



2016

Report of the Treasurer

for the year ended

June 30, 2016



Massachusetts
Institute of
Technology

Report of the Treasurer

for the year ended June 30, 2016



Massachusetts
Institute of
Technology

The Corporation

2015–2016

as of June 30, 2016

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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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Cover photo commemorates the centennial anniversary of MIT's move to Cambridge, Massachusetts.
Pictured: the MIT June 14, 1916, dedication exercises in Great Court new buildings.

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Report of the Treasurer

To the Members of the Corporation

During fiscal 2016, the Institute continued to push the boundaries of discovery and innovation, reinvent the educational experience, and reimagine the campus despite a challenging economic environment. MIT closed the year with net assets of \$17,134.5 million and net operating results of \$76.9 million, and MIT's pooled investments produced a return of 0.8 percent. In accordance with MIT's distribution policy, the endowment's investment income and gains are distributed for spending in a manner that enables stable operations while preserving its long-term purchasing power. In fiscal 2016, this distribution to operations exceeded the investment return and this, along with increases in postretirement benefit liabilities, contributed to the 3.4 percent decrease in net assets. Still, the Institute maintains a sound financial position resulting from a number of years of sustained solid investment performance and managed expenses. This strength has enabled MIT to continue to invest in strategic initiatives while securing MIT's future and core mission.

The year is marked by a number of significant achievements. In May, the Cambridge Planning Board voted unanimously to approve MIT's special permits as part of its "Planned Unit Development" in the Kendall Square area. The approval, a milestone reached during the centennial celebration of MIT's move from Boston to Cambridge, paves the way for MIT to develop the east campus over the next decade with a seamless integration of academic and commercial uses. A century after physically relocating MIT's campus, the Kendall project allows us to create a destination for both the MIT community and Cambridge residents, an environment capable of unleashing a new era of groundbreaking discovery and economic growth across the region.

MIT commemorated the centennial with an expansive offering of public events and activities. Highlights included the May 7 Moving Day celebration, a reimagining of the 1916 ceremonial crossing of the Bucentaur barge that carried the Institute's charter across the Charles to MIT's new home in Cambridge. In conjunction with this event, on May 6 the Institute formally launched the public phase of the Campaign for a Better World, a bold initiative aimed at raising \$5 billion to advance MIT's work in addressing some of the world's greatest challenges.

As MIT celebrated the anniversary of its 1916 move, the Department of Mathematics moved back into a newly renovated Simons Building (Building 2), representing the first major renewal of one of the iconic 100-year-old Beaux Arts buildings designed by William Welles Bosworth at the heart of the MIT campus. To complement east campus design efforts and the ongoing renewal of the main campus, MIT has continued to advance a formal planning process for the west and northwest areas of campus.

Addressing deferred maintenance has been prioritized as an integral part of overall campus renewal, and fiscal 2016 was the first year in recent decades that a reduction in the deferred maintenance backlog was realized, with 80 percent of campus buildings benefitting from this program. In connection with our campus renewal efforts, we are continuing to improve the MIT network (MITnet) to increase resiliency and enable higher bandwidth connectivity. This past year, the Institute invested in the modernization of our information technology (IT) systems and infrastructure, adopting cloud architecture and a software as a service (SaaS) delivery model. These improvements will ensure that the MIT community has dependable high-speed connectivity and access to information and services both on and off campus.

In October, MIT released its five-year multifaceted Plan for Action on Climate Change. The Institute has committed to reducing campus carbon emissions by at least 32 percent by 2030, and has stated an aspirational goal of reaching carbon neutrality as soon as possible. To help advance these plans, sustainability working groups are aligning campus operations for our buildings, stormwater, landscape, and laboratories along a core set of sustainability principles, setting a strong foundation for rigorous goal setting, measurement, and verification moving forward. It is critical to continue to maintain the campus buildings and infrastructure to a high standard to enable the unparalleled work of MIT's exceptional faculty and students.

In February, 100 years after Albert Einstein predicted the existence of gravitational waves, scientists at the Laser Interferometer Gravitational-wave Observatory (LIGO) announced they had observed ripples in the fabric of space-time, decoded the gravitational wave signal, and determined its source. And this past spring, the Advanced Functional Fabrics of America (AFFoA) Institute, a nonprofit founded by MIT, won a national

Summary of Key Financial Highlights (10-year trend)

<i>(in millions of dollars)</i>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues	2,180	2,408	2,644	2,663	2,751	2,990	3,187	3,124	3,291	3,427
Operating Expenses	2,208	2,294	2,461	2,383	2,571	2,744	2,909	2,919	3,111	3,350
Operating Results	(28)	114	183	280	180	246	278	206	180	77
Net Assets	12,695	12,770	9,946	10,324	12,388	12,799	14,133	16,315	17,739	17,135
Endowment	9,943	9,948	7,880	8,317	9,713	10,150	10,858	12,425	13,475	13,182
Net Borrowings	1,075	1,332	1,730	1,723	2,456	2,449	2,417	2,904	2,905	2,892

competition for federal funding to create the most modern manufacturing innovation institute to accelerate innovation in manufacturing involving fibers and textiles.

Strong financial results realized in recent years, as depicted in the Summary of Key Financial Highlights table, have enabled us to make significant progress in our campus and IT renewal plans. The proceeds from bonds, together with our fundraising efforts, will permit us to continue to advance the ongoing campus renewal program and provide for MIT's future of unbounded innovation, discovery, and knowledge.

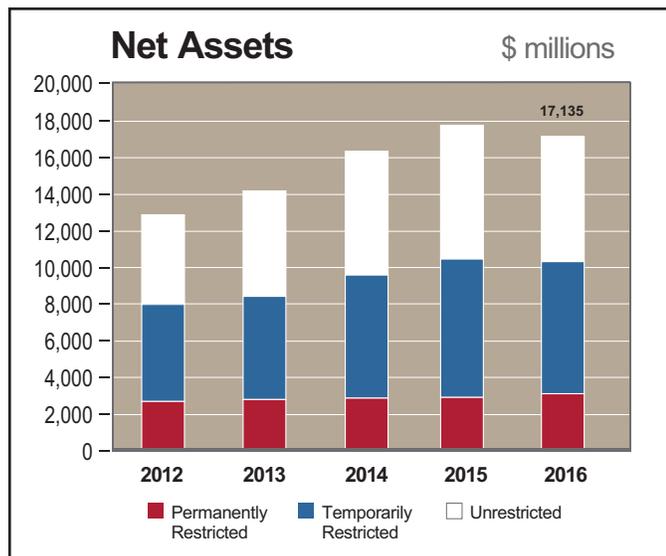
The following are additional details regarding MIT's fiscal 2016 consolidated financial statements: Consolidated Statements of Financial Position, Consolidated Statement of Activities, and Consolidated Statements of Cash Flows.

Consolidated Statements of Financial Position

The discussion in this section highlights key elements of MIT's financial position—net assets; investments; endowment; land, buildings, and equipment; postretirement benefit assets and liabilities; and borrowings.

Net Assets

Total net assets decreased to \$17,134.5 million, a decrease of 3.4 percent from fiscal 2015. Net assets are presented in three distinct 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 2016, permanently restricted net assets increased \$202.3 million, or 7.0 percent, to \$3,084.2 million, primarily due to new gifts and pledges made and net investment gains on permanently restricted, separately held endowment funds. Temporarily restricted net assets decreased \$342.6 million, or 4.5 percent, to \$7,210.8 million, primarily due to endowment gains distributed for spending. 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.

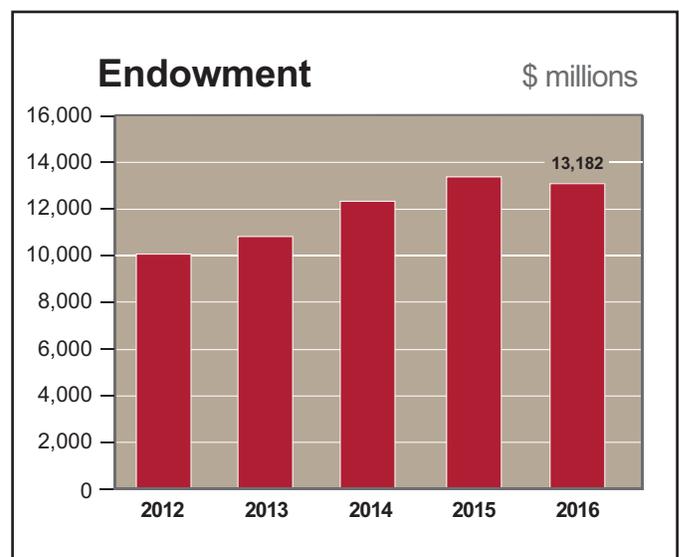
Unrestricted net assets decreased \$464.2 million, or 6.4 percent, to \$6,839.5 million, primarily due to pension-related charges other than net periodic benefit costs.

Investments

Investments at fair value were \$17,478.4 million as of fiscal year-end 2016, a decrease of \$275.7 million, or 1.6 percent. The consolidated financial statements include both realized and unrealized gains and losses on investments and other assets. These amounts totaled a net gain of \$242.6 million in fiscal 2016, and \$1,651.6 million in fiscal 2015. The decrease in the value of investments as of fiscal year-end 2016 was substantially driven by distribution of accumulated investment gains which was \$589.4 million in fiscal 2016.

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 holds four regularly scheduled meetings during the fiscal year where investment policy, performance, and asset allocation are reviewed.

Endowment



Endowment assets, the largest component of total investments, are managed to maximize total investment return relative to appropriate risk. The market value of investments in endowment funds, excluding pledges for endowed purposes, totaled \$13,181.5 million as of fiscal year-end 2016, a decrease of 2.2 percent compared to a total of \$13,474.7 million last year.

This year, MIT's pooled investments (Pool A) produced a return of 0.8 percent. Investment income and a portion of gains are distributed for spending in a manner that preserves the long-term purchasing power of the endowment. 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 \$3,092.4 million as of fiscal year-end 2016, an increase of \$270.1 million, or 9.6 percent, from \$2,822.3 million the previous year, mainly driven by expenditures for research and educational facilities. During fiscal 2016, new construction and major renovation projects placed into service totaled \$356.9 million. The Institute currently has a total of 159 capital projects under construction with a cumulative cost of \$260.3 million.

In May, MIT was presented with six preservation awards from the Cambridge Historical Commission for the renovation of the Simons Building (2), the Morris and Sophie Chang Building (E52), the Kresge Auditorium (W16), the MIT Chapel (W15), Building NW23, and the Du Pont Gymnasium (W31). Constructed in 1938 as the Massachusetts headquarters for the Lever Brothers Company, Building E52 was the original home to the Sloan School of Management. This historic building underwent a complete renovation and was named in honor of Morris Chang '52, SM '53, ME '55 and Sophie Chang, whose generous gift made the renovation possible. The expanded Samberg Conference Center located on the sixth and seventh levels opened in February. As noted above, Building 2, home to the Department of Mathematics and portions of Chemistry, was fully renovated in the first major renewal project of the main group buildings. A substantial restoration of the Kresge Auditorium has revitalized this gathering space, and the MIT Chapel was fully renewed to better support the needs of the community.

Enabling work has begun for Kendall Square development, and impacted units are being relocated to accommodate this work. MIT's Theater Arts program currently occupies the Rinaldi Tile Building (E33), as well as spaces in Walker Memorial, Building 4, Building 10, and the Kresge Auditorium. With E33 slated for demolition, the Theater Arts program will be consolidated in a former warehouse at 345 Vassar Street (W97), which is now under renovation. Building NW98, located at 12 Emily Street, is also being renovated as the new home to the Sea Grant program, and is targeted for occupancy in January 2017. In addition to Sea Grant, the building will accommodate the Advanced Functional Fibers of America (AFFoA) space. Both projects are expected to achieve LEED® Gold certification.

MIT.nano is proceeding on schedule and is on track to open in June of 2018. This world-class five-story structure will be

equipped with the most advanced fabrication tools and materials processing capabilities to enable the Institute's nanotechnology, materials, and engineering systems research. Nearby, Building 31 is being modernized while addressing programming needs for the Department of Aeronautics and Astronautics and the Department of Mechanical Engineering. This building supports the activities of approximately 150 faculty, students, and researchers. Both MIT.nano and Building 31 are also expected to achieve LEED® Gold certification. In close proximity, the Samuel Tak Lee Building (9) is currently under renovation for occupancy in September. The project includes extensive renovations to the second floor and less extensive work for floors three, four and five. Lastly, the renovation of Building NW23 located on Albany Street was completed as the new home for the Department of Facilities groups of Campus Services, Campus Construction, Maintenance and Utilities, and the Office of Campus Planning, and is now occupied.

As noted above, addressing deferred maintenance has been prioritized as an integral part of overall campus renewal, and fiscal 2016 was the first year in recent decades that a reduction in the deferred maintenance backlog was realized. We partnered with over 30 departments across campus to accomplish improvements to student residences, research laboratories, classrooms, and office spaces. As a result of these investments, the campus-wide facility condition index (FCI), which is the ratio of deferred maintenance to replacement value, decreased from 0.27 in January 2014 to 0.24 in May 2016, and 17 renovations achieved the Institute target FCI of 0.15 or less.

In accordance with MIT 2030, a flexible framework that guides and supports the Institute's ongoing physical and financial stewardship, MIT expects future pressure on operating results due to increasing depreciation costs associated with the above and anticipated capital projects that actively address current and future academic needs and opportunities.

Postretirement Benefit Assets and Liabilities

The defined benefit pension plan had assets of \$3,332.2 million as of fiscal year-end 2016, a decrease of \$46.3 million from \$3,378.5 million as of fiscal year-end 2015. The plan's projected liabilities were \$3,795.3 million as of fiscal year-end 2016, up \$363.6 million from \$3,431.7 million a year earlier, resulting in a net pension liability of \$463.1 million and \$53.2 million as of fiscal year-end 2016 and 2015, 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 \$549.2 million as of fiscal year-end 2016, an increase of \$0.3 million from \$548.9 million as of fiscal year-end 2015. The plans projected liabilities were \$582.1 million as of fiscal year-end 2016, up \$33.1 million from \$549.0 million a year earlier, resulting in a net benefits liability of \$32.9 million.

The changes in asset values of both plans, relatively small in fiscal 2016, were a function of payments made to beneficiaries and investment performance. The increases in liabilities experienced by both plans were driven by declines in discount rates. The discount rates for each plan were derived by identifying a theoretical

settlement portfolio of high-quality corporate bonds sufficient to provide for the plan's projected benefit obligations. The year-over-year discount rates dropped 56 and 51 basis points as of June 30 for the defined benefit pension plan and retiree welfare benefit plan, respectively, due to the prevailing interest rate environment at fiscal year-end 2016.

The combined plans' fiscal 2016 underfunded status was \$496.0 million, an increase of \$442.8 million from \$53.2 million as of fiscal year-end 2015, driven primarily by the change in discount rates. On an accounting basis in fiscal 2015, the defined benefit pension plan had a funding level of 98.5 percent, and the postretirement welfare benefit plan had a funding level of 99.9 percent. In accordance with the Institute's funding strategy to ensure the long-term strength of these plans, the Institute designated contributions of \$83.0 million to the defined benefit pension plan and \$18.9 million to the postretirement welfare benefit plan during fiscal 2016. These contributions, combined with actual investment performance, changes in certain demographic assumptions, and changes in the discount rates mentioned previously, resulted in a funding status of 87.8 percent for the defined benefit pension plan and 94.3 percent for the postretirement welfare benefit plan as of fiscal year-end 2016. The investments of both plans' assets are managed by MITIMCo.

Effective as of fiscal year-end 2015, MIT revised its mortality assumptions used to determine the projected benefit obligations of the defined benefit pension and postretirement welfare benefit plans. The revised assumptions were derived from the mortality tables published by the Society of Actuaries in October 2014. The change in mortality assumptions for both plans resulted in an increase of \$267.9 million in the projected benefit obligations as of fiscal year-end 2015. In addition to this change, MIT engaged its actuary to perform a comprehensive review and experience study of certain demographic assumptions for both plans that resulted in a decrease of \$33.9 million in the projected benefit obligations as of fiscal year-end 2015.

MIT also offers a 401(k) plan to its employees, which is not reflected in the Consolidated Statements of Financial Position. Assets in this plan are invested at the direction of participants in an array of investment funds. The plan's investment market value was \$3,891.1 million as of fiscal year-end.

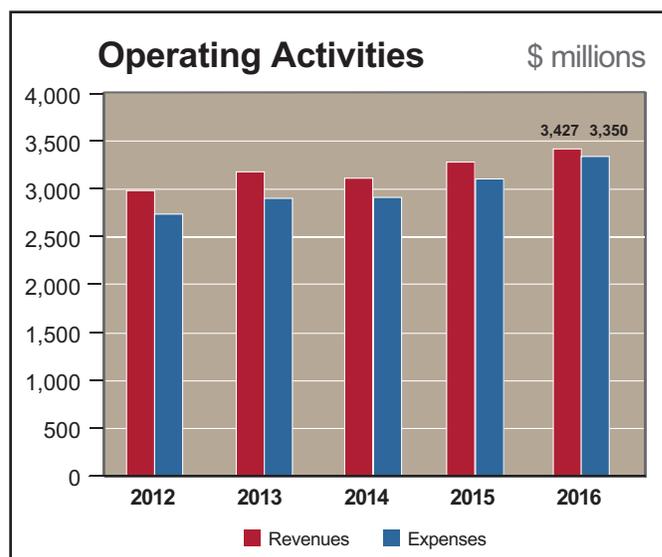
Net Borrowings

In fiscal year 2016, net borrowings decreased \$12.5 million, or 0.4 percent. No new debt was issued during fiscal 2016. However, in July 2016, MIT issued \$500.0 million in Series E Taxable Bonds, maturing in 2116 and yielding 3.885 percent. This yield marks an all-time low for the costs of a 100-year bond. The proceeds from these bonds will be used to further advance MIT's ongoing campus renewal and development program, including academic and research capital projects within the MIT 2030 framework.

MIT's financial strength is reviewed periodically by both Moody's Investors Service and Standard & Poor's Rating Services. In July 2016, these agencies rated the most recent bond issuance and reaffirmed MIT's credit as "Aaa" and "AAA," their highest rating levels.

Consolidated Statement of Activities

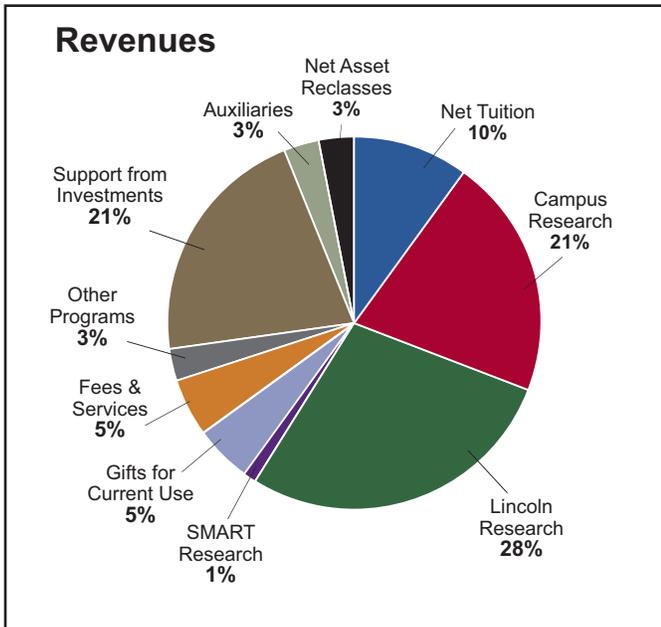
Operating Activities



This past year, MIT invested in the modernization of our information technology (IT) systems and infrastructure, adopting cloud architecture and web-based platforms. In December, Information Systems and Technology (IS&T) migrated MIT's SAP infrastructure to SAP's HANA Enterprise Cloud environment, providing improved performance and laying the foundation for real-time reporting access to transactional data stored in SAP and deployment of mobile-native web applications for administrative applications. To date, 32 percent of IS&T managed servers have been migrated to cloud infrastructure, and 100 percent will be moved by 2018, releasing space while addressing operational risk with geographical diversity and improved redundancy. We are continuing to improve the MIT network (MITnet) to increase resiliency and enable higher bandwidth connectivity to cloud providers, as well as dramatically increasing the connectivity with Northern Crossroads, a consortium of higher education and research institutions in the Northeast, from 20 gigabits per second to 200 gigabits per second. These improvements ensure that the MIT community has dependable high-speed connectivity and access to information and services both on and off campus.

MIT ended the year with a surplus from operations of \$76.9 million. This is \$102.7 million, or 57.2 percent, lower than the fiscal 2015 result, in significant part related to the previously mentioned investments in information technology and facilities expansion and modernization. Operating revenues increased \$136.1 million, or 4.1 percent, to \$3,426.8 million in fiscal 2016, while operating expenses increased \$238.8 million, or 7.7 percent, to a total of \$3,349.9 million. Year-over-year comparisons of operating revenues and expenses are presented on the graph above.

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 (included within net asset reclassifications and transfers).

Tuition revenue for graduate, undergraduate and nondegree executive programs net of financial aid grew by \$8.2 million, or 2.5 percent, to \$340.0 million. The growth in undergraduate tuition revenue was driven by a 3.8 percent increase in tuition rates and a 0.3 percent increase in student population. Financial aid for undergraduate students increased by 5.2 percent to \$97.3 million. Financial aid for graduate students grew by 5.5 percent to \$198.1 million.

Research revenues for on-campus departments, labs, and centers at MIT increased \$35.8 million, or 5.4 percent, to \$701.4 million. Research revenues for Lincoln Laboratory increased \$76.7 million, or 8.7 percent, to \$956.0 million, and for the Singapore-MIT Alliance for Research and Technology (SMART), increased \$1.1 million, or 3.4 percent, to \$32.8 million.

The growth rate in MIT's campus research is being driven by both Federal and non-Federal sponsors. Federally sponsored research revenue increased by 3.7 percent compared to the prior fiscal year, with the largest increase being related to the National Aeronautics and Space Administration. Non-Federally sponsored research increased by 6.6 percent, primarily driven by industrial and non-profit sponsors. The increase in Lincoln Laboratory research is the result of increased Federal funding from the Department of Defense. During fiscal 2015, the Air Force renewed the contract for operation of Lincoln Laboratory for an initial term of five years with an option to extend for an additional five years, acknowledging the long-term value of the Laboratory in service to national security. Also, the Department

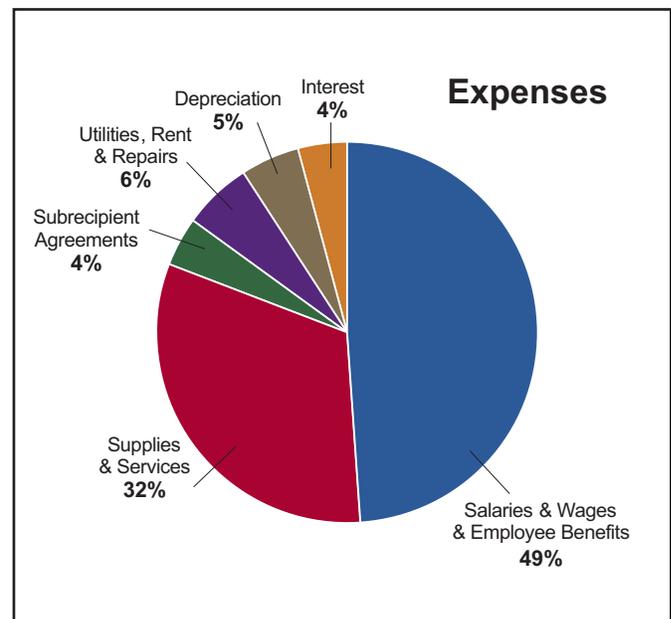
of Defense recently approved funding for two new facilities for Lincoln Laboratory. The Lincoln Laboratory West Laboratory project includes construction of the compound semiconductor laboratory/microsystems integration facility and the engineering prototyping facility. The moderate increase in SMART research is the net result of certain interdisciplinary research groups winding down and renewing.

MIT's modified total direct research expenditures, which form the basis for recovery of indirect costs, decreased by \$51.8 million, or 5.0 percent, in fiscal 2016.

While research and net tuition support more than half of MIT's operating revenue, the Institute also experienced significant growth in support from investments. Support from investments increased \$60.1 million, or 8.9 percent, primarily due to an increase in the endowment distribution. The effective spending rate on endowed funds was 4.4 percent, or 5.1 percent on a three-year-average basis, in fiscal 2016. Gifts and bequests for current use decreased \$59.6 million, or 26.9 percent, due to a few exceptionally large gifts received in fiscal 2015.

Operating Expenses

MIT's operating expenses include salaries and wages, employee benefits, supplies and services, subrecipient agreements, utilities, rent and repairs, depreciation, and interest. Operating expenses grew to \$3,349.9 million, an increase of \$238.8 million, or 7.7 percent.



Overall Institute salary expenses rose 6.5 percent while employee benefits expenses rose 0.8 percent. Campus average salary increases were 3.2 percent while headcount grew by 3.0 percent. The relatively moderate employee benefits growth is a result of increases in health, medical, employment taxes, and the supplemental 401(k) retirement plan being almost entirely offset by decreases in defined benefit pension and retiree health costs.

These decreases were due to higher discount rates, changes in retirement rates, and better-than-expected investment returns experienced in fiscal 2015, which determined 2016 operating costs in this area.

During fiscal 2016, expenses related to supplies and services increased \$128.1 million, or 13.4 percent, to \$1,084.2 million. The expense growth in this area was driven by an increase in research activities, investments in IT systems and infrastructure, and special events related to the Campaign for a Better World launch, as well as the MIT centennial event.

Non-Operating Revenues, Gains, and Losses Summary

Non-operating activities resulted in a \$654.4 million decrease in MIT's fiscal 2016 net assets, which totaled \$17,134.5 million. The two principal drivers of the decrease were the endowment spending distribution net of investment appreciation, totaling \$346.8 million, and post retirement plan changes other than net periodic benefit costs of \$503.7 million.

Gifts and Pledges

Gifts to MIT support scholarships, fellowships, professorships, research, educational programming, and student life activities, as well as construction and renovation of buildings. Gift and pledge revenue for fiscal 2016 totaled \$469.2 million, a decrease of 5.0 percent from the fiscal 2015 total of \$493.7 million. Gifts from individuals represented 52.4 percent of new gifts and pledges in fiscal 2016, up from 35.3 percent in fiscal 2015. Gifts from foundations represented 37.4 percent of new gifts and pledges in fiscal 2016, up from 26.3 percent in fiscal 2015. Gifts from corporations and other sources represented 10.2 percent of new gifts and pledges in fiscal 2016, down from 38.4 percent in fiscal 2015. New gifts and pledges for research and education were the largest categories of contributions for fiscal 2016.

Consolidated Statements of Cash Flows

The consolidated statement of cash flows divides cash-inflows and outflows into three categories: operating, investing, and financing. Although this division is a requirement of generally accepted accounting principles (GAAP), when reviewing the cash flow of a nonprofit organization such as MIT, it is important to note the investing activities as presented in the cash flow are an integral part of operations, since a large portion of operating activity is funded through distributions from pooled investments.

Net operating cash flow consumed \$323.0 million in fiscal 2016. Net operating cash flow resulted from a total decrease in net assets, adjusted for non-cash items (depreciation and net gain on investments and other assets, etc.), offset by changes in working capital, excluding cash and debt. The net of pledges receivable, accounts receivable, accounts payable, and other operating assets and liabilities used \$8.5 million of operating cash flow in fiscal 2016. Net investing activities provided \$349.5 million in cash due to proceeds from sales of investments to cover

the Institute's endowment spending policy, offset by spending on capital projects and purchases of investments, in fiscal 2016. Cash provided by financing activities was \$104.9 million in fiscal 2016, driven primarily by endowed contributions.

MIT's full consolidated financial statements and footnotes, further describing our financial position, activities, and cash flows through June 30, 2016, are included on the following pages.

Closing Remarks

A century ago, MIT made a most daring and pioneering move in relocating its campus from Boston to Cambridge. The move paid off in extraordinary ways, enabling not only a remarkable transition from an important regional institution to a premier global research university, but also the birth of a preeminent innovation ecosystem around the campus. The recent approvals to commence construction of five new buildings in Kendall Square open the door to attract the next wave of innovative companies and to strengthen collaborations across the region. We approach the future with tremendous optimism about all that we hope to accomplish together as we imagine the next 100 years of innovation.

We begin fiscal 2017 on a sound financial foundation with the resources needed to enable MIT's future and the flexibility to pursue groundbreaking initiatives. I have the greatest enthusiasm about the impact MIT will continue to have in addressing the world's great challenges, and the Institute's potential will be further strengthened by the Campaign for a Better World.

I am grateful to our students, faculty, staff, alumni, friends, and members of the MIT Corporation for their unwavering commitment to realizing this future together.

Respectfully submitted,



Israel Ruiz
Executive Vice President and Treasurer
September 9, 2016

Massachusetts Institute of Technology

Consolidated Statements of Financial Position

at June 30, 2016 and 2015

<i>(in thousands of dollars)</i>	2016	2015
Assets		
Cash	\$ 449,008	\$ 317,682
Accounts receivable, net	201,012	172,522
Pledges receivable, net, at fair value	609,065	558,095
Contracts in progress, principally US Government	80,803	66,440
Deferred charges, inventories, and other assets	136,065	136,275
Student notes receivable, net	42,137	45,678
Investments, at fair value	17,478,438	17,754,155
Noncontrolling interests	205,421	232,415
Land, buildings, and equipment (at cost of \$4,572,257 for June 2016; \$4,186,490 for June 2015), net of accumulated depreciation	3,092,429	2,822,312
Total assets	\$ 22,294,378	\$ 22,105,574
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accruals, and other liabilities	528,688	436,288
Liabilities due under life income fund agreements, at fair value	145,216	141,946
Deferred revenue and other credits	136,426	151,933
Advance payments	435,220	422,675
Borrowings, net of unamortized issuance costs	2,892,093	2,904,559
Government advances for student loans	36,173	35,561
Accrued benefit liabilities	496,029	53,233
Liabilities associated with investments	490,031	220,391
Total liabilities	5,159,876	4,366,586
Net Assets:		
Unrestricted net assets controlled by the Institute	6,634,100	7,071,258
Unrestricted net assets attributable to noncontrolling interests	205,421	232,415
Total unrestricted net assets	6,839,521	7,303,673
Temporarily restricted	7,210,822	7,553,447
Permanently restricted	3,084,159	2,881,868
Total net assets	17,134,502	17,738,988
Total liabilities and net assets	\$ 22,294,378	\$ 22,105,574

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

Massachusetts Institute of Technology

Consolidated Statement of Activities

for the year ended June 30, 2016

(with summarized financial information for the year ended June 30, 2015)

<i>(in thousands of dollars)</i>	2016			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
Operating Activities					
Operating Revenues					
Tuition and similar revenues, net of discount of \$295,419 in 2016 and \$280,282 in 2015	\$ 340,005	\$ -	\$ -	\$ 340,005	\$ 331,819
Research revenues:					
Campus	701,417	-	-	701,417	665,583
Lincoln	955,994	-	-	955,994	879,327
SMART	32,818	-	-	32,818	31,737
Total research revenues	1,690,229	-	-	1,690,229	1,576,647
Gifts and bequests for current use	162,257	-	-	162,257	221,820
Fees and services	183,020	-	-	183,020	160,962
Other programs	98,837	-	-	98,837	101,293
Support from investments:					
Endowment	588,708	-	-	588,708	545,861
Other investments	142,720	-	-	142,720	125,498
Total support from investments	731,428	-	-	731,428	671,359
Auxiliary enterprises	117,460	-	-	117,460	120,946
Net asset reclassifications and transfers	103,601	-	-	103,601	105,923
Total operating revenues	\$ 3,426,837	\$ -	\$ -	\$ 3,426,837	\$ 3,290,769
Operating Expenses					
Salaries and wages	\$ 1,335,024	\$ -	\$ -	\$ 1,335,024	\$ 1,253,353
Employee benefits	311,557	-	-	311,557	309,195
Supplies and services	1,084,219	-	-	1,084,219	956,078
Subrecipient agreements	139,913	-	-	139,913	140,417
Utilities, rent, and repairs	204,265	-	-	204,265	186,905
Depreciation	158,443	-	-	158,443	146,239
Interest expense	116,478	-	-	116,478	118,932
Total operating expenses	3,349,899	-	-	3,349,899	3,111,119
Results of operations	\$ 76,938	\$ -	\$ -	\$ 76,938	\$ 179,650
Non-Operating Activities					
Pledge revenue	\$ -	\$ 125,872	\$ 71,950	\$ 197,822	\$ 195,205
Gifts and bequests	-	-	109,083	109,083	76,665
Investment income	-	1,635	3,130	4,765	4,385
Net gain on investments and other assets	243,019	(22,908)	22,442	242,553	1,651,600
Distribution of accumulated investment gains	(216,306)	(373,096)	-	(589,402)	(516,793)
Net change in life income funds	(1,069)	(1,849)	(9,000)	(11,918)	(19,197)
Postretirement plan changes other than net periodic benefit cost	(503,732)	-	-	(503,732)	13,314
Net asset reclassifications and transfers	(36,008)	(72,279)	4,686	(103,601)	(105,923)
Total non-operating activities	(514,096)	(342,625)	202,291	(654,430)	1,299,256
(Decrease) increase in net assets controlled by the Institute	(437,158)	(342,625)	202,291	(577,492)	1,478,906
Change in net assets attributable to noncontrolling interests	(26,994)	-	-	(26,994)	(55,410)
Net assets at the beginning of the year	7,303,673	7,553,447	2,881,868	17,738,988	16,315,492
Net assets at the end of the year	\$ 6,839,521	\$ 7,210,822	\$ 3,084,159	\$ 17,134,502	\$ 17,738,988

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

Massachusetts Institute of Technology

Consolidated Statements of Cash Flows

for the years ended June 30, 2016 and 2015

<i>(in thousands of dollars)</i>	2016	2015
Cash Flow from Operating Activities		
(Decrease) increase in net assets	\$ (604,486)	\$ 1,423,496
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments and other assets	(242,553)	(1,651,600)
Change in accrued benefits liabilities	442,796	4,403
Depreciation	158,443	146,239
Donated securities received	(37,893)	(47,153)
Proceeds from sale of donated securities	23,448	34,226
Net gain (loss) on life income funds	8,580	(9,844)
Change in noncontrolling interests	26,994	55,410
Amortization of bond premiums and discounts and other adjustments	9,601	(2,101)
Change in operating assets and liabilities:		
Pledges receivable	(50,970)	(67,759)
Accounts receivable	(28,490)	23,022
Contracts in progress	(14,363)	(1,114)
Deferred charges, inventories, and other assets	210	(9,459)
Accounts payable, accruals, and other liabilities, excluding building and equipment accruals	84,768	10,981
Liabilities due under life income fund agreements	3,270	38,870
Deferred revenue and other credits	(15,507)	18,645
Advance payments	12,545	30,461
Reclassify investment income	(4,765)	(4,385)
Reclassify contributions restricted for long-term investment	(94,638)	(63,738)
Net cash used in operating activities	<u>(323,010)</u>	<u>(71,400)</u>
Cash Flow from Investing Activities		
Purchase of land, buildings, and equipment	(424,543)	(332,275)
Purchases of investments	(22,221,841)	(23,018,625)
Proceeds from sale of investments	23,001,121	23,409,764
Student notes issued	(17,941)	(19,024)
Collections from student notes	12,665	21,224
Net cash provided by investing activities	<u>349,461</u>	<u>61,064</u>
Cash Flow from Financing Activities		
Contributions restricted for investment in endowment	94,638	63,738
Proceeds from sale of donated securities restricted for endowment	14,445	12,928
Increase in investment income for restricted purposes	4,765	4,385
Proceeds from borrowings	-	518,500
Repayment of borrowings	(9,585)	(569,816)
Increase in government advances for student loans	612	524
Net cash provided by financing activities	<u>104,875</u>	<u>30,259</u>
Net increase in cash	131,326	19,923
Cash at the beginning of the year	317,682	297,759
Cash at the end of the year	<u>\$ 449,008</u>	<u>\$ 317,682</u>

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

Notes to Consolidated 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 consolidated financial statements (financial statements) include MIT and its wholly owned subsidiaries.

Net assets, revenues, expenses, and 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 J 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, net asset reclassifications and transfers, and operating expenditures. Results of operations are displayed in the Consolidated Statement of Activities.

Tax Status

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.

US GAAP requires MIT to evaluate tax positions taken by the Institute and recognize a tax liability (or asset) if the Institute has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. MIT has analyzed the tax positions taken and has concluded that as of June 30, 2016, there are no significant uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Cash

Certain cash balances, totaling \$122.3 million and \$116.4 million at June 30, 2016 and 2015, respectively, are restricted for use under certain sponsored research agreements or are held on behalf of a related party.

The Institute had approximately \$432.1 million and \$316.1 million at June 30, 2016 and 2015, respectively, of its cash 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 US 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 agreements.

A. Accounting Policies (continued)

Land, Buildings, and Equipment

Land, buildings, and equipment are shown at cost when purchased or at 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 \$39.4 million and \$34.3 million during 2016 and 2015, respectively. Land, buildings, and equipment at June 30, 2016 and 2015 are shown in Table 1 below.

<i>(in thousands of dollars)</i>	2016	2015
Land	\$ 83,610	\$ 78,528
Land improvements	64,434	64,525
Educational buildings	3,737,492	3,382,438
Equipment	289,980	271,326
Software	56,021	44,711
Total	4,231,537	3,841,528
Less: accumulated depreciation	(1,479,828)	(1,364,178)
Construction in progress . . .	336,033	337,018
Software projects in progress	4,687	7,944
Net land, buildings, and equipment	\$ 3,092,429	\$ 2,822,312

Depreciation expense was \$158.4 million in 2016 and \$146.2 million in 2015. Net interest expense of \$9.5 million and \$6.6 million was capitalized during 2016 and 2015, respectively, in connection with MIT's construction projects.

Tuition and Student Support

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

<i>(in thousands of dollars)</i>	2016	2015
Undergraduate and graduate programs	\$ 590,415	\$ 569,982
Executive and continuing education programs	45,009	42,119
Total	635,424	612,101
Less: tuition discount	(295,419)	(280,282)
Net tuition and similar revenues	\$ 340,005	\$ 331,819

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 \$520.5 million and \$498.5 million in 2016 and 2015, respectively. Of that amount, \$163.5 million in 2016 and \$161.4 million in 2015 was aid from sponsors. Components of student support are detailed in Table 3 below.

<i>(in thousands of dollars)</i>	2016			2015		
	Institute Sources	External Sponsors	Total Student Support	Institute Sources	External Sponsors	Total Student Support
Undergraduate tuition support	\$ 97,262	\$ 15,640	\$ 112,902	\$ 92,488	\$ 14,660	\$ 107,148
Graduate tuition support	198,157	60,287	258,444	187,794	59,567	247,361
Fellow stipends	22,718	16,013	38,731	21,469	17,290	38,759
Student employment	38,876	71,516	110,392	35,417	69,844	105,261
Total	\$ 357,013	\$ 163,456	\$ 520,469	\$ 337,168	\$ 161,361	\$ 498,529

A. Accounting Policies (continued)

Sponsored Research

Direct and indirect categories of research revenues are shown in Table 4 below.

<i>(in thousands of dollars)</i>	2016	2015
Direct:		
Campus	\$ 513,991	\$ 482,563
Lincoln.	908,506	844,588
SMART	<u>32,416</u>	<u>31,620</u>
Total direct.	<u>1,454,913</u>	<u>1,358,771</u>
Indirect:		
Campus	\$ 187,426	\$ 183,020
Lincoln.	47,488	34,739
SMART	<u>402</u>	<u>117</u>
Total indirect	<u>235,316</u>	<u>217,876</u>
Total research revenues	<u>\$ 1,690,229</u>	<u>\$ 1,576,647</u>

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 revenue 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 US Government and MIT. The variance between the negotiated fixed rate and the final audited rate results in a carryforward (over- or under-recovery). The carryforward 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 \$37.9 million and \$47.2 million in 2016 and 2015, respectively, and are shown separately in the Consolidated 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 \$0.4 million in 2016 and \$0.3 million in 2015. Pledges in the amount of \$609.1 million and \$558.1 million were recorded as receivables at June 30, 2016 and 2015, 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 below.

<i>(in thousands of dollars)</i>	2016	2015
Balance at the beginning of the year	\$ 141,946	\$ 103,076
Addition for new gifts	8,592	14,612
Termination and payments to beneficiaries	(14,993)	(14,984)
Net investment and actuarial gain	<u>9,671</u>	<u>39,242</u>
Balance at end of the year	<u>\$ 145,216</u>	<u>\$ 141,946</u>

Accounts Payable, Accruals, and Other Liabilities

MIT's accounts payable, accruals, and other liabilities totaled \$528.7 million and \$436.3 million at June 30, 2016 and 2015, respectively. These totals included accrued vacation of \$81.6 million at June 30, 2016 and \$62.5 million at June 30, 2015.

Recently Adopted Accounting Standards

On July 1, 2015, MIT early adopted new guidance related to *Presentation of Debt Issuance Costs*. This guidance requires MIT to present unamortized debt issuance costs as an offset to borrowings within the liabilities section of the balance sheet, rather than as other assets within the assets section of the balance sheet, and must be applied retrospectively. As a result, \$17.7 million has been reclassified from the Deferred charges, inventories, and other assets line to the Borrowings line in the 2015 comparative results column for MIT's Consolidated Statements of Financial Position. The change in presentation has also been appropriately reflected in the Borrowings table shown in Footnote F.

A. Accounting Policies (continued)

On July 1, 2014, MIT early adopted new guidance about *Fair Value Measurement and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance requires MIT to show investments that use net asset value (NAV) as a practical expedient for valuation purposes separately from other investments categorized in the fair value hierarchy described in Footnote B. This disclosure change can be seen in the investment leveling tables shown in Footnotes B and I for both fiscal years 2016 and 2015.

Noncontrolling Interests

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

Non-Cash Items

Non-cash transactions excluded from the Consolidated Statements of Cash Flows include \$7.6 million and \$13.3 million of accrued liabilities related to plant and equipment purchases for 2016 and 2015, 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.

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.

Reclassifications

Certain June 30, 2015 balances and amounts previously reported have been reclassified to conform to the June 30, 2016 presentation.

Subsequent Events

In July 2016, MIT issued \$500.0 million of taxable bonds, Series E, with a fixed interest rate of 3.885 percent and a maturity date of July 1, 2116. The new taxable debt will be used to further advance MIT's ongoing campus renewal and development program, including academic and research capital projects within the MIT 2030 framework.

MIT has evaluated subsequent events through September 9, 2016, the date on which the financial statements were issued. There were no subsequent events other than the above debt issuance that occurred after the balance sheet date that have a material impact on MIT's financial statements.

Summarized Information

The Consolidated Statements 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MIT's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from relevant exchanges or dealer markets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

B. Investments (continued)

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. Market information is considered when determining the proper categorization of the investment's fair value measurement within the fair valuation hierarchy.

Table 6 presents MIT's investments at fair value as of June 30, 2016 and 2015, respectively, grouped by the valuation hierarchy as defined earlier in this note. Investments that use NAV as a practical expedient for valuation purposes are shown separately.

Transfers between levels are recognized at the beginning of the reporting period. The 2016 transfers from Level 1 to Level 2 totaled \$60.0 million and transfers from Level 2 to Level 1 totaled \$10.4 million. The 2015 transfers from Level 1 to Level 3 totaled \$0.1 million, and transfers from Level 1 to Level 2 totaled \$9.6 million.

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 securities are traded.

Investments in non-exchange-traded debt are primarily valued using independent pricing sources that use broker quotes or models using observable market inputs. Investments managed by external managers include investments in (i) absolute return; (ii) domestic, foreign, and private equity; (iii) real estate; and (iv) real asset commingled funds. The fair value of securities held in external investment funds that do not have readily determinable fair values are determined by the external managers based upon industry-standard valuation approaches that require varying degrees of judgment, taking into consideration, among other things, the cost of the securities, valuations and transactions of comparable public companies, the securities' estimated future cash flow streams, and the prices of recent significant placements of securities of the same issuer. Using these valuations, most of these external managers calculate MIT's capital account or NAV in accordance with, or in a manner consistent with, GAAP's fair value principles.

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.

Level 3 investments are valued by MIT based upon valuation information received from the relevant 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.

MIT finances certain real estate investments to optimize the use of invested capital in support of the Institute's mission. These financings are shown as a separate line item called Liabilities associated with investments in the consolidated Statements of Financial Position. In prior years, they were netted into the line for Investments, at fair value. Amounts for all previous years shown throughout the full Report of the Treasurer have been reclassified to conform to the current year's presentation.

B. Investments (continued)

Table 6. Investments

<i>(in thousands of dollars)</i>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	Total Fair Value
Fiscal Year 2016					
Cash and cash equivalents	\$ 939,555	\$ -	\$ -	\$ -	\$ 939,555
US Treasury	890,588	-	-	-	890,588
US Government agency	-	169,007	-	-	169,007
Domestic bonds	12,004	308,817	104,048	-	424,869
Foreign bonds	21	68,384	-	-	68,405
Common equity:					
Long domestic	221,868	-	95,120	-	316,988
Long foreign	423,752	60,044	-	-	483,796
Short foreign	(5)	-	-	-	(5)
Equity:**					
Absolute return	-	-	-	1,816,975	1,816,975
Domestic	-	-	-	1,561,519	1,561,519
Foreign	-	-	-	3,521,507	3,521,507
Private	-	-	-	3,190,794	3,190,794
Real estate*	6,446	-	2,495,176	840,443	3,342,065
Real assets**	-	-	275	680,566	680,841
Split-interest agreements	-	-	126,832	-	126,832
Other	4,925	-	2,809	-	7,734
Derivatives	33	(63,065)	-	-	(63,032)
Investments, at fair value	<u>\$ 2,499,187</u>	<u>\$ 543,187</u>	<u>\$ 2,824,260</u>	<u>\$ 11,611,804</u>	<u>\$ 17,478,438</u>
Liabilities associated with investments:					
Real estate***	-	-	(490,031)	-	(490,031)
Net investments	<u>\$ 2,499,187</u>	<u>\$ 543,187</u>	<u>\$ 2,334,229</u>	<u>\$ 11,611,804</u>	<u>\$ 16,988,407</u>
Fiscal Year 2015					
Cash and cash equivalents	\$ 2,028,407	\$ -	\$ -	\$ -	\$ 2,028,407
US Treasury	795,335	-	-	-	795,335
US Government agency	-	70,493	-	-	70,493
Domestic bonds	11,917	84,072	101,763	-	197,752
Foreign bonds	21	24,582	-	-	24,603
Common equity:					
Long domestic	243,677	-	67,096	-	310,773
Long foreign	567,394	4,159	-	-	571,553
Short foreign	(6)	-	-	-	(6)
Equity:**					
Absolute return	-	-	-	1,734,169	1,734,169
Domestic	-	-	-	1,880,487	1,880,487
Foreign	-	-	-	3,504,707	3,504,707
Private	-	-	-	3,132,869	3,132,869
Real estate*	19	6,282	1,985,878	785,536	2,777,715
Real assets**	-	-	1,260	605,612	606,872
Split-interest agreements	-	-	146,405	-	146,405
Other	3,985	-	3,956	-	7,941
Derivatives	47	(35,967)	-	-	(35,920)
Investments, at fair value	<u>\$ 3,650,796</u>	<u>\$ 153,621</u>	<u>\$ 2,306,358</u>	<u>\$ 11,643,380</u>	<u>\$ 17,754,155</u>
Liabilities associated with investments:					
Real estate***	-	-	(220,391)	-	(220,391)
Net investments	<u>\$ 3,650,796</u>	<u>\$ 153,621</u>	<u>\$ 2,085,967</u>	<u>\$ 11,643,380</u>	<u>\$ 17,533,764</u>

* Real estate includes direct investments and investments held through commingled vehicles.

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

*** Interest rates range from 3.75% and 4.54%. Maturities range from calendar years 2023 and 2035. Principal payments range from \$5.6 million in fiscal year 2017 to \$3.4 million in fiscal year 2036.

B. Investments (continued)

Table 7 below 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, 2016 and 2015.

<i>(in thousands of dollars)</i>	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfers	Fair Value Ending
Fiscal Year 2016							
Domestic bonds	\$ 101,763	\$ -	\$ -	\$ 12,040	\$ (9,755)	\$ -	\$ 104,048
Common equity:							
Long domestic	67,096	-	28,024	7	(7)	-	95,120
Short domestic	-	-	-	119	(119)	-	-
Real estate	1,985,878	33,254	381,977	184,991	(90,924)	-	2,495,176
Real assets	1,260	(13,070)	12,085	-	-	-	275
Split-interest agreements	146,405	5,329	(10,750)	17,214	(31,366)	-	126,832
Other	3,956	179	32	-	(1,358)	-	2,809
Investments, at fair value	\$ 2,306,358	\$ 25,692	\$ 411,368	\$ 214,371	\$ (133,529)	\$ -	\$ 2,824,260
Real estate liabilities . . .	(220,391)	-	-	(269,640)	-	-	(490,031)
Net investments	\$ 2,085,967	\$ 25,692	\$ 411,368	\$ (55,269)	\$ (133,529)	\$ -	\$ 2,334,229
Fiscal Year 2015							
Domestic bonds	\$ 97,254	\$ -	\$ -	\$ 13,276	\$ (8,767)	\$ -	\$ 101,763
Common equity:							
Long domestic	178,921	402	(104,853)	600	(7,989)	15	67,096
Short domestic	-	-	-	-	-	-	-
Real estate	1,773,267	76,933	289,303	193,540	(347,265)	100	1,985,878
Real assets	10,464	-	(9,204)	-	-	-	1,260
Split-interest agreements	147,182	3,902	3,396	1,298	(9,373)	-	146,405
Other	9,721	(183)	78	3	(5,663)	-	3,956
Investments, at fair value	\$ 2,216,809	\$ 81,054	\$ 178,720	\$ 208,717	\$ (379,057)	\$ 115	\$ 2,306,358
Real estate liabilities . . .	(231,188)	-	-	(75,000)	85,797	-	(220,391)
Net investments	\$ 1,985,621	\$ 81,054	\$ 178,720	\$ 133,717	\$ (293,260)	\$ 115	\$ 2,085,967

All net realized and unrealized gains and losses relating to financial instruments held by MIT shown in Table 6 are reflected in the Consolidated Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled \$1,360.3 million and \$948.9 million as of June 30, 2016 and 2015, respectively. The net change in unrealized gains (losses) related to Level 3 investments held by MIT at June 30, 2016, and June 30, 2015, are disclosed in Table 7.

MIT enters into short sales whereby it sells securities that 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 Consolidated 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, 2016 and 2015.

Asset Type <i>(in thousands of dollars)</i>	Fair Value at June 30, 2016	Fair Value at June 30, 2015	Valuation Technique	Unobservable Input	2016 Rates	2015 Rates
Real estate	\$ 2,495,176	\$ 1,985,878	Discounted cash flow	Discount Rate	5–8.5%	4.8–9.0%
Equity securities	78,727	50,653	Discounted cash flow	Discount Rate	13.5%	15.3%
Split-interest agreements	81,268	110,722	Net present value	Discount Rate	2.05%	2.25%
Real assets	275	1,260	Discounted cash flow	Discount	25.0%	20.0%
Other illiquid assets.	505	426	Varies	Varies	Varies	Varies
Total assets	\$ 2,655,951	\$ 2,148,939				

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 limit the amount that may be withdrawn as of a given redemption date. Most absolute return, domestic equity, and foreign equity commingled funds limit withdrawals 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 investments 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 15 to 20 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 current redemption terms and restrictions by asset class and type of investment are provided in Table 9 below.

Asset Class <i>(in thousands of dollars)</i>	2016		2015		Redemption Terms	Redemption Restrictions
	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value		
Equity:						
Domestic	\$ 1,789	\$ 1,561,519	\$ 1,923	\$ 1,880,487	Redemption terms range from 4 months with 45 days notice to 25 months with 3 months notice and 2 closed-end funds not available for redemption	Lock-up provisions range from none to 6 months; 2 funds are not redeemable
Foreign	36,200	3,521,507	56,640	3,504,707	Redemption terms range from daily with 28 days notice to closed-end funds which are not redeemable	Lock-up provisions range from none to not redeemable
Absolute return	125,866	1,816,975	218,025	1,734,169	Redemption terms range from 45 days with 2 months notice to closed-end funds that are not redeemable	Lock-up provisions range from none to not redeemable
Private	1,567,427	3,190,794	1,131,554	3,132,869	Closed-end funds not available for redemption	Not redeemable
Real estate	574,443	840,443	483,951	785,536	Closed-end funds not available for redemption	Not redeemable
Real assets	156,591	680,566	116,346	605,612	Redemption terms range from 9 months with 1 day notice to closed-end funds which are not redeemable	Lock-up provisions range from none to not redeemable
Total	\$ 2,462,316	\$ 11,611,804	\$ 2,008,439	\$ 11,643,380		

B. Investments (continued)

MIT performs ongoing due diligence to determine that investment fair value is reasonable as of June 30, 2016 and 2015. In particular, to ensure that the valuation techniques for investments that are categorized within 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 composed 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 and Collateral

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 F. Under the agreement, MIT pays a fixed rate of 4.91 percent 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, 2016, the swap agreement had a total fair value of (\$63.4) million and at June 30, 2015 had a fair value of (\$48.1) million. This swap had a total net loss for 2016 of \$15.3 million and a total net loss of \$6.8 million for 2015. The notional amount of this derivative is not recorded on MIT’s Consolidated 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 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 respectively 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, 2016 and 2015, 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 US 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, 2016, cash collateral and certain securities owned by MIT were held at counterparty brokers to collateralize these positions and are included in investments on the Consolidated Statements of Financial Position.

C. Derivative Financial Instruments and Collateral (continued)

Table 10. Derivative Financial Instruments

<i>(in thousands of dollars)</i>	Notional Exposure		Net Ending Fair Value *	Net Gain (Loss)**
	Long	Short		
Fiscal Year 2016				
Fixed income instruments:				
Fixed income futures	\$ 14,100	\$ (3,100)	\$ 33	\$ -
Options on interest rate exchange agreements . .	1,532,000	-	1,956	(6,844)
Interest rate caps and floors	1,000,000	-	-	(96)
Total fixed income instruments	<u>2,546,100</u>	<u>(3,100)</u>	<u>1,989</u>	<u>(6,940)</u>
Commodity and index instruments:				
Equity index swaps.	-	(83,563)	351	44,083
Total commodity and index instruments	<u>-</u>	<u>(83,563)</u>	<u>351</u>	<u>44,083</u>
Credit instruments	-	(102,494)	(1,990)	126
2016 Total	<u>\$ 2,546,100</u>	<u>\$ (189,157)</u>	<u>\$ 350</u>	<u>\$ 37,269</u>
Fiscal Year 2015				
Fixed income instruments:				
Fixed income futures	\$ 3,500	\$ (3,400)	\$ 47	\$ (82)
Options on interest rate exchange agreements . .	1,702,000	-	8,800	(10,476)
Interest rate caps and floors	1,000,000	-	96	(485)
Total fixed income instruments	<u>2,705,500</u>	<u>(3,400)</u>	<u>8,943</u>	<u>(11,043)</u>
Commodity and index instruments:				
Equity index swaps.	-	(212,335)	5,046	(25,954)
Total commodity and index instruments	<u>-</u>	<u>(212,335)</u>	<u>5,046</u>	<u>(25,954)</u>
Credit instruments	-	(73,203)	(1,829)	9
2015 Total	<u>\$ 2,705,500</u>	<u>\$ (288,938)</u>	<u>\$ 12,160</u>	<u>\$ (36,988)</u>

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

C. Derivative Financial Instruments and Collateral (continued)

Table 11 below provides further details related to MIT's credit instruments and 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, 2016 and 2015.

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.

Table 11. Credit Derivative Instruments

<i>(in thousands of dollars)</i>	Purchased Protection				Written Protection Notional Amount			
	Purchased Notional Amounts	Purchased Fair Value*	Years to Maturity		Written Notional Amounts	Offsetting Purchased Credit Protection	Net Written Credit Protection	Net Written Credit Protection Fair Value
			< 5 Years	5-10 Years				
Fiscal Year 2016								
Credit rating on underlying or index:								
A- to AAA	\$ 37,499	\$ 785	\$ 37,499	\$ -	\$ -	\$ -	\$ -	\$ -
BBB- to BBB+	64,995	1,205	64,995	-	-	-	-	-
2016 Total	\$ 102,494	\$ 1,990	\$ 102,494	\$ -	\$ -	\$ -	\$ -	\$ -
Fiscal Year 2015								
Credit rating on underlying or index:								
A- to AAA	\$ 44,571	\$ (1,109)	\$ 10,000	\$ 34,571	\$ -	\$ -	\$ -	\$ -
BBB- to BBB+	28,632	(720)	5,175	23,457	-	-	-	-
2015 Total	\$ 73,203	\$ (1,829)	\$ 15,175	\$ 58,028	\$ -	\$ -	\$ -	\$ -
* The fair value of all credit derivative instruments is reflected in investments at fair value in the Consolidated Statements of Financial Position.								

C. Derivative Financial Instruments and Collateral (continued)

Counterparty risk may be partially or completely mitigated through master netting agreements included within an International Swap and Derivatives Association, Inc. (“ISDA”) Master Agreement between MIT and each of its counterparties. The ISDA Master Agreement allows MIT to offset with the counterparty certain derivative instruments’ payables and/or receivables with collateral held with each counterparty. To the extent amounts due from the counterparties are not fully

collateralized contractually or otherwise, there is the risk of loss from counterparty non-performance. As of June 30, 2016, MIT has elected not to offset recognized assets and liabilities in the Statements of Financial Position Investments Table. The following tables, 12 and 13, summarize the effect that offsetting of recognized assets and liabilities could have in the Statements of Financial Position Investments Table.

Table 12. Offsetting of Financial and Derivative Assets and Liabilities

<i>(in thousands of dollars)</i>	2016			2015		
	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount
Assets						
Counterparty A.....	\$ 820	\$ (726)	\$ 94	\$ 4,184	\$ (4,386)	\$ (202)
Counterparty B.....	50,000	(51,052)	(1,052)	59,895	(61,220)	(1,325)
Counterparty C.....	-	-	-	-	-	-
Counterparty D.....	-	-	-	-	-	-
Counterparty E.....	-	-	-	-	-	-
Counterparty F.....	6	-	6	-	-	-
Counterparty G.....	18,753	(19,143)	(390)	30,088	(31,004)	(916)
Counterparty H.....	-	-	-	-	-	-
Counterparty I.....	-	-	-	-	-	-
Counterparty J.....	-	-	-	-	-	-
Counterparty K.....	1,488	(1,925)	(437)	9,759	(12,495)	(2,736)
Counterparty L.....	-	-	-	-	-	-
Total assets.....	<u>71,067</u>	<u>(72,846)</u>	<u>(1,779)</u>	<u>103,926</u>	<u>(109,105)</u>	<u>(5,179)</u>
Liabilities						
Counterparty A.....	(396)	410	14	(2)	-	(2)
Counterparty B.....	-	-	-	-	-	-
Counterparty C.....	(43)	70	27	(201)	-	(201)
Counterparty D.....	(533)	721	188	(470)	721	251
Counterparty E.....	(47)	-	(47)	-	-	-
Counterparty F.....	-	-	-	-	-	-
Counterparty G.....	-	-	-	(48,081)	-	(48,081)
Counterparty H.....	(63,382)	-	(63,382)	-	-	-
Counterparty I.....	(342)	420	78	(316)	420	104
Counterparty J.....	(448)	680	232	(369)	415	46
Counterparty K.....	-	-	-	-	-	-
Counterparty L.....	(189)	400	211	(470)	720	250
Total liabilities.....	<u>(65,380)</u>	<u>2,701</u>	<u>(62,679)</u>	<u>(49,909)</u>	<u>2,276</u>	<u>(47,633)</u>
Total assets and liabilities, net	<u>\$ 5,687</u>	<u>\$ (70,145)</u>	<u>\$ (64,458)</u>	<u>\$ 54,017</u>	<u>\$ (106,829)</u>	<u>\$ (52,812)</u>

Maximum risk of loss from counterparty credit risk on over-the-counter derivatives is generally the aggregate unrealized appreciation in excess of any collateral pledged by the counterparty. ISDA Master Agreements allow MIT or the

counterparties to an over-the-counter derivative to terminate the contract prior to maturity in the event either party fails to meet the terms in the ISDA Master Agreements. This would cause an accelerated payment of net liability, if owed to the counterparty.

C. Derivative Financial Instruments and Collateral (continued)

Table 13 below reconciles the net recognized assets and liabilities, as shown in Table 12, to derivative financial instruments as shown in Table 6.

<i>(in thousands of dollars)</i>	2016	2015
Derivatives from Table 6	\$ (63,032)	\$ (35,920)
Repurchase agreements	68,752	89,984
Fixed income futures	(33)	(47)
Total	\$ 5,687	\$ 54,017

D. Pledges Receivable

Table 14 below shows the time periods in which pledges receivable at June 30, 2016 and 2015 are expected to be realized.

<i>(in thousands of dollars)</i>	2016	2015
In one year or less	\$ 239,245	\$ 192,149
Between one year and five years	407,825	393,518
More than five years	29,415	34,218
Less: allowance for unfulfilled pledges	(67,420)	(61,790)
Pledges receivable, net	\$ 609,065	\$ 558,095

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 \$22.1 million and \$35.5 million in 2016 and 2015, respectively. MIT has gross conditional pledges, not recorded, for the promotion of education and research of \$82.8 million and \$76.6 million in 2016 and 2015, respectively.

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

Table 15 below is a rollforward of the pledges receivable at June 30, 2016 and 2015.

<i>(in thousands of dollars)</i>	2016	2015
Balance at beginning of the year	\$ 558,095	\$ 490,336
New pledges	190,641	201,495
Pledge payments received	(146,852)	(127,446)
Decrease in pledge discount	12,811	1,230
Increase in reserve for unfulfilled pledges	(5,630)	(7,520)
Balance at the end of the year	\$ 609,065	\$ 558,095

E. Student Notes Receivable

Table 16 below details the components of student notes receivable at June 30, 2016 and 2015.

<i>(in thousands of dollars)</i>	2016	2015
Institute-funded student notes receivable.	\$ 12,627	\$ 12,894
Perkins student notes receivable.	32,510	35,784
Total student notes receivable	45,137	48,678
Less: allowance for doubtful accounts	(3,000)	(3,000)
Student notes receivable, net.	\$ 42,137	\$ 45,678

Perkins student notes receivable are funded by the US Government and by MIT. Those funds advanced by the US Government for this program are ultimately refundable to the US Government and are classified as liabilities in US Government advances for student loans in the Consolidated 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 loans 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 US 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, 2016 and 2015 to be prudent and reasonable. Furthermore, MIT's allowance is general in nature and is available to absorb losses from any loan category. Management maintains an allowance of \$3.0 million for credit losses and is confident that this is sufficient to absorb credit losses inherent in the portfolio as of that date.

F. Net Borrowings

MIT's outstanding borrowings at June 30, 2016 and 2015 are shown in Table 17 below.

Table 17. Net Borrowings	2016	2015
<i>(in thousands of dollars / due dates are calendar based / par values as of 2016)</i>		
Educational plant		
Massachusetts Development Finance Agency (MassDevelopment):		
Series I, 5.20%, due 2028, par value \$30,000	\$ 30,665	\$ 30,723
Series J-1, variable rate, due 2031, par value \$125,000	125,000	125,000
Series J-2, variable rate, due 2031, par value \$125,000	125,000	125,000
Series K, 5.25%-5.5%, due 2012-2032, par value \$203,500	212,317	213,010
Series L, 3.0%-5.25%, due 2004-2033, par value \$141,670	149,668	150,357
Series M, 5.25%, due 2014-2030, par value \$122,000	119,750	130,264
Series O, 4.0%-5.0%, due 2017, par value \$88,000	88,000	89,117
Total MassDevelopment	<u>\$ 850,400</u>	<u>\$ 863,471</u>
Medium Term Notes Series A, 7.125% due 2026, par value \$17,415	17,375	17,371
Medium Term Notes Series A, 7.25%, due 2096, par value \$45,604	45,455	45,451
Taxable Bonds, Series B, 5.60%, due 2111, par value \$750,000*	747,050	747,019
Taxable Bonds, Series C, 4.68%, due 2114, par value \$550,000*	550,000	550,000
Taxable Bonds, Series D, 2.051-3.959%, due 2019-2038, par value \$522,410	522,410	522,410
Notes payable to bank, variable rate, due 2017	113,033	113,033
Total taxable	<u>\$ 1,995,323</u>	<u>\$ 1,995,284</u>
Total educational plant	<u>\$ 2,845,723</u>	<u>\$ 2,858,755</u>
Other		
Notes payable to bank, variable rate, due 2017	63,476	63,476
Total borrowings	<u>\$ 2,909,199</u>	<u>\$ 2,922,231</u>
Unamortized debt issuance costs	(17,106)	(17,672)
Total borrowings net of unamortized debt issuance cost	<u><u>\$ 2,892,093</u></u>	<u><u>\$ 2,904,559</u></u>
* The proceeds of Taxable Bonds, Series B and C were in the process of being invested in physical assets in 2015 and 2016, with unused balances held as investments.		

Fair value of the outstanding debt is approximately 24 and 9 percent greater than the carrying value in 2016 and 2015, respectively. It is classified as Level 3 under the valuation hierarchy described in Note B. Fair value is based on estimates using current interest rates available for similarly rated debt of the same remaining maturities for tax-exempt debt and rates for recent trades for taxable debt.

F. Net 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.

2017	\$	98,090
2018		26,500
2019		92,410
2020		10,620
2021		11,180

MIT maintains a line of credit with a major financial institution for an aggregate commitment of \$500.0 million. As of June 30, 2016, \$323.5 million was available under this line of credit (see Notes payable on Table 17). The line of credit expires on March 31, 2017.

Cash paid for interest on long-term debt in 2016 and 2015 was \$131.0 million and \$128.9 million, respectively.

Variable interest rates at June 30, 2016 are shown in Table 19 below.

	Amount	Rate
MassDevelopment Series J-1 ..	\$ 125,000	0.40%
MassDevelopment Series J-2 ..	125,000	0.42%
Notes payable to bank.	176,509	1.06%

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.

G. 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 carryforward of under- or over-recoveries. At June 30, 2016 and 2015, MIT recorded a net over-recovery of \$24.7 million and \$19.5 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 2016 research revenues of \$1,690.2 million include reimbursement of indirect costs of \$235.3 million, which includes the adjustment for the variance between the indirect cost income determined by the fixed rates and actual costs for 2016. In 2015, research revenues were \$1,576.6 million, which included reimbursement of indirect costs of \$217.9 million.

Leases

At June 30, 2016, there were no capital lease obligations. MIT is committed under certain operating (rental) leases. Rent expense incurred under operating lease obligations was \$40.0 million and \$41.3 million in 2016 and 2015, respectively. Future minimum payments under operating leases are shown in Table 20 below.

2017	\$	44,361
2018		44,501
2019		41,452
2020		27,697
2021		26,573

Investments

As of June 30, 2016, \$12.6 million of investments were pledged as collateral to various suppliers and Government agencies.

G. Commitments and Contingencies (continued)

Future Construction

MIT has contracted for educational plant in the amount of \$389.3 million at June 30, 2016. It is expected that the resources to satisfy these commitments will be provided from unexpended plant funds, anticipated gifts, bond proceeds, 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.

H. Functional Expense Classification

MIT's expenditures on a functional basis are shown in Table 21 below.

Table 21. Expenditures by Functional Classification

<i>(in thousands of dollars)</i>	2016	2015
General and administrative	\$ 858,441	\$ 763,680
Instruction and unsponsored research	854,595	811,495
Sponsored research	1,479,158	1,386,334
Auxiliary enterprises	141,437	134,076
Operation of Alumni Association	16,268	15,534
Total operating expenses	\$ 3,349,899	\$ 3,111,119

I. 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 healthcare 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 healthcare 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 were designated contributions of \$83.0 million and \$7.5 million to the defined benefit plan in 2016 and 2015, respectively. MIT also designated contributions of \$18.9 million and \$28.7 million to the postretirement welfare benefit plan in 2016 and 2015, respectively. The employer contributions to the Retiree Welfare Benefit Plan (RWBP) decreased in 2016 mainly due to an increase in prescription drug rebates from drug manufacturers and more medical claims being directly paid by RWBP.

For the defined contribution plan, the amount contributed and expenses recognized during 2016 and 2015 were \$55.2 million and \$51.5 million, respectively.

For purposes of calculating net periodic cost, plan amendments for the defined benefit plan are amortized on a straight-line basis over the average future service of active participants at the date of the amendment. Plan amendments to the postretirement welfare benefit plan are amortized on a straight-line basis over the average future service to full eligibility of active participants at the date of amendment.

I. Retirement Benefits (continued)

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 for both the defined benefit plan and the postretirement welfare benefit plan 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 Cost

Table 22 below summarizes the components of net periodic benefit cost recognized in operating activity and other amounts recognized in non-operating activity in unrestricted net assets for the years ended June 30, 2016 and 2015.

Table 22. Components of Net Periodic Benefit Cost

<i>(in thousands of dollars)</i>	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
	2016	2015	2016	2015
Components of net periodic benefit cost recognized in operating activity:				
Service cost	\$ 85,464	\$ 80,840	\$ 25,097	\$ 25,950
Interest cost	158,983	141,805	25,478	24,453
Expected return on plan assets	(243,615)	(223,648)	(34,703)	(30,623)
Amortization of net actuarial loss	20,088	24,596	1,000	6,064
Amortization of prior service cost	953	953	(2,801)	(2,801)
Net periodic benefit cost recognized in operating activity	\$ 21,873	\$ 24,546	\$ 14,071	\$ 23,043
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year actuarial loss (gain)	492,083	56,748	30,889	(41,250)
Amortization of actuarial gain	(20,088)	(24,596)	(1,000)	(6,064)
Amortization of prior service cost	(953)	(953)	2,801	2,801
Total other amounts recognized in non-operating activity	\$ 471,042	\$ 31,199	\$ 32,690	\$ (44,513)
Total recognized	\$ 492,915	\$ 55,745	\$ 46,761	\$ (21,470)

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 \$33.2 million and \$1.0 million, respectively. The estimated net

actuarial loss and prior service cost (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 \$1.0 million and \$(2.8) million, respectively.

I. Retirement Benefits (continued)

Cumulative amounts recognized as non-operating changes in unrestricted net assets are summarized in Table 23 below for the years ended June 30, 2016 and 2015.

Table 23. Cumulative Amounts Recognized in Unrestricted Net Assets

<i>(in thousands of dollars)</i>	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
	2016	2015	2016	2015
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss	\$ 787,874	\$ 315,879	\$ 39,515	\$ 9,626
Prior service cost (credit)	973	1,926	(10,615)	(13,416)
Total cumulative amounts recognized in unrestricted net assets	\$ 788,847	\$ 317,805	\$ 28,900	\$ (3,790)

Benefit Obligations and Fair Value of Assets

Table 24 below summarizes the benefit obligations, plan assets, and amounts recognized in the Consolidated 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

<i>(in thousands of dollars)</i>	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
	2016	2015	2016	2015
Change in projected benefit obligations:				
Projected benefit obligations at beginning of year	\$ 3,431,688	\$ 3,140,704	\$ 548,965	\$ 539,262
Service cost	85,464	80,840	25,097	25,950
Interest cost	158,983	141,805	25,478	24,453
Retiree contributions	-	-	5,543	4,881
Net benefit payments, transfers, and other expenses	(138,464)	(113,739)	(28,396)	(30,506)
Employer Group Waiver Plan (EGWP) reimbursement	-	-	5,053	6,273
Assumption changes and actuarial net loss (gain)	257,663	182,078	344	(21,348)
Projected benefit obligations at end of the year	\$ 3,795,334	\$ 3,431,688	\$ 582,084	\$ 548,965
Change in plan assets:				
Fair value of plan assets at beginning of the year	3,378,500	3,135,764	548,920	495,372
Actual return on plan assets	9,197	348,975	4,160	50,522
Employer contributions	83,000	7,500	18,929	28,651
Retiree contributions	-	-	5,543	4,881
Net benefit payments, transfers, and other expenses	(138,464)	(113,739)	(28,396)	(30,506)
Fair value of plan assets at end of the year	3,332,233	3,378,500	549,156	548,920
Unfunded status at end of the year	\$ (463,101)	\$ (53,188)	\$ (32,928)	\$ (45)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Total accrued benefit liabilities	\$ (463,101)	\$ (53,188)	\$ (32,928)	\$ (45)

I. Retirement Benefits (continued)

The accumulated benefit obligation for MIT's defined benefit plan was \$3,608.5 million and \$3,075.9 million at June 30, 2016 and 2015, respectively.

MIT provides 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.

Assumptions and Healthcare Trend Rates

Table 25 below summarizes assumptions and healthcare 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.

<i>(in thousands of dollars)</i>	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
	2016	2015	2016	2015
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	4.06%	4.62%	4.03%	4.54%
Rate of compensation increase*	4.00%	4.00%		
Assumptions used to determine net periodic benefit cost for the year ended June 30:				
Discount rate	4.62%	4.50%	4.54%	4.43%
Expected long-term return on plan assets	8.00%	8.00%	7.00%	7.00%
Rate of compensation increase*	4.00%	4.00%		
Assumed healthcare cost trend rates:				
Healthcare cost trend rate assumed for next year			6.00%	6.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.75%	4.75%
Year the rate reaches the ultimate trend rate			2021	2021

* The average rate of salary increase is assumed to be 4.00% for 2017 and thereafter.

As an indicator of sensitivity, a one percentage point change in the assumed healthcare cost trend rate would affect 2016 as shown in Table 26 below.

<i>(in thousands of dollars)</i>	1% Point Increase	1% Point Decrease
Effect on 2016 postretirement service and interest cost	\$ 9,423	\$ (7,447)
Effect on postretirement benefit obligation as of June 30, 2016.	85,651	(70,238)

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.

I. 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, 2016 and 2015, grouped by the valuation hierarchy detailed in Note B. The investment values in these tables exclude certain items included in the assets shown in Table 24. The 2016 transfers from Level 1 to Level 2 totaled \$21.8 million and \$3.5 million for the defined benefit plan and postretirement benefit plan, respectively. The 2016 transfers from Level 2 to Level 1 totaled \$2.4 million and \$0.3 million for the defined benefit plan and the postretirement benefit plan, respectively. There were no transfers in and out of Level 1 and Level 2 fair value measurements in 2015.

Table 27A. Defined Benefit Plan Investments

<i>(in thousands of dollars)</i>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient [NAV]	Total Fair Value
Fiscal Year 2016					
Cash and cash equivalents	\$ 154,852	\$ -	\$ -	\$ -	\$ 154,852
US Treasury	304,281	-	-	-	304,281
US Government agency	-	8,701	-	-	8,701
Domestic bonds	-	13	-	-	13
Foreign bonds	-	6,973	-	-	6,973
Common equity:					
Long domestic	42,147	-	53	-	42,200
Long foreign	80,573	21,844	-	-	102,417
Equity:*					
Absolute return	-	-	-	352,188	352,188
Domestic	-	-	-	407,180	407,180
Foreign	-	-	-	792,305	792,305
Private	-	-	-	661,125	661,125
Real estate*	1,492	-	-	277,671	279,163
Real assets*	-	-	-	119,031	119,031
Other	9,420	-	589	-	10,009
Derivatives	44	777	-	-	821
Total plan investments	\$ 592,809	\$ 38,308	\$ 642	\$ 2,609,500	\$ 3,241,259
Fiscal Year 2015					
Cash and cash equivalents	\$ 204,917	\$ -	\$ -	\$ -	\$ 204,917
US Treasury	298,529	-	-	-	298,529
US Government agency	-	11,183	-	-	11,183
Foreign bonds	-	144	-	-	144
Domestic bonds	-	-	-	-	-
Common equity:					
Long domestic	32,253	-	74	-	32,327
Long foreign	122,483	902	-	-	123,385
Equity:*					
Absolute return	-	-	-	334,619	334,619
Domestic	-	-	-	504,042	504,042
Foreign	-	-	-	809,825	809,825
Private	-	-	-	629,042	629,042
Real estate*	-	1,466	-	273,468	274,934
Real assets*	-	-	261	133,386	133,647
Other	5,069	-	760	-	5,829
Derivatives	13	1,209	-	-	1,222
Total plan investments	\$ 663,264	\$ 14,904	\$ 1,095	\$ 2,684,382	\$ 3,363,645

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

I. Retirement Benefits (continued)

Table 27B. Postretirement Welfare Benefit Plan Investments

<i>(in thousands of dollars)</i>	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value [NAV]	Total Fair Value
Fiscal Year 2016					
Cash and cash equivalents . . .	\$ 29,733	\$ -	\$ -	\$ -	\$ 29,733
Domestic bonds	-	76,019	-	-	76,019
Foreign bonds	-	498	-	-	498
Common equity:					
Long domestic	15,771	-	-	-	15,771
Long foreign.	10,356	3,524	-	-	13,880
Equity:*					
Absolute return	-	-	-	67,327	67,327
Domestic	-	-	-	75,578	75,578
Foreign.	-	-	-	180,830	180,830
Private	-	-	-	60,008	60,008
Real estate	204	-	-	22,968	23,172
Real assets*	-	-	-	4,574	4,574
Other	695	-	-	-	695
Derivatives	-	-	-	-	-
Total plan investments.	\$ 56,759	\$ 80,041	\$ -	\$ 411,285	\$ 548,085
Fiscal Year 2015					
Cash and cash equivalents . . .	\$ 18,502	\$ -	\$ -	\$ -	\$ 18,502
Domestic bonds	-	71,428	-	-	71,428
Foreign bonds	-	10	-	-	10
Common equity:					
Long domestic	25,177	-	-	-	25,177
Long foreign.	18,098	123	-	-	18,221
Equity:*					
Absolute return	-	-	-	68,771	68,771
Domestic	-	-	-	79,074	79,074
Foreign.	-	-	-	194,610	194,610
Private	-	-	-	48,593	48,593
Real estate	-	200	-	20,362	20,562
Real assets*	-	-	-	3,763	3,763
Other	362	-	-	-	362
Derivatives	-	-	-	-	-
Total plan investments.	\$ 62,139	\$ 71,761	\$ -	\$ 415,173	\$ 549,073

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

I. Retirement Benefits (continued)

Table 28 below is a rollforward of the investments classified by MIT's defined benefit plan within Level 3 of the fair value hierarchy defined in Note B as at June 30, 2016 and 2015.

Table 28. Rollforward of Level 3 Investments							
<i>(in thousands of dollars)</i>	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfers	Fair Value Ending
Defined Benefit Plan							
Fiscal Year 2016							
Common equity:							
Long domestic	\$ 74	\$ -	\$ (21)	\$ -	\$ -	\$ -	\$ 53
Real assets	261	(3,438)	3,177	-	-	-	-
Other	760	-	(171)	-	-	-	589
Total	\$ 1,095	\$ (3,438)	\$ 2,985	\$ -	\$ -	\$ -	\$ 642
Fiscal Year 2015							
Common equity:							
Long domestic	\$ 909	\$ -	\$ (835)	\$ -	\$ -	\$ -	\$ 74
Real assets	2,706	-	(2,445)	-	-	-	261
Other	1,191	-	(431)	-	-	-	760
Total	\$ 4,806	\$ -	\$ (3,711)	\$ -	\$ -	\$ -	\$ 1,095

I. 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 and 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 in Table 29 below as of June 30, 2016 and 2015.

<i>(in thousands of dollars)</i>	2016		2015		Redemption Terms	Redemption Restrictions
	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value		
Defined Benefit Plan						
Equity:						
Domestic	\$ 403	\$ 407,180	\$ 433	\$ 504,042	Redemption terms range from 4 months with 60 days notice to 25 months with 3 months notice and 2 closed-end funds not available for redemption	Lock-up provisions range from none to 26 months; 2 funds are not redeemable
Foreign	54,781	792,305	12,710	809,825	Redemption terms range from daily with 28 days notice to 13 months with 3 months notice and 1 closed-end fund not available for redemption	Lock-up provisions range from none to 44 months; 1 fund is not redeemable
Absolute return . . .	39,851	352,188	65,457	334,619	Redemption terms range from 4 months with 30 days notice to closed-end funds that are not redeemable	Lock-up provisions range from none to not redeemable
Private	318,779	661,125	232,650	629,042	Closed-end funds not available for redemption	Not redeemable
Real estate	150,325	277,671	133,612	273,468	Closed-end funds not available for redemption	Not redeemable
Real assets	38,282	119,031	30,602	133,386	Redemption terms range from 9 months with 1 day notice to closed-end funds which are not redeemable	Lock-up provisions range from none to not redeemable
Total	\$ 602,421	\$ 2,609,500	\$ 475,464	\$ 2,684,382		
Postretirement Welfare Benefit Plan						
Equity:						
Domestic	\$ 45	\$ 75,578	\$ 48	\$ 79,074	Redemption terms range from 4 months with 60 days notice to 25 months with 3 months notice and 1 closed-end fund not available for redemption	Lock-up provisions range from none to 26 months; 1 fund is not redeemable
Foreign	8,269	180,830	2,000	194,610	Redemption terms range from 45 days with 10 days notice to 13 months with 3 months notice with 1 closed-end fund not available for redemption	Lock-up provisions range from none to 44 months; 1 fund is not redeemable
Absolute return . . .	3,852	67,327	7,393	68,771	Redemption terms range from 4 months with 30 days notice to closed-end funds that are not redeemable	Lock-up provisions range from none to not redeemable
Private	46,563	60,008	30,742	48,593	Closed-end funds not available for redemption	Not redeemable
Real estate	19,460	22,968	16,083	20,362	Closed-end funds not available for redemption	Not redeemable
Real assets	5,586	4,574	3,889	3,763	Closed-end funds not available for redemption	Not redeemable
Total	\$ 83,775	\$ 411,285	\$ 60,155	\$ 415,173		

I. 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, 2016 and 2015 are shown in Table 30 below.

	Defined Benefit Plan			Postretirement Welfare Benefit Plan		
	2016 Target Allocation	2016	2015	2016 Target Allocation	2016	2015
Cash and cash equivalents	0–10%	5%	6%	0–10%	6%	3%
Fixed income	3–13%	10%	9%	10–20%	14%	13%
Equities	33.5–83.5%	62%	63%	37–87%	63%	66%
Marketable alternatives	7.5–17.5%	11%	10%	9.5–19.5%	12%	13%
Real assets	1–11%	4%	4%	0–5.5%	1%	1%
Real estate	5–15%	8%	8%	0–8%	4%	4%
Total		100%	100%		100%	100%

Table 31 below summarizes the notional exposure and net ending fair value of derivative financial instruments held by the MIT defined benefit plan at June 30, 2016 and 2015. Refer to Note C for a detailed discussion regarding derivative financial instruments.

<i>(in thousands of dollars)</i>	Notional Exposure		Net Ending Fair Value Amount	Net Gain (Loss)
	Long	Short		
Fiscal Year 2016				
Equity instruments:				
Equity options	\$ 24	\$ -	\$ 4	\$ -
Total equity instruments	24	-	4	-
Fixed income instruments:				
Fixed income futures	5,900	(900)	44	-
Total fixed income instruments	5,900	(900)	44	-
Commodity and index instruments:				
Equity index swaps	-	(28,043)	773	12,736
Total commodity and index instruments	-	(28,043)	773	12,736
2016 Total	\$ 5,924	\$ (28,943)	\$ 821	\$ 12,736
Fiscal Year 2015				
Equity instruments:				
Equity options	\$ -	\$ -	\$ -	\$ -
Total equity instruments	-	-	-	-
Fixed income instruments:				
Fixed income futures	2,500	(1,000)	13	(23)
Total fixed income instruments	2,500	(1,000)	13	(23)
Commodity and index instruments:				
Equity index swaps	-	(50,851)	1,209	(10,835)
Total commodity and index instruments	-	(50,851)	1,209	(10,835)
2015 Total	\$ 2,500	\$ (51,851)	\$ 1,222	\$ (10,858)

I. Retirement Benefits (continued)

Counterparty risk may be partially or completely mitigated through master netting agreements included within an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement between the Plan and each of its counterparties. The ISDA Master Agreement allows the Plan to offset with the counterparty certain derivative instruments' payables and/or receivables with collateral held with each counterparty.

To the extent amounts due from the counterparties are not fully collateralized contractually or otherwise, there is the risk of loss from counterparty non-performance. As of June 30, 2016, the defined benefit plan has elected not to offset recognized assets and liabilities. The following tables, 32 and 33, summarize the effect that offsetting of recognized assets and liabilities could have on the investments held by the defined benefit plan.

Table 32. Offsetting of Financial and Derivative Assets and Liabilities

<i>(in thousands of dollars)</i>	2016			2015		
	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount
Assets						
Counterparty A	\$ 773	\$ (974)	\$ (201)	\$ 1,209	\$ (2,950)	\$ (1,741)
Total assets	<u>\$ 773</u>	<u>\$ (974)</u>	<u>\$ (201)</u>	<u>\$ 1,209</u>	<u>\$ (2,950)</u>	<u>\$ (1,741)</u>
Liabilities						
Counterparty A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and liabilities, net.	<u>\$ 773</u>	<u>\$ (974)</u>	<u>\$ (201)</u>	<u>\$ 1,209</u>	<u>\$ (2,950)</u>	<u>\$ (1,741)</u>

Maximum risk of loss from counterparty credit risk on over-the-counter derivatives is generally the aggregate unrealized appreciation in excess of any collateral pledged by the counterparty. ISDA Master Agreements allow the Plan or the counterparties to an over-the-counter derivative to terminate the contract prior to maturity in the event either party fails to meet

the terms in the ISDA Master Agreements. This would cause an accelerated payment of net liability, if owed to the counterparty.

Table 33 below reconciles the net recognized assets and liabilities, as shown in Table 32, to derivative financial instruments as shown in Table 27A.

Table 33. Reconciliation of Financial and Derivative Assets and Liabilities

<i>(in thousands of dollars)</i>	2016		2015	
Derivatives from Table 27A	\$	821	\$	1,222
Fixed income futures		(44)		(13)
Equity options		(4)		-
Total	<u>\$</u>	<u>773</u>	<u>\$</u>	<u>1,209</u>

I. Retirement Benefits (continued)

Expected Future Benefit Payments

In fiscal 2017, MIT expects to make contributions of \$33.1 million and \$4.4 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, 2016.

Table 34 below reflects total expected benefit payments for the defined benefit and postretirement welfare benefit plans over the next ten years. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2016.

Table 34. Expected Future Benefit Payments

<i>(in thousands of dollars)</i>	Pension Benefits		Other Benefits*	
2017	\$	140,825	\$	25,516
2018		151,164		27,584
2019		158,248		29,341
2020		165,653		30,831
2021		173,511		32,361
2022–2026		980,675		184,757

* *Other Benefits* reflects the total net benefits expected to be paid from the plans (e.g., gross benefit reimbursement offset by retiree contributions).

J. Components of Net Assets and Endowment

Table 35 below presents the total net assets composition as of June 30, 2016. 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.

<i>(in thousands of dollars)</i>	2016				2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Endowment Funds					
General purpose	\$ 870,064	\$ 1,065,097	\$ 236,540	\$ 2,171,701	\$ 2,243,829
Departments and research	611,592	1,029,438	635,170	2,276,200	2,331,345
Library	11,619	25,313	20,283	57,215	51,810
Salaries and wages	535,916	2,557,316	717,217	3,810,449	3,930,799
Graduate general	86,096	148,119	105,080	339,295	344,361
Graduate departments	138,416	349,490	278,728	766,634	744,126
Undergraduate	219,247	1,088,344	369,167	1,676,758	1,724,986
Prizes	8,430	30,567	20,600	59,597	61,885
Miscellaneous	1,117,010	217,395	326,435	1,660,840	1,664,495
Investment income held for distribution	362,826	-	-	362,826	377,107
Endowment funds before pledges	3,961,216	6,511,079	2,709,220	13,181,515	13,474,743
Pledges	-	-	251,521	251,521	213,196
Total endowment funds	3,961,216	6,511,079	2,960,741	13,433,036	13,687,939
Other Invested Funds					
Student loan funds	19,923	-	18,397	38,320	38,314
Building funds	51,657	60,326	-	111,983	103,990
Designated purposes:					
Departments and research	343,927	1,024	-	344,951	355,371
Other purposes	411,278	13,982	-	425,260	460,264
Life income funds	4,913	32,291	105,021	142,225	146,927
Pledges	-	357,544	-	357,544	344,899
Other funds available for current expenses	1,156,331	234,576	-	1,390,907	1,671,830
Funds expended for educational plant	684,855	-	-	684,855	697,039
Total other invested funds	2,672,884	699,743	123,418	3,496,045	3,818,634
Noncontrolling interests	205,421	-	-	205,421	232,415
Total net assets	\$ 6,839,521	\$ 7,210,822	\$ 3,084,159	\$ 17,134,502	\$ 17,738,988

J. Components of Net Assets and Endowment (continued)

MIT's endowment consists of approximately 3,800 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 shown in Table 36 below. 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 36. Endowment Net Asset Composition by Type of Fund

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fiscal Year 2016				
Donor-restricted endowment funds	\$ (395)	\$ 6,511,079	\$ 2,960,741	\$ 9,471,425
Board-designated endowment funds	3,961,611	-	-	3,961,611
Total endowment funds	\$ 3,961,216	\$ 6,511,079	\$ 2,960,741	\$ 13,433,036
Fiscal Year 2015				
Donor-restricted endowment funds	\$ -	\$ 6,889,791	\$ 2,754,618	\$ 9,644,409
Board-designated endowment funds	4,043,530	-	-	4,043,530
Total endowment funds	\$ 4,043,530	\$ 6,889,791	\$ 2,754,618	\$ 13,687,939

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 \$0.4 million as of June 30, 2016. There were no underwater endowment funds reported in unrestricted net assets as of June 30, 2015.

J. Components of Net Assets and Endowment (continued)

Table 37 below reflects changes in unrestricted, temporarily restricted, and permanently restricted endowment net assets for fiscal year 2016 and 2015, respectively.

Table 37. Changes in Endowment Net Assets				
<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fiscal Year 2016				
Endowment net assets, July 1, 2015	\$ 4,043,530	\$ 6,889,791	\$ 2,754,618	\$ 13,687,939
Investment return:				
Investment income	20,731	43,822	11,093	75,646
Net appreciation (realized and unrealized)	<u>4,586</u>	<u>(22,820)</u>	<u>22,442</u>	<u>4,208</u>
Total investment return	25,317	21,002	33,535	79,854
Contributions	-	-	140,012	140,012
Appropriation of endowment assets for expenditure	(178,367)	(402,378)	(7,963)	(588,708)
Other changes:				
Underwater gain adjustment	(395)	395	-	-
Net asset reclassifications and transfers to create board-designated endowment funds	<u>71,131</u>	<u>2,269</u>	<u>40,539</u>	<u>113,939</u>
Endowment net assets, June 30, 2016	<u>\$ 3,961,216</u>	<u>\$ 6,511,079</u>	<u>\$ 2,960,741</u>	<u>\$ 13,433,036</u>
Fiscal Year 2015				
Endowment net assets, July 1, 2014	\$ 3,709,574	\$ 6,169,847	\$ 2,710,357	\$ 12,589,778
Investment return:				
Investment income	29,346	63,752	7,738	100,836
Net appreciation (realized and unrealized)	<u>448,256</u>	<u>1,029,171</u>	<u>(100,887)</u>	<u>1,376,540</u>
Total investment return	477,602	1,092,923	(93,149)	1,477,376
Contributions	-	-	88,376	88,376
Appropriation of endowment assets for expenditure	(165,768)	(375,259)	(4,834)	(545,861)
Other changes:				
Underwater gain adjustment	-	-	-	-
Net asset reclassifications and transfers to create board-designated endowment funds	<u>22,122</u>	<u>2,280</u>	<u>53,868</u>	<u>78,270</u>
Endowment net assets, June 30, 2015	<u>\$ 4,043,530</u>	<u>\$ 6,889,791</u>	<u>\$ 2,754,618</u>	<u>\$ 13,687,939</u>

J. Components of Net Assets and Endowment (continued)

Endowment Investment and Spending Policies

MIT's investment policy is based on the primary goal of maximizing 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 Institute's primary investment pool, Pool A, is principally for endowment and funds functioning as endowment. Pool A operates as a mutual fund with units purchased and redeemed based on the previous month's unit market value. The total market value of Pool A was \$14,448.3 million at June 30, 2016 and \$14,921.5 million at June 30, 2015. Pool A included non-endowed operating and life income funds totaling \$1,479.2

million at June 30, 2016 and \$1,652.2 million at June 30, 2015. Certain endowed assets are also maintained in separately invested funds. These separately invested funds totaled \$214.5 million and \$176.3 million at June 30, 2016 and 2015, respectively.

MIT has adopted spending policies designed to provide a predictable stream of funding to programs supported by its investments while maintaining the purchasing power of assets. For pooled investments, 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 \$69.29 and \$65.33 per Pool A unit as of June 30, 2016 and 2015, respectively. For separately invested endowment funds, only the annual investment income generated is distributed for spending.



Report of the Independent Auditors

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

We have audited the accompanying consolidated financial statements, as listed in the accompanying table of contents, of the Massachusetts Institute of Technology (the "Institute"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015 and the related consolidated statement of activities for the year ended June 30, 2016, and statements of cash flows for the years ended June 30, 2016 and 2015.

Management's Responsibility for the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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, as listed in the accompanying table of contents, present fairly in all material respects, the financial position of the Massachusetts Institute of Technology at June 30, 2016 and 2015 and the changes in their net assets for the year ended June 30, 2016 and their cash flows for the years ended June 30, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2015, and the related consolidated statement of activities, and cash flows for the year then ended (not presented herein), and in our report dated September 11, 2015, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2015 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

September 9, 2016

*PricewaterhouseCoopers LLP, 101 Seaport Boulevard, Suite 500, Boston, MA 02210
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us*

Massachusetts Institute of Technology

Five-Year Trend Analysis (Unaudited) – Financial Highlights

<i>(in thousands of dollars)</i>	2016	2015	2014	2013	2012
Financial Position					
Investments, at fair value	\$ 17,478,438	\$ 17,754,155	\$ 16,459,944	\$ 13,912,100	\$ 12,847,866
Land, buildings, and equipment, at cost less accumulated depreciation	3,092,429	2,822,312	2,624,271	2,516,264	2,497,711
Borrowings, net of unamortized issuance costs	2,892,093	2,904,559	2,903,586	2,417,483	2,448,649
Total assets	22,294,378	22,105,574	20,574,670	17,791,108	16,727,405
Total liabilities	5,159,876	4,366,586	4,259,178	3,658,234	3,928,061
Unrestricted net assets	6,839,521	7,303,673	6,754,956	5,775,618	4,888,952
Temporarily restricted net assets	7,210,822	7,553,447	6,718,225	5,644,291	5,297,554
Permanently restricted net assets	3,084,159	2,881,868	2,842,311	2,712,965	2,612,838
Total net assets	17,134,502	17,738,988	16,315,492	14,132,874	12,799,344
Total endowment funds before pledges	13,181,515	13,474,743	12,425,131	10,857,976	10,149,564
Principal Sources of Revenues					
Tuition and similar revenues	\$ 635,424	\$ 612,101	\$ 595,801	\$ 568,957	\$ 527,702
Research revenues:					
Campus direct	513,991	482,563	475,382	473,220	471,155
Campus indirect	187,426	183,020	188,136	188,742	183,200
Lincoln Laboratory direct	908,506	844,588	791,292	860,190	819,645
Lincoln Laboratory indirect	47,488	34,739	37,367	30,783	25,263
SMART direct	32,416	31,620	31,519	47,332	28,311
SMART indirect	402	117	98	193	276
Gift, bequests, and pledges	469,162	493,690	452,655	325,018	433,424
Net gain on investments and other assets	242,553	1,651,600	2,152,933	1,164,164	738,308
Investment income and distributions	736,193	675,744	634,454	604,753	554,627
Principal Purposes of Expenditures					
Total operating expenditures	\$ 3,349,899	\$ 3,111,119	\$ 2,918,517	\$ 2,908,577	\$ 2,744,586
General and administrative	858,441	763,680	713,103	681,505	604,320
Instruction and unsponsored research	854,595	811,495	777,382	692,032	673,851
Direct cost of sponsored research current dollars	1,479,158	1,386,334	1,283,189	1,397,857	1,335,638
Direct cost of sponsored research constant dollars (2012 = 100)	1,410,410	1,332,962	1,242,770	1,374,972	1,335,638

Massachusetts Institute of Technology

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

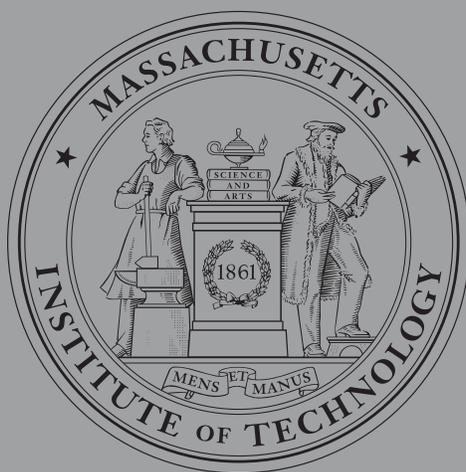
<i>(in thousands of dollars)</i>	2016	2015	2014	2013	2012
Research Revenues					
Campus					
Federal Government sponsored:					
Health and Human Services	\$ 113,522	\$ 116,469	\$ 115,075	\$ 119,908	\$ 133,687
Department of Defense	131,625	125,854	122,761	127,967	117,458
Department of Energy	84,419	81,528	88,451	88,988	90,940
National Science Foundation	82,161	78,953	78,979	79,255	81,487
National Aeronautics and Space Administration	49,664	41,740	32,062	29,835	30,204
Other Federal	15,738	15,435	17,610	19,994	18,807
Total Federal	<u>477,129</u>	<u>459,979</u>	<u>454,938</u>	<u>465,947</u>	<u>472,583</u>
Non-Federally sponsored:					
State/local/foreign governments	28,495	27,951	28,967	33,429	38,273
Nonprofits	84,015	78,667	72,118	58,227	48,373
Industry	128,309	119,238	112,379	106,447	109,745
Total non-Federal	<u>240,819</u>	<u>225,856</u>	<u>213,464</u>	<u>198,103</u>	<u>196,391</u>
Total Federal and non-Federal	<u>717,948</u>	<u>685,835</u>	<u>668,402</u>	<u>664,050</u>	<u>668,974</u>
F&A and other adjustments	(16,531)	(20,252)	(4,884)	(2,088)	(14,619)
Total campus	<u>701,417</u>	<u>665,583</u>	<u>663,518</u>	<u>661,962</u>	<u>654,355</u>
Lincoln Laboratory					
Federal Government sponsored	920,272	886,637	809,011	882,462	844,202
Non-Federally sponsored	6,355	3,609	2,333	1,622	2,023
F&A and other adjustments	29,367	(10,919)	17,315	6,889	(1,317)
Total Lincoln Laboratory	<u>955,994</u>	<u>879,327</u>	<u>828,659</u>	<u>890,973</u>	<u>844,908</u>
SMART ^(A)					
Non-Federally sponsored	32,818	31,737	31,617	47,525	28,587
Total SMART	<u>32,818</u>	<u>31,737</u>	<u>31,617</u>	<u>47,525</u>	<u>28,587</u>
Total research revenues	<u>\$ 1,690,229</u>	<u>\$ 1,576,647</u>	<u>\$ 1,523,794</u>	<u>\$ 1,600,460</u>	<u>\$ 1,527,850</u>

^(A) The amounts represent research that has predominantly taken place in Singapore.

Massachusetts Institute of Technology

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

	2016	2015	2014	2013	2012
Students					
Undergraduate:					
Full-time	4,492	4,476	4,499	4,480	4,354
Part-time	35	36	29	23	30
Undergraduate applications:					
Applicants	18,306	18,356	18,989	18,109	17,909
Accepted	1,519	1,447	1,548	1,620	1,742
Acceptance rate	8%	8%	8%	9%	10%
Enrolled	1,106	1,043	1,115	1,135	1,126
Yield.	73%	72%	72%	70%	65%
Freshmen ranking in the top 10% of their class	98%	97%	99%	98%	97%
Average SAT Scores (math and verbal)	1,493	1,500	1,492	1,481	1,472
Graduate:					
Full-time	6,689	6,630	6,639	6,537	6,342
Part-time	115	177	134	149	168
Graduate applications:					
Applicants	23,750	24,468	24,029	22,588	22,219
Accepted	3,307	3,718	3,320	3,504	3,306
Acceptance rate	14%	15%	14%	16%	15%
Enrolled	2,165	2,441	2,163	2,229	2,118
Yield.	65%	66%	65%	64%	64%
Tuition (in dollars)					
Tuition and fees.	\$ 46,704	\$ 45,016	\$ 43,498	\$ 42,050	\$ 40,732
Average room and board	13,730	13,224	12,744	12,188	11,775
Student Support (in thousands of dollars)					
Undergraduate tuition support	\$ 112,902	\$ 107,148	\$ 103,076	\$ 101,831	\$ 102,081
Graduate tuition support.	258,444	247,361	240,022	226,158	215,702
Fellowship stipends	38,731	38,759	38,792	36,173	33,263
Student loans.	7,263	8,348	9,095	9,669	9,556
Student employment.	110,392	105,261	99,890	96,446	90,135
Total student support	\$ 527,732	\$ 506,877	\$ 490,875	\$ 470,277	\$ 450,737
Faculty and Staff (including unpaid appointments)					
Faculty	1,036	1,021	1,030	1,022	1,018
Staff and fellows	14,732	14,307	13,787	13,416	13,109



Report of the Treasurer

for the year ended

June 30, 2016



Massachusetts
Institute of
Technology