the campus and surrounding neighborhood, MIT 2030. This framework continues to guide MIT's capital planning and renewal decisions for programs in the coming years, especially through 2020. In fiscal 2012, MIT focused on advancing the approved capital project priorities and preparing to launch the comprehensive Accelerated Capital Renewal Program.

During fiscal 2012, MIT completed two major successful renovations, Fariborz Maseeh Hall (formerly Old Ashdown-W1) and the former A.D. Little building (E60). Fariborz Maseeh Hall's welcoming of 460 undergraduates for the academic year just ended will allow MIT to achieve the goal of increasing its undergraduate student body to 4,500 students by the 2013-2014 academic year, and E60 renovation provides further modernization of the Sloan School's physical environment. In addition, the renovations of Fariborz Maseeh Hall and the E60 demonstrate MIT's commitment to sustainability, having recently achieved, in the case of Fariborz Maseeh Hall, or applied for LEED Gold certification.

Enhancing the physical environment that sustains the Institute's academic and research mission is essential despite the significant cost of upgrading the aging buildings and infrastructure. MIT remains committed to renewing our existing campus, and is moving firmly ahead with an Accelerated Capital Renewal Program designed to improve the quality of spaces most directly impacting the Institute's faculty and students.

The following are additional details on MIT's fiscal 2012 Statements of Financial Position and Statement of Activities.

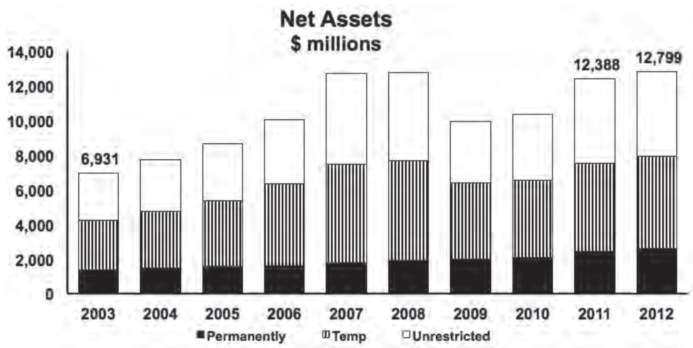
Statements of Financial Position

The following discussion highlights key elements of MIT's financial position – net assets; investments; endowment and similar funds; land, buildings and equipment; postretirement benefit assets and liabilities; and borrowings.

Net Assets

Total net assets increased to $12,799.3 million, up 3.3 percent from fiscal 2011. This level marks a new historic peak and demonstrates the recovery of net assets from the financial crisis of fiscal 2009.

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 $154.9 million, or 6.3 percent, to a total of $2,612.8 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 $253.0 million, or 5.0 percent, to a total of $5,297.6 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. In fiscal 2012, MIT adopted new accounting guidance dealing with noncontrolling interests (formerly minority interests) which dealt with reclassification of the liability to net assets. Unrestricted net assets increased $3.6 million, or 0.1 percent, to a total of $4,889.0 million, including the effects of postretirement benefit assets and obligations. The increase in unrestricted net assets is due primarily to the increase in unrestricted endowment value, investment gain on other invested funds, and release of temporarily restricted funds when the buildings are put into use, offset by an increase in postretirement obligations.

Investments

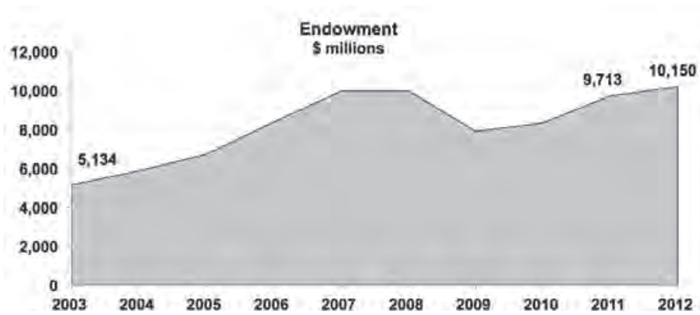
Investments at fair value were $12,847.9 million at fiscal year end 2012, an increase of $611.3 million, or 5.0 percent, from $12,236.5 million at the previous year end. Over the past five years, total invested assets have increased to $12,847.9 million from $11,068.9 million while investment income and distributions have totaled $2,635.3 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, were $738.3 million in fiscal 2012 and $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 less efficient markets such as private equity, real estate, and real assets. 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. Decision authority for the selection of managers, direct investments, and asset allocation resides with MIT's Investment Management Company (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 $10,149.6 million as of fiscal year end 2012, an increase of 4.5 percent over the $9,712.6 million level of last year, and surpassed 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 8.0 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 pool 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 $2,497.7 million as of fiscal year end 2012, an increase of $46.2 million, or 1.9 percent, from $2,451.5 million the previous year, driven by expenditures for research and educational facilities, including the completion of major renovations to the 29 thousand square-foot building E60 and the 186 thousand square-foot undergraduate residence Fariborz Maseeh Hall.

Capital projects in development as part of the MIT 2030 initial set of priorities include renovation projects for Chemistry and Math in Building 2 and for the original Sloan building (E52), occupied by the Sloan School and the Department of Economics. We are also actively studying a new facility for the Nano-Materials, Structures and Systems (nMaSS) program. As part of the Accelerated Capital Renewal Program, the Institute is studying multiple sets of projects and interventions to maximize the impact of capital investments in renovating spaces that enable the academic mission.

These 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.

Postretirement Benefit Assets and Liabilities

MIT's defined benefit pension plan had assets of $2,577.8 million at fiscal year end 2012, an increase of $5.5 million from $2,572.3 million at fiscal year end 2011. The plan's projected liabilities were $2,890.6 million at fiscal year end 2012, up $432.0 million from $2,458.6 million a year earlier, resulting in a net pension liability of $312.8 million at fiscal year end 2012, which compares to an overfunded status of $113.7 million at fiscal year end 2011. MIT also maintains a postretirement welfare benefit plan that covers retiree expenses associated with medical and life insurance benefits, with assets of $358.9 million and liabilities of $489.5 million at fiscal year end 2012, resulting in a net benefits liability of $130.6 million compared to $198.2 million at fiscal year end 2011. On an accounting basis, the combined plans' fiscal 2012 underfunded status was $443.4 million, up from $84.5 million one year ago. The investments of both plans' assets are managed by MITIMCo.

In prior years, defined benefit pension plan funding beyond market appreciation had not been necessary due to positive investment performance and stable discount rates. Since the financial and economic crisis of 2008, the combination of declining interest and discount rates and lower than expected asset returns has pushed MIT's pension obligations into unfunded territory for the last four years. This situation will likely require the Institute to contribute additional capital in future years beyond market appreciation of plan assets; such capital contributions will be funded through the employee benefits rate.

MIT also offers a 401(k) plan to its employees, which is not reflected in the Statements of Financial Position, invested at the direction of participants in a broad array of investment funds. The plan's investments market value was $2,952.6 million at fiscal year end 2012.

Borrowings

The increase in borrowings over the last decade, along with gifts received from donors, helped finance the more than doubling of the value of land, buildings and equipment as MIT has invested in its physical infrastructure to support its growing mission into the next century.

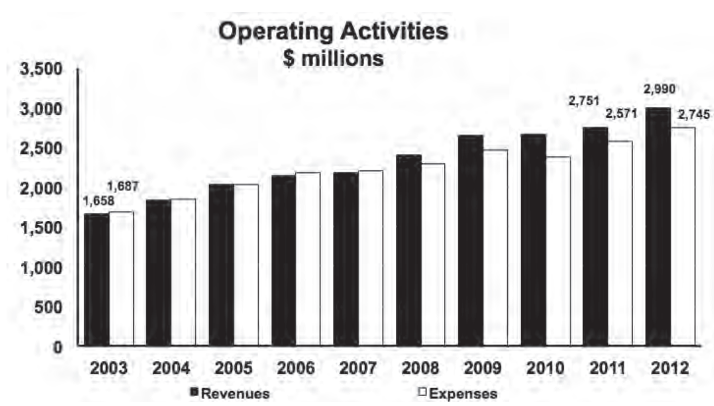
Near the end of fiscal 2011, MIT executed a $750 million century bond issuance to finance the first decade of projects and accelerate the renewal of the campus contemplated by the MIT 2030 framework. The full impact of the interest expense of this debt is reflected for the first time in fiscal 2012. No new debt was issued in fiscal 2012 and therefore borrowings have remained relatively unchanged from last year at just under $2.5 billion.

MIT's financial strength is reviewed periodically by both Moody's Investors Service and Standard & Poor's Rating Services. These agencies rated the century bond issuance as "Aaa" and "AAA", their highest rating levels, and their ongoing reviews of MIT's finances in and subsequent to fiscal 2012 have continued to affirm these ratings.

Statement of Activities

Operating Activities

In fiscal 2012, MIT continued to grow research activity and maintain excellence in its education mission while exercising expense control in core administrative areas. MIT ended the year with a surplus from operations of $245.7 million, $66.2 million, or 36.9 percent, higher than the fiscal 2011 result. The MIT community has demonstrated its commitment to financial discipline by achieving an operating surplus in each of the past five years.

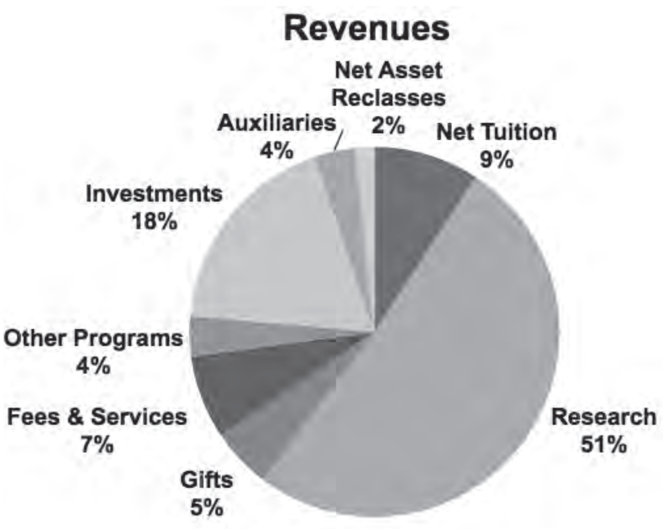


Operating revenues increased $239.6 million, or 8.7 percent, to $2,990.3 million in fiscal 2012, while operating expenses increased $173.4 million, or 6.7 percent, to a total of $2,744.6 million.

Year-over-year comparisons of the components of operating results are influenced by fundamental trends, as well as such drivers as timing effects and policy decisions on endowment payout. The Operating Activities section of our Statement of Activities on page 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, endowment distribution and income from other investments, auxiliaries, and payments on pledges for unrestricted gifts (within net asset reclassifications and transfers).



Tuition revenue for graduate, undergraduate and non-degree executive programs net of financial aid grew by $22.5 million, or 8.9 percent, to $276.0 million. The growth in tuition revenue was driven by a 3.1 percent increase in student population and a 3.9 percent increase in tuition rate. Financial aid for undergraduate students grew to $88.0 million, or 2.4 percent above that for fiscal 2011. Financial aid for graduate education grew to $163.7 million, or by 6.0 percent.

MIT demonstrated strong growth in research funding in fiscal 2012. Total research revenues increased to $1,527.9 million, up $80.6 million, or 5.6 percent, from the previous year. Of these amounts, on-campus departments, labs and centers at MIT experienced a $35.4 million, or 5.7 percent, increase in research revenues to $654.4 million. Research revenues at Lincoln Laboratory totaled $844.9 million, an increase of $40.1 million, or 5.0 percent. The Singapore-MIT Alliance for Research and Technology (SMART) generated $28.6 million of research revenue during fiscal 2012, an increase of $5.1 million, or 21.6 percent, for research activities taking place in Singapore. Total research awards and other funding received via the American Recovery and Reinvestment Act of 2009 (ARRA) totaled $151.5 million. Of the $151.5 million figure, $128.7 million was to fund research with the remainder funding infrastructure investments and student support. ARRA funding supported $31.2 million of research in fiscal 2012, included in the research figures above. Total ARRA research volume through fiscal year end 2012 has been $102.5 million, leaving $26.2 million of the $128.7 million in committed ARRA research funding to support research in fiscal 2013 and beyond.

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 $63.7 million, or 7.7 percent.

Growth in MIT's campus research is being driven by both Federal and non-Federal sponsors. Total Federal sponsorship of research grew $3.1 million, or 0.7 percent, to $472.6 million. Research volume sponsored by the Department of Health and Human Services decreased $19.0 million, or 12.4 percent, to $133.7 million; research volume sponsored by the Department of Defense increased $9.7 million, or 9.0 percent, to $117.5 million; Department of Energy volume grew by $1.4 million, or 1.5 percent, to $90.9 million; National Science Foundation volume grew by $6.6 million, or 8.9 percent, to $81.5 million; and volume sponsored by the National Aeronautics and Space Administration increased $2.1 million, or 7.6 percent, from last year to $30.2 million.

Non-Federal funding for campus research increased by $18.2 million, or 10.2 percent, to $196.4 million, with the greatest increase coming from industry sponsors.

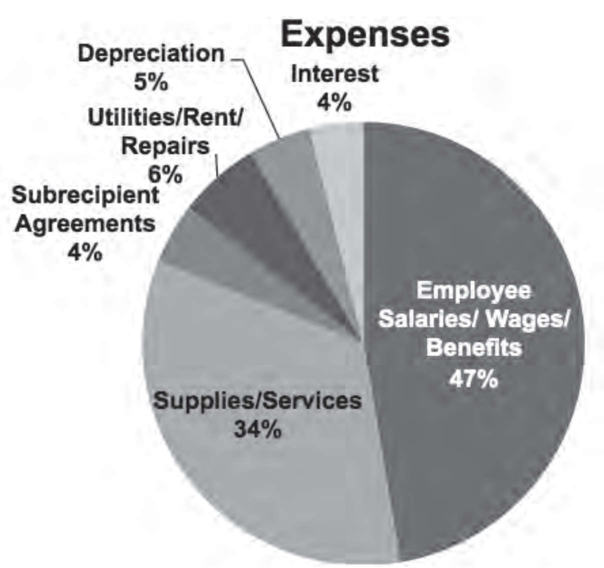
While research supports more than half of MIT's revenue, we experienced significant growth in other revenue categories as well, the largest being revenues from fees and services at $219.4 million, an increase of

$20.4 million, or 10.3 percent. The primary driver of this strong growth of revenues was a one-time increase in technology licensing fees. MIT's support from investments increased 10.2 percent due primarily to revenue from the increase in the endowment distribution rate, additions to the endowment and other invested assets. The distribution rate on endowed funds was 4.9 percent, or 5.4 percent on a three-year-average basis, in fiscal 2012.

MIT also saw significant growth in support from its donor base in the form of gifts and bequests for current use. Gifts grew by $45.1 million, or 40.6 percent, mainly due to gifts from foundations that supported programmatic initiatives.

Operating Expenses

Operating expenses grew to $2,744.6 million, an increase of $173.4 million or 6.7 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 5.9 percent while employee benefits costs rose 4.4 percent. Institute salary increases were 2.9 percent while headcount grew by 3.0 percent. Behind the campus salary increase, salaries funded centrally through the general Institute unrestricted budget grew by 5.2 percent while those funded through research grew by 6.6 percent.

Expense increases were concentrated in operating categories other than salaries and employee benefits in 2012. Interest expense grew by 45.7 percent, driven by the century bond issuance in late fiscal 2011 to support the next phase of investment in the campus environment. Utilities, rent, and repairs grew by 24.9 percent, mainly due to leasehold expenses incurred at Lincoln Lab, and depreciation increased by 7.5 percent.

Non-Operating Revenues, Gains and Losses Summary

Non-operating activities contributed $143.5 million to MIT's fiscal 2012 total net asset balance of $12,799.3 million. Growth in invested assets net of distribution, gifts and bequests, and improved pledge activity were the principal contributors to positive non-operating performance.

Gifts and Pledges

Gifts to MIT support scholarships, fellowships, educational programming, and student life activities. Gifts and pledges for fiscal 2012 totaled $433.4 million, a decrease of 17.0 percent from the fiscal 2011 total of $522.4 million. Gifts from individuals represented 31.8 percent of new gifts and pledges, down from 65.5 percent in the previous year. Gifts from foundations represented 53.3 percent of new gifts and pledges in fiscal 2012, up from 19.8 percent in the previous year. Gifts from corporations and other sources represented 14.9 percent, up from 14.7 percent in fiscal 2011. New gifts and pledges for research and education were the largest category of gifts for fiscal 2012.

MIT's full financial statements and footnotes, further describing our financial position and activities through June 30, 2012, are included on the following pages.

Closing Remarks

This past year has seen continued progress in the financial condition of the Institute and its impact nationally and globally. We improved in most revenue sources and, coupled with managed expense growth, we realized improved results of operations. We grew net assets to a record level, and our endowment, aptly managed by MITIMCo and propelled by the generosity of our donors and friends, also achieved its highest market value in history, surpassing its highest level before the fiscal 2009 financial crisis.

On every dimension, the last decade has witnessed a vibrant MIT. Our faculty and students dramatically expanded MIT's research landscape, launching and accelerating an array of interdisciplinary labs, centers, and initiatives. The MIT learning community expanded in both size and diversity, and students from around the world increasingly view MIT as the place to which they want to be connected. The future of MIT's campus is now unfolding through the MIT 2030 framework, in support of the Institute's academic priorities and physical resources. Additionally, through a range of expanded collaborations, MIT continues to further its impact on the world with leadership in global education and research.

On behalf of the MIT community, I take this opportunity to express our appreciation for Susan Hockfield's leadership, dedication and vision as MIT's President during the last eight years as well as for Executive Vice President and Treasurer Theresa (Terry) M. Stone who earlier in the year retired after five years of service to MIT. I am grateful for the opportunity to have worked closely with them over the years and feel honored and privileged in being entrusted by the MIT Corporation to succeed Terry in the role of MIT's Executive Vice President and Treasurer.

We also take the opportunity to celebrate the selection of the Institute's seventeenth President by the MIT Corporation in May 2012. Effective July 2, 2012, MIT Provost L. Rafael Reif became the Institute's seventeenth President and, concurrently, Professor Chris A. Kaiser, who had led MIT's Department of Biology, became MIT's new Provost. Congratulations to both and we look forward to the excitement of working together in advancing the Institute's mission and supporting it with appropriate financial and operational resources.

In closing, I would like to acknowledge that although our financial position is strong and able to sustain our excellence, and positions the Institute to take advantage of future exciting directions and opportunities, we also face important challenges. Our principal revenue sources are more volatile than in the past, and our funding model may come under pressure in a still uncertain economic climate and changing competitive landscape for higher education. At the same time, we must continue addressing the need to rebuild and renew our campus. As a result, we look forward to fiscal year 2013 and beyond with a continued commitment to balancing MIT's aspirations with prudent fiscal management and stewardship.

As always, the commitment and dedication of our students, faculty, staff, alumni, friends, and members of the MIT Corporation are and will continue to be the most valuable assets of the Institute in successfully navigating future challenges and opportunities.

Respectfully submitted,

Israel Ruiz
Executive Vice President and Treasurer
September 14, 2012

Massachusetts Institute of Technology

Statements of Financial Position

at June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Assets		
Cash	$ 239,377	$ 131,471
Accounts receivable, net	208,297	261,206
Pledges receivable, net, at fair value	479,659	385,885
Contracts in progress, principally U.S. Government	66,724	68,411
Deferred charges, inventories and other assets	93,499	71,735
Student notes receivable, net	49,529	49,757
Investments, at fair value	12,847,866	12,236,531
Noncontrolling interests	304,436	282,041
Retirement plan asset-overfunded status	–	113,715
Land, buildings & equipment (at cost of $3,546,351 for June 2012; $3,406,169 for June 2011), net of accumulated depreciation	2,497,711	2,451,479
Total assets	$ 16,787,098	$ 16,052,231
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accruals and other liabilities	$ 378,369	$ 366,161
Liabilities due under life income fund agreements, at fair value	87,899	84,225
Deferred revenue and other credits	155,476	124,848
Advance payments	428,507	389,478
Borrowings	2,460,002	2,467,825
Government advances for student loans	34,103	33,754
Accrued benefit liabilities	443,398	198,209
Total liabilities	3,987,754	3,664,500
Net Assets:		
Unrestricted net assets controlled by the Institute	$ 4,584,516	$ 4,603,280
Unrestricted net assets attributable to noncontrolling interests	304,436	282,041
Total unrestricted net assets	4,888,952	4,885,321
Temporarily restricted	5,297,554	5,044,519
Permanently restricted	2,612,838	2,457,891
Total net assets	12,799,344	12,387,731
Total liabilities and net assets	$ 16,787,098	$16,052,231

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

Massachusetts Institute of Technology

Statement of Activities

for the year ended June 30, 2012

(with summarized financial information for the year ended June 30, 2011)

(in thousands of dollars)

	2012			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	2011
Operating Activities					
Operating Revenues:					
Tuition and similar revenues, net of discount of $251,709 in 2012 and $240,299 in 2011	$ 275,993	$ –	$ –	$ 275,993	$ 253,478
Research revenues:					
Direct	1,319,112	–	–	1,319,112	1,250,388
Indirect	208,738	–	–	208,738	196,818
Total research revenues	$ 1,527,850	$ –	$ –	$ 1,527,850	$ 1,447,206
Gifts and bequests for current use	156,172	–	–	156,172	111,114
Fees and services	219,391	–	–	219,391	198,971
Other programs	104,556	–	–	104,556	87,133
Support from investments:					
Endowment	468,604	–	–	468,604	444,836
Other investments	78,681	–	–	78,681	51,961
Total support from investments	547,285	–	–	547,285	496,797
Auxiliary enterprises	108,868	–	–	108,868	100,135
Net asset reclassifications and transfers	50,181	–	–	50,181	55,813
Total operating revenue	$ 2,990,296	$ –	$ –	$ 2,990,296	$ 2,750,647
Operating Expenses:					
Salaries and wages	$ 1,065,529	$ –	$ –	$ 1,065,529	$ 1,006,458
Employee benefits	233,343	–	–	233,343	223,568
Supplies and services	926,760	–	–	926,760	898,284
Subrecipient agreements	121,892	–	–	121,892	120,977
Utilities, rent, and repairs	164,273	–	–	164,273	131,539
Depreciation	125,100	–	–	125,100	116,385
Interest expense	107,689	–	–	107,689	73,936
Total operating expenses	2,744,586	–	–	2,744,586	2,571,147
Results of operations	$ 245,710	$ –	$ –	$ 245,710	$ 179,500
Non-Operating Activities					
Pledge revenue	$ –	$ 135,879	$ 46,869	$ 182,748	$ 110,577
Gifts and bequests	–	–	94,504	94,504	300,718
Investment income	–	489	6,853	7,342	8,706
Net gain on investments and other assets	275,868	447,241	15,199	738,308	1,483,669
Distribution of accumulated investment gains	(155,527)	(285,789)	–	(441,316)	(379,793)
Net change in life income funds	(1,478)	3,766	4,284	6,572	28,413
Pension-related charges other than net periodic pension benefit income	(394,469)	–	–	(394,469)	105,408
Net asset reclassifications and transfers	11,132	(48,551)	(12,762)	(50,181)	(55,813)
Total non-operating activities	(264,474)	253,035	154,947	143,508	1,601,885
Increase in net assets controlled by Institute	(18,764)	253,035	154,947	389,218	1,781,385
Change in net assets attributable to noncontrolling interests	22,395	–	–	22,395	51,608
Net assets at the beginning of the year	4,885,321	5,044,519	2,457,891	12,387,731	10,554,738
Net assets at the end of the year	$ 4,888,952	$ 5,297,554	$ 2,612,838	$12,799,344	$12,387,731

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, 2012 and 2011

(in thousands of dollars)

	2012	2011
Cash Flow from Operating Activities:		
Increase in net assets	$ 411,613	$ 1,832,993
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments	(734,374)	(1,483,669)
Change in retirement plan asset, net of change in accrued benefit liability	358,904	(134,300)
Depreciation	125,100	116,385
Gifts of securities	(2,978)	(1,921)
Net gain on life income funds	(2,442)	(25,383)
Change in noncontrolling interests	(22,395)	(51,608)
Amortization of bond premiums and discounts and other adjustments	(2,431)	(7,949)
Change in operating assets and liabilities:		
Pledges receivable	(93,774)	(10,655)
Accounts receivable	52,909	(58,090)
Contracts in progress	1,687	(67)
Deferred charges, inventories and other assets	(21,764)	(15,821)
Accounts payable, accruals and other liabilities, excluding building and equipment accruals	21,970	68,948
Liabilities due under life income fund agreements	3,674	9,969
Deferred revenue and other credits	30,628	10,699
Advance payments	39,029	27,106
Reclassify investment income	(7,342)	(8,706)
Contributed securities received as payment on pledges	(37,302)	(27,380)
Contributions restricted for long-term investment	(94,504)	(300,718)
Net cash provided by (used in) operating activities	26,208	(60,167)
Cash Flow from Investing Activities:		
Purchase of land, buildings and equipment	(183,958)	(251,932)
Purchases of investments	(52,463,972)	(41,050,404)
Proceeds from sale of investments, including contributed securities	52,638,753	40,570,574
Student notes issued	(20,013)	(9,967)
Collections from student notes	20,198	9,282
Net cash used in investing activities	(8,992)	(732,447)
Cash Flow from Financing Activities:		
Proceeds from contributions restricted for:		
Investment in endowment	94,504	293,317
Investment in plant and other	–	7,401
Less: contributed securities, gifts for endowment, plant and other	(9,015)	(267,356)
Total proceeds from contributions	85,489	33,362
Increase in investment income for restricted purposes	7,342	8,706
Proceeds from borrowings	–	750,000
Repayment of borrowings	(2,490)	(2,370)
Increase in government advances for student loans	349	164
Net cash provided by financing activities	90,690	789,862
Net increase (decrease) in cash	107,906	(2,752)
Cash at the beginning of the year	131,471	134,223
Cash at the end of the year	$ 239,377	$ 131,471

The accompanying notes are an integral part of the 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, endowment distribution and income from other investments, auxiliary revenues, payments on pledges for unrestricted gifts, and operating expenditures. Results of operations are displayed in the Statement 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 $60.3 million and $42.5 million at June 30, 2012 and 2011, respectively, are restricted for use under certain sponsored research agreements.

The Institute had approximately $238.1 million and $129.8 million at June 30, 2012 and 2011, respectively, of its cash and cash equivalents accounts with a single institution. The Institute has not experienced any losses associated with deposits at this institution.

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

A. Accounting Policies (continued)

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.

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 $27.2 million and $37.5 million during 2012 and 2011, respectively. Land, buildings and equipment at June 30, 2012 and 2011 are shown in Table 1 below.

Table 1. Land, Buildings and Equipment

(in thousands of dollars)	2012	2011
Land	$ 65,198	$ 59,598
Land improvements	64,299	60,795
Educational buildings	3,106,569	2,936,816
Equipment	175,046	164,909
Software	31,933	29,938
Total	**3,443,045**	**3,252,056**
Less: accumulated depreciation	(1,048,640)	(954,690)
Construction in progress	87,177	142,788
Software projects in progress	16,129	11,325
Land, buildings and equipment	**$ 2,497,711**	**$2,451,479**

Depreciation expense was $125.1 million in 2012 and $116.4 million in 2011. Net interest expense of $3.8 million and $6.6 million was capitalized during 2012 and 2011, respectively, in connection with 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

(in thousands of dollars)	2012	2011
Tuition revenue	$ 491,046	$ 457,494
Executive and continuing education revenues	36,656	36,283
Total	**527,702**	**493,777**
Less: tuition discount	(251,709)	(240,299)
Net tuition & similar revenue	**$ 275,993**	**$ 253,478**

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 student support granted to students was $441.2 million and $409.8 million in 2012 and 2011, respectively. Of that amount, $144.5 million in 2012 and $125.8 million in 2011 was aid from sponsors. Tuition support from MIT sources is displayed as tuition discount. Components of student support are detailed in Table 3 below.

Table 3. Student Support

	2012			2011		
(in thousands of dollars)	Institute sources	External sponsors	Total financial aid	Institute sources	External sponsors	Total financial aid
Tuition support	$ 251,709	$ 66,074	$ 317,783	$ 240,299	$ 53,756	$ 294,055
Stipends	18,203	15,060	33,263	17,680	12,755	30,435
Student salaries	26,723	63,412	90,135	26,051	59,284	85,335
Total	**$ 296,635**	**$ 144,546**	**$ 441,181**	**$ 284,030**	**$ 125,795**	**$ 409,825**

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 in 2012 and 2011. Pledges in the amount of $479.7 million and $385.9 million were recorded as receivables at June 30, 2012 and 2011, 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 as 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.

Revised Classifications

On July 1, 2011, MIT adopted the accounting standard, *Not-for-Profit Entities: Mergers and Acquisitions*. This standard specifies that noncontrolling interests (formerly known as minority interests, classified as a liability) be reported within unrestricted net assets on the Statements of Financial Position and the change in net assets attributable to noncontrolling interests be reported separately within the Statement of Activities. The standard had an effective date of June 30, 2011, but was not adopted until fiscal year 2012, and as a result, the Institute has revised the prior year presentation of its noncontrolling interests to conform to the correct current year presentation and generally accepted accounting principles. The impact of this revision to the prior year financial statements decreased total liabilities from $3,994.7 million to $3,664.5 million and increased total net assets from $12,105.7 million to $12,387.7 million. As a result, the Institute reported net assets attributable to non-controlling interests in the amount of approximately $282.0 million. In addition, the increase in net assets on the Statement of Activities and Statements of Cash Flows changed from $1,781.4 million to $1,833.0 million. Management does not believe that the impact of the prior year revision is material.

Recently Adopted Accounting Standards

On July 1, 2011, MIT adopted new guidance enhancing the *Fair Value Measurement* standard. This standard requires further disclosure on the activity in the Level 3 rollforward to be reported on a gross, rather than net, basis.

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.

Table 4. Liabilities Due Under Life Income Funds

(in thousands of dollars)	2012	2011
Balance at beginning of year	$ 84,225	$ 74,256
Additions for new gifts	7,389	8,907
Terminations and payments to beneficiaries	(12,200)	(12,164)
Net investment and actuarial gain	8,485	13,226
Balance at end of year	**$ 87,899**	**$ 84,225**

A. Accounting Policies (continued)

Noncontrolling Interests

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

Non-Cash Items

Non-cash transactions excluded from the Statements of Cash Flows include $12.9 million and $23.2 million of accrued liabilities related to plant and equipment purchases for 2012 and 2011, respectively.

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, 2011 balances and amounts previously reported have been reclassified to conform to the June 30, 2012 presentation.

Subsequent Events

MIT has evaluated subsequent events through September 14, 2012, 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.

B. Investments

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

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 is 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 exchanges or dealer markets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable 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 (including 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

B. Investments (continued)

Table 5. Investments

(in thousands of dollars)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total fair value
Fiscal year 2012				
Cash and cash equivalents	$ 1,599,874	$ –	$ –	$ 1,599,874
US treasury	462,111	–	–	462,111
US government agency	–	84,625	–	84,625
Domestic bonds**	23,243	229,872	78,961	332,076
Foreign bonds**	–	15,043	–	15,043
Common equity				
Long domestic equity	933,902	1,559	279,521	1,214,982
Long foreign equity	290,853	5,891	–	296,744
Short domestic equity	(570,076)	(609)	(3)	(570,688)
Short foreign equity	(76,711)	–	–	(76,711)
Equity**				
Absolute return	–	393,396	1,283,490	1,676,886
Domestic	69,625	27,701	1,038,537	1,135,863
Foreign	8,124	281,523	1,070,981	1,360,628
Private	–	–	2,610,024	2,610,024
Real estate*	–	–	1,964,901	1,964,901
Real assets**	1,648	75,377	536,266	613,291
Split interest agreements	–	–	121,816	121,816
Other	–	–	2,638	2,638
Derivatives	(1,239)	5,002	–	3,763
Total investments	**$ 2,741,354**	**$ 1,119,380**	**$ 8,987,132**	**$ 12,847,866**
Fiscal year 2011				
Cash and cash equivalents	$ 1,175,781	$ –	$ –	$ 1,175,781
US treasury	588,650	–	–	588,650
US government agency	–	63,153	–	63,153
Domestic bonds**	22,075	243,806	75,644	341,525
Foreign bonds**	–	12,074	3	12,077
Common equity				
Long domestic equity	902,225	5,359	273,148	1,180,732
Long foreign equity	318,089	7,916	–	326,005
Short domestic equity	(358,283)	(122)	–	(358,405)
Short foreign equity	(88,108)	–	–	(88,108)
Equity**				
Absolute return	–	470,086	1,408,152	1,878,238
Domestic	201,117	33,093	564,360	798,570
Foreign	51,766	110,055	1,112,986	1,274,807
Private	–	–	2,479,017	2,479,017
Real estate*	–	–	1,691,704	1,691,704
Real assets**	–	–	699,098	699,098
Split interest agreements	–	–	101,125	101,125
Other	–	–	2,592	2,592
Derivatives	(1,757)	71,727	–	69,970
Total investments	**$ 2,811,555**	**$ 1,017,147**	**$ 8,407,829**	**$ 12,236,531**

**Real estate includes direct investments and investments held through commingled vehicles.*
***Real assets, Equity, Domestic bonds and Foreign bonds categories include commingled vehicles that invest in these types of investments.*

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 (such as 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.

Table 5 on the previous page presents MIT's investments at fair value as of June 30, 2012 and 2011, grouped by the valuation hierarchy as defined in this note. Transfers between levels are recognized at the beginning of the reporting period. There were no significant transfers in and out of Level 1 and Level 2 fair value measurements in 2012 and 2011. Significant transfers out of level three and into level two in 2012 and 2011 resulted from the expiration of lockups which had prevented MIT from exiting the fund within twelve months.

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. Instruments listed or traded on a securities exchange are valued at the last quoted price on the primary exchange where the security is traded. Investments in non-exchange traded debt are primarily valued using independent pricing sources that use broker quotes or models using market observable inputs. Investments managed by external advisors include investments in absolute return, domestic, foreign and private equity, real estate and real asset commingled vehicles. The majority of these investments are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisors. 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, GAAP. As a practical expedient, MIT is permitted under GAAP to estimate the fair value of its investments with external managers using the external 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 GAAP. Direct real estate holdings are valued at fair market value based on external appraisals. Other direct investments that are not readily marketable are valued by MIT based upon valuation information received from the entity which may include last trade information or valuations prepared in connection with the administration of an employee stock ownership plan. MIT may also utilize industry standard valuation techniques. Split-interest agreements are generally 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 and total return 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 swaps and other over-the-counter derivative instruments have inputs that can generally be corroborated by observable 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 performs ongoing due diligence around its non-public investments to determine that fair value is reasonable as of June 30, 2012 and 2011.

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 19 at June 30, 2012 and 2011.

All net realized and unrealized gains and losses relating to financial instruments held by MIT and shown in Table 5 are reflected in the Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled $2,476.9 million and $2,012.9 million for the years ended June 30, 2012 and 2011, respectively. The net change in unrealized gains (losses) related to these financial instruments held by MIT at June 30, 2012 are disclosed in Table 6.

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. Cash collateral and certain securities owned by MIT were held at counterparty brokers to

B. Investments (continued)

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 absolute return, domestic equity and foreign equity commingled funds limit withdrawal to monthly, quarterly, or other periods, and may require notice periods. In addition, 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 liquidity at its disposal, including cash, cash equivalents, marketable debt and equity securities, and lines of credit.

Table 6. Rollforward of Level 3 Investments

(in thousands of dollars)	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfer of Assets between Levels	Fair Value Ending
Fiscal Year 2012							
Domestic bonds	$ 75,644	$ –	$ 1	$ 11,550	$ (7,879)	$ (355)	$ 78,961
Foreign bonds	3	–	–	–	(2)	(1)	–
Common equity							
Long domestic equity	273,148	8	5,379	7,716	(6,730)	–	279,521
Short domestic equity	–	–	(3)	–	–	–	(3)
Equity							
Absolute return	1,408,152	(7,750)	13,925	39,161	(169,998)	–	1,283,490
Domestic	564,360	(10,918)	143,115	400,257	(58,277)	–	1,038,537
Foreign	1,112,986	(24,375)	(19,476)	181,410	(166,705)	(12,859)	1,070,981
Private	2,479,017	(6,185)	125,079	319,630	(307,517)	–	2,610,024
Real estate	1,691,704	5,149	142,723	441,466	(316,141)	–	1,964,901
Real assets	699,098	–	(6,189)	12,094	(78,326)	(90,411)	536,266
Split interest agreements	101,125	–	2,319	18,478	(106)	–	121,816
Other	2,592	167	124	30	(275)	–	2,638
Total investments	**$ 8,407,829**	**$ (43,904)**	**$ 406,997**	**$ 1,431,792**	**$(1,111,956)**	**$ (103,626)**	**$ 8,987,132**
Fiscal Year 2011							
Domestic bonds	$ 73,310	$ –	$ –	$ 10,680	$ (8,346)	$ –	$ 75,644
Foreign bonds	2	–	–	–	–	1	3
Common equity							
Long domestic equity	12,163	–	1,005	273,982	(14,002)	–	273,148
Equity							
Absolute return	1,452,998	(1)	164,512	21,394	(182,525)	(48,226)	1,408,152
Domestic	393,870	–	103,227	132,000	(64,737)	–	564,360
Foreign	887,667	12,378	75,121	492,852	(355,032)	–	1,112,986
Private	2,092,094	(2,433)	335,577	374,407	(320,628)	–	2,479,017
Real estate	1,401,896	12	157,997	225,899	(94,100)	–	1,691,704
Real assets	639,663	–	66,748	24,786	(32,099)	–	699,098
Split interest agreements	90,214	–	10,911	–	–	–	101,125
Other	1,713	–	373	575	(69)	–	2,592
Total investments	**$ 7,045,590**	**$ 9,956**	**$ 915,471**	**$ 1,556,575**	**$(1,071,538)**	**$ (48,225)**	**$ 8,407,829**

B. Investments (continued)

Details on the estimated remaining life, current redemption terms and restrictions by asset class and type of investment are provided below.

Table 7. Unfunded Commitments

Asset Class *(in thousands of dollars)*	2012 Unfunded Commitments	2012 Fair Value	2011 Unfunded Commitments	2011 Fair Value	Redemption Terms	Redemption Restrictions
Equity:						
Domestic	$ 26,941	$ 1,135,863	$ 21,000	$ 798,570	Redemption terms range from daily to annually with 90 days notice	Lock-up provisions range none to 4 years
Foreign	209,245	1,360,628	106,226	1,274,807	Redemption terms range from daily to quarterly with 90 days notice	Lock-up provisions range from none to 8 years
Absolute return	37,762	1,676,886	66,410	1,878,238	Redemption terms range from monthly with 3 business days notice to closed end structures not available for redemption	Lock-up provisions range from none to not redeemable
Private	1,261,309	2,610,024	1,047,183	2,479,017	Closed end funds not eligible for redemption	Not redeemable
Real estate	531,904	757,715	510,321	648,677	Closed end funds not eligible for redemption	Not redeemable
Real assets	135,516	613,083	101,168	698,948	Redemption terms range from 1 fund annually with 90 days notice to all other funds are closed end funds not eligible for redemption	Not redeemable except for 1 fund with a lock-up provision of 4 years
Totals	**$ 2,202,677**	**$ 8,154,198**	**$ 1,852,308**	**$ 7,778,257**		

C. Derivative Financial Instruments

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, 2012, the remaining swap agreement had a total fair value of ($58.6) million and at June 30, 2011 had a fair value of ($32.8) million. This swap portfolio had a total net loss for 2012 of $25.8 million and a total net gain of $7.7 million for 2011. 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 manage its exposure to extreme market events and fluctuations in asset classes or currencies. Instruments utilized include futures, total return and 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.

Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. To the extent the total return of the security or index underlying the tranaction exceeds or falls short of the offsetting interest rate obligation, MIT will receive a payment from or make a payment to the counterparty.

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, 2012 and 2011 related to MIT's investment management. Derivatives held by limited partnerships and commingled investment vehicles pose no off-balance sheet risk to MIT due to the limited liability structure of these investments. To manage the counterparty credit exposure of MIT's direct off-balance sheet financial instruments, 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. On June 30, 2012, 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.

C. Derivative Financial Instruments (continued)

Table 8. Derivative Financial Instruments

(in thousands of dollars)	Notional exposure Long	Short	Net ending fair value *	Net gain (loss)**
Fiscal year 2012				
Fixed income instruments				
Fixed income futures	$ 8,900	$ (14,400)	$ (29)	$ 38
Options on interest rate exchange agreements	2,577,777	(55,000)	32,292	(37,142)
Interest rate caps and floors	2,250,000	–	3,592	(6,361)
Interest rate swaps	–	(11,900)	(270)	(321)
Total fixed income instruments	4,836,677	(81,300)	35,585	(43,786)
Currency instruments				
Currency forwards	–	–	(148)	1,306
Total currency instruments	–	–	(148)	1,306
Commodity instruments				
Commodity futures	2,072	–	(1,062)	(952)
Equity index futures	–	–	–	1,449
Equity index swaps	–	(60,036)	–	–
IOS index swaps	–	(18,889)	12	603
Total commodity and index futures	2,072	(78,925)	(1,050)	1,100
Credit instruments	410,358	(1,629,309)	28,024	20,975
2012 Total	**$ 5,249,107**	**$ (1,789,534)**	**$ 62,411**	**$ (20,405)**
Fiscal year 2011				
Fixed income instruments				
Fixed income futures	$ 2,500	$ (19,400)	$ (67)	$ 459
Options on interest rate exchange agreements	1,884,777	(55,000)	57,946	9,119
Interest rate caps and floors	2,250,000	(2,808,000)	(4,221)	(4,091)
Interest rate swaps	–	(34,436)	(63)	2,997
Total fixed income instruments	4,137,277	(2,916,836)	53,595	8,484
Currency instruments				
Currency forwards	61,541	(17,956)	(131)	(836)
Total currency instruments	61,541	(17,956)	(131)	(836)
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)
2011 Total	**$ 4,947,344**	**$ (5,580,988)**	**$ 102,778**	**$ 259**

**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 Statement 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.

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, 2012 and 2011.

Table 9. Credit Derivatives

	Purchased protection				Written protection notional amount			
(in thousands of dollars)	Purchased notional amounts	Purchased fair value*	Years to maturity < 5 years	Years to maturity 5-10 years	Written notional amounts	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
Fiscal year 2012								
Credit rating on underlying or index								
A- to AAA	$ 605,184	$ (1,652)	$ 61,150	$ 544,034	$ 410,358	$ (410,358)	$ _	$ 17,783
BBB- to BBB+	541,181	(5,703)	45,000	496,181	–	–	_	–
Non-investment grade	5,000	(576)	–	5,000	–	–	–	–
Non-rated	35,381	728	5,000	30,381	–	–	–	–
ABX - AA index	32,205	17,444	–	32,205	–	–	–	–
2012 Total	**$ 1,218,951**	**$ 10,241**	**$ 111,150**	**$1,107,801**	**$ 410,358**	**$ (410,358)**	**$ –**	**$ 17,783**
Fiscal year 2011								
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	–	–	–	–
2011 Total	**$ 1,884,504**	**$ 20,525**	**$ 457,751**	**$1,426,753**	**$ 732,533**	**$ (732,533)**	**$ –**	**$ 30,348**

** 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 Statement of Activities.*

D. Pledges Receivable

Table 10 below shows the time periods in which pledges receivable at June 30, 2012 and 2011 are expected to be realized.

Table 10. Pledges Receivable

(in thousands of dollars)	2012	2011
In one year or less	$ 158,236	$ 109,181
Between one year and five years	232,983	187,608
More than five years	141,780	136,696
Less: allowance for unfulfilled pledges	(53,340)	(47,600)
Pledges receivable, net	**$ 479,659**	**$ 385,885**

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 $30.9 million and $55.0 million in 2012 and 2011, respectively. MIT has gross conditional pledges, not recorded, for the promotion of education and research in the amount of $118.2 million and $26.9 million as of June 30, 2012 and 2011, respectively. MIT has pledges relating to research in the amount of $25.4 million and $8.0 million as of June 30, 2012 and 2011, 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 2012 and 2011.

Table 11. Rollforward of Pledges Receivable

(in thousands of dollars)	2012	2011
Balance at beginning of year	$ 385,885	$ 375,230
New pledges	164,333	107,830
Pledge payments received	(88,975)	(99,922)
Decrease in pledge discount	24,156	3,937
Increase in allowance for unfulfilled pledges	(5,740)	(1,190)
Balance at end of year	**$ 479,659**	**$ 385,885**

E. Student Notes Receivable

Table 12 below details the components of student notes receivable at June 30, 2012 and 2011.

Table 12. Student Notes Receivable

(in thousands of dollars)	2012	2011
Institute-funded student notes receivable	$ 14,112	$ 15,191
Perkins student notes receivable	38,417	37,566
Total student notes receivable	**52,529**	**52,757**
Less: allowance for doubtful accounts	(3,000)	(3,000)
Student notes receivable, net	**$ 49,529**	**$ 49,757**

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, \$34.1 million and \$33.8 million at June 30, 2012 and 2011, 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 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, 2012 and 2011 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, 2012 and 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, 2012 and 2011 were as shown in the following table.

Table 13. Rollforward of Allowance for Credit Losses

(in thousands of dollars)	2012	2011
Balance at beginning of year	\$ 3,000	\$ 3,000
Provision for credit losses	41	171
Net charge-offs	(41)	(171)
Balance at end of year	**\$ 3,000**	**\$ 3,000**

F. Accounts Payable, Accruals and Other Liabilities

MIT's accounts payable, accruals and other liabilities at June 30, 2012 and 2011 are shown in Table 14 below.

Table 14. Accounts Payable, Accruals and Other Liabilities

(in thousands of dollars)	2012	2011
Accounts payable and accruals	$ 320,902	$ 310,476
Accrued vacation	57,467	55,685
Total	**$ 378,369**	**$ 366,161**

G. Borrowings

Table 15. Borrowings

(in thousands of dollars / due dates are calendar based)	2012	2011
EDUCATIONAL PLANT		
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Series I, 4.75%–5.20%, due 2028, par value $59,200	$ 59,588	$ 59,613
Series J-1, variable rate, due 2031, par value	125,000	125,000
Series J-2, variable rate, due 2031, par value	125,000	125,000
Series K, 5.25%–5.50%, due 2012–2032, par value $230,000	241,405	242,242
Series L, 3.0%–5.25%, due 2004–2033, par value $170,160	178,635	182,072
Series M, 5.25%, due 2014–2030, par value $131,110	142,787	143,897
Series N, 3.5%–5.0%, due 2014–2038, par value $325,195	330,327	331,594
Series O, 4.0%–6.0%, due 2016–2036, par value $266,460	271,022	272,218
Total MHEFA	**1,473,764**	**1,481,636**
Medium Term Notes Series A, 7.125%, due 2026	17,359	17,355
Medium Term Notes Series A, 7.25%, due 2096	45,445	45,443
Notes payable to bank, variable rate, due 2014	83,033	83,033
Taxable Bonds, Series B, 5.60%, due 2111, par value $750,000 [1]	746,924	746,881
Total educational plant	**2,366,525**	**2,374,348**
OTHER		
Notes payable to bank, variable rate, due 2014	93,477	93,477
Total borrowings	**$ 2,460,002**	**$ 2,467,825**

[1] *The proceeds of Taxable Bonds, Series B were held as liquid investments as of June 30, 2012 and 2011 and have not yet been invested in physical assets.*

Fair value of the outstanding debt is approximately 22.0% and 5.0% greater than the carrying value in 2012 and 2011, 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)

2013	$ 26,500
2014	202,509
2015	59,110
2016	9,585
2017	98,090

MIT maintains a line of credit with a major financial institution for an aggregate commitment of $500.0 million. As of June 30, 2012, $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 2012 and 2011 was $101.0 million and $78.7 million, respectively.

Variable interest rates at June 30, 2012 are shown in Table 17 below.

Table 17. Variable Interest Rates

(in thousands of dollars)	Amount	Rate
MHEFA Series J-1	$ 125,000	0.14%
MHEFA Series J-2	125,000	0.15%
Notes payable to bank	176,509	0.84%

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.

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, 2012 and 2011, MIT recorded a net over-recovery of $56.7 million and $48.1 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 2012 research revenues of $1,527.9 million include reimbursement of indirect costs of $208.7 million, which includes the adjustment for the variance between the indirect cost income determined by the fixed rates and actual costs for 2012. In 2011, research revenues were $1,447.2 million, which included reimbursement of indirect costs of $196.8 million.

Leases

At June 30, 2012, there were no capital lease obligations. MIT is committed under certain operating (rental) leases. Rent expense incurred under operating lease obligations was $37.1 million and $33.3 million in 2012 and 2011, respectively. Future minimum payments under operating leases are shown in Table 18 below.

Table 18. Lease Obligations
(in thousands of dollars)

2013	$ 38,755
2014	37,311
2015	22,804
2016	19,280
2017	14,774

Investments

As of June 30, 2012, $9.9 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 $51.5 million at June 30, 2012. 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.

Table 19. Expenditures by Functional Classification

(in thousands of dollars)	2012	2011
General and administrative	$ 586,268	$ 523,676
Instruction and unsponsored research	691,903	659,839
Sponsored research	1,335,638	1,265,776
Auxiliary enterprises	120,137	110,631
Operation of Alumni Association	10,640	11,225
Total operating expense	**$ 2,744,586**	**$2,571,147**

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. The basic retiree life insurance plan is non-contributory and covers the retiree only. The supplemental life insurance plan is paid for by the retiree. 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 2012 or 2011.

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 2012 and 2011 related to the defined contribution plan were $43.5 million and $40.8 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 changes resulted in a reduction of the remaining transition obligation this fiscal year so 2012 is the final year of amortization. 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 for the years ended June 30, 2012 and 2011.

Table 20. Components of Net Periodic Benefit (Income) Cost

	Defined benefit plan		Postretirement welfare benefit plan	
(in thousands of dollars)	2012	2011	2012	2011
Components of net periodic benefit (income) cost				
Service cost	$ 61,431	$ 59,892	$ 20,599	$ 19,957
Interest cost	138,858	134,756	26,207	27,380
Expected return on plan assets	(217,979)	(221,135)	(23,399)	(20,142)
Amortization of transition amount	–	–	1,194	4,776
Amortization of net actuarial (gain) loss	(1,000)	(2,323)	9,314	10,266
Amortization of prior service cost	1,970	2,180	(2,100)	3,556
Net periodic benefit (income) cost recognized in operating activity	**(16,720)**	**(26,630)**	**31,815**	**45,793**
Other amounts recognized in non-operating activity in unrestricted net assets				
Current year actuarial (gain) loss	$ 444,241	$ (68,388)	$ (8,118)	$ (18,565)
Amortization of actuarial gain (loss)	1,000	2,323	(9,314)	(10,266)
Current year prior service credit	–	–	(23,919)	–
Amortization of prior service cost	(1,970)	(2,180)	2,100	(3,556)
Reduction in transition obligation due to plan change	–	–	(8,357)	–
Amortization of transition obligation	–	–	(1,194)	(4,776)
Total other amounts recognized in non-operating activity	**443,271**	**(68,245)**	**(48,802)**	**(37,163)**
Total recognized	**$ 426,551**	**$ (94,875)**	**$ (16,987)**	**$ 8,630**

The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost during the next fiscal year are $17.5 million and $1.0 million, respectively. The estimated net actuarial loss and prior service credit 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 $10.6 million and $2.8 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, 2012 and 2011.

Table 21. Cumulative Amounts Recognized in Unrestricted Net Assets

(in thousands of dollars)	Defined benefit plan 2012	Defined benefit plan 2011	Postretirement welfare benefit plan 2012	Postretirement welfare benefit plan 2011
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss	$ 571,425	$ 126,184	$ 138,708	$ 156,141
Prior service cost	4,851	6,821	(21,818)	–
Transition liability	–	–	–	9,551
Total cumulative amounts recognized in unrestricted net assets	**$ 576,276**	**$ 133,005**	**$ 116,890**	**$ 165,692**

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.

Table 22. Projected Benefit Obligations and Fair Value of Assets

(in thousands of dollars)	Defined benefit plan 2012	Defined benefit plan 2011	Postretirement welfare benefit plan 2012	Postretirement welfare benefit plan 2011
Change in projected benefit obligations				
Projected benefit obligations at beginning of year	$ 2,458,592	$ 2,293,877	$ 509,838	$ 472,170
Service cost	61,432	59,892	20,599	19,957
Interest cost	138,858	134,756	26,207	27,380
Retiree contributions	–	–	3,834	3,496
Net benefit payments, transfers and other expenses	(116,351)	(115,523)	(22,109)	(23,574)
Plan amendment	–	–	(32,276)	–
Assumption changes and actuarial net loss	348,056	85,590	(16,618)	10,409
Projected benefit obligations at end of year	**2,890,587**	**2,458,592**	**489,475**	**509,838**
Change in plan assets				
Fair value of plan assets at beginning of year	2,572,307	2,312,718	311,629	234,535
Actual return on plan assets	121,795	375,112	14,899	49,116
Employer contributions	–	–	52,920	50,399
Retiree contributions	–	–	3,834	3,496
Net benefit payments, transfers and other expenses	(116,350)	(115,523)	(24,370)	(25,917)
Fair value of plan assets at end of year	**2,577,752**	**2,572,307**	**358,912**	**311,629**
Funded (unfunded) status at end of year	**$ (312,835)**	**$ 113,715**	**$ (130,563)**	**$ (198,209)**
Amounts recognized in the Statements of Financial Position consist of:				
Benefit assets	$ –	$ 113,715	$ –	$ –
Benefit liability	(312,835)	–	(130,563)	(198,209)
Total	**$ (312,835)**	**$ 113,715**	**$ (130,563)**	**$ (198,209)**

J. Retirement Benefits (continued)

The accumulated benefit obligation for MIT's defined benefit plan was $2,681.9 million and $2,305.8 million at June 30, 2012 and 2011, respectively.

January 1, 2012, MIT began providing retiree drug coverage through an Employer Group Waiver Plan (EGWP). Under EGWP, the cost of drug coverage is offset through direct federal subsidies, brand name drug discounts and reinsurance reimbursements. Prior to January 1, 2012, MIT received retiree drug subsidy (RDS) payments directly from the federal government. The net effect of this change reduced the accumulated postretirement benefit obligation $56.4 million at June 30, 2012. This was treated as an actuarial gain.

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	
	2012	2011	2012	2011
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	4.49%	5.65%	4.41%	5.56%
Rate of compensation increase [1]	4.00%	4.00%		
Assumptions used to determine net periodic benefit (income) cost for year ended June 30:				
Discount rate	5.65%	5.84%	5.56%	5.71%
Expected long-term return on plan assets	8.00%	8.00%	7.00%	7.00%
Rate of compensation increase [1]	4.00%	4.00%		
Assumed health care cost trend rates:				
Health care cost trend rate assumed for next year			7.00%	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	2018

[1] *The average rate of salary increase is assumed to be 4% for 2013, and thereafter.*

As an indicator of sensitivity, a one percentage point change in the assumed health care cost trend rate would effect 2012 as shown in Table 24 below.

Table 24. Health Care Cost Trend Rate Sensitivity

(in thousands of dollars)	1% point increase	1% point decrease
Effect on 2012 postretirement service and interest cost	$ 7,436	$ (6,022)
Effect on postretirement benefit obligation as of June 30, 2012	$ 63,584	$ (52,901)

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 investments 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, 2012 and 2011, 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 2012 or 2011.

Table 25A. Defined Benefit Plan Investments

(in thousands of dollars)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total fair value
Fiscal year 2012				
Cash and cash equivalents	$ 92,684	$ –	$ –	$ 92,684
US treasury	130,713	–	–	130,713
US goverment agency	–	18,253	–	18,253
Domestic bonds	–	53,331	–	53,331
Foreign bonds	–	265	–	265
Common equity				
Long domestic equity	63,258	996	2,100	66,354
Long foreign equity	14,669	3,721	–	18,390
Equity*				
Absolute return	–	334,067	289,429	623,496
Domestic	–	5,317	297,799	303,116
Foreign	2,874	190,879	158,171	351,924
Private	–	–	431,578	431,578
Real estate	–	–	294,379	294,379
Real assets*	–	18,935	157,611	176,546
Derivatives	(9)	6,976	–	6,967
Total plan investments	**$ 304,189**	**$ 632,740**	**$ 1,631,067**	**$ 2,567,996**
Fiscal year 2011				
Cash and cash equivalents	$ 32,893	$ –	$ –	$ 32,893
US treasury	188,705	–	–	188,705
US goverment agency	–	10,604	–	10,604
Domestic bonds	–	59,291	–	59,291
Foreign bonds	–	268	–	268
Common equity				
Long domestic equity	72,774	–	1,049	73,823
Long foreign equity	9,198	7,173	–	16,371
Equity*				
Absolute return	–	219,631	444,384	664,015
Domestic	18,900	5,467	175,339	199,706
Foreign	112,775	166,418	137,014	416,207
Private	–	–	399,681	399,681
Real estate	–	–	282,404	282,404
Real assets*	–	22,393	180,268	202,661
Derivatives	(17)	13,230	–	13,213
Total plan investments	**$ 435,228**	**$ 504,475**	**$ 1,620,139**	**$ 2,559,842**

**Real assets and Equity categories include commingled vehicles that invest in these types of investments*

J. Retirement Benefits (continued)

Table 25B. Postretirement Welfare Benefit Plan Investments

(in thousands of dollars)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total fair value
Fiscal year 2012				
Cash and cash equivalents	$ 26,512	$ –	$ –	$ 26,512
US goverment agency	–	2,147	–	2,147
Domestic bonds**	–	66,632	–	66,632
Common equity				
Long domestic equity	24,026	–	–	24,026
Long foreign equity	1,565	–	–	1,565
Equity*				
Absolute return	–	53,986	21,705	75,691
Domestic	–	325	49,236	49,561
Foreign	6,146	64,168	5,906	76,220
Private	–	–	16,936	16,936
Real estate	–	–	14,627	14,627
Real assets*	–	–	3,502	3,502
Derivatives	–	1,596	–	1,596
Total plan investments	**$ 58,249**	**$ 188,854**	**$ 111,912**	**$ 359,015**
Fiscal year 2011				
Cash and cash equivalents	$ 5,765	$ –	$ –	$ 5,765
US goverment agency	–	–	–	–
Domestic bonds**	–	67,143	–	67,143
Common equity				
Long domestic equity	17,145	–	–	17,145
Long foreign equity	1,050	–	–	1,050
Equity*				
Absolute return	–	30,622	22,134	52,756
Domestic	3,086	35,374	19,876	58,336
Foreign	29,299	44,790	8,670	82,759
Private	–	–	11,786	11,786
Real estate	–	–	10,344	10,344
Real assets*	–	–	3,059	3,059
Derivatives	–	1,581	–	1,581
Total plan investments	**$ 56,345**	**$ 179,510**	**$ 75,869**	**$ 311,724**

**Real assets and Equity categories include commingled vehicles that invest in these types of investments*
*** Includes common collective trusts (CCTs)*

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, 2012 and 2011.

Table 26. Rollforward of Level 3 Investments

(in thousands of dollars)	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfer of Assets between Levels	Fair Value Ending
Defined Benefit Plan							
Fiscal Year 2012							
Common equity							
Domestic equity	$ 1,049	$ 544	$ –	$ 1,191	$ (684)	$ –	$ 2,100
Equity:							
Absolute return	444,384	(1,938)	(1,054)	41,047	(43,593)	(149,417)	289,429
Domestic	175,339	(3,639)	40,285	98,279	(12,465)	–	297,799
Foreign	137,014	(7,051)	10,225	40,908	(22,925)	–	158,171
Private	399,681	(11,085)	23,412	68,569	(48,999)	–	431,578
Real estate	282,404	–	9,552	52,080	(49,657)	–	294,379
Real assets	180,268	–	(12,828)	4,307	(14,136)	–	157,611
Total plan investments	**$ 1,620,139**	**$ (23,169)**	**$ 69,592**	**$ 306,381**	**$ (192,459)**	**$ (149,417)**	**$ 1,631,067**
Fiscal Year 2011							
Common equity							
Domestic equity	$ 1,049	$ –	$ –	$ –	$ –	$ –	$ 1,049
Equity:							
Absolute return	596,309	–	55,281	20,657	(51,353)	(176,510)	444,384
Domestic	97,514	–	35,124	49,530	(4,879)	(1,950)	175,339
Foreign	84,592	(28)	25,676	27,107	(333)	–	137,014
Private	351,093	–	17,445	73,677	(42,534)	–	399,681
Real estate	227,871	(3,012)	20,461	63,820	(26,736)	–	282,404
Real assets	190,994	–	12,321	7,775	(11,917)	(18,905)	180,268
Total plan investments	**$ 1,549,422**	**$ (3,040)**	**$ 166,308**	**$ 242,566**	**$ (137,752)**	**$ (197,365)**	**$ 1,620,139**
Postretirement Welfare Benefit Plan							
Fiscal Year 2012							
Equity:							
Absolute return	$ 22,134	$ –	$ 230	$ 3,827	$ (2,560)	$ (1,926)	$ 21,705
Domestic	19,876	–	5,292	24,068	–	–	49,236
Foreign	8,670	(730)	1,115	2,400	(2,424)	(3,125)	5,906
Private	11,786	–	969	5,508	(1,327)	–	16,936
Real estate	10,344	–	1,393	5,044	(2,154)	–	14,627
Real assets	3,059	–	121	371	(49)	–	3,502
Total plan investments	**$ 75,869**	**$ (730)**	**$ 9,120**	**$ 41,218**	**$ (8,514)**	**$ (5,051)**	**$ 111,912**
Fiscal Year 2011							
Equity:							
Absolute return	$ 34,226	$ –	$ 3,275	$ 994	$ (2,346)	$ (14,015)	$ 22,134
Domestic	7,832	–	2,951	9,093	–	–	19,876
Foreign	12,995	(3)	802	3,044	(24)	(8,144)	8,670
Private	6,182	–	1,125	5,106	(627)	–	11,786
Real estate	7,140	–	1,717	3,440	(1,953)	–	10,344
Real assets	2,408	–	222	431	(2)	–	3,059
Total plan investments	**$ 70,783**	**$ (3)**	**$ 10,092**	**$ 22,108**	**$ (4,952)**	**$ (22,159)**	**$ 75,869**

J. Retirement Benefits (continued)

The Plans have made investments in various long-lived partnerships, and in other cases, have entered into contractual arrangements that may limit their ability to initiate redemptions due to notice periods, lock-ups and gates. Details on estimated remaining life, current redemption terms and restrictions by asset class and type of investment for both the defined benefit plan and postretirement welfare plan are provided below as of June 30, 2012 and 2011.

Table 27. Unfunded Commitments

Asset Class *(in thousands of dollars)*	2012 Unfunded Commitments	2012 Fair Value	2011 Unfunded Commitments	2011 Fair Value	Redemption Terms	Redemption Restrictions
Defined Benefit Plan						
Equity:						
Domestic	$ 2,382	$ 303,116	$ 12,034	$ 199,706	Redemption terms range from daily to annually with 90 days notice	Lock-up provisions range from none to 4 years
Foreign	$ 54,900	$ 351,924	$ –	$ 416,207	Redemption terms range from daily to quarterly with 90 days notice	Lock-up provisions range from none to 5 years
Absolute return	$ 25,724	$ 623,496	$ 33,009	$ 664,015	Redemption terms range from monthly with 3 business days notice to closed end structures not available for redemption	Lock-up provisions range from none to not redeemable
Private	$ 232,418	$ 431,578	$ 212,575	$ 399,681	Closed end funds not eligible for redemption	Not redeemable
Real estate	$ 185,374	$ 294,379	$ 191,106	$ 282,404	Redemption terms range from 1 fund quarterly with 45 days notice to all other funds are closed end funds not eligible for redemption	Not redeemable except for 1 holding with a lock-up provision of 5 years
Real assets	$ 39,427	$ 176,546	$ 29,448	$ 202,661	Redemption terms range from 1 fund annually with 90 days notice to all other funds are closed end funds not eligible for redemption	Not redeemable except for 1 fund with a lock-up provision of 4 year
Totals	**$ 540,225**	**$ 2,181,039**	**$ 478,172**	**$ 2,164,674**		
Postretirement Welfare Benefit Plan						
Equity:						
Domestic	$ 265	$ 49,561	$ 559	$ 58,336	Redemption terms range from quarterly with 60 days notice to annually with 90 days notice	Lock-up provisions range from 30 months to 4 years
Foreign	$ 6,100	$ 76,220	$ –	$ 82,759	Redemption terms range from daily with 28 days notice to annually with 60 days notice	Lock-up provisions range from none to 5 years
Absolute return	$ 1,577	$ 75,691	$ 2,844	$ 52,756	Redemption terms range from monthly with 3 business days notice to quarterly with 90 days notice	Lock-up provisions range from none to 5 years
Private	$ 21,754	$ 16,936	$ 16,931	$ 11,786	Closed end funds not eligible for redemption	Not redeemable
Real estate	$ 16,780	$ 14,627	$ 16,461	$ 10,344	Closed end funds not eligible for redemption	Not redeemable
Real assets	$ 3,938	$ 3,502	$ 2,763	$ 3,059	Closed end funds not eligible for redemption	Not redeemable
Totals	**$ 50,414**	**$ 236,537**	**$ 39,558**	**$ 219,040**		

J. Retirement Benefits (continued)

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, 2012 and 2011 are shown in Table 28.

Table 28. Plan Investment Allocation

	Defined benefit plan Plan assets as of June 30			Postretirement welfare benefit plan Plan assets as of June 30		
	Target Allocation	2012	2011	Target Allocation	2012	2011
Cash & cash equivalents	–	4%	2%	–	8%	2%
Fixed income	8%	8%	10%	20%	19%	22%
Equities	52%	53%	51%	50%	48%	55%
Marketable alternatives	29%	24%	26%	25%	21%	18%
Real estate	11%	11%	11%	5%	4%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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, 2012 and 2011. Refer to Note C for detailed discussion regarding derivative financial instruments.

Table 29A. Derivative Financial Instruments for Defined Benefit Plan

(in thousands of dollars)	Notional exposure Long	Notional exposure Short	Net ending fair value amount	Net gain (loss)
Fiscal year 2012				
Fixed income instruments				
Fixed income futures	$ –	$ (3,700)	$ (9)	$ 8
Interest rate swaps	–	(3,743)	(85)	(1,056)
Total fixed income instruments	–	(7,443)	(94)	(1,048)
Commodity and other instruments				
IOS index swaps	$ –	$ (7,322)	$ 5	$ 205
Total index instruments	–	(7,322)	5	205
Credit instruments	–	(13,027)	7,056	(27)
2012 Total	**$ –**	**$ (27,792)**	**$ 6,967**	**$ (870)**
Fiscal year 2011				
Fixed income instruments				
Fixed income futures	$ 1,000	$ (6,600)	$ (17)	$ (179)
Interest rate swaps	–	(13,206)	(23)	(23)
Total fixed income instruments	1,000	(19,806)	(40)	(202)
Credit instruments	–	(24,565)	13,253	(736)
2011 Total	**$ 1,000**	**$ (44,371)**	**$ 13,213**	**$ (938)**

J. Retirement Benefits (continued)

Table 29B. Derivative Financial Instruments for Postretirement Welfare Benefit Plan

(in thousands of dollars)	Notional exposure Long	Notional exposure Short	Net ending fair value amount	Net gain (loss)
Fiscal year 2012				
Fixed income instruments				
Interest rate swaps	$ –	$ (857)	$ (19)	$ (242)
Total fixed income instruments	–	(857)	(19)	(242)
Commodity and other instruments				
IOS index swaps	$ –	$ (1,675)	$ 1	$ 47
Total index instruments	–	(1,675)	1	47
Credit instruments	–	(2,981)	1,614	(6)
2012 Total	**$ –**	**$ (5,513)**	**$ 1,596**	**$ (201)**
Fiscal year 2011				
Fixed income instruments				
Interest rate swaps	$ –	$ (1,578)	$ (3)	$ (3)
Total fixed income instruments	–	(1,578)	(3)	(3)
Credit instruments	–	(2,935)	1,584	(88)
2011 Total	**$ –**	**$** (4,513)	**$ 1,581**	**$ (91)**

The table on the next page 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, 2012 and 2011.

Table 30. Credit Derivatives

(in thousands of dollars)	Purchased protection: Purchased notional amounts	Purchased fair value*	Years to maturity < 5 years	Years to maturity 5-10 years	Net gain/loss
Defined Benefit Plan					
Fiscal year 2012					
Credit rating on underlying or index					
ABX-AA index	$ 13,027	$ 7,056	$ –	$ 13,027	$ 65
ABX-AAA index	–	–	–	–	(92)
2012 Total	**$ 13,027**	**$ 7,056**	**$ –**	**$ 13,027**	**$ (27)**
Fiscal year 2011					
Credit rating on underlying or index					
ABX-AA index	$ 24,565	$ 13,253	$ –	$ 24,565	$ (736)
2011 Total	**$ 24,565**	**$ 13,253**	**$ –**	**$ 24,565**	**$ (736)**
Postretirement Welfare Benefit Plan					
Fiscal year 2012					
Credit rating on underlying or index					
ABX-AA index	$ 2,981	$ 1,614	$ –	$ 2,981	$ 15
ABX-AAA index	–	–	–	–	(21)
2012 Total	**$ 2,981**	**$ 1,614**	**$ –**	**$ 2,981**	**$ (6)**
Fiscal year 2011					
Credit rating on underlying or index					
ABX-AA index	$ 2,935	$ 1,584	$ –	$ 2,935	$ (88)
2011 Total	**$ 2,935**	**$ 1,584**	**$ –**	**$ 2,935**	**$ (88)**

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

Contributions

MIT expects to contribute $32.0 million and $13.7 million to its defined benefit pension plan and to its postretirement welfare benefit plan in 2013, respectively. These contributions have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2012. MIT also contributed $52.9 million and $50.4 million to the postretirement welfare benefit plan in 2012 and 2011, respectively.

Expected Future Benefit Payments

Table 31 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, 2012.

Table 31. Expected Future Benefit Payments

(in thousands of dollars)	Pension benefits	Other benefits[1]
2013	$ 144,049	$ 27,946
2014	149,891	29,833
2015	155,967	31,565
2016	162,285	33,233
2017	168,857	34,818
2018–2022	959,433	196,818

[1]*Other benefits reflect the total net benefits expected to be paid from the plans (i.e., gross benefit reimbursements offset by retiree contributions).*

K. Components of Net Assets and Endowment

Table 32 below presents the three categories of net assets by purpose as of June 30, 2012. The amounts listed in the unrestricted column under endowment funds 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 32. Fund Category

	2012				
(in thousands of dollars)	Unrestricted	Temporarily restricted	Permanently restricted	Total	2011 Total
Endowment funds					
General purpose	$ 694,038	$ 814,080	$ 462,659	$ 1,970,777	$ 1,913,280
Departments and research	450,182	729,251	448,136	1,627,569	1,532,928
Library	9,320	16,539	7,876	33,735	32,845
Salaries and wages	424,697	1,932,018	622,543	2,979,258	2,869,660
Graduate general	59,528	98,188	83,660	241,376	231,063
Graduate departments	79,647	236,635	192,477	508,759	483,447
Undergraduate	169,416	805,293	315,873	1,290,582	1,261,609
Prizes	6,578	20,682	18,015	45,275	43,108
Miscellaneous	818,741	133,326	209,110	1,161,177	1,061,146
Investment income held for distribution	291,056	–	–	291,056	283,542
Endowment funds before pledges	3,003,203	4,786,012	2,360,349	10,149,564	9,712,628
Pledges	–	–	158,710	158,710	140,946
Total endowment funds	**3,003,203**	**4,786,012**	**2,519,059**	**10,308,274**	**9,853,574**
Other invested funds					
Student loan funds	21,419	–	16,683	38,102	36,632
Building funds	60,772	18,014	–	78,786	96,236
Designated purposes:					
– Departments and research	270,541	–	–	270,541	280,162
– Other purposes	113,768	44,158	–	157,926	89,883
Reserve funds	151,335	–	–	151,335	123,903
Real estate gifts held for sale	1,592	–	–	1,592	6,261
Life income funds	5,688	50,435	77,096	133,219	130,183
Pledges	-	320,948	–	320,948	282,019
Other funds available for current expenses	375,049	77,987	–	453,036	648,039
Funds expended for educational plant	581,149	–	–	581,149	558,798
Total other funds	1,581,313	511,542	93,779	2,186,634	2,252,116
Noncontrolling interests	304,436	–	–	304,436	282,041
Total net assets at fair value	**$ 4,888,952**	**$ 5,297,554**	**$ 2,612,838**	**$ 12,799,344**	**$12,387,731**

K. Components of Net Assets and Endowment (continued)

MIT's endowment consists of approximately 3,500 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 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 33. Endowment Net Asset Composition by Type of Fund

(in thousands of dollars)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Fiscal year 2012				
Donor-restricted endowment funds	$ (3,444)	$ 4,786,012	$ 2,519,059	$ 7,301,627
Board-designated endowment funds	3,006,647	–	–	3,006,647
Total endowment funds	**$ 3,003,203**	**$ 4,786,012**	**$ 2,519,059**	**$10,308,274**
Fiscal year 2011				
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
Total endowment funds	**$ 2,889,595**	**$ 4,598,751**	**$ 2,365,228**	**$ 9,853,574**

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 $3.4 million and $7.1 million as of June 30, 2012 and 2011, respectively. The underwater status of these funds resulted from unfavorable market fluctuations.

K. Components of Net Assets and Endowment (continued)

Table 34. Changes in Endowment Net Assets

(in thousands of dollars)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Fiscal year 2012				
Endowment net assets, June 30, 2011	$ 2,889,595	$ 4,598,751	$ 2,365,228	$ 9,853,574
Investment return:				
Investment income	20,170	37,982	19,921	78,073
Net appreciation (realized and unrealized)	201,806	447,240	15,200	664,246
Total investment return	221,976	485,222	35,121	742,319
Contributions	-	-	115,592	115,592
Appropriation of endowment assets for expenditure	(142,780)	(312,757)	(13,067)	(468,604)
Other changes:				
Underwater gain adjustment	3,627	(3,627)	-	-
Net asset reclassifications and transfers to create board-designated endowment funds	30,785	18,423	16,185	65,393
Endowment net assets, June 30, 2012	**$ 3,003,203**	**$ 4,786,012**	**$ 2,519,059**	**$10,308,274**
Fiscal year 2011				
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
Endowment net assets, June 30, 2011	**$ 2,889,595**	**$ 4,598,751**	**$ 2,365,228**	**$ 9,853,574**

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 $10,970.0 million at June 30, 2012 and $10,041.1 million at June 30, 2011. Pool A includes certain operating and life income funds totaling $1,246.5 million at June 30, 2012 and $754.5 million at June 30, 2011. Certain assets are also maintained in separately invested funds. Separately invested funds totaled $426.3 million as of June 30, 2012 and $424.4 million as of June 30, 2011.

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 $58.73 and $56.75 per Pool A unit as of June 30, 2012 and 2011, respectively. In 2012, the amount distributed for spending from Pool A and Pool C totaled $554.3 million, compared to $513.6 million distributed in the prior year. During 2012, distributions from separately invested funds were $13.1 million, compared to $10.5 million in 2011. 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 $17.7 million and $10.8 million from gains in Pool C in 2012 and 2011, respectively.

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Report of Independent Auditors

To the Audit Committee of the
Massachusetts Institute of Technology:

In our opinion, the accompanying consolidated statement of financial position and the related statement 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, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Institute's 2011 financial statements, and in our report dated September 15, 2011, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 14, 2012

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
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Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights

(in thousands of dollars)

	2012	2011	2010	2009	2008
Financial Position:					
Investments, at fair value	$12,847,866	$12,236,531	$ 9,950,239	$ 9,558,331	$ 11,359,923
Land, buildings, and equipment, at cost less accumulated depreciation	2,497,711	2,451,479	2,327,810	2,122,606	1,940,912
Borrowings	2,460,002	2,467,825	1,728,526	1,735,843	1,335,393
Total assets	16,787,098	16,052,231	13,415,618	12,950,103	15,457,229
Total liabilities	3,987,754	3,664,500	3,091,313	3,003,715	2,687,255
Unrestricted net assets	4,888,952	4,885,321	3,759,301	3,559,925	5,086,270
Temporarily restricted net assets	5,297,554	5,044,519	4,463,066	4,401,015	5,765,302
Permanently restricted net assets	2,612,838	2,457,891	2,101,938	1,985,448	1,918,402
Total net assets	12,799,344	12,387,731	10,324,305	9,946,388	12,769,974
Total endowment funds before pledges	10,149,564	9,712,628	8,317,321	7,880,321	9,947,636
Principal Sources of Revenue:					
Tuition and similar revenues	$ 527,702	$ 493,777	$ 468,570	$ 431,772	$ 421,230
Research revenues:					
Campus direct	471,155	456,416	431,611	497,493	448,065
Campus indirect	183,200	162,497	172,525	193,289	173,455
Lincoln Laboratory direct	819,645	770,672	719,883	642,101	587,076
Lincoln Laboratory indirect	25,263	34,111	24,449	27,667	32,611
SMART direct	28,311	23,300	20,912	14,026	3,857
SMART indirect	276	210	223	496	106
Gifts, bequests and pledges	433,424	522,409	246,580	303,890	385,952
Net gain (loss) on investments and other assets	738,308	1,483,669	784,348	(1,854,380)	154,765
Investment income and distributions	554,627	505,503	566,110	586,576	422,457
Principal Purposes of Expenditures:					
Total operating expenditures	$ 2,744,586	$ 2,571,147	$ 2,382,566	$ 2,461,286	$ 2,294,247
General and administrative	586,268	523,676	461,186	497,043	486,444
Instruction and unsponsored research	691,903	659,839	613,345	680,848	641,241
Direct cost of sponsored research – current dollars	1,335,638	1,265,776	1,192,041	1,167,036	1,054,474
Direct cost of sponsored research – constant dollars (2008 = 100)	1,242,537	1,212,045	1,164,360	1,150,967	1,054,474

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights (continued)

(in thousands of dollars)

	2012	2011	2010	2009	2008
Research Revenues:[(A)]					
Campus:					
Federal government sponsored:					
Health and Human Services	$ 133,687	$ 152,664	$ 144,561	$ 255,896	$ 226,307
Department of Defense	117,458	107,753	106,890	97,528	87,370
Department of Energy	90,940	89,562	73,274	65,773	65,611
National Science Foundation	81,487	74,859	69,801	61,386	64,973
National Aeronautics and Space Administration	30,204	28,080	30,629	27,358	25,479
Other Federal	18,807	16,602	12,717	14,559	14,169
Total Federal	472,583	469,520	437,872	522,500	483,909
Non-Federally sponsored:					
State/local/foreign governments	38,273	32,969	33,339	27,145	18,549
Non-profits	48,373	44,436	50,639	60,538	47,695
Industry	109,745	100,763	93,330	99,219	82,194
Total non-Federal	196,391	178,168	177,308	186,902	148,438
Total Federal & non-Federal	668,974	647,688	615,180	709,402	632,347
F&A and other adjustments	(14,619)	(28,775)	(11,044)	(18,620)	(10,827)
Total campus	654,355	618,913	604,136	690,782	621,520
Lincoln Laboratory:					
Federal government sponsored	844,202	803,599	749,974	675,329	606,850
Non-Federally sponsored	2,023	2,511	3,068	2,989	3,602
F&A and other adjustments	(1,317)	(1,327)	(8,710)	(8,550)	9,235
Total Lincoln Laboratory	844,908	804,783	744,332	669,768	619,687
SMART:[(B)]					
Non-Federal sponsored	28,587	23,510	21,135	14,522	3,963
Total SMART	28,587	23,510	21,135	14,522	3,963
Total Research Revenues	**$ 1,527,850**	**$ 1,447,206**	**$ 1,369,603**	**$ 1,375,072**	**$ 1,245,170**

[(A)] *The amounts in this table reflect revenues from the original source of funds and The Broad Institute.*

[(B)] *The amounts represent research that has taken place in Singapore.*

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights (continued)

	2012	2011	2010	2009	2008
Students:					
Undergraduate					
Full-time	4,354	4,252	4,201	4,118	4,119
Part-time	30	47	31	35	53
Undergraduate Applications					
Applicants	17,909	16,632	15,663	13,396	12,445
Accepted	1,742	1,676	1,676	1,589	1,553
Acceptance rate	10%	10%	11%	12%	12%
Enrolled	1,126	1,067	1,072	1,048	1,067
Yield	65%	64%	64%	66%	69%
Freshmen ranking in the top 10% of their class	97%	98%	95%	97%	97%
Average SAT scores (math and verbal)	1,472	1,473	1,455	1,453	1,458
Graduate					
Full-time	6,342	6,108	6,022	5,991	5,837
Part-time	168	159	130	155	211
Graduate applications					
Applicants	22,219	22,139	19,336	17,323	16,208
Accepted	3,306	3,431	2,994	3,215	3,058
Acceptance rate	15%	15%	15%	19%	19%
Enrolled	2,118	2,141	1,939	2,000	1,823
Yield	64%	62%	65%	62%	60%
Tuition (*in dollars*):					
Tuition and fees	$ 40,732	$ 39,212	$ 37,782	$ 36,390	$ 34,986
Average room and board	11,775	11,234	11,360	10,860	10,400
Financial Assistance: *(in thousands of dollars)*					
Undergraduate tuition support	$ 102,081	$ 92,060	$ 89,813	$ 78,534	$ 70,157
Graduate tuition support	215,702	201,995	195,178	187,732	174,847
Fellowship stipends	33,263	30,435	28,104	27,509	25,647
Student loans	9,556	9,968	9,641	9,641	8,766
Student employment	90,135	85,335	84,304	82,287	78,892
Total financial assistance	**$ 450,737**	**$ 419,793**	**$ 407,040**	**$ 385,703**	**$ 358,309**
Faculty and staff *(including unpaid appointments)*:					
Faculty	1,018	1,017	1,025	1,008	1,007
Staff and fellows	13,109	12,662	12,577	13,393	12,852

Report of the Treasurer

for the year ended
June 30, 2012

Massachusetts
Institute of
Technology

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