Report of the Treasurer

for the year ended

June 30, 2013

Massachusetts Institute of Technology

Report of the Treasurer

for the year ended June 30, 2013

Massachusetts
Institute of
Technology

The Corporation

2012–2013

as of June 30, 2013

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Executive Vice President and Treasurer: Israel Ruiz*
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Governor: Deval L. Patrick
Chief Justice of the Supreme Judicial Court: Roderick L. Ireland
Secretary of Education: S. Paul Reville - completed service as ex officio member effective January 14, 2013.
Secretary of Education: Matthew H. Malone – ex officio member effective January 15, 2013.

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

**member of the Executive Committee*

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Report of the Treasurer

To Members of the Corporation

In fiscal 2013, MIT continued to advance its mission and positive impact while further strengthening its overall financial position. The Institute's net assets increased by 10.4 percent to $14,132.9 million. Key components of this increase included robust investment performance, a decrease in accrued benefit liabilities, and positive operating results. The value of MIT's investments surpassed $13 billion primarily due to the Institute's endowment return of 11.1 percent for the fiscal year. Total operating revenues grew by 6.6 percent to $3,186.6 million, and operating results were $278.0 million.

Despite a year of strong financial performance demonstrated by increased revenues, managed expense growth, and improved operating results, we are reminded of the critical need to renew and modernize MIT's campus and infrastructure amidst a still uncertain economy. We also confront the continuing need to provide financial support for our students. Proactive steps taken to mitigate the effects of reduced federal funding have had a positive impact on financing the Institute's research enterprise. While MIT faculty will undoubtedly compete exceedingly well for available federal funds, continued diversification of research sponsorship will be paramount as the overall pool of federal resources diminishes over the near term.

This was also a year of coming together as a stronger community, as we were overwhelmed by the tremendous outpouring of care from law enforcement, the nation, and the world in the aftermath of the Boston Marathon bombings and death of MIT Police Officer Sean Collier. But even in this time of grief, the Institute continued to advance knowledge, pursue solutions to societal challenges, innovate, and expand collaborations throughout the world. At the same time, we remained dedicated to enhancing the residential campus and positively impacting the surrounding Cambridge community.

In February 2013, President Reif announced the formation of the Institute-wide Task Force on the Future of MIT Education. Composed of more than 50 faculty, students and staff, the Task Force was charged to explore how MIT can adapt to and lead the evolving educational and research ecosystem enabled by online education. It was also charged to evaluate the impact of online education on MIT's operating and financial model. This effort followed the establishment of the Office of Digital Learning (ODL), which was created to work collaboratively to assess how new models of online instruction might transform on-campus educational experiences. ODL works closely with faculty, students and the joint partnership with Harvard University - edX - to enhance residential education, to build a global community of learners, and to provide insights into how students learn in the online environment.

This year, the City of Cambridge approved MIT's plan to revitalize Kendall Square, capping a three-year effort to bring greater vibrancy to the area through new housing, retail, academic, laboratory, commercial, and open space. The petition granted 1.1 million square feet of additional development capacity while preserving the 800,000 square feet of academic capacity.

The Institute remains committed to renewing and enlivening its campus in Cambridge and to sustaining its buildings to maximize their life and value. During fiscal 2013, MIT launched the Accelerated Capital Renewal (ACR) Program within the MIT 2030 framework, which focuses on modernizing spaces directly impacting the Institute's faculty and students. The ACR Program is complemented by the Comprehensive Stewardship Program, which concentrates on maintaining newly constructed or renovated buildings to preserve them to a higher functional standard. More details and updates on these programs can be found on the MIT 2030 website.

Summary of Key Financial Highlights (10-year trend)

(in millions of Dollars)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Revenues	1,832	2,031	2,141	2,180	2,408	2,644	2,663	2,751	2,990	3,187
Operating Expenses	1,840	2,037	2,182	2,208	2,294	2,461	2,383	2,571	2,744	2,909
Operating Results	(8)	(6)	(41)	(28)	114	183	280	180	246	278
Net Assets	7,741	8,626	10,060	12,695	12,770	9,946	10,324	12,388	12,799	14,133
Endowment	5,870	6,712	8,368	9,943	9,948	7,880	8,317	9,713	10,150	10,858
Borrowings	1,286	1,250	1,278	1,078	1,335	1,736	1,729	2,468	2,460	2,428

While investing in these initiatives, the Institute continued to demonstrate strong operating performance, as illustrated in the Summary of Key Financial Highlights.

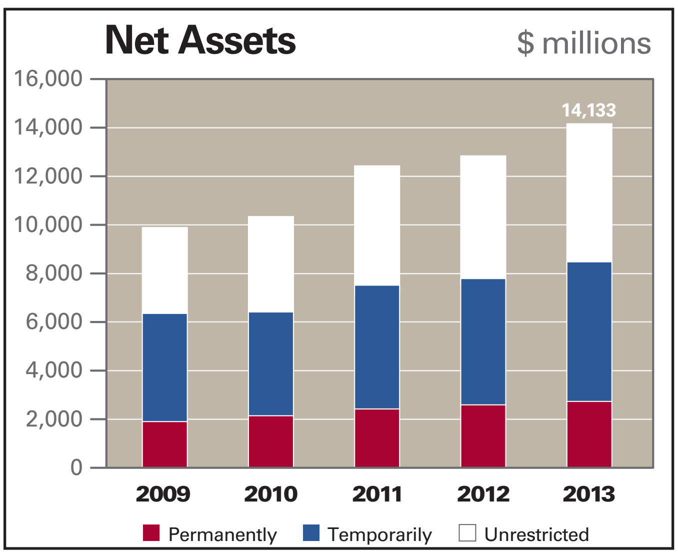
The following are additional details regarding MIT's fiscal 2013 financial statements: Statements of Financial Position, Statement of Activities, and Statements of Cash Flows.

Statements of Financial Position

The discussion in this section 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 $14,132.9 million, an increase of 10.4 percent from fiscal 2012, marking a new historic peak. 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.



In fiscal 2013, permanently restricted net assets increased $100.1 million, or 3.8 percent, to $2,713.0 million, primarily due to new gifts and pledges made to permanently restricted endowment funds. Temporarily restricted net assets increased $346.7 million, or 6.5 percent, to $5,644.3 million, primarily due to an 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 increased $886.7 million, or 18.1 percent, to $5,775.6 million, primarily due to unrestricted investment gains and changes in retirement plans' obligations.

Investments

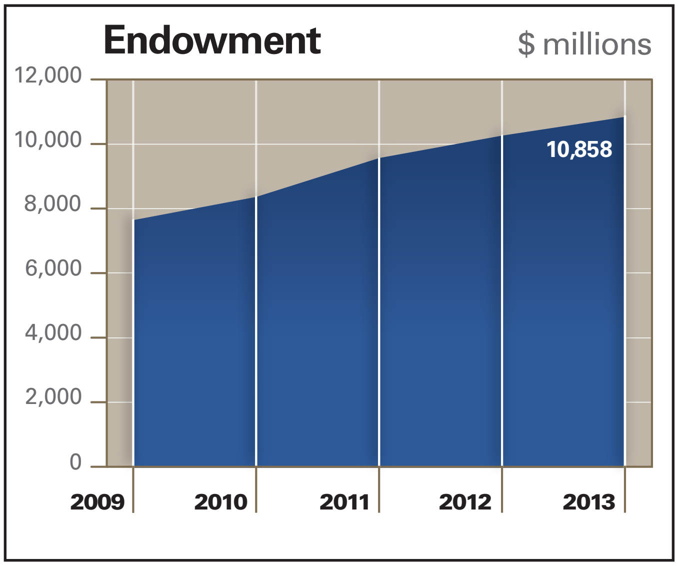
Investments at fair value were $13,830.1 million at fiscal year end 2013, an increase of $982.2 million, or 7.6 percent, from $12,847.9 million at the previous year end. In fiscal 2013, MIT began a program to finance certain real estate investments to optimize use of invested capital in support of the Institute's mission. For fiscal 2013, the Institute incurred $82.0 million of investment liabilities related to this real estate investment program. Since the end of fiscal 2008, total invested assets have increased by $2,470.2 million. During that five-year period, support from investments totaled $2,817.6 million.

The financial statements include both realized and unrealized gains and losses on investments and other assets. These amounts totaled a net gain of $1,164.2 million in fiscal 2013, and $738.3 million in fiscal 2012.

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 toward less efficient markets such as private equity, real estate, and real assets. MIT primarily invests through external fund managers, thereby allowing MIT to access 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 reviews investment policy, performance, and asset allocation in four regularly scheduled meetings during the fiscal year.

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 $10,858.0 million as of fiscal year end 2013, an increase of 7.0 percent over the $10,149.6 million level of last year.



This year, MIT's endowment produced a return of 11.1 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 $2,516.3 million as of fiscal year end 2013, an increase of $18.6 million, or 0.7 percent, from the previous year's $2,497.7 million, driven mainly by expenditures for research and educational facilities.

Capital projects in development as part of the initial set of MIT 2030 priorities include renovation projects for Chemistry and Mathematics in Building 2 and for the original Sloan Building (E52), occupied by the Sloan School and the Department of Economics. The Institute is also planning a new facility for the Nano-Materials, Structures and Systems (nMaSS) program. As part of the ACR Program, the Institute is studying multiple sets of projects and interventions to maximize the impact of capital investments in renovating campus spaces that further 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

The defined benefit pension plan had assets of $2,758.3 million at fiscal year end 2013, an increase of $180.5 million from $2,577.8 million at fiscal year end 2012. The plan's projected liabilities were $2,803.8 million at fiscal year end 2013, down $86.8 million from $2,890.6 million a year earlier, resulting in a net pension liability of $45.5 million and $312.8 million at June 30, 2013 and 2012, respectively. MIT also maintains a postretirement welfare benefit plan that covers retiree expenses associated with medical and life insurance benefits. This plan had assets of $415.0 million and liabilities of $479.1 million at fiscal year end 2013, resulting in a net benefits liability of $64.1 million, compared to $130.6 million at fiscal year end 2012. For both plans, the increase in assets was primarily due to investment performance, and the decrease in liabilities was primarily due to higher discount rates.

The combined plans' fiscal 2013 underfunded status was $109.6 million, down from $443.4 million at fiscal year end 2012. On an accounting basis in fiscal 2012, the defined benefit pension plan had a funding level of 89.2 percent, and the postretirement welfare benefit plan had a funding level of 73.3 percent. During fiscal 2013, the Institute revised its funding strategy to ensure that these funding levels were maintained in a manner that would ensure the long-term strength of these plans. This led to a $33.0 million contribution to the defined benefit pension plan during fiscal 2013. As a result of these actions and changes in the interest rate environment and actual investment performance, the funding status of these plans improved to 98.4 percent and 86.6 percent, respectively. The investments of both plans' assets are managed by MITIMCo.

MIT also offers a 401(k) plan to its employees, which is not reflected in the Statements of Financial Position. Assets in this plan are invested at the direction of participants in a broad array of investment funds. The plan's investments market value was $3,272.2 million at fiscal year end 2013.

Borrowings

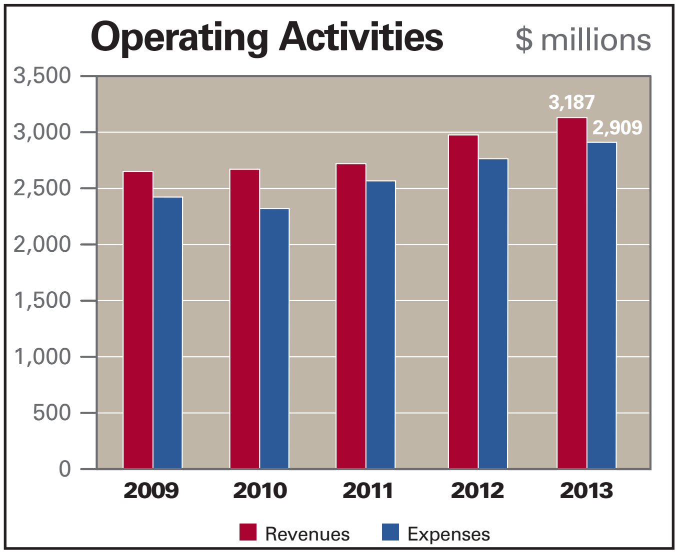
In fiscal year 2013, borrowings decreased by $31.8 million, or 1.3 percent. This decrease is primarily due to a repayment of debt principal of $26.5 million early in the fiscal year. No new operating debt was issued in fiscal 2013.

MIT's financial strength is reviewed periodically by both Moody's Investors Service and Standard & Poor's Rating Services. In fiscal 2011, these agencies rated the century bond issuance as "Aaa" and "AAA," their highest rating levels. Their ongoing reviews of MIT's finances during and subsequent to fiscal 2013 have continued to affirm these ratings.

Statement of Activities

Operating Activities

In fiscal 2013, MIT continued to grow research activity and maintain excellence in education while also exercising expense control in core administrative areas. MIT ended the year with operating results of $278.0 million, $32.3 million, or 13.1 percent, higher than the fiscal 2012 result.

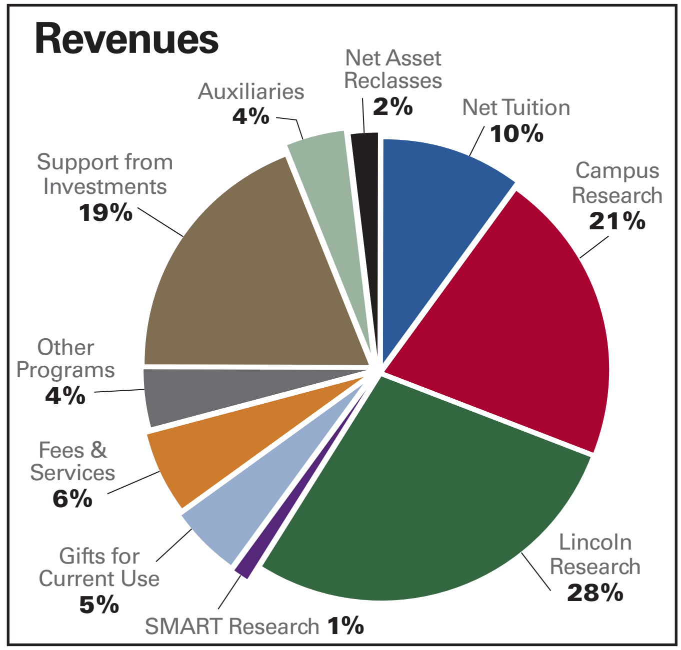


Operating revenues exceeded $3 billion for the first time in MIT's history. Operating revenues increased $196.3 million, or 6.6 percent, to $3,186.6 million in fiscal 2013, while operating expenses increased $164.0 million, or 6.0 percent, to a total of $2,908.6 million. Year-over-year comparisons of the components of operating results follow.

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 purposes (within net asset reclassifications and transfers).

Tuition revenue for graduate, undergraduate, and non-degree executive programs net of financial aid grew by $34.2 million, or 12.4 percent, to $310.2 million. The growth in tuition revenue was driven by a 4.4 percent increase in student population and a 3.2 percent increase in tuition rates. Financial aid for undergraduate students decreased slightly, by 0.4 percent, to $87.7 million. Financial aid for graduate students grew by 4.5 percent, to $171.0 million.



Research revenues for on-campus departments, labs, and centers at MIT increased $7.6 million, or 1.2 percent, to $662.0 million. Research revenues at Lincoln Laboratory increased $46.1 million, or 5.5 percent, to $891.0 million. Research revenues for the Singapore-MIT Alliance for Research and Technology (SMART) increased $18.9 million, or 66.2 percent, to $47.5 million.

Total research awards and other funding received via the American Recovery and Reinvestment Act of 2009 (ARRA) totaled $152.1 million. Of the $152.1 million figure, $129.2 million was to fund research, with the remainder funding infrastructure investments and student support. ARRA funding supported $17.3 million of research in fiscal 2013, included in the research figures above. Total ARRA research volume through fiscal year end 2013 has been $119.9 million, leaving $9.3 million of the $129.2 million in committed ARRA research funding to support research in fiscal 2014 and beyond.

The growth rate in MIT's campus research is being driven primarily by non-federal sponsors. Federally sponsored research revenue remained relatively flat, with the largest decrease, related to the Department of Health and Human Services, offset by a similar increase related to the Department of Defense.

In anticipation of reductions in federal funding, the Institute, led by Provost Chris Kaiser and Vice President for Research Maria Zuber, is developing support mechanisms to manage the impacts of these reductions on the Institute. This effort encourages the diversification of research funding from non-federal sources—foundations, industry, and other nonprofit organizations—to minimize the impact on our faculty and the research community and to preserve the Institute's research vitality. Despite this funding uncertainty, and wind-down of the ARRA research funding, the Institute generated $1.6 billion in research revenues for fiscal 2013, which is a 4.8 percent increase from the previous year.

MIT's modified total direct research expenditures, which form the basis for recovery of indirect costs, increased by $30.0 million, or 3.4 percent, in fiscal year 2013.

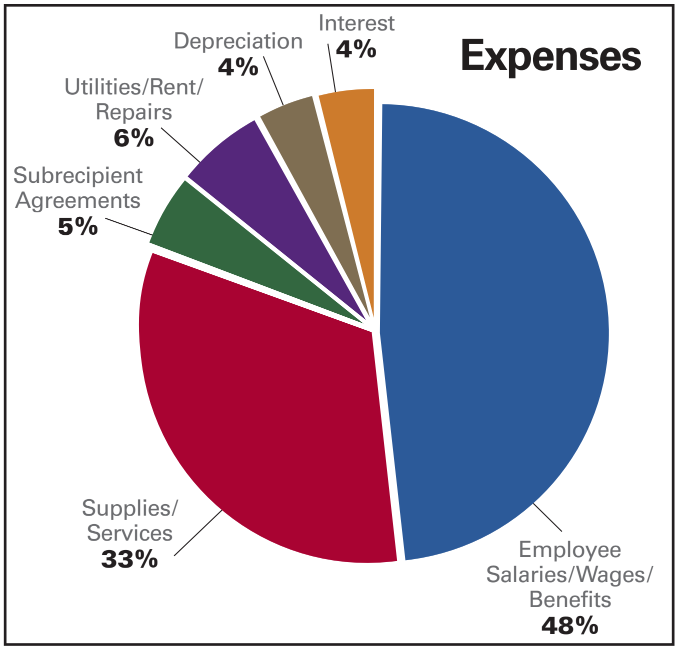
While research and net tuition support more than half of MIT's revenue, the Institute experienced significant growth in other revenue categories as well, including increases in support from investments, gifts and bequests, and payments on unrestricted pledges. Support from investments increased $50.2 million, or 9.2 percent, primarily due to an increase in the endowment distribution rate and additions to the endowment and other invested assets. In fiscal 2013, the distribution rate on endowed funds was 5.0 percent, or 5.4 percent on a three-year average basis. Support from donors, in the form of gifts and bequests, as well as payments on pledges for current use grew by $50.4 million, or 24.4 percent.

Operating Expenses

Operating expenses grew to $2,908.6 million, an increase of $164.0 million, or 6.0 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.

A significant portion of this growth was related to subrecipient agreements. These grew by 27.5 percent to $155.4 million, with $88.1 million related to activities at Lincoln Lab.

Overall Institute salary expenses rose 5.5 percent, while employee benefits expenses rose 15.2 percent, driven primarily by the increase in defined benefit expense. Campus average salary increases were 2.4 percent, while headcount grew by 3.1 percent.



Non-Operating Revenues, Gains and Losses Summary

Non-operating activities contributed $1,085.3 million to MIT's fiscal 2013 total net asset balance of $14,132.9 million. Growth in invested assets net of distributions, gifts and bequests, pledges, and changes in retirement plans' obligations and assets were the principal contributors to positive non-operating performance. Growth in invested assets net of distribution totaled $678.1 million, and changes in retirement plans' obligations and assets totaled $311.4 million.

Gift and Pledges

Gifts to MIT support scholarships, fellowships, professorships, research, educational programming, student life activities, as well as construction and renovation of buildings. Gift and pledges for fiscal 2013 totaled $325.0 million, a decrease of 25.0 percent from the fiscal 2012 total of $433.4 million. Although gifts and pledges are down from the previous year primarily caused by a decrease in contributions received from foundations, overall giving is up 31.8 percent since fiscal 2010. Gifts from individuals represented 39.6 percent of new gifts and pledges in fiscal 2013, up from 31.8 percent in fiscal 2012. Gifts from foundations represented 37.5 percent of new gifts and pledges in fiscal 2013, down from 53.3 percent in fiscal 2012. Gifts from corporations and other sources represented 22.9 percent of new gifts and pledges in fiscal 2013, up from 14.9 percent in fiscal 2012. New gifts and pledges for research and education were the largest categories of gifts for fiscal 2013.

Statements of Cash Flows

The overall cash position of MIT reflects positive operating results and an active cash management strategy that takes into account liquidity management, economic conditions, and future needs.

Net operating cash flow consumed $11.6 million in fiscal 2013. Net operating cash flow resulted from the total change in net assets, adjusted for non-cash items (depreciation, net gain on investments and other assets, and actuarial benefits liability changes) offset by changes in working capital, excluding cash and debt. The net of pledges and accounts receivables, accounts payable, and other operating assets and liabilities provided $64.1 million of operating cash flow in fiscal 2013, mainly due to payments on outstanding pledges. In fiscal 2013, net investing activities provided $47.4 million in cash due to proceeds from investments to cover the Institute's endowment spending policy offset by spending on capital projects. Cash provided by financing activities was $24.8 million in fiscal 2013, $75.0 million lower than 2012.

MIT's full financial statements and footnotes, further describing our financial position, activities, and cash flows through June 30, 2013, are included on the following pages.

Closing Remarks

This past year has been promising, rewarding, and inspiring for MIT in its ongoing commitment to excellence in education, research, and administration. As a community, we demonstrated strength and resilience in the face of adversity, and held true to the values and principles that have always exemplified MIT.

The Institute enters fiscal 2014 with great optimism, and with the financial strength and momentum to support emerging opportunities. The further maturation of the online learning initiative and the efforts of the Institute-wide Task Force on the Future of MIT Education are positioning MIT for global and societal impact, as well as enhancing the residential campus learning experience. We remain vigilant in managing the financial uncertainties we continue to face, while also renewing our commitment to stewarding the Institute's resources and enabling the MIT mission.

I am grateful for the consistent support of our students, faculty, staff, alumni, friends, and members of the MIT Corporation, and I look forward to the future we will shape together.

Respectfully submitted,

Israel Ruiz
Executive Vice President and Treasurer
September 13, 2013

Massachusetts Institute of Technology

Statements of Financial Position

at June 30, 2013 and 2012
(in thousands of dollars)

	2013	2012
Assets		
Cash	$ 299,913	$ 239,377
Accounts receivable, net	168,932	159,957
Pledges receivable, net, at fair value	404,594	479,659
Contracts in progress, principally U.S. Government	67,999	66,724
Deferred charges, inventories, and other assets	107,891	93,499
Student notes receivable, net	49,484	49,529
Investments, at fair value	13,830,100	12,847,866
Noncontrolling interests	274,663	304,436
Land, buildings, and equipment (at cost of $3,650,856 for June 2013; $3,546,351 for June 2012), net of accumulated depreciation	2,516,264	2,497,711
Total assets	$ 17,719,840	$ 16,738,758
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accruals, and other liabilities	$ 384,437	$ 378,369
Liabilities due under life income fund agreements, at fair value	95,259	87,899
Deferred revenue and other credits	138,017	155,476
Advance payments	396,831	380,167
Borrowings	2,428,215	2,460,002
Government advances for student loans	34,563	34,103
Accrued benefit liabilities	109,644	443,398
Total liabilities	3,586,966	3,939,414
Net Assets:		
Unrestricted net assets controlled by the Institute	5,500,955	4,584,516
Unrestricted net assets attributable to noncontrolling interests	274,663	304,436
Total unrestricted net assets	5,775,618	4,888,952
Temporarily restricted	5,644,291	5,297,554
Permanently restricted	2,712,965	2,612,838
Total net assets	14,132,874	12,799,344
Total liabilities and net assets	$ 17,719,840	$ 16,738,758

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

Massachusetts Institute of Technology

Statement of Activities

for the year ended June 30, 2013
(with summarized financial information for the year ended June 30, 2012)

(in thousands of dollars)	2013			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Operating Activities					
Operating Revenues:					
Tuition and similar revenues, net of discount of $258,726 in 2013 and $251,709 in 2012	$ 310,231	$ –	$ –	$ 310,231	$ 275,993
Research revenues:					
Campus	661,962	–	–	661,962	654,355
Lincoln	890,973	–	–	890,973	844,908
SMART	47,525	–	–	47,525	28,587
Total research revenues	1,600,460	–	–	1,600,460	1,527,850
Gift and bequests for current use	177,257	–	–	177,257	156,172
Fees and services	182,019	–	–	182,019	219,391
Other programs	125,118	–	–	125,118	104,556
Support from investments:					
Endowment	499,299	–	–	499,299	468,604
Other investments	98,218	–	–	98,218	78,681
Total support from investments	597,517	–	–	597,517	547,285
Auxiliary enterprises	114,461	–	–	114,461	108,868
Net asset reclassifications and transfers	79,532	–	–	79,532	50,181
Total operating revenues	$ 3,186,595	$ –	$ –	$ 3,186,595	$ 2,990,296
Operating Expenses:					
Salaries and wages	$ 1,128,304	$ –	$ –	$ 1,128,304	$ 1,069,310
Employee benefits	268,831	–	–	268,831	233,343
Supplies and services	960,914	–	–	960,914	926,760
Subrecipient agreements	155,421	–	–	155,421	121,892
Utilities, rent, and repairs	159,098	–	–	159,098	160,492
Depreciation	129,138	–	–	129,138	125,100
Interest expense	106,871	–	–	106,871	107,689
Total operating expenses	2,908,577	–	–	2,908,577	2,744,586
Results of operations	$ 278,018	$ –	$ –	$ 278,018	$ 245,710
Non-Operating Activities					
Pledge revenue	$ –	$ 80,172	$ 24,035	$ 104,207	$182,748
Gifts and bequests	–	–	43,554	43,554	94,504
Investment income	–	489	6,747	7,236	7,342
Net gain on investments and other assets	478,955	669,225	15,984	1,164,164	738,308
Distribution of accumulated investment gains	(184,102)	(301,948)	–	(486,050)	(441,316)
Net change in life income funds	1,921	11,989	6,354	20,264	6,572
Postretirement plan changes other than net periodic benefit income (cost)	311,442	–	–	311,442	(394,469)
Net asset reclassifications and transfers	30,205	(113,190)	3,453	(79,532)	(50,181)
Total non-operating activities	638,421	346,737	100,127	1,085,285	143,508
Increase in net assets controlled by the Institute	916,439	346,737	100,127	1,363,303	389,218
Change in net assets attributable to noncontrolling interests	(29,773)	–	–	(29,773)	22,395
Net assets at the beginning of the year	4,888,952	5,297,554	2,612,838	12,799,344	12,387,731
Net assets at the end of the year	$ 5,775,618	$ 5,644,291	$ 2,712,965	$ 14,132,874	$12,799,344

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, 2013 and 2012
(in thousands of dollars)

	2013	2012
Cash Flow from Operating Activities:		
Increase in net assets	$ 1,333,530	$ 411,613
Adjustments to reconcile change in net assets to net cash used in or provided by operating activities:		
Net gain on investments and other assets	(1,164,164)	(734,374)
Change in accrued benefits liability	(333,754)	358,904
Depreciation	129,138	125,100
Donated securities received	(129,915)	(49,295)
Proceeds from sale of donated securities	94,917	40,280
Net gain on life income funds	(12,621)	(2,442)
Change in noncontrolling interests	29,773	(22,395)
Amortization of bond premiums and discounts and other adjustments	(6,767)	(2,431)
Change in operating assets and liabilities:		
Pledges receivable	75,065	(93,774)
Accounts receivable	(8,975)	101,249
Contracts in progress	(1,275)	1,687
Deferred charges, inventories and other assets	(14,392)	(21,764)
Accounts payable, accruals and other liabilities, excluding building and equipment accruals	7,086	21,970
Liabilities due under life income fund agreements	7,360	3,674
Deferred revenue and other credits	(17,458)	30,628
Advance payments	16,664	(9,311)
Reclassify investment income	(7,236)	(7,342)
Reclassify contributions restricted for long-term investment	(8,557)	(85,489)
Net cash (used in) provided by operating activities	(11,581)	66,488
Cash Flow from Investing Activities:		
Purchases of land, buildings and equipment	(148,834)	(183,958)
Purchases of investments	(64,279,236)	(52,463,972)
Proceeds from sale of investments	64,475,286	52,589,461
Student notes issued	(28,105)	(20,013)
Collections from student notes	28,255	20,198
Net cash provided by (used in) investing activities	47,366	(58,284)
Cash Flow from Financing Activities:		
Investment in endowment	8,557	85,486
Proceeds from sale of donated securities restricted for endowment	34,998	9,015
Increase in investment income for restricted purposes	7,236	7,342
Repayment of borrowings	(26,500)	(2,490)
Increase in government advances for student loans	460	349
Net cash provided by financing activities	24,751	99,702
Net increase in cash	60,536	107,906
Cash at the beginning of the year	239,377	131,471
Cash at the end of the year	$ 299,913	$ 239,377

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

Notes to Financial Statements

A. Accounting Policies

Basis of Presentation

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

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

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

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

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

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

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

MIT's operations include tuition, research revenues, unrestricted gifts and bequests for current use, fees and services, other programs, 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 $88.7 million and $60.3 million at June 30, 2013 and 2012, respectively, are restricted for use under certain sponsored research agreements or are held on behalf of a related party.

The Institute had approximately $298.5 million and $238.1 million at June 30, 2013 and 2012, 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.

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.

A. Accounting Policies (continued)

Land, Buildings, and Equipment

Land, buildings, and equipment are shown at cost when purchased or fair value as of the date of a gift when received as gifts, net of accumulated depreciation. When expended, costs associated with the construction of new facilities are shown as construction in progress until such projects are completed and put into use. 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 $42.1 million and $27.2 million during 2013 and 2012, respectively. Land, buildings, and equipment at June 30, 2013 and 2012 are shown in Table 1.

Table 1. Land, Buildings, and Equipment

(in thousands of dollars)	2013	2012
Land	$ 67,538	$ 65,198
Land improvements	65,541	64,299
Educational buildings	3,212,543	3,106,569
Equipment	172,073	175,046
Software	35,549	31,933
Total	**3,553,244**	**3,443,045**
Less: accumulated depreciation	(1,134,592)	(1,048,640)
Construction in progress	84,874	87,177
Software projects in progress	12,738	16,129
Land, buildings, and equipment	**$ 2,516,264**	**$ 2,497,711**

Depreciation expense was $129.1 million in 2013 and $125.1 million in 2012. Net interest expense of $3.3 million and $3.8 million was capitalized during 2013 and 2012, respectively, in connection with MIT's construction projects.

Tuition and Student Support

Tuition and similar revenues, shown in Table 2 below, includes 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)	2013	2012
Tuition revenue	$ 527,974	$ 491,046
Executive and continuing educational revenues	40,983	36,656
Total	**568,957**	**527,702**
Less: tuition discount	(258,726)	(251,709)
Net tuition & similar revenue	**$ 310,231**	**$ 275,993**

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. Tuition support from MIT sources is displayed as tuition discount. Total student support granted to students was $460.6 million and $441.2 million in 2013 and 2012, respectively. Of that amount, $152.4 million in 2013 and $144.5 million in 2012 was aid from sponsors. Components of student support are detailed in Table 3 below.

Table 3. Student Support

	2013			2012		
(in thousands of dollars)	Institute sources	External sponsors	Total student support	Institute sources	External sponsors	Total student support
Undergraduate tuition support	$ 87,680	$ 14,151	$ 101,831	$ 88,007	$ 14,074	$ 102,081
Graduate tuition support	171,046	55,112	226,158	163,702	52,000	215,702
Fellow stipends	19,772	16,401	36,173	18,203	15,060	33,263
Student employment	29,721	66,725	96,446	26,723	63,412	90,135
Total	**$ 308,219**	**$ 152,389**	**$ 460,608**	**$ 296,635**	**$ 144,546**	**$ 441,181**

A. Accounting Policies (continued)

Sponsored Research

Direct and indirect categories of research revenues are shown in the table below.

Table 4. Research Revenues

(in thousands of dollars)	2013	2012
Direct		
Campus	$ 473,220	$ 471,155
Lincoln	860,190	819,645
SMART	47,332	28,311
Total direct	**1,380,742**	**1,319,111**
Indirect		
Campus	$ 188,742	$ 183,200
Lincoln	30,783	25,263
SMART	193	276
Total indirect	**219,718**	**208,739**
Total research revenues	**$ 1,600,460**	**$ 1,527,850**

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

Gifts and Pledges

Gifts and pledges are recognized when received. Gifts of securities are recorded at their fair value at the date of contribution. Donated securities received totaled $129.9 million and $49.3 million in 2013 and 2012, respectively, and are shown separately in the Statements of Cash Flows. Gifts of equipment received from manufacturers and other donors are put into use and recorded by MIT at fair value. Gifts of equipment totaled $0.1 million in 2013 and $0.4 million in 2012. Pledges in the amount of $404.6 million and $479.7 million were recorded as receivables at June 30, 2013 and 2012, 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.

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 5.

Table 5. Liabilities Due Under Life Income Funds

(in thousands of dollars)	2013	2012
Balance at the beginning of the year	$ 87,899	$ 84,225
Addition for new gifts	12,073	7,389
Termination and payments to beneficiaries	(18,043)	(12,200)
Net investment and actuarial gain	13,330	8,485
Balance at end of year	**$ 95,259**	**$ 87,899**

Recently Adopted Accounting Standards

On July 1, 2012, MIT early adopted new guidance related to the *Statements of Cash Flows*. This guidance requires MIT to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the Statements of Cash Flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any imposed limitations for sale and were converted nearly immediately into cash.

On July 1, 2012, MIT adopted further new guidance enhancing the *Fair Value Measurement* standard, to ensure that the valuation techniques for investments that are categorized with Level 3 of the fair value hierarchy are fair, consistent, and verifiable. Refer to Note B for further details.

A. Accounting Policies (continued)

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, 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.

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 $12.4 million and $12.9 million of accrued liabilities related to plant and equipment purchases for 2013 and 2012, 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, 2012 balances and amounts previously reported have been reclassified to conform to the June 30, 2013 presentation. The Institute revised the prior year presentation of its accounts receivable and advance payment balances for amounts not yet received. Management believes the impact on the prior year financial statements is not material.

Subsequent Events

MIT has evaluated subsequent events through September 13, 2013, 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.

Summarized Information

The Statement of Activities includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MIT's financial statements for the year ended June 30, 2012, from which summarized information was derived.

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. For limited partnerships, the realized gain/loss is calculated once the entire cost basis is distributed back to MIT or using information provided by managers with respect to the character of a distribution as being a gain or return of capital.

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.

B. Investments (continued)

• 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 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 for which MIT does not have the ability to redeem within twelve months are classified in the fair value hierarchy as Level 3.

Table 6 presents MIT's investments at fair value as of June 30, 2013 and 2012, grouped by the valuation hierarchy as defined earlier in this note

Transfers between levels are recognized at the beginning of the reporting period. There were no transfers in and out of Level 1 and Level 2 fair value measurements in 2013 and 2012. Transfers between Level 2 and Level 3 result from the expiration or commencement of lock-ups which impact MIT's ability to exit 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 funds.

The majority of these commingled funds are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisors. The fair value of these securities held in external investment funds that do not have readily determinable fair values are determined by the external managers 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, third party appraisals of real estate, or valuations prepared in connection with the administration of an employee stock ownership plan. MIT may also utilize industry standard valuation techniques, including discounted cash flow models. The significant unobservable inputs used in the fair value measurements of MIT's direct investments may include their cost of capital, and equity and industry risk premiums. Significant increases or decreases in these inputs in isolation may result in a significantly lower or higher fair value measurement, respectively. 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 usually be corroborated by observable market data, they are generally classified within Level 2.

B. Investments (continued)

Table 6. Investments

(in thousands of dollars)	Quoted prices in active markets [Level 1]	Significant other observable inputs [Level 2]	Significant unobservable inputs [Level 3]	Total fair value
Fiscal Year 2013				
Cash and cash equivalents	$ 1,526,544	$ –	$ –	$ 1,526,544
US treasury	629,760	–	–	629,760
US government agency	18	93,502	–	93,520
Domestic bonds**	17,951	253,163	86,895	358,009
Foreign bonds**	–	19,381	–	19,381
Common equity				
Long domestic	147,168	–	241,382	388,550
Long foreign	135,099	–	–	135,099
Short domestic	–	–	(3)	(3)
Short foreign	(18)	–	–	(18)
Equity**				
Absolute return	51,218	351,022	1,222,830	1,625,070
Domestic	–	18,024	1,249,343	1,267,367
Foreign	–	610,855	1,661,841	2,272,696
Private	–	–	2,510,672	2,510,672
Real estate*	17	–	2,311,490	2,311,507
Real assets**	711	5,482	619,632	625,825
Split interest agreements	–	–	148,297	148,297
Other	–	–	2,444	2,444
Derivatives	385	(3,005)	–	(2,620)
Total investments, gross	$ 2,508,853	$ 1,348,424	$ 10,054,823	$ 13,912,100
Liabilities associated with investments:				
Real estate***	–	–	(82,000)	(82,000)
Total investments, net	$ 2,508,853	$ 1,348,424	$ 9,972,823	$ 13,830,100
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	933,902	1,559	279,521	1,214,982
Long foreign	290,853	5,891	–	296,744
Short domestic	(570,076)	(609)	(3)	(570,688)
Short foreign	(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

**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 type of investments.*

****Principal payments begin in calendar year 2018, ranging from $400-$1,600. Interest rate is fixed at 3.93% with maturity in calendar year 2023.*

B. Investments (continued)

Table 7 is a rollforward of the investments classified by MIT within Level 3 of the fair value hierarchy defined earlier in this footnote at June 30, 2013 and 2012.

Table 7. 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 2013							
Domestic bonds	$ 78,961	$ –	$ (1)	$ 16,781	$ (8,846)	$ –	$ 86,895
Foreign bonds	–	–	–	–	–	–	–
Common equity							
Long domestic	279,521	1,190	(38,661)	7,258	(7,926)	–	241,382
Long foreign	–	15	–	–	(15)	–	–
Short domestic	(3)	–	–	–	–	–	(3)
Equity							
Absolute return	1,283,490	–	6,142	105,729	(210,814)	38,283	1,222,830
Domestic	1,038,537	–	164,804	167,990	(121,988)	–	1,249,343
Foreign	1,070,981	13,985	261,364	592,900	(198,279)	(79,110)	1,661,841
Private	2,610,024	11,817	(74,308)	361,721	(398,582)	–	2,510,672
Real estate	1,964,901	(1,957)	187,235	355,320	(194,009)	–	2,311,490
Real assets	536,266	(6,555)	18,455	126,888	(55,422)	–	619,632
Split interest agreements	121,816	160	27,287	16,444	(17,410)	–	148,297
Other	2,638	5	(193)	–	(6)	–	2,444
Total, gross	$ 8,987,132	$ 18,660	$ 552,124	$ 1,751,031	$ (1,213,297)	$ (40,827)	$ 10,054,823
Real estate liabilities	–	–	–	(82,000)	–	–	(82,000)
Total, net	$ 8,987,132	$ 18,660	$ 552,124	$ 1,669,031	$ (1,213,297)	$ (40,827)	$ 9,972,823
Fiscal Year 2012							
Domestic bonds	$ 75,644	$ –	$ 1	$ 11,550	$ (7,879)	$ (355)	$ 78,961
Foreign bonds	3	–	–	–	(2)	(1)	–
Common equity							
Long domestic	273,148	8	5,379	7,716	(6,730)	–	279,521
Short domestic	–	–	(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
Totals	$ 8,407,829	$ (43,904)	$ 406,997	$ 1,431,792	$ (1,111,956)	$ (103,626)	$ 8,987,132

All net realized and unrealized gains and losses relating to financial instruments held by MIT shown in Table 6 are reflected in the Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled $2,958.5 million and $2,476.9 million as of June 30, 2013 and 2012, respectively. The net change in unrealized gains (losses) related to these financial instruments held by MIT at June 30, 2013 and June 30, 2012 are disclosed in Table 7.

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 collateralize these positions and are included in investments on the Statements of Financial Position.

B. Investments (continued)

Table 8 below sets forth a summary of valuation techniques and quantitative information utilized in determining the fair value of MIT's Level 3 investments as of June 30, 2013, where no practical expedient using external managers' reported NAVs exists.

Table 8. Level 3 Valuation Techniques

Asset Type *(in thousands of dollars)*	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input	Rates
Real estate	$ 1,425,621	Discounted cash flow	Discount Rate	5.5-9.0%
Equity securities	224,375	Discounted cash flow	Discount Rate	11.0%
Split interest agreements	88,674	Net present value	Discount Rate	1.0-8.0%
Real assets	9,629	Discount to public price	Discount	20.0%
Other illiquid assets	360	Varies	Varies	Varies
	$ 1,748,659			

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.

Details on the estimated remaining life, current redemption terms and restrictions by asset class and type of investment are provided in Table 9.

Table 9. Unfunded Commitments

Asset Class *(in thousands of dollars)*	2013 Unfunded Commitments	2013 Fair Value	2012 Unfunded Commitments	2012 Fair Value	Redemption Terms	Redemption Restrictions
Equity						
Domestic	$ 21,958	$ 1,267,367	$ 26,941	$ 1,135,863	Redemption terms range from daily to annually with 90 days notice	Lock-up provision range from none to 4 years
Foreign	80,245	2,272,696	209,245	1,360,628	Redemption terms range from daily to annually with 90 days notice	Lock-up provision range from none to 8 years
Absolute return	30,635	1,625,070	37,762	1,676,886	Redemption terms range from monthly with 3 business days notice to closed end structures not available for redemption	Lock-up provision range from none to not redeemable
Private	997,663	2,510,672	1,261,309	2,610,024	Closed end funds not eligible for redemption	Not redeemable
Real estate	447,147	829,926	531,904	757,715	Closed end funds not eligible for redemption	Not redeemable
Real assets	72,133	615,512	135,516	613,083	Redemption terms range from 1 fund annually with 90 days notice to all other funds being closed end funds not eligible for redemption	Not redeemable except for 1 fund with a lock-up provision of 4 years
Totals	**$ 1,649,781**	**$ 9,121,243**	**$ 2,202,677**	**$ 8,154,199**		

B. Investments (continued)

MIT performs ongoing due diligence to determine that investment fair value is reasonable as of June 30, 2013 and 2012. In particular, to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and verifiable, MIT has established a Valuation Committee (the "Committee") that oversees the valuation processes and procedures and ensures that the policies are fair and consistently applied. The Committee is responsible for conducting annual reviews of the valuation policies, evaluating the overall fairness and consistent application of the valuation policies and performing specific reviews of certain valuations reported. The Committee performs due diligence over the external managers and based on this review, substantiates NAV as a practical expedient for estimates of fair value of its investments in external managers. The Committee is comprised of senior personnel and contains members who are independent of investment functions. The Committee meets annually, or more frequently, as needed. Members of the Valuation Committee report annually to MIT's Risk and Audit Committee.The methods described previously in this footnote may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. 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.

C. Derivative Financial Instruments

MIT maintains an interest rate swap agreement to manage the interest cost and risk associated with a portion of its variable rate debt, described in Note G. Under the agreement, MIT pays a fixed rate of 4.91% and receives a payment indexed to the Securities Industry and Financial Market Association (SIFMA) on a notional amount of $125.0 million. At June 30, 2013, the swap agreement had a total fair value of ($40.7) million and at June 30, 2012 had a fair value of ($58.6) million. This swap had a total net gain for 2013 of $17.9 million and a total net loss of $25.8 million for 2012. The notional amount of this derivative is 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 transaction 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 MIT's other assets.

Table 10 summarizes the notional exposure and net ending fair value relative to the financial instruments with off-balance sheet risk as of June 30, 2013 and 2012, 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, 2013, 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 10. Derivative Financial Instruments

(in thousands of dollars)	Notional Exposure: Long	Notional Exposure: Short	Net ending fair value*	Net gain (loss)**
Fiscal Year 2013				
Fixed income instruments				
Fixed income futures	$ 3,200	$ (17,900)	$ 385	$ 415
Options on interest rate exchange agreements	2,577,777	(55,000)	36,901	4,609
Interest rate caps and floors	2,250,000	–	2,509	(955)
Interest rate swaps	–	–	–	(274)
Total fixed income instruments	4,830,977	(72,900)	39,795	3,795
Currency instruments				
Currency forwards	–	–	–	347
Total currency instruments	–	–	–	347
Commodity instruments				
Commodity futures	–	–	–	1,062
Equity index swaps	–	–	–	(6,181)
IOS index swaps	–	–	–	406
Total commodity and index futures	–	–	–	(4,713)
Credit instruments	19,498	(153,995)	(1,692)	(25,196)
2013 Total	**$ 4,850,475**	**$ (226,895)**	**$ 38,103**	**$ (25,767)**
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)**

** 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 11 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, 2013 and 2012.

Table 11. Credit Derivative Instruments

	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 2013								
Credit rating on underlying or index								
A- to AAA	$ 66,499	$ (1,168)	$ 20,000	$ 46,499	$ 19,498	$ –	$ –	$ 488
BBB- to BBB+	67,998	(1,012)	5,000	62,998	–	(19,498)	–	–
2013 Total	**$ 134,497**	**$ (2,180)**	**$ 25,000**	**$ 109,497**	**$ 19,498**	**$ (19,498)**	**$ -**	**$ 488**
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**

** 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.*

**** The written and offsetting purchased credit protection held as of June 30, 2013 has a maturity of less than five years. Of the amount held as of June 30, 2012, $285,358 had a maturity of less than five years and $125,000 had a maturity of five to ten years.*

D. Pledges Receivable

Table 12 below shows the time periods in which pledges receivable at June 30, 2013 and 2012 are expected to be realized.

Table 12. Pledges Receivable

(in thousands of dollars)	2013	2012
In one year or less	$ 131,174	$ 158,236
Between one year and five years	187,708	232,983
More than five years	130,662	141,780
Less: allowance for unfulfilled pledges	(44,950)	(53,340)
Pledges receivable, net	**$ 404,594**	**$ 479,659**

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 cancelled and are no longer recorded in the financial statements. Pledges are discounted in the amount of $34.2 million and $30.9 million in 2013 and 2012, respectively. MIT has gross conditional pledges, not recorded, for the promotion of education and research of $85.3 million and $118.2 million in 2013 and 2012, respectively. MIT has pledges receivable relating to research in the amount of $21.8 million and $25.4 million in 2013 and 2012, respectively.

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

Table 13 below is a rollforward of the pledges receivable at June 30, 2013 and 2012.

Table 13. Rollforward of Pledges Receivable

(in thousands of dollars)	2013	2012
Balance at beginning of year	$ 479,659	$ 385,885
New pledges	99,062	164,333
Pledge payments received	(179,272)	(88,975)
Decrease (increase) in pledge discount	(3,245)	24,156
Decrease (increase) in reserve for unfulfilled pledges	8,390	(5,740)
Balance at the end of year	**$ 404,594**	**$ 479,659**

E. Student Notes Receivable

Table 14 below details the components of student notes receivable at June 30, 2013 and 2012.

Table 14. Student Notes Receivable

(in thousands of dollars)	2013	2012
Institute-funded student notes receivable	$ 14,004	$ 14,112
Perkins student notes receivable	38,480	38,417
Total student notes receivable	**52,484**	**52,529**
Less: allowance for doubtful accounts	(3,000)	(3,000)
Student notes receivable, net	**$ 49,484**	**$ 49,529**

E. Student Notes Receivable (continued)

Perkins student notes receivable are funded by the U.S. Government and by MIT. Funds advanced by the U.S. Government for this program are ultimately refundable to the U.S. Government and are classified as liabilities in Government advances for student loans in the Statements of Financial Position. 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, 2013 and 2012 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, 2013 and 2012 is adequate to absorb credit losses inherent in the portfolio as of that date.

Changes in the allowance for credit losses for the years ended June 30, 2013 and 2012 were as shown in the following table.

Table 15. Rollforward of Allowance for Credit Losses

(in thousands of dollars)	2013	2012
Balance at beginning of year	$ 3,000	$ 3,000
Provision for credit losses	–	41
Net charge-offs	–	(41)
Balance at end of year	**$ 3,000**	**$ 3,000**

F. Accounts Payable, Accruals and Other Liabilities

MIT's account payable, accruals, and other liabilities at June 30, 2013 and 2012 are shown in Table 16 below.

Table 16. Accounts Payable, Accruals, and Other Liabilities

(in thousands of dollars)	2013	2012
Accounts payable and accruals	$ 325,472	$ 320,902
Accrued vacation	58,965	57,467
Total	**$ 384,437**	**$ 378,369**

G. Borrowings

MIT's outstanding borrowings at June 30, 2013 and 2012 are shown in Table 17 below.

Table 17. Borrowings

(in thousands of dollars / due dates are calendar based)	2013	2012
EDUCATIONAL PLANT		
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Series I, 4.75%-5.20%, due 2028, par value $59,200	$ 59,563	$ 59,588
Series J-1, variable rate, due 2031	125,000	125,000
Series J-2, variable rate, due 2031	125,000	125,000
Series K, 5.25%-5.50%, due 2012-2032, par value $203,500	214,304	241,405
Series L, 3.0%-5.25%, due 2004-2033, par value $167,670	177,651	178,635
Series M, 5.25%, due 2014-2030, par value $131,110	141,634	142,787
Series N, 3.5%-5.0%, due 2014-2038, par value $325,195	329,010	330,327
Series O, 4.0%-6.0%, due 2016-2036, par value $266,460	269,778	271,022
Total MHEFA	**1,441,940**	**1,473,764**
Medium Term Notes Series A, 7.125%, due 2026	17,363	17,359
Medium Term Notes Series A, 7.25%, due 2096	45,447	45,445
Taxable Bonds, Series B, 5.60%, due 2111, par value $750,000[1]	746,956	746,924
Notes payable to bank, variable rate, due 2014	83,033	83,033
Total Educational Plant	**892,799**	**892,761**
OTHER		
Notes payable to bank, variable rate, due 2014	93,476	93,477
Total Borrowings	**$ 2,428,215**	**$ 2,460,002**

[1] *The proceeds of Taxable Bonds, Series B were held as investments as of June 30, 2013 and 2012 and have not yet been invested in physical assets.*

Fair value of the outstanding debt is approximately 11.0% and 22.0% greater than the carrying value in 2013 and 2012, respectively. It is classified as Level 3 under the valuation hierarchy described in Note B. 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 18 below.

Table 18. Debt Obligations

(in thousands of dollars)

2014	$	202,509
2015		59,110
2016		9,585
2017		98,090
2018		26,500

MIT maintains a line of credit with a major financial institution for an aggregate commitment of $500.0 million. As of June 30, 2013, $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 2013 and 2012 was $116.3 million and $101.0 million, respectively.

Variable interest rates at June 30, 2013 are shown in Table 19 below.

Table 19. Variable Interest Rates

(in thousands of dollars)		Amount	Rate
MHEFA Series J-1	$	125,000	0.04%
MHEFA Series J-2		125,000	0.06%
Notes payable to bank		176,509	0.79%

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, 2013 and 2012, MIT recorded a net over-recovery of $26.9 million and $56.7 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 2013 research revenues of $1,600.5 million include reimbursement of indirect costs of $219.7 million, which includes the adjustment for the variance between the indirect cost income determined by the fixed rates and actual costs for 2013. In 2012, research revenues were $1,527.9 million, which included reimbursement of indirect costs of $208.7 million.

Leases

At June 30, 2013, there were no capital lease obligations. MIT is committed under certain operating (rental) leases. Rent expense incurred under operating lease obligations was $40.5 million and $37.1 million in 2013 and 2012, respectively. Future minimum payments under operating leases are shown in Table 20 below.

Table 20. Lease Obligations

(in thousands of dollars)

2014	$	40,156
2015		29,580
2016		21,866
2017		17,387
2018		16,151

Investments

As of June 30, 2013, $10.3 million of investments were pledged as collateral to various supplier and government agencies.

H. Commitments and Contingencies (continued)

Future Construction

MIT has contracted for educational plant in the amount of $67.8 million at June 30, 2013. 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 21 below.

Table 21. Expenditures by Functional Classification

(in thousands of dollars)	2013	2012
General and administrative	$ 681,505	$ 604,320
Instruction and unsponsored research	692,032	673,851
Sponsored research	1,397,857	1,335,638
Auxiliary enterprises	124,358	120,137
Operation of Alumni Association	12,825	10,640
Total operating expense	$ 2,908,577	$ 2,744,586

J. Retirement Benefits

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

MIT also offers a postretirement welfare benefit plan (certain health care and life insurance benefits) for retired employees. Substantially all MIT employees may become eligible for those benefits if they reach a qualifying retirement age while working for MIT. The health care component of the welfare plan is 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 life insurance component of the welfare plan includes basic life insurance and supplemental life insurance. The basic 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 postretirement 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 was a $33.0 million contribution to the defined benefit plan in 2013. There were no contributions to the defined benefit plan in 2012.

For purposes of calculating net periodic 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 $1.0 million.

The amount contributed and expenses recognized during 2013 and 2012 related to the defined contribution plan were $46.2 million and $43.5 million, respectively.

For purposes of calculating net periodic cost for the postretirement welfare benefit plan, a portion of the current obligation related to the transition to the accounting standard *Employers' Accounting for Postretirement Benefits Other than Pensions*, was 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 in fiscal year 2012 which made 2012 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 $1.0 million.

Components of Net Periodic Benefit (Income) Cost

Table 22 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, 2013 and 2012.

Table 22. Components of Net Periodic Benefit (Income) Cost

	Defined benefit plan		Postretirement welfare benefit plan	
(in thousands of dollars)	2013	2012	2013	2012
Components of net periodic benefit (income) cost recognized in operating activity				
Service cost	$ 77,093	$ 61,431	$ 23,004	$ 20,599
Interest cost	130,187	138,858	22,087	26,207
Expected return on plan assets	(211,063)	(217,979)	(24,786)	(23,399)
Amortization of transition amount	–	–	–	1,194
Amortization of net actuarial loss (gain)	17,542	(1,000)	10,642	9,314
Amortization of prior service cost	1,018	1,970	(2,801)	(2,100)
Net periodic benefit (income) cost recognized in operating activity	**$ 14,777**	**$ (16,720)**	**$ 28,146**	**$ 31,815**
Other amounts recognized in non-operating activity in unrestricted net assets				
Current year actuarial (gain) loss	$ (230,545)	$ 444,241	$ (54,496)	$ (8,118)
Amortization of actuarial (loss) gain	(17,542)	1,000	(10,642)	(9,314)
Current year prior service credit	–	–	–	(23,919)
Amortization of prior service cost	(1,018)	(1,970)	2,801	2,100
Reduction in transition obligation due to plan change	–	–	–	(8,357)
Amortization of transition obligation	–	–	–	(1,194)
Total other amounts recognized in non-operating activity	**(249,105)**	**443,271**	**(62,337)**	**(48,802)**
Total recognized	**$ (234,328)**	**$ 426,551**	**$ (34,191)**	**$ (16,987)**

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 $14.1 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 $5.8 million and $2.8 million, respectively.

J. Retirement Benefits (continued)

Cumulative amounts recognized as non-operating changes in unrestricted net assets are summarized in Table 23 for the years ended June 30, 2013 and 2012.

Table 23. Cumulative Amounts Recognized in Unrestricted Net Assets

	Defined benefit plan		Postretirement welfare benefit plan	
(in thousands of dollars)	2013	2012	2013	2012
Amounts recognized in unrestricted net asset consist of:				
Net actuarial loss	$ 323,339	$ 571,425	$ 73,570	$ 138,708
Prior service cost/(credit)	3,833	4,851	(19,017)	(21,818)
Total cumulative amounts recognized in unrestricted net assets	**$ 327,172**	**$ 576,276**	**$ 54,553**	**$ 116,890**

Benefit Obligations and Fair Value of Assets

Table 24 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 and postretirement welfare benefit plans.

Table 24. Projected Benefit Obligations and Fair Value of Assets

	Defined benefit plan		Postretirement welfare benefit plan	
(in thousands of dollars)	2013	2012	2013	2012
Change in projected benefit obligations				
Projected benefit obligations at beginning of year	$ 2,890,587	$ 2,458,592	$ 489,475	$ 509,838
Service cost	77,093	61,432	23,004	20,599
Interest cost	130,187	138,858	22,086	26,207
Retiree contributions	–	–	4,066	3,834
Net benefit payments, transfers and other expenses	(144,222)	(116,351)	(22,913)	(22,109)
Plan amendment	–	–	–	(32,276)
Assumption changes and actuarial net loss (gain)	(149,861)	348,056	(36,601)	(16,618)
Projected benefit obligations at end of year	**2,803,784**	**2,890,587**	**479,117**	**489,475**
Change in plan assets				
Fair value of plan assets at beginning of year	2,577,752	2,572,307	358,912	311,629
Actual return on plan assets	291,747	121,795	42,681	14,899
Employer contributions	33,000	–	35,624	52,920
Retiree contributions	–	–	4,066	3,834
Net benefit payments, transfers and other expenses	(144,223)	(116,350)	(26,302)	(24,370)
Fair value of plan assets at end of year	**2,758,276**	**2,577,752**	**414,981**	**358,912**
Funded (unfunded) status at end of year	**$ (45,508)**	**$ (312,835)**	**$ (64,136)**	**$ (130,563)**
Amounts recognized in the Statements of Financial Position consist of:				
Total accrued benefit liabilities	**$ (45,508)**	**$ (312,835)**	**$ (64,136)**	**$ (130,563)**

J. Retirement Benefits (continued)

The accumulated benefit obligation for MIT's defined benefit plan was $ 2,620.4 million and $2,681.9 million at June 30, 2013 and 2012, respectively.

On 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 payments directly from the federal government. The net effect of this change reduced the accumulated postretirement benefit obligation to $56.4 million at June 30, 2012. This was treated as an actuarial gain.

Assumptions and Health Care Trend Rates

Table 25 summarizes 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 25. Assumptions

	Defined benefit plan		Postretirement welfare benefit plan	
	2013	2012	2013	2012
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	5.03%	4.49%	4.95%	4.41%
Rate of compensation increase*	4.00%	4.00%		
Assumptions used to determine net periodic benefit (income) cost for year ended June 30:				
Discount rate	4.49%	5.65%	4.41%	5.56%
Expected long-term return on plan assets	8.00%	8.00%	7.00%	7.00%
Rate of compensation increase *	4.00%	4.00%		
Assumed health care cost trend rates				
Health care cost trend rate assumed for next year			7.00%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.75%	5.00%
Year the rate reaches the ultimate trend rate			2021	2018

* *The average rate of salary increase is assumed to be 4.00% for 2014, and thereafter.*

As an indicator of sensitivity, a one percentage point change in the assumed health care cost trend rate would affect 2013 as shown in Table 26 below.

Table 26. Health Care Cost Trend Rate Sensitivity

(in thousands of dollars)	1% point increase	1% point decrease
Effect on 2013 postretirement service and interest cost	$ 7,178	$ (5,864)
Effect on postretirement benefit obligation as of June 30, 2013	$ 59,617	$ (49,911)

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)

Tables 27A and 27B present 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, 2013 and 2012, grouped by the valuation hierarchy detailed in Note B. There were no transfers in and out of Level 1 and Level 2 fair value measurements in 2013 or 2012. Transfers between Level 2 and Level 3 result from the expiration or commencements of lock-ups which impact MIT's ability to exit the fund within twelve months.

Table 27A. 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 2013				
Cash and cash equivalents	$ 197,341	$ –	$ –	$ 197,341
US treasury	194,191	–	–	194,191
US government agency	–	19,667	–	19,667
Domestic bonds	–	65,178	–	65,178
Foreign bonds	–	–	–	–
Common equity				
Long domestic	43,518	–	2,100	45,618
Long foreign	1,740	–	–	1,740
Equity*				
Absolute return	–	94,411	266,407	360,818
Domestic	–	–	378,862	378,862
Foreign	–	220,858	344,298	565,156
Private	–	–	455,850	455,850
Real estate	–	–	316,977	316,977
Real assets*	205	1,119	166,597	167,921
Derivatives	82	–	–	82
Total plan investments	**$ 437,077**	**$ 401,233**	**$ 1,931,091**	**$ 2,769,401**
Fiscal Year 2012				
Cash and cash equivalents	$ 92,684	$ –	$ –	$ 92,684
US treasury	130,713	–	–	130,713
US government agency	–	18,253	–	18,253
Domestic bonds	–	53,331	–	53,331
Foreign bonds	–	265	–	265
Common equity				
Long domestic	63,258	996	2,100	66,354
Long foreign	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**

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

J. Retirement Benefits (continued)

Table 27B. 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 2013				
Cash and cash equivalents	$ 23,812	$ –	$ –	$ 23,812
US government agency	–	–	–	–
Domestic bonds**	–	76,485	–	76,485
Common equity				
Long domestic	26,646	–	–	26,646
Long foreign	220	–	–	220
Equity*				
Absolute return	–	28,802	40,018	68,820
Domestic	–	–	62,147	62,147
Foreign	–	41,273	71,597	112,870
Private	–	–	20,826	20,826
Real estate	–	–	18,053	18,053
Real assets*	–	–	5,254	5,254
Derivatives	–	–	–	–
Total plan investments	**$ 50,678**	**$ 146,560**	**$ 217,895**	**$ 415,133**
Fiscal Year 2012				
Cash and cash equivalents	$ 26,512	$ –	$ –	$ 26,512
US government agency	–	2,147	–	2,147
Domestic bonds**	–	66,632	–	66,632
Common equity				
Long domestic	24,026	–	–	24,026
Long foreign	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**

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

*** Includes one common collective trust (CCT) WTC CTF Core Bond fund.*

J. Retirement Benefits (continued)

Table 28 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, 2013 and 2012.

Table 28. 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 2013							
Common equity:							
Domestic	$ 2,100	$ –	$ –	$ 909	$ (909)	$ –	$ 2,100
Foreign	–	5	–	–	(5)	–	–
Equity:							
Absolute return	289,429	–	(1,018)	92,136	(124,527)	10,387	266,407
Domestic	297,799	–	65,532	80,463	(67,859)	2,927	378,862
Foreign	158,171	–	45,583	230,398	(32,620)	(57,234)	344,298
Private	431,578	(218)	14,517	81,197	(71,224)	–	455,850
Real estate	294,379	–	19,976	64,595	(61,973)	–	316,977
Real assets	157,611	(2,176)	998	21,554	(11,390)	–	166,597
Totals	**$ 1,631,067**	**$ (2,389)**	**$ 145,588**	**$ 571,252**	**$ (370,507)**	**$ (43,920)**	**$ 1,931,091**
Fiscal Year 2012							
Common equity:							
Domestic	$ 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
Totals	**$ 1,620,139**	**$ (23,169)**	**$ 69,592**	**$ 306,381**	**$ (192,459)**	**$ (149,417)**	**$ 1,631,067**
Postretirement Welfare Benefit Plan							
Fiscal Year 2013							
Equity:							
Absolute return	$ 21,705	$ –	$ 2,388	$ 9,436	$ (9,380)	$ 15,869	$ 40,018
Domestic	49,236	–	10,720	11,719	(9,853)	325	62,147
Foreign	5,906	–	9,728	54,518	(5,383)	6,828	71,597
Private	16,936	–	705	7,307	(4,122)	–	20,826
Real estate	14,627	–	1,695	6,694	(4,963)	–	18,053
Real assets	3,502	–	(2)	1,935	(181)	–	5,254
Totals	**$ 111,912**	**$ –**	**$ 25,234**	**$ 91,609**	**$ (33,882)**	$ 23,022	**$ 217,895**
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
Totals	**$ 75,869**	**$ (730)**	**$ 9,120**	**$ 41,218**	**$ (8,514)**	**$ (5,051)**	**$ 111,912**

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 benefit plan are provided below as of June 30, 2013 and 2012.

Table 29. Unfunded Commitments

Asset Class *(in thousands of dollars)*	2013 Unfunded Commitments	2013 Fair Value	2012 Unfunded Commitments	2012 Fair Value	Redemption Terms	Redemption Restrictions
Defined Benefit Plan						
Equity:						
Domestic	$ 2,126	$ 378,862	$ 2,382	$ 303,116	Redemption terms range from daily to annually with 90 days notice	Lock-up provision range from none to 4 years
Foreign	21,600	565,156	54,900	351,924	Redemption terms range from daily to quarterly with 90 days notice	Lock-up provision range from none to 8 years
Absolute return	25,251	360,818	25,724	623,496	Redemption terms range from monthly with 3 business days notice to closed end structure not available for redemption	Lock-up provision range from none to not redeemable
Private	191,245	455,850	232,418	431,578	Closed end funds not eligible for redemption	Not redeemable
Real estate	150,491	316,977	185,374	294,379	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 holding with a lock-up provision of 5 years
Real assets	21,503	167,921	39,427	176,546	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	**$ 412,216**	**$ 2,245,584**	**$ 540,225**	**$ 2,181,039**		
Postretirement Welfare Benefit Plan						
Equity:						
Domestic	$ 236	$ 62,147	$ 265	$ 49,561	Redemption terms range from quarterly with 60 days notice to annually with 90 day notice	Lock-up provision range from 30 months to 4 years
Foreign	2,400	112,870	6,100	76,220	Redemption terms range from daily with 28 days notice to annually with 60 day notice	Lock-up provision range from none to 5 years
Absolute return	1,266	68,820	1,577	75,691	Redemption terms range from monthly with 3 business days notice to quarterly with 90 days notice	Lock-up provision range from none to 5 years
Private	19,038	20,826	21,754	16,936	Closed end funds not eligible for redemption	Not redeemable
Real estate	13,342	18,053	16,780	14,627	Closed end funds not eligible for redemption	Not redeemable
Real assets	2,004	5,254	3,938	3,502	Closed end funds not eligible for redemption	Not redeemable
Totals	**$ 38,286**	**$ 287,970**	**$ 50,414**	**$ 236,537**		

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, 2013 and 2012, are shown in Table 30.

Table 30. Plan Investment Allocation

	Defined benefit plan Plan assets as of June 30			Postretirement welfare benefit plan Plan assets as of June 30		
	Target Allocation	2013	2012	Target Allocation	2013	2012
Cash and cash equivalents	(5)-5%	7%	4%	(5)-5%	6%	8%
Fixed income	3-13%	10%	8%	10-20%	18%	19%
Equities	30.5-70.5%	52%	46%	35-75%	54%	47%
Marketable alternatives	16.5-26.5%	13%	24%	17.5-27.5%	17%	21%
Real assets	4-14%	6%	7%	0-7.5%	1%	1%
Real estate	6-16%	12%	11%	0-10%	4%	4%
Total		**100%**	**100%**		**100%**	**100%**

The following tables summarize the notional exposure and net ending fair value of derivative financial instruments held by the MIT defined benefit plan and postretirement welfare benefit plan at June 30, 2013 and 2012. Refer to Note C for detailed discussion regarding derivative financial instruments.

Table 31A. Derivative Financial Instruments for Defined Benefit Plan

	Notional exposure			
(in thousands of dollars)	Long	Short	Net ending fair value amount	Net gain (loss)
Fiscal Year 2013				
Fixed income instruments				
Fixed income futures	$ 3,600	$ (5,500)	$ 82	$ 91
Interest rate swaps	–	–	–	(43)
Total fixed income instruments	**3,600**	**(5,500)**	**82**	**48**
Currency forwards and other instruments				
Currency forwards and other instruments	–	–	–	6
Commodity and index instruments				
IOS index swaps	–	–	–	157
Credit instruments	–	–	–	(1,372)
2013 Total	**$ 3,600**	**$ (5,500)**	**$ 82**	**$ (1,161)**
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
Credit instruments	–	(13,027)	7,056	(27)
2012 Total	**$ –**	**$ (27,792)**	**$ 6,967**	**$ (870)**

J. Retirement Benefits (continued)

In fiscal 2013, there were no derivatives held by the postretirement welfare benefit plan. The credit instruments generated $0.3 million loss for the year. Fiscal 2012 information is summarized below.

Table 31B. 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)**

Table 32 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. These credit derivatives for both plans were liquidated during fiscal 2013 generating a loss of $1.4 million and $0.3 million for the ABX-AA indexes for the defined benefit plan and the postretirement welfare benefit plan, respectively. Fiscal 2012 information is summarized below.

Table 32. Credit Derivatives

(in thousands of dollars)	Purchased protection: Purchased notional amounts	Purchased fair value*	Years to maturity: <5 years	5-10 years
Defined Benefit Plan				
Fiscal Year 2012				
Credit rating on underlying or index				
ABX-AA index	$ 13,027	$ 7,056	$ –	$ 13,027
ABX--AAA index	–	–	–	–
2012 Total	**$ 13,027**	**$ 7,056**	**$ –**	**$ 13,027**
Postretirement Welfare Benefit Plan				
Fiscal Year 2012				
Credit rating on underlying or index				
ABX--AA index	$ 2,981	$ 1,614	$ –	$ 2,981
ABX--AAA index	–	–	–	–
2012 Total	**$ 2,981**	**$ 1,614**	**$ –**	**$ 2,981**

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

Contributions

In 2014, MIT expects to make contributions of $20.4 million and $9.7 million to its defined benefit pension plan and postretirement welfare benefit plan, respectively. These contributions have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2013. MIT contributed $35.6 million and $52.9 million to the postretirement welfare benefit plan in 2013 and 2012, respectively.

Expected Future Benefit Payments

Table 33 reflects total expected benefit payments for the defined benefit and postretirement welfare benefit plans. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2013.

Table 33. Expected Future Benefit Payments

(in thousands of dollars)	Pension benefits	Other Benefits*
2014	$ 145,636	$ 23,681
2015	154,008	26,406
2016	159,000	28,933
2017	164,180	31,092
2018	170,020	32,891
2019-2023	917,584	187,090

* *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 34 presents the total net assets composition as of June 30, 2013. The amounts listed in the unrestricted category 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 34. Total Net Asset Composition

(in thousands of dollars)	2013 Unrestricted	2013 Temporarily Restricted	2013 Permanently Restricted	2013 Total	2012 Total
Endowment funds					
General purpose	$ 739,162	$ 870,306	$ 213,760	$ 1,823,228	$ 1,970,777
Departments and research	492,137	792,875	524,831	1,809,843	1,627,569
Library	9,837	17,916	8,399	36,152	33,735
Salaries and wages	445,062	2,073,659	647,309	3,166,030	2,979,258
Graduate general	62,824	108,813	88,625	260,262	241,376
Graduate departments	90,778	260,981	204,768	556,527	508,759
Undergraduate	183,818	868,077	324,260	1,376,155	1,290,582
Prizes	7,028	22,824	19,342	49,194	45,275
Miscellaneous	891,085	156,003	426,326	1,473,414	1,161,177
Investment income held for distribution	307,171	–	–	307,171	291,056
Endowment funds before pledges	3,228,902	5,171,454	2,457,620	10,857,976	10,149,564
Pledges	–	–	147,956	147,956	158,710
Total endowment funds	**3,228,902**	**5,171,454**	**2,605,576**	**11,005,932**	**10,308,274**
Other invested funds					
Student loan funds	20,466	–	17,313	37,779	38,102
Building funds	57,525	77,818	–	135,343	78,786
Designated purposes:					
Departments and research	265,216	–	–	265,216	270,541
Other purposes	417,275	45,474	–	462,749	309,261
Real estate gift held for sale	7,237	–	–	7,237	1,592
Life income funds	4,430	40,879	90,076	135,385	133,219
Pledges	–	256,638	–	256,638	320,948
Other funds available for current expenses	919,860	52,028	–	971,888	453,036
Funds expended for educational plant	580,044	–	–	580,044	581,149
Total other invested funds	**2,272,053**	**472,837**	**107,389**	**2,852,279**	**2,186,634**
Noncontrolling interests	274,663	–	–	274,663	304,436
Total net assets at fair value	**$ 5,775,618**	**$ 5,644,291**	**$ 2,712,965**	**$ 14,132,874**	**$ 12,799,344**

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 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 35. Endowment Net Asset Composition by Type of Fund

(in thousands of dollars)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Fiscal Year 2013				
Donor-restricted endowment funds . .	$ (1,191)	$ 5,171,454	$ 2,605,576	$ 7,775,839
Board-designated endowment funds. .	3,230,093	–	–	3,230,093
Total endowment funds	**$ 3,228,902**	**$ 5,171,454**	**$ 2,605,576**	**$ 11,005,932**
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**

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 $1.2 million and $3.4 million as of June 30, 2013 and 2012, respectively. The underwater status of these funds resulted from unfavorable market fluctuations.

K. Components of Net Assets and Endowment (continued)

Table 36. Changes in Endowment Net Assets

(in thousands of dollars)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Fiscal Year 2013				
Endowment net assets, July 1, 2012	$ 3,003,203	$ 4,786,012	$ 2,519,059	$ 10,308,274
Investment return				
Investment income	19,388	48,080	13,054	80,522
Net appreciation (realized and unrealized)	294,247	669,225	15,983	979,455
Total investment return	313,635	717,305	29,037	1,059,977
Contributions	–	–	67,718	67,718
Appropriation of endowment assets for expenditure	(151,382)	(330,147)	(17,770)	(499,299)
Other charges				
Underwater gain adjustment	2,253	(2,253)	–	–
Net asset reclassifications and transfers to create board-designated endowment funds	61,193	537	7,532	69,262
Endowment net assets, June 30, 2013	**$ 3,228,902**	**$ 5,171,454**	**$ 2,605,576**	**$ 11,005,932**
Fiscal Year 2012				
Endowment net assets, July 1, 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 charges				
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**

K. Components of Net Assets and Endowment (continued)

Investment and Spending Policies

MIT maintains its investments primarily in two investment pools: Pool A, principally for endowment and funds functioning as endowment, and Pool C, principally for investment of current funds of MIT's schools and departments and MIT's operating funds. Pool A operates as a mutual fund with units purchased and redeemed based on the previous month's unit market value of Pool A. The total market value of Pool A was $11,753.8 million at June 30, 2013 and $10,970.0 million at June 30, 2012. Pool A includes certain operating and life income funds totaling $1,331.3 million at June 30, 2013 and $1,246.5 million at June 30, 2012. Certain assets are also maintained in separately invested funds. Separately invested funds totaled $435.4 million at June 30, 2013 and $426.3 million at June 30, 2012.

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 $60.84 and $58.73 per Pool A unit as of June 30, 2013 and 2012, respectively. In 2013, the amount distributed for spending from Pool A and Pool C totaled $585.8 million, compared to $554.3 million distributed in 2012. Included in this amount was a special distribution of $24.0 million and $17.7 million from gains in Pool C in 2013 and 2012, respectively. During 2013, distributions from separately invested funds were $18.8 million, compared to $13.1 million in 2012. The income earned in Pool C, or currently invested funds, was fully distributed.

Independent Auditor's Report

To the Risk and Audit Committee of the
Massachusetts Institute of Technology:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

Other Matter

We have previously audited the Massachusetts Institute of Technology's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30,2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

September 13, 2013

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)

	2013	2012	2011	2010	2009
Financial Position:					
Investments, at fair value	$ 13,830,100	$12,847,866	$12,236,531	$ 9,950,239	$ 9,558,331
Land, buildings, and equipment, at cost less accumulated depreciation	2,516,264	2,497,711	2,451,479	2,327,810	2,122,606
Borrowings	2,428,215	2,460,002	2,467,825	1,728,526	1,735,843
Total assets	17,719,840	16,738,758	16,052,231	13,415,618	12,950,103
Total liabilities	3,586,966	3,939,414	3,664,500	3,091,313	3,003,715
Unrestricted net assets	5,775,618	4,888,952	4,885,321	3,759,301	3,559,925
Temporarily restricted net assets	5,644,291	5,297,554	5,044,519	4,463,066	4,401,015
Permanently restricted net assets	2,712,965	2,612,838	2,457,891	2,101,938	1,985,448
Total net assets	14,132,874	12,799,344	12,387,731	10,324,305	9,946,388
Total endowment funds before pledges	10,857,976	10,149,564	9,712,628	8,317,321	7,880,321
Principal Sources of Revenue:					
Tuition and similar revenues	$ 568,957	$ 527,702	$ 493,777	$ 468,570	$ 431,772
Research revenues:					
Campus direct	473,220	471,155	456,416	431,611	497,493
Campus indirect	188,742	183,200	162,497	175,525	193,289
Lincoln Laboratory direct	860,190	819,645	770,672	719,883	642,101
Lincoln Laboratory indirect	30,783	25,263	34,111	24,449	27,667
SMART direct	47,332	28,311	23,300	20,912	14,026
SMART indirect	193	276	210	223	496
Gifts, bequests, and pledges	325,018	433,424	522,409	246,580	303,890
Net gain (loss) on investments and other assets	1,164,163	738,308	1,483,669	784,348	(1,854,380)
Investment income and distributions	604,753	554,627	505,503	566,110	586,576
Principal Purposes of Expenditures:					
Total operating expenditures	$ 2,908,577	$ 2,744,586	$ 2,571,147	$ 2,382,566	$ 2,461,286
General and administrative	681,505	604,320	523,676	461,186	497,043
Instruction and unsponsored research	692,032	673,851	659,839	613,345	680,848
Direct cost of sponsored research current dollars	1,397,857	1,335,638	1,265,776	1,192,041	1,167,036
Direct cost of sponsored research constant dollars (2009 = 100)	1,296,986	1,259,884	1,228,966	1,180,616	1,167,036

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights (continued)

(in thousands of dollars)

	2013	2012	2011	2010	2009
Research Revenues: [A]					
Campus:					
Federal government sponsored:					
Health and Human Services	$ 119,908	$ 133,687	$ 152,664	$ 144,561	$ 255,896
Department of Defense	127,967	117,458	107,753	106,890	97,528
Department of Energy	88,988	90,940	89,562	73,274	65,773
National Science Foundation	79,255	81,487	74,859	69,801	61,386
National Aeronautics and Space Administration	29,835	30,204	28,080	30,629	27,358
Other Federal	19,994	18,807	16,602	12,717	14,559
Total Federal	465,947	472,583	469,520	437,872	522,500
Non-Federally sponsored:					
State/local/foreign governments	33,429	38,273	32,969	33,339	27,145
Non-profits	58,227	48,373	44,436	50,639	60,538
Industry	106,447	109,745	100,763	93,330	99,219
Total non-Federal	198,103	196,391	178,168	177,308	186,902
Total Federal and non-Federal	664,050	668,974	647,688	615,180	709,402
F&A and other adjustments	(2,088)	(14,619)	(28,775)	(11,044)	(18,620)
Total Campus	661,962	654,355	618,913	604,136	690,782
Lincoln Laboratory:					
Federal government sponsored	890,973	844,202	803,599	749,974	675,329
Non-Federally sponsored	1,622	2,023	2,511	3,068	2,989
F&A and other adjustments	(1,622)	(1,317)	(1,327)	(8,710)	(8,550)
Total Lincoln Laboratory	890,973	844,908	804,783	744,332	669,768
SMART: [B]					
Non-Federal sponsored	47,525	28,587	23,510	21,135	14,522
Total SMART	47,525	28,587	23,510	21,135	14,522
Total research revenues	**$ 1,600,460**	**$ 1,527,850**	**$ 1,447,206**	**$1,369,603**	**$1,375,072**

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

[B] *The amounts represents research that has taken place in Singapore*

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights (continued)

	2013	2012	2011	2010	2009
Students:					
Undergraduate					
Full-time	4,480	4,354	4,252	4,201	4,118
Part-time	23	30	47	31	35
Undergraduate applications					
Applicants	18,109	17,909	16,632	15,663	13,396
Accepted	1,620	1,742	1,676	1,676	1,589
Acceptance rate	9%	10%	10%	11%	12%
Enrolled	1,135	1,126	1,067	1,072	1,048
Yield	70%	65%	64%	64%	66%
Freshman ranking in the top 10% of their class	98%	97%	98%	95%	97%
Average SAT Scores (math and verbal)	1,481	1,472	1,473	1,455	1,453
Graduate					
Full-time	6,537	6,342	6,108	6,022	5,991
Part-time	149	168	159	130	155
Graduate applications					
Applicants	22,588	22,219	22,139	19,336	17,323
Accepted	3,504	3,306	3,431	2,994	3,215
Acceptance rate	16%	15%	15%	15%	19%
Enrolled	2,229	2,118	2,141	1,939	2,000
Yield	64%	64%	62%	65%	62%
Tuition *(in dollars):*					
Tuition and fees	$ 42,050	$ 40,732	$ 39,212	$ 37,782	$ 36,390
Average room and board	12,188	11,775	11,234	11,360	10,860
Student Support *(in thousands of dollars)*:					
Undergraduate tuition support	$ 101,831	$ 102,081	$ 92,060	$ 89,813	$ 78,534
Graduate tuition support	226,158	215,702	201,995	195,178	187,732
Fellowship stipends	36,173	33,263	30,435	28,104	27,509
Student loans	9,669	9,556	9,968	9,641	9,641
Student employment	96,446	90,135	85,335	84,304	82,287
Total student support	**$ 470,277**	**$ 450,737**	**$ 419,793**	**$ 407,040**	**$ 385,703**
Faculty and Staff *(including unpaid appointments):*					
Faculty	1,022	1,018	1,017	1,025	1,008
Staff and fellows	13,416	13,109	12,662	12,577	13,393

Report of the Treasurer

for the year ended
June 30, 2013

Massachusetts
Institute of
Technology

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