Report of the Treasurer

for the year ended
June 30, 2023

Massachusetts
Institute of
Technology

Report of the Treasurer

for the year ended June 30, 2023

Massachusetts
Institute of
Technology

The MIT Corporation
2022-2023
As of June 30, 2023

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** Member of the Executive Committee*

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Report of the Treasurer

To the Members of the Corporation

The Institute advanced its mission in fiscal 2023 while moving beyond the COVID-19 pandemic. We carefully balanced supporting today's MIT and conserving resources for future needs, achieving a net result of $317.1 million in our first full post-pandemic fiscal year. Retrenchment in the valuations of venture capital portfolio companies affected the performance of our pooled investments, resulting in a return of -2.9 percent as measured using valuations received within one month of fiscal year-end. Shaped by these dynamics, our net assets of $32,183.0 million at fiscal year close were 3.2 percent less than last year's.

The Institute faced a complex and difficult economic environment in fiscal 2023. In addition to experiencing investment losses, it encountered significant inflationary pressure on a range of costs. Even amidst these stresses, robust endowment gains from prior years and ongoing philanthropic success and support from government and other sponsors have allowed us to continue elevating MIT's impact. While a reduction from the prior year, fiscal 2023's total philanthropic contributions, as reflected in our consolidated financial statements, remained strong at $553.3 million (as compared to $686.7 million in fiscal 2022, which was a record-setting year for fundraising). Fiscal discipline and investment acumen, as well as support from alumni, friends, and partners, remain essential to preserving the Institute's financial strength and resilience.

We have been emboldened in our ambitions by the appointment of Sally A. Kornbluth as MIT's 18th president on January 1, 2023. In her inaugural address in May, President Kornbluth shared her vision for the Institute, highlighting the need to create new links between engineering and the life sciences that will enable advances in biomedicine, to harness the power of artificial intelligence for good, and to bring new urgency to addressing one of the foremost challenges of our time—climate change. We look forward to seeing these efforts take full shape in the coming year and achieve groundbreaking impact for the benefit of our world.

Our students are critical to our ongoing and future impact, bringing knowledge to the world and advancing research and innovation at MIT, and we continue to prioritize their experience. Undergraduates with family incomes of less than $140,000 per year (and typical assets) can now attend MIT tuition-free, and our graduate students have among the most robust packages of pay and benefits in the country. For both, we continue to enhance the residential experience. Graduate Junction, now under construction on the West Campus, will provide 676 new beds when it opens in fall 2024, satisfying MIT's 2017 commitment to add 950 beds to the Institute's graduate student housing stock. The renewal of MIT's East Campus "Parallels" undergraduate residence, originally constructed in the late 1920s and early 1930s, began this summer, and a partial renovation of the Stratton Student Center to modernize a building that is core to the MIT student experience is nearing completion.

In June 2023, the Supreme Court issued its long-awaited opinion bearing on the consideration of race in university admissions. In the face of new constraints and challenges to sustaining a diverse mix of graduate and undergraduate students, President Kornbluth articulated MIT's enduring commitment to creating a welcoming and inclusive environment and to supporting a diverse student body dedicated to academic excellence.

Construction of the Stephen A. Schwarzman College of Computing building is nearing completion and will provide a new home for the College beginning later this fall. The 2023 academic year marked the fourth faculty recruiting season for the College, with 26 new faculty positions filled to date and 40 total hires. Of these, 45 percent work in the area of artificial intelligence (AI). MIT has been a pioneer in AI research since the late 1950s and has been reinforcing its leadership in core AI as well as developing the important new area of AI for scientific discovery including in neuroscience, physics, and chemical, nuclear, and mechanical engineering, among other fields. Core to the College mission, Social and Ethical Responsibilities of Computing (SERC) is a cross-cutting initiative that encourages responsible technology development and deployment with an emphasis on

SUMMARY OF KEY FINANCIAL HIGHLIGHTS (10-YEAR TREND)

(in millions of dollars)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,135	3,302	3,439	3,566	3,641	3,932	3,931	3,945	4,265	4,655
Expenses*	2,897	3,084	3,319	3,430	3,536	3,711	3,744	3,729	3,993	4,338
Net Results	237	218	120	136	105	221	187	216	272	317
Net Assets	16,028	17,507	16,929	19,125	21,517	22,769	24,217	36,446	33,231	32,183
Endowment (excludes pledges)	12,425	13,475	13,182	14,832	16,400	17,444	18,382	27,394	24,601	23,453
Net Borrowings	2,904	2,905	2,892	3,288	3,259	3,168	4,194	3,929	4,657	4,484

* Expenses include all components of net periodic benefit costs.

social responsibility. SERC is working to train students, promote research to assess the broad challenges and opportunities associated with computing, and effectively inform practice and policy in industry and government. The College is building on this strength with the recent launch of the first-of-its-kind AI and Decision Making major in Course 6.

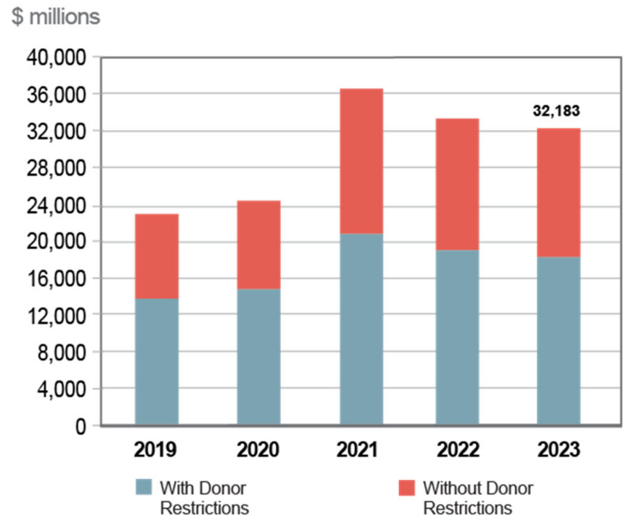
The Institute is committed to reaching net-zero campus carbon emissions by 2026 and eliminating direct carbon emissions on our campus by 2050. We continue to expand the scope of our carbon reduction efforts on campus, including performing building energy retrofits, extending electric vehicle infrastructure, and increasing rooftop solar installations. With an eye toward its 2050 goal, MIT is beginning to experiment with large-scale electrification of its buildings and district energy systems to reduce building-use-associated emissions. Targeted for completion in late 2025, the renovated Metropolitan Storage Warehouse (Met Warehouse) will be the first building on campus to convert to electric heat pumps as its primary heating source. The project will transform the iconic building located at 134 Massachusetts Avenue into a modern hub for interdisciplinary design research and education, providing a new home for the MIT School of Architecture and Planning (SA+P).

The following sections provide additional details regarding MIT's fiscal 2023 financial statements: Consolidated Statements of Financial Position, Consolidated Statement of Activities, and Consolidated Statements of Cash Flows. Net results, as presented in MIT's Consolidated Statement of Activities, is the measure by which the Institute manages its annual budget and is used in financial reports presented to MIT's leadership, including the Executive Committee and the Corporation. It is a comprehensive measure of MIT's annual financial performance, including operating activity and all components of our annual retirement benefit costs that serve as a basis for cost recovery.

Consolidated Statements of Financial Position

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

Net Assets



Total net assets decreased to $32,183.0 million, or 3.2 percent, from fiscal 2022. Net assets are presented in two distinct categories to recognize the significant ways universities differ from profit-making organizations. The two categories reflect the nature of the restrictions placed on gifts by donors.

In fiscal 2023, net assets with donor restrictions decreased $751.7 million, or 4.0 percent, to $18,183.3 million. The decrease was primarily due to a net loss on total donor-endowed pooled investments and the distribution of pooled gains to support current-year operations, partially offset by new donor-endowed gifts and pledges. Net assets without donor restrictions decreased $295.9 million, or 2.1 percent, to $13,999.7 million. The decrease was primarily due to a net loss on total quasi-endowed and non-endowed pooled investments and the distribution of pooled gains to support current-year operations, offset by positive net results and an increase in the net asset position of our defined benefit pension plan.

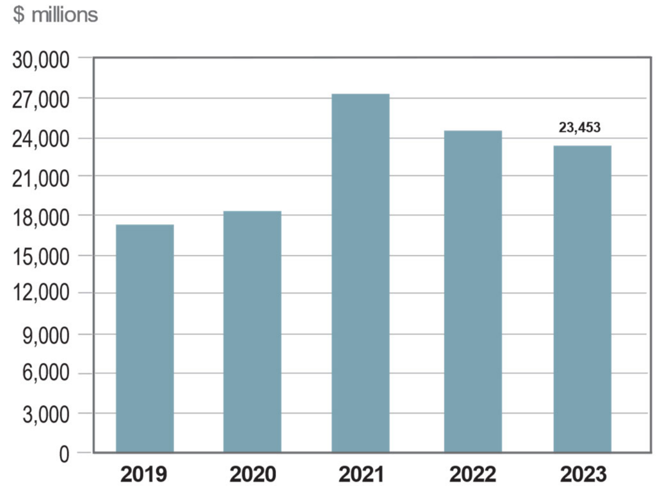
Investments

Investments at fair value were $30,692.9 million as of fiscal year-end 2023, a decrease of $1,855.7 million, or 5.7 percent. The consolidated financial statements include both realized and unrealized gains and losses on investments, as well as dividends and interest income, all net of investment expenses. These amounts contributed $282.7 million to the total decrease in investments in fiscal 2023 and $2,056.2 million in fiscal 2022. The decrease in the value of investments in fiscal 2023 was principally driven by the distribution of pooled gains to support current-year operations as well as a net loss on pooled investments.

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. MIT primarily invests through external fund managers, allowing the Institute to access the best investment talent globally. By identifying a wide variety of top-tier investment managers with specific competencies, MIT can construct a broadly diversified portfolio while accessing deep sector expertise. Decision authority for the selection of managers, direct investments, and asset allocation resides with the MIT Investment Management Company (MITIMCo). The Board of Directors of MITIMCo holds four regularly scheduled meetings during the fiscal year in which investment policy, performance, and asset allocation are reviewed.

MIT's primary investment pool is known as Pool A. Pooled investment income and a portion of gains are distributed for spending to support operations in a manner that preserves the long-term purchasing power of the endowment and other pooled investments. Funds invested in Pool A receive distributions based on relative ownership, which is valued monthly. MIT also has separate non-pooled investments for which investment income supports operations. In fiscal 2023, Pool A produced a return of -2.9 percent as measured using valuations received within one month of fiscal year-end.

Endowment (without pledges)



Endowment assets are the largest component of both total and pooled investments. The market value of investments in endowment funds, excluding pledges for endowed purposes, totaled $23,453.4 million as of fiscal year-end 2023, a decrease of 4.7 percent compared to a total of $24,600.8 million last year. The decrease was primarily driven by a net loss on pooled endowment investments and the distribution of pooled endowment gains to support current-year operations, partially offset by new donor-endowed gifts.

Land, Buildings, and Equipment

Land, buildings, and equipment had a net book value of $5,016.7 million as of fiscal year-end 2023, an increase of $330.2 million, or 7.0 percent. In fiscal 2023, the Institute advanced approximately 170 capital projects with a total fiscal 2023 spend of roughly $450 million. As we proceed with our 2030 capital plan, MIT continues to realize significant improvements in support of academic, research, student life programs, campus infrastructure, and the surrounding innovation ecosystem.

MIT remains committed to improving housing for both undergraduate and graduate students and enhancing student life programming. Construction to renovate portions of the Stratton Student Center (Building W20) began earlier this year on an expedited schedule and is nearing completion. The project modernizes a building that is core to the MIT student experience. Programmatic and aesthetic improvements will provide a contemporary and welcoming environment, and a new location for Institute-wide wellbeing activities on the third level advances MIT's commitment to student health and inclusion.

The West Campus graduate residence, now known as Graduate Junction, is well underway on Vassar Street, with occupancy planned for 2024. The construction phase for the renewal of the Institute's East Campus "Parallels" undergraduate residence began this summer, and occupancy is planned for fall 2025. East Campus is one of eleven undergraduate residence halls at MIT, providing housing capacity for 373 undergraduate students. The buildings were constructed in 1928 (East Parallel Building 64) and 1932 (West Parallel Building 62), and the last major renovation of the buildings was in 1968.

Construction of the MIT Stephen A. Schwarzman College of Computing Building is nearing completion and occupancy began in late September 2023. The College provides a shared academic structure to facilitate the connection of computing scholarship across all disciplines at MIT and serves as an interdisciplinary core for work in computing across the Institute. Also targeted for completion later this fall, an addition to the Cecil and Ida Green Building (Building 54) for the Department of Earth, Atmospheric, and Planetary Sciences (EAPS) will enable the creation of a new Earth and Environment Pavilion, which will be a center for environmental and climate research on campus. The new state-of-the-art Music Building is under construction and targeting a summer 2024 opening. The building will house performance, rehearsal, and recording spaces, and a new 300-seat performance arena.

Renovation of the Metropolitan Storage Warehouse (Met Warehouse) is in progress and targeted for completion in late 2025. The renovated Met Warehouse will provide a new home for the MIT School of Architecture and Planning (SA+P), a location for a large campus makerspace, and a venue for the MIT Morningside Academy for Design.

MIT continues to prioritize addressing deferred maintenance as an integral part of the overall capital program. Our facility condition index (FCI), the ratio of deferred maintenance to replacement value for MIT buildings in Cambridge, decreased from 0.26 in fiscal 2014 to 0.15 at the end of fiscal 2023. MIT had previously established a goal of achieving and maintaining an FCI of 0.15-0.18 on a campus portfolio level. Maintaining this FCI range through proactive investments in our facilities will keep buildings in good condition while maintaining operational continuity to support MIT's mission. At the end of fiscal 2023, the total campus maintenance backlog was equal to $108 per gross square foot, down from a peak of $150 per gross square foot in fiscal 2014.

Postretirement Benefit Assets and Liabilities

The defined benefit pension plan provides a basic retirement benefit to eligible MIT employees upon their retirement as monthly income for the rest of their lives. This plan had assets of $5,204.7 million as of fiscal year-end 2023, a decrease of $252.9 million from fiscal year-end 2022. The plan's projected liabilities were $4,570.0 million as of fiscal year-end 2023, down $504.7 million from a year earlier. This resulted in a $251.9 million increase in net pension assets, which totaled $634.7 million as of fiscal year-end 2023.

MIT also maintains a retiree welfare benefit plan that covers retiree expenses associated with medical and life insurance benefits. This plan had assets of $914.7 million as of fiscal year-end 2023, a decrease of $37.7 million from fiscal year-end 2022. The plan's projected liabilities were $661.2 million as of fiscal year-end 2023, up $21.2 million from a year earlier. This resulted in a $58.8 million decrease in net asset position, which totaled $253.5 million as of fiscal year-end 2023.

The changes in asset values of both plans in 2023 were primarily a function of payments made to beneficiaries and negative investment returns. The reduction in liability for the defined benefit pension plan was primarily driven by an increase in the discount rate used to discount expected future cash payments to retirees. The increase in liability for the retiree welfare plan was impacted by lower projected Medicare Employer Group Waiver Plan (EGWP) reimbursement due to a federal legislative change, partially offset by an increase in the discount rate used to discount future medical costs. 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 benefit obligations. As of June 30, 2023, the defined benefit pension plan's discount rate increased 71 basis points relative to June 30, 2022, while the retiree welfare plan's discount rate increased 77 basis points. The discount rates in both years reflected the prevailing interest rate environments at the dates of measurement (June 30, 2023, and June 30, 2022).

On a generally accepted accounting principles (GAAP) basis at fiscal year-end 2023, the defined benefit pension plan had a funding level of 113.9 percent, up from 107.5 percent one year earlier. The retiree welfare benefit plan had a funding level of 138.3 percent at fiscal year-end 2023, a decrease from 148.8 percent one year earlier. There were no designated contributions to either plan during fiscal 2023. MITIMCo manages the investment of assets in both plans.

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 $6,406.4 million as of fiscal year-end.

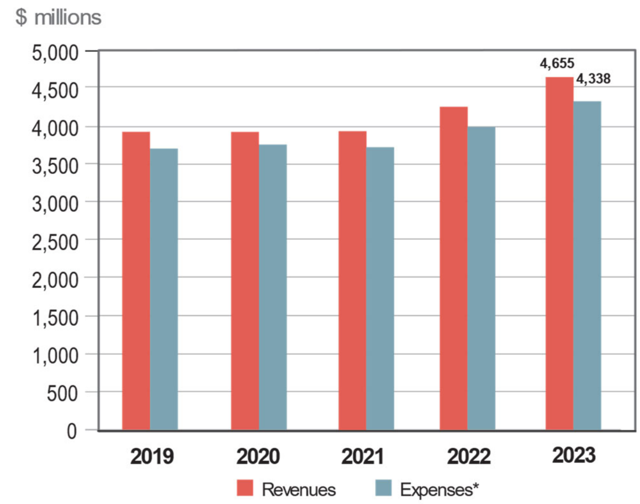
Borrowings

In fiscal year 2023, borrowings decreased $172.6 million, or 3.7 percent, to $4,484.5 million. The decrease was primarily due to the $113.0 million repayment of the drawn portion of an operating line of credit and a principal payment on Series K bonds of $55.5 million.

MIT's financial strength is reviewed periodically by both Moody's Investors Service and S&P Global Ratings. As of the close of fiscal 2023, the Institute maintained its "Aaa" and "AAA" ratings, respectively.

Consolidated Statement of Activities

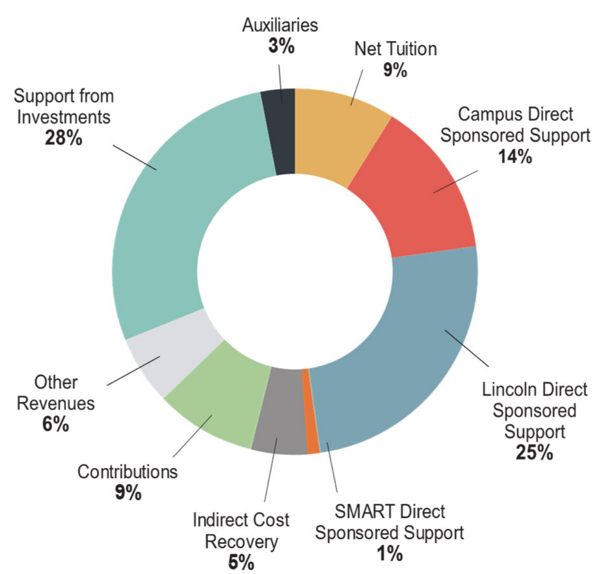
Revenues and Expenses



** Expenses include all components of net periodic benefit costs.*

MIT ended fiscal 2023 with net results of $317.1 million. This is $45.3 million, or 16.7 percent, more than fiscal 2022. Operating revenues increased $390.3 million, or 9.1 percent, to $4,655.4 million, while operating expenses together with all other components of our net periodic retirement benefit costs increased $344.9 million, or 8.6 percent, to $4,338.3 million. Year-over-year comparisons of revenues and expenses are presented in the graph above.

Revenues



MIT's operating revenues include tuition, sponsored support, contributions (expendable gifts and pledge payments), other revenue, support from investments, and auxiliary revenue.

Tuition revenue for graduate and undergraduate programs, combined with tuition revenue for nondegree programs, decreased $6.2 million, or 1.5 percent, to $409.0 million.

Undergraduate net tuition increased $1.7 million, or 1.5 percent, and graduate net tuition decreased $17.8 million, or 8.0 percent. The combined decrease in net tuition was driven by enhancements to the undergraduate financial aid offering (including making MIT tuition-free for undergraduates with family incomes under $140,000 and typical assets) and an increase in the portion of graduate student tuition funded centrally as opposed to through sponsored grants or other external sources. Non-degree program revenue increased $9.9 million, or 12.1 percent, driven by increased course offerings and new Executive Education programs.

Sponsored support increased $75.2 million, or 3.8 percent, to $2,063.0 million in fiscal 2023. Direct sponsored revenues increased $144.8 million, and indirect revenues decreased $69.6 million. Campus direct sponsored revenue increased $48.4 million, or 8.0 percent, as research expenses relating to compensation, travel, and subrecipient agreements, as well as capitalized equipment costs, increased. Lincoln Laboratory direct sponsored revenue increased $94.1 million, or 8.8 percent, due to increases in compensation, repair costs, and other supplies and services. Direct revenue associated with the Singapore-MIT Alliance for Research and Technology (SMART) increased $2.2 million, or 10.3 percent, due to a rebound in travel and other supplies and services expenses.

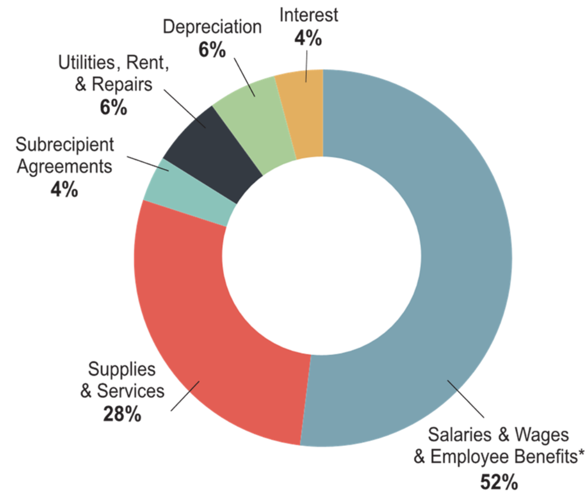
Indirect cost recovery decreased by $69.6 million, or 24.5 percent, due to the recognition of a $75.0 million reserve to reflect that MIT may not, over time, fully recover a receivable generated by underbilling sponsors for prior- and current-year facilities and administrative costs. Indirect cost recovery rates negotiated prior to the pandemic did not anticipate the pandemic's impact in suppressing direct research activity, reducing indirect cost recovery below indirect costs supporting the research enterprise over this time.

Federal sponsored activity comprised 62.2 percent of total campus sponsored volume in fiscal 2023, while non-federal activity accounted for 37.8 percent.

Support from investments increased $338.6 million, or 33.1 percent, as the distribution rate from pooled investments was substantially increased to support new investments in MIT's research enterprise, infrastructure, and community following strong investment returns in fiscal 2021. The effective spending rate on pooled investment funds was 4.4 percent to start fiscal 2023, or 4.9 percent on a three-year-average basis.

Operating contributions, which include gifts and bequests for current use and expendable pledge payments, decreased $57.7 million, or 12.7 percent.

Expenses



** Employee Benefits expenses include all components of net periodic benefit costs.*

MIT's operating expenses, combined with the non-service-cost components of net periodic benefit costs, increased $344.9 million, or 8.6 percent. These expenses include salaries and wages; employee benefits; supplies and services; subrecipient agreements; utilities, rent, and repairs; depreciation; and interest.

Overall Institute salary expenses increased $139.0 million, or 8.2 percent, to $1,840.0 million. Campus salaries increased 7.9 percent, as average annualized salaries and wages grew by 4.1 percent, the Institute provided an additional one-time pay supplement, and the number of full-time-equivalent employees increased 2.9 percent. Employee benefit expenses, together with all components of net periodic benefit costs for retirement plans included in our net results calculation, increased $23.1 million, or 5.6 percent, to $434.1 million driven by increases in net medical and dental costs, payroll taxes, and other benefit costs related to wages. Offsetting these increases, the total net periodic benefit costs for the defined benefit pension plan and retiree welfare benefit plan fell due to increased discount rates in fiscal year 2023.

During fiscal 2023, expenses for supplies and services increased $101.4 million, or 9.0 percent, to $1,226.7 million, driven by increased spending on categories of expenses that fell sharply during COVID (such as travel), materials and other purchases at Lincoln Laboratory, and graduate student fellowship stipends. Subrecipient agreement costs increased $2.6 million, or 1.6 percent.

Utilities, rent, and repairs expenses increased $44.1 million, or 20.6 percent, driven by greater spending on demolitions and moving expenses associated with 2030 facilities capital plan projects and increased repair expenses at Lincoln Laboratory. Depreciation expenses increased $20.8 million, or 9.3 percent, with the completion of several facilities capital projects, such as the new cogeneration plant in fiscal 2022 and the MIT Museum and Burton Conner undergraduate residence in fiscal 2023. Interest expenses increased $14.0 million, or 8.9 percent, due to interest related to the taxable Series H bonds issued in fiscal 2022 to support future capital projects and higher variable rate interest on the drawn portion of MIT's line of credit with a major financial institution, which was repaid in the third quarter of fiscal 2023.

Other Revenues, Gains, and Losses Summary

Other revenues, gains, and losses drove a $1,364.7 million decrease in net assets in fiscal 2023. Other revenues, gains, and losses in fiscal 2023 include a net loss on total investments, investment spending distribution to support operations, and other changes, offset by changes in retirement plan obligations and contributions. In fiscal 2023, net loss on investments and spending distribution to support operations decreased net assets by $1,643.6 million. Changes in retirement plan obligations increased net assets by $173.5 million. Contributions revenue in other revenues, gains, and losses, which includes net current year pledge revenue and endowed gifts and bequests, increased net assets by $155.2 million.

Contributions

Contributions to MIT provide support for scholarships, fellowships, professorships, research, educational programming, student life activities, and the construction and renovation of buildings. Contributions (including both current use and endowed gifts and pledges) for fiscal 2023 totaled $553.3 million, a decrease of 19.4 percent from the record setting fiscal 2022 total of $686.7 million. Of new gifts and pledges in fiscal 2023, contributions from individuals represented 52.3 percent, contributions from foundations represented 28.8 percent, and contributions from corporations and other sources represented 18.9 percent. New gifts and pledges for research and education were the largest categories of contributions for fiscal 2023.

Consolidated Statements of Cash Flows

The Consolidated Statements of Cash Flows divide cash inflows and outflows into three categories: operating, investing, and financing. Although this division is a requirement of GAAP, when reviewing the cash flow statement of a nonprofit organization such as MIT, it is important to also consider that investing activities as presented in the cash flows fund a large portion of operating activity through distributions from pooled investments. In fiscal 2023, support from investments comprised 39.3 percent of overall campus operating revenue.

Net operating activities—which result from a total increase in net assets adjusted for non-cash items in the Consolidated Statement of Activities (depreciation, net loss on investments, changes in the retirement plans' net assets, etc.), changes in certain non-cash assets and liabilities, and other reclassifications—consumed $775.5 million of cash and restricted cash in fiscal 2023. Net investing activities provided $958.2 million in cash and were driven by realized gains on investments. Financing activities consumed $3.7 million in cash, driven by repayments of borrowings offset by contributions to the endowment.

MIT's full consolidated financial statements and notes are on the pages that follow, including the Consolidated Statements of Financial Position, the Consolidated Statement of Activities, and the Consolidated Statements of Cash Flows.

Conclusion

We begin fiscal 2024 energized by President Kornbluth's vision and ever-excited about MIT's present and future. I am grateful to our entire community for their unwavering dedication to the Institute. We remain committed to thoughtfully stewarding its resources to enable our faculty, researchers, students, and staff to bring their extraordinary talents to bear on the major opportunities and challenges of our times.

Respectfully submitted,

Glen Shor
Executive Vice President and Treasurer
October 6, 2023

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Report of Independent Auditors

To the Members of the Corporation of the Massachusetts Institute of Technology

Opinion

We have audited the accompanying consolidated financial statements of the Massachusetts Institute of Technology and its subsidiaries (the "Institute"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities for the year ended June 30, 2023, and of cash flows for the years ended June 30, 2023 and 2022, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2023 and 2022, and the changes in its net assets for the year ended June 30, 2023 and its cash flows for the years ended June 30, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Institute and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated October 7, 2022, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not

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absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the contents of the Report of the Treasurer, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
October 6, 2023

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as of June 30, 2023, and 2022

(in thousands of dollars)		2023		2022
Assets				
Cash	$	527,690	$	374,672
Accounts receivable, net		334,703		394,067
Pledges receivable, net, at fair value		611,187		585,003
Contracts in progress, principally US government		104,722		104,740
Deferred charges and other assets		249,249		257,775
Investments, at fair value		30,692,919		32,548,631
Operating leases - right-of-use assets		212,615		236,823
Net asset position - defined benefit pension plan		634,725		382,863
Net asset position - retiree welfare benefit plan		253,522		312,366
Land, buildings, and equipment (at cost of $7,478,587 for June 2023; $7,001,073 for June 2022), net of accumulated depreciation		5,016,660		4,686,460
Total assets	**$**	**38,637,992**	**$**	**39,883,400**
Liabilities and Net Assets				
Liabilities:				
Accounts payable, accruals, and other liabilities	$	641,934	$	671,444
Deferred revenue and other credits		323,871		269,693
Advance payments		516,203		522,358
Operating lease liabilities		222,911		246,083
Liabilities due under life income fund agreements, at fair value		265,640		286,241
Borrowings, net of unamortized issuance costs		4,484,462		4,657,050
Total liabilities	**$**	**6,455,021**	**$**	**6,652,869**
Net Assets:				
Without donor restrictions	$	13,999,705	$	14,295,593
With donor restrictions		18,183,266		18,934,938
Total net assets	**$**	**32,182,971**	**$**	**33,230,531**
Total liabilities and net assets	**$**	**38,637,992**	**$**	**39,883,400**

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, 2023
(with summarized financial information for the year ended June 30, 2022)

(in thousands of dollars)	2023 Without Donor Restrictions	2023 With Donor Restrictions	Total 2023	Total 2022
Operating Revenues				
Tuition and similar revenues, exclusive of financial aid of $452,579 in 2023 and $417,572 in 2022	$ 409,031	$ -	$ 409,031	$ 415,252
Sponsored support:				
Campus direct	657,193	-	657,193	608,753
Lincoln direct	1,166,956	-	1,166,956	1,072,814
SMART direct	23,857	-	23,857	21,639
Indirect cost recovery	215,004	-	215,004	284,643
Total sponsored support	2,063,010	-	2,063,010	1,987,849
Contributions	381,862	16,201	398,063	455,729
Other revenue	267,134	-	267,134	241,985
Support from investments:				
Endowment	1,093,281	-	1,093,281	834,545
Other investments	267,552	-	267,552	187,657
Total support from investments	1,360,833	-	1,360,833	1,022,202
Auxiliary enterprises	157,333	-	157,333	142,133
Total revenues	$ 4,639,203	$ 16,201	$ 4,655,404	$ 4,265,150
Operating Expenses				
Salaries and wages	$ 1,839,997	$ -	$ 1,839,997	$ 1,700,986
Employee benefits	606,882	-	606,882	608,873
Supplies and services	1,226,705	-	1,226,705	1,125,335
Subrecipient agreements	163,808	-	163,808	161,253
Utilities, rent, and repairs	258,778	-	258,778	214,645
Total expenses before depreciation and interest	4,096,170	-	4,096,170	3,811,092
Results of operations before depreciation and interest	543,033	16,201	559,234	454,058
Depreciation	244,168	-	244,168	223,364
Interest expense	170,760	-	170,760	156,807
Results of operations	128,105	16,201	144,306	73,887
Net periodic benefit income other than service cost	172,824	-	172,824	197,935
Net results	$ 300,929	$ 16,201	$ 317,130	$ 271,822
Other Revenues, Gains, and Losses				
Contributions	$ -	$ 155,217	$ 155,217	$ 230,951
Net return on investments	(96,444)	(186,280)	(282,724)	(2,056,207)
Distribution of investment income and gains	(593,094)	(767,739)	(1,360,833)	(1,022,202)
Other changes	(14,559)	(35,340)	(49,899)	65,932
Postretirement plan changes other than net periodic benefit cost	173,549	-	173,549	(706,134)
Net asset reclassifications and transfers	(66,269)	66,269	-	-
Total other revenues, gains, and losses	(596,817)	(767,873)	(1,364,690)	(3,487,660)
Decrease in net assets	(295,888)	(751,672)	(1,047,560)	(3,215,838)
Net assets at the beginning of the year	14,295,593	18,934,938	33,230,531	36,446,369
Net assets at the end of the year	**$ 13,999,705**	**$ 18,183,266**	**$ 32,182,971**	**$ 33,230,531**

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, 2023, and 2022

(in thousands of dollars)	2023	2022
CASH FLOW FROM OPERATING ACTIVITIES:		
Decrease in net assets	$ (1,047,560)	$ (3,215,838)
Adjustments to reconcile change in net assets		
to net cash used in operating activities:		
Net loss on investments	366,010	2,138,280
Change in retirement plan asset, net of accrued benefit liability	(193,018)	694,335
Change in allowances for uncollectible receivables	118,143	-
Depreciation	244,168	223,364
Net loss on life income funds and donor advised funds	40,288	39,680
Non-cash operating lease costs	24,208	36,689
Amortization of bond premiums and discounts and other adjustments	(3,224)	(4,993)
Change in operating assets and liabilities:		
Pledges receivable	(70,127)	(13,735)
Accounts receivable	(17,191)	(37,730)
Contracts in progress	18	(22,974)
Deferred charges and other assets	7,398	(20,582)
Accounts payable, accruals, and other liabilities, excluding building and equipment accruals	(35,177)	(25,239)
Liabilities due under life income fund agreements	6,179	(8,803)
Deferred revenue and other credits	7,318	(50,005)
Advance payments	(6,155)	8,632
Operating lease liability	(23,172)	(35,957)
Reclassification of donated securities	(7,471)	(9,659)
Reclassification of investment income for restricted purposes	(6,706)	(5,169)
Reclassification of contributions restricted for long-term investment	(179,408)	(264,029)
Net cash and restricted cash used in operating activities	(775,479)	(573,733)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of land, buildings, and equipment	(508,610)	(449,374)
Purchases of investments	(4,557,523)	(9,426,475)
Proceeds from sale of investments	6,022,585	9,435,900
Student notes issued	(3,827)	(3,788)
Collections from student notes	5,582	6,080
Net cash and restricted cash provided by (used in) investing activities	958,207	(437,657)
CASH FLOW FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	179,408	264,029
Payments to beneficiaries of life income funds	(26,780)	(26,406)
Proceeds from sale of donated securities restricted for endowment	7,471	9,659
Investment income for restricted purposes	6,706	5,169
Proceeds from borrowings	-	748,847
Repayment of borrowings	(168,534)	(15,907)
Repayments of government advance for student loans	(1,956)	(1,798)
Net cash and restricted cash (used in) provided by financing activities	(3,685)	983,593
Net increase (decrease) in cash and restricted cash	179,043	(27,797)
Cash and restricted cash at the beginning of the period	695,610	723,407
Cash and restricted cash at the end of the period	**$ 874,653**	**$ 695,610**
Supplemental Information on cash and restricted cash:		
Cash on Statements of Financial Position	$ 527,690	$ 374,672
Cash and restricted cash included in Investments (see Note B)	334,714	307,560
Restricted cash included in Other Assets (see Note G)	12,249	13,378
Total cash and restricted cash on Cash Flow	**$ 874,653**	**$ 695,610**

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 Massachusetts Institute of Technology (MIT or the Institute) and its wholly owned subsidiaries.

Net assets, revenues, expenses, and gains and losses are classified into two categories based on the existence or absence of donor-imposed restrictions: net assets with donor restrictions and net assets without donor restrictions.

Net assets with donor restrictions include gifts, pledges, trusts, and remainder interests, and income and gains that are either required by donors to be permanently retained or for which restrictions have not yet been met. Such restrictions include purpose restrictions (donors have specified the purpose for which the net assets are to be spent), time restrictions imposed by donors or implied by the nature of the gift (e.g., capital projects, pledges to be paid in the future, life income funds), or by interpretations of law (net gains on donor-endowed gifts, where the gains have not yet been appropriated for spending). Net assets without donor restrictions are all the remaining net assets of MIT.

Donor-restricted gifts and grants (including gifts of long-lived assets) and distributed restricted endowment income (for which the restrictions are met within the same year of gift, grant, or distribution) are reported as revenue without donor restrictions. Amounts for which the restrictions are not met within the same year of gift, grant, or distribution are reclassified to net assets with donor restrictions through the net asset reclassifications and transfers line in the Consolidated Statement of Activities. These amounts are released back to net assets without donor restrictions, through the Net asset reclassifications and transfers line, during the years in which the restrictions are met. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets with donor restrictions until the monies are expended and the long-lived assets (e.g., buildings) are put into use, at which point they are reclassified to net assets without donor restrictions, also through the Net asset reclassifications and transfers line.

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 funds from MIT's investment pools. See Note J for further information on income distributed to funds.

MIT's operating revenues include tuition, sponsored support, contributions (expendable gifts and pledge payments), other revenue, support from investments, and auxiliary revenue.

Net results, as presented in MIT's Consolidated Statement of Activities, is the measure to which the Institute manages its annual budget and is used in financial reports presented to MIT's leadership, including the Executive Committee and the Corporation. It is a comprehensive measure of MIT's annual financial performance, including operating activity and the non-service-cost components of net periodic benefit costs or income that serve as a basis for cost recovery.

The Consolidated Statement of Activities also shows results of operations, a measure of ongoing activities, which excludes the impacts of the components of net periodic retirement benefit costs or income other than service costs, and results of operations before depreciation and interest, which is a valuable measure for the Institute as it highlights the impacts of financing and capital development costs that are included in net results.

A. Accounting Policies (continued)

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 September 2017.

US GAAP requires MIT to evaluate tax positions taken by the Institute to recognize a tax liability (or asset) if the Institute has taken an uncertain tax 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, 2023, and 2022, there are no significant uncertain positions taken or expected to be taken.

Cash

Certain cash balances, totaling $54.7 million and $24.5 million as of June 30, 2023, and 2022, respectively, are restricted for use under certain sponsored research agreements. These amounts are included within the Cash line in the Consolidated Statements of Financial Position.

The Institute had approximately $485.8 million and $310.2 million as of June 30, 2023, and 2022, respectively, of its cash accounts with a single institution. The Institute has not experienced any losses associated with deposits at this institution.

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 a gift, 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 consolidated financial statements in the amount of $97.1 million and $71.3 million during 2023 and 2022, respectively. Land, buildings, and equipment as of June 30, 2023, and 2022, are shown in Table 1 below.

TABLE 1. LAND, BUILDINGS, AND EQUIPMENT

(in thousands of dollars)	2023	2022
Land	$ 119,063	$ 107,557
Land improvements	117,512	109,590
Educational buildings	6,183,878	5,789,118
Equipment	449,136	421,716
Software	24,933	33,524
Total	6,894,522	6,461,505
Less: accumulated depreciation	(2,461,927)	(2,314,613)
Construction in progress	574,146	530,284
Software projects in progress	9,919	9,284
Net land, buildings, and equipment	**$ 5,016,660**	**$ 4,686,460**

Depreciation expense was $244.2 million in fiscal 2023 and $223.4 million in fiscal 2022. Interest of $10.1 million and $9.8 million was capitalized during fiscal 2023 and fiscal 2022, respectively, in connection with MIT’s construction projects.

A. Accounting Policies (continued)

Tuition and Student Support

Tuition and similar revenues, shown in Table 2 below, include tuition and fees for degree programs as well as tuition and fees for executive and continuing education programs at MIT. Tuition revenue is recognized over the period during which the courses are taken.

TABLE 2. TUITION AND SIMILAR REVENUES

(in thousands of dollars)	2023	2022
Undergraduate and graduate programs*	$ 316,934	$ 333,083
Executive and continuing education programs	92,097	82,169
Tuition and similar revenues	**$ 409,031**	**$ 415,252**

* Undergraduate and graduate programs at published rates totaled $769,513 and $750,655 in 2023 and 2022, respectively, and financial aid applied to undergraduate and graduate programs was $452,579 and $417,572 in 2023 and 2022, respectively.

Tuition support shown in Table 3 below 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.

TABLE 3. STUDENT SUPPORT

	2023			2022		
(in thousands of dollars)	Institute Sources	External Sponsors	Total Student Support	Institute Sources	External Sponsors	Total Student Support
Undergraduate tuition support	$ 153,329	$ 20,539	$ 173,868	$ 143,516	$ 20,039	$ 163,555
Graduate tuition support	299,250	56,711	355,961	274,056	63,451	337,507
Fellowship stipends	50,128	18,712	68,840	38,330	16,913	55,243
Student employment	63,507	88,072	151,579	58,619	90,898	149,517
Total	**$ 566,214**	**$ 184,034**	**$ 750,248**	**$ 514,521**	**$ 191,301**	**$ 705,822**

A. Accounting Policies (continued)

Sponsored Support and Advance Payments

Almost all of Lincoln Laboratory and Singapore-MIT Alliance for Research and Technology (SMART) sponsored revenue, as well as a portion of campus sponsored revenue, come from exchange contracts. Sponsored revenue related to exchange contracts is recognized as MIT fulfills the terms of the agreements, which generally span fewer than five years. Almost all of campus sponsored revenue—and a portion of Lincoln Laboratory and SMART sponsored revenue—comes from non-exchange contracts. Sponsored revenue associated with non-exchange contracts is recognized as the qualified expenditures are incurred. Sponsored activities at Lincoln Laboratory (which are contractually authorized by the sponsor but for which costs have not yet been incurred) totaled $907.4 million and $731.2 million as of fiscal 2023 and fiscal 2022, respectively. Sponsored activities on campus (which are contractually authorized by the sponsor but for which costs have not yet been incurred) totaled $1,157.3 million and $1,064.5 million as of fiscal 2023 and fiscal 2022, respectively.

Advance payments are amounts received by MIT from sponsors under the terms of agreements that generally require the exchange of assets, rights, or privileges between MIT and the sponsor. Advance payments are made for activity that will occur in the near future, generally within the next fiscal year.

Indirect sponsored revenue includes the portion of facilities and administrative expenses that is attributed to sponsored activities. MIT has recorded reimbursement of indirect costs relating to sponsored research activities at negotiated fixed billing rates. For non-research activities (such as instruction and other sponsored activity) MIT records reimbursement of indirect costs on federal awards using the de minimis rate allowed by Uniform Guidance, and for non-federal awards using rates that are agreed to with the sponsor.

The revenue generated by the negotiated indirect research rates is adjusted each fiscal year to reflect any variance between the negotiated fixed rates and rates based on actual costs; any adjustment in the rate is charged or credited to net assets without donor restrictions. The actual cost rate is audited by the Defense Contract Audit Agency (DCAA), and a final fixed-rate agreement is signed by the U.S. government and MIT. The variance between the negotiated fixed rate and the final audited rate results in a carryforward (over- or under-recovery). The carryforward is included in the calculation of negotiated fixed billing rates in future years.

Gifts and Pledges (Contributions)

Gifts and pledges (contributions) are recognized when MIT has an unconditional right to receive payment. Gifts of securities are recorded at their fair value at the date of contribution. Donated securities received totaled $94.4 million and $82.6 million in fiscal 2023 and fiscal 2022, respectively. Gifts of equipment received from manufacturers and other donors are put into use and recorded by MIT at fair value. Gifts of equipment totaled $0.8 million in fiscal 2023 and $0.3 million in fiscal 2022. Pledges consist of unconditional promises to contribute to MIT in the future. Pledges are reported at their estimated fair values. Pledges receivable are classified as Level 3 under the valuation hierarchy described in Note B.

Pledges, trusts, and remainder interests are reported at their estimated fair values. MIT does not recognize donated works of art, historical treasures, and similar assets in the financial statements if they are part of a collection. Items that are part of a collection 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.

Other Revenue and Auxiliary Enterprises

For the revenue streams included in other revenue and auxiliary enterprises, revenue is recognized at the point in time when goods or services are provided and are included in the without donor restrictions net asset category. Other revenue includes patent royalty revenue, membership agreement revenue, medical services revenue, and various other types. Auxiliary enterprises revenue includes room and board revenue, as well as revenue earned by MIT Press, Technology Review, and Endicott House.

A. Accounting Policies (continued)

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. Life income fund assets are included within investments in the Consolidated Statements of Financial Position. A rollforward of liabilities due under life income fund agreements is presented in Table 4 below.

TABLE 4. LIABILITIES DUE UNDER LIFE INCOME FUNDS

(in thousands of dollars)	2023	2022
Balance at the beginning of the year	$ 286,241	$ 321,450
Additions for new gifts	4,057	5,558
Termination and payments to beneficiaries	(25,863)	(27,856)
Net investment and actuarial gain (loss)	1,205	(12,911)
Balance at the end of the year	**$ 265,640**	**$ 286,241**

New Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)* which replaces the current GAAP incurred loss impairment methodology with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This standard will be effective for the Institute for the fiscal year ended June 30, 2024. The Institute is currently evaluating the potential impact of adoption to the financial statements.

A. Accounting Policies (continued)

Non-Cash Items

Non-cash transactions excluded from the Consolidated Statements of Cash Flows include $18.3 million and $12.7 million of accrued liabilities related to plant and equipment purchases as of June 30, 2023, and 2022, 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.

Subsequent Events

MIT has evaluated subsequent events through October 6, 2023, the date on which the financial statements were issued. There were no subsequent events that occurred after the date of the statement of financial position that have a material impact on MIT's financial statements.

Related Parties

MIT has a number of related-party entities, the majority of which are in MIT's consolidated financial statements. There are three categories of related-party entities that are not in MIT's consolidated financial statements, and those are further described here. The first category is non-investment entities with an education- or research-based mission. These entities are all U.S. corporations. Income from administration or other services provided to these entities is included as Other revenue in the Consolidated Statement of Activities, and related costs are included as Supplies and services or Subrecipient expenses.

Second are trusts for the benefit of employees that are managed by or under the trusteeship of MIT management. The assets of these U.S. trusts offset the benefit obligations of the defined benefit pension and retiree welfare retirement plans to arrive at the net funded status of each plan, both of which are shown on separate line items on the Consolidated Statements of Financial Position. Please refer to footnote I for further details.

Third are investment entities for which MIT invests in their equity securities. These entities are limited partnership or equivalent entities located in both the U.S. and internationally. The Institute recognizes these as Investments, at fair value on the Consolidated Statements of Financial Position and in Net return on investments in the Consolidated Statement of Activities. Please refer to footnote B for further details.

MIT-related parties also include Executive Committee members and senior management, their family members, and any entities with which they are associated that may do business with MIT. Transactions between MIT and members of the Executive Committee or senior management can include loans from MIT reported as investments or accounts receivable. Family members of these individuals may at times receive payments from MIT in the form of grants or compensation. There may also be transactions in the ordinary course of business between MIT and companies with which these individuals have a relationship.

Summarized Information

The Consolidated Statement of Activities includes certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP 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, 2022, from which the summarized information was derived.

B. Investments

Investments are presented at fair value in accordance with GAAP.

Cash and short-term investments 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.

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.

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 those 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 net asset value (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.

MIT has elected to measure certain equity securities (those without a readily determinable fair value that do not qualify to use NAV as a practical expedient) at cost or fair value on the date of investment less impairment, adjusted for changes in observable prices of the same issuer (the "measurement alternative"). The election to apply the measurement alternative is applied on a security-by-security basis. MIT reassesses whether these investments qualify for the measurement alternative and performs an impairment analysis on an annual basis.

As of June 30, 2023, and 2022, MIT held $260.1 million and $236.2 million, respectively, of investments that are valued using the measurement alternative. These investments are included within Level 3 of the fair value hierarchy table as explained further in footnote B.

There have been no impairment adjustments or observable price changes recognized.

Split-interest agreements are generally valued at the present value of the future distributions expected to be received over the term of the agreement.

MIT performs ongoing due diligence to determine that the fair value of investments is reasonable. 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 and evaluating the overall fairness and consistent application of the valuation policies. The Committee reviews external manager due diligence to substantiate the use of NAV as a practical expedient for estimates of fair value for externally managed funds. The Committee is comprised of senior personnel with members who are independent of investment functions. The Committee meets semiannually or more frequently, and members of the Committee report to MIT's Risk and Audit Committee as needed.

The methods described in this note 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.

MIT leverages certain real estate investments to optimize the use of invested capital in support of the Institute's mission. The liabilities associated with these financings are presented, on a net basis, with the investment balances on the associated real estate asset found in Table 5. The liabilities associated with real estate investments were $1,324.4 million and $1,324.4 million as of June 30, 2023, and 2022, respectively. MIT's real estate subsidiaries are separate legal entities, whose assets and credit are not available to satisfy the liabilities of MIT as a stand-alone entity. Also, the liabilities of MIT's subsidiaries do not constitute obligations of MIT as a stand-alone entity.

MIT may enter 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 may be held at counterparty brokers to collateralize these positions and are included in investments in the Consolidated Statements of Financial Position and in restricted cash included

B. Investments (continued)

in investments on the Consolidated Statements of Cash Flows.

GAAP establishes 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 considered unobservable.

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

Level 1 – Valuations based upon observable inputs that reflect quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuations based upon: (i) quoted market prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or liabilities in markets that are not active; or (iii) other significant market-based inputs that are observable, either directly or indirectly.

Level 3 – Valuations based upon unobservable inputs that are significant to the overall fair value measurements. 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, equity, and industry risk premiums, and for construction under development in Kendall Square, discounts related to completion.

Investments managed by external managers in fund structures are not readily marketable and are reported at fair value utilizing the most current information provided by the external manager, subject to assessments that the information is representative of fair value and in consideration of any factors deemed pertinent to the fair value measurement. These investments are shown in the NAV column of Table 5.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to its fair value measurement. Market information is considered when determining the proper categorization of the investment's fair value measurement within the fair valuation hierarchy.

B. Investments (continued)

Table 5 presents MIT's investments at fair value as of June 30, 2023, and 2022, respectively, grouped by the valuation hierarchy described herein. All net realized and unrealized gains and losses related to financial instruments held by MIT included in Table 5 are reflected in the Consolidated Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled $2,263.7 million and $2,668.0 million as of June 30, 2023, and 2022, respectively.

TABLE 5. INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2023					
Cash and short-term investments	$ 313,843	$ -	$ -	$ -	$ 313,843
US Treasury	1,727,353	-	-	-	1,727,353
US government agency	-	34,263	-	-	34,263
Domestic bonds	6,916	1,221,061	146,166	-	1,374,143
Foreign bonds	377	249,784	-	-	250,161
Common equity:					
Domestic	155,930	1	233,650	-	389,581
Foreign	1,635,001	49,884	23,965	-	1,708,850
Equity:**					
Absolute return	-	-	-	4,671,478	4,671,478
Domestic	-	-	-	2,191,364	2,191,364
Foreign	-	-	-	2,135,508	2,135,508
Private	-	-	-	10,544,528	10,544,528
Real estate*	1,231	-	3,486,773	1,499,767	4,987,771
Real assets*	8,159	-	346	262,770	271,275
Split-interest agreements	-	-	81,355	-	81,355
Other	-	-	12,245	-	12,245
Derivatives, assets/(liabilities)	43	(842)	-	-	(799)
Investments, at fair value	**$ 3,848,853**	**$ 1,554,151**	**$ 3,984,500**	**$ 21,305,415**	**$ 30,692,919**
Fiscal Year 2022					
Cash and short-term investments	$ 437,314	$ -	$ -	$ -	$ 437,314
US Treasury	2,268,472	-	-	-	2,268,472
US government agency	-	30,087	-	-	30,087
Domestic bonds	28,330	1,038,067	127,650	-	1,194,047
Foreign bonds	101,352	327,075	-	-	428,427
Common equity:					
Domestic	157,741	-	236,320	-	394,061
Foreign	1,198,950	55,941	15,398	-	1,270,289
Equity:**					
Absolute return	-	-	-	5,008,840	5,008,840
Domestic	-	-	-	2,238,425	2,238,425
Foreign	-	-	-	2,640,950	2,640,950
Private	-	-	-	11,028,666	11,028,666
Real estate*	1,937	-	3,884,874	1,374,864	5,261,675
Real assets*	5,029	-	317	237,927	243,273
Split-interest agreements	-	-	80,970	-	80,970
Other	-	-	19,720	-	19,720
Derivatives, assets/(liabilities)	92	3,323	-	-	3,415
Investments, at fair value	**$ 4,199,217**	**$ 1,454,493**	**$ 4,365,249**	**$ 22,529,672**	**$ 32,548,631**

** Includes direct investments and investments held through commingled vehicles.*

*** Includes commingled vehicles that invest in these types of investments.*

B. Investments (continued)

Table 6 below is a rollforward of the investments classified by MIT within Level 3 of the fair value hierarchy defined earlier in this note as of June 30, 2023, and 2022.

TABLE 6. ROLLFORWARD OF LEVEL 3 INVESTMENTS

(in thousands of dollars)	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Other Changes and Transfers	Fair Value Ending
Fiscal Year 2023							
Domestic bonds	$ 127,650	$ 23	$ 577	$ 25,615	$ (7,699)	$ -	$ 146,166
Common equity:							
Domestic	236,320	2,211	(3,103)	449	(2,227)	-	233,650
Foreign	15,398	-	(491)	9,058	-	-	23,965
Real estate	3,884,874	15,874	(394,542)	259,681	(246,493)	(32,621)	3,486,773
Real assets	317	-	29	-	-	-	346
Split-interest agreements	80,970	245	692	3	(555)	-	81,355
Other	19,720	3	(7,474)	-	(4)	-	12,245
Investments, at fair value	**$ 4,365,249**	**$ 18,356**	**$ (404,312)**	**$ 294,806**	**$ (256,978)**	**$ (32,621)**	**$ 3,984,500**
Fiscal Year 2022							
Domestic bonds	$ 119,092	$ 3	$ (3)	$ 18,449	$ (9,891)	$ -	$ 127,650
Common equity:							
Domestic	234,757	-	2,031	-	-	(468)	236,320
Foreign	87,539	(5)	(39,421)	18,195	(47)	(50,863)	15,398
Real estate	3,321,213	1,203	704,801	477,377	(90)	(619,630)	3,884,874
Real assets	313	-	4	-	-	-	317
Split-interest agreements	89,999	-	(9,103)	-	(346)	420	80,970
Other	6,445	1,601	9,486	3,900	(1,712)	-	19,720
Investments, at fair value	**$ 3,859,358**	**$ 2,802**	**$ 667,795**	**$ 517,921**	**$ (12,086)**	**$ (670,541)**	**$ 4,365,249**

Table 7 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, 2023, and 2022.

TABLE 7. LEVEL 3 VALUATION TECHNIQUES

(in thousands of dollars)	Fair Value as of June 30, 2023	Fair Value as of June 30, 2022	Valuation Technique	Unobservable Input	2023 Rates	2023 Weighted Average	2022 Rates	2022 Weighted Average
Real estate	$ 3,824,407	$ 4,372,209	Income approach	Discount Rate	5.00 - 8.00%	6.89%	4.25 - 7.50%	6.12%
				Capitalization Rate	4.00 - 7.25%	5.65%	3.75 - 7.05%	4.45%
				Terminal Capitalization Rate	4.25 - 7.00%	6.03%	4.00 - 6.50%	4.93%
	240,208	229,935	Market approach	Comparable sale transactions	$170-365/FAR	$289/FAR	$165-365/FAR	$293/FAR
Equity and real assets**	8,954	15,140	Discounted cash flow	Discount Rate	25.00%	25.00%	25.00%	25.00%
			Last round of financing	N/A	N/A	N/A	N/A	N/A
Split-interest agreements	81,355	80,970	Net present value	Discount Rate	4.45%	4.45%	3.85%	3.85%
Total assets*	**$ 4,154,924**	**$ 4,698,254**						

** Certain Level 3 investments and debt totaling ($430,480) and ($569,283) as of June 30, 2023 and June 30, 2022, respectively, have been valued at cost or using unadjusted third-party quotations and thus have been excluded from this table.*

*** Certain Level 3 investments totaling $260,056 and $236,278 as of June 30, 2023 and June 30, 2022, respectively, have been valued using the measurement and thus have been excluded from this table.*

B. Investments (continued)

MIT has made commitments to make periodic contributions in future periods to investments managed by external managers, and certain of these 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 due to notice periods, lock-ups, and gates. 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, some 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. For the funds where MIT's ability to withdraw capital is limited, primarily with private equity, real estate, and real asset 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. However, MIT does have various sources of liquidity at its disposal. Refer to footnote E for further details. Details on the remaining unfunded commitments and current redemption terms and restrictions by asset class and type of investment are provided below in Table 8 as of June 30, 2023, and 2022.

TABLE 8. UNFUNDED COMMITMENTS AND REDEMPTON TERMS AND RESTRICTIONS

(in thousands of dollars)	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value	Redemption Terms	Days Notice
Equity:						
Absolute return[1]	$ 66,190	$ 4,671,478	$ 63,678	$ 5,008,840	Ranges from daily to 48 months[5]	0 to 365 days
Domestic[2]	52,685	2,191,364	52,685	2,238,425	Ranges from 30 days to 48 months[5]	1 to 120 days
Foreign[3]	517	2,135,508	1,200	2,640,950	Ranges from daily to 48 months[5]	1 to 180 days
Private	3,041,935	10,544,528	3,380,446	11,028,666	Close-ended funds not available for redemption	Not redeemable
Real estate	737,402	1,499,767	719,327	1,374,864	Close-ended funds not available for redemption	Not redeemable
Real assets[4]	16,949	262,770	35,663	237,927	4 months[5]	90 days
Total	**$ 3,915,678**	**$ 21,305,415**	**$ 4,252,999**	**$ 22,529,672**		

[1]Absolute return funds include funds that have remaining lock-up provisions up to 56 months.

[2]Domestic funds include funds that have remaining lock-up provisions up to 35 months.

[3]Foreign funds include funds that have remaining lock-up provisions up to 20 months.

[4] Real asset funds include funds that have remaining lock-up provisions up to 8 months.

[5] Includes funds that are not available for redemption.

C. Derivative Financial Instruments and Collateral

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 or hedge its exposure to extreme market events and fluctuations in asset classes or currencies. Instruments utilized include fixed income, currency and equity futures, options, and swaps. The risks of these instruments, to varying degrees, include the possibility for imperfect correlation between the change in the market value of assets being hedged and the prices of the derivative or hedge instruments, interest, credit market, liquidity, and counterparty risk.

To manage the counterparty risk, 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. 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 (International Swaps and Derivatives Association) Master Agreements under which many derivatives are traded 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.

MIT enters into arrangements only with counterparties believed to be creditworthy. On June 30, 2023, and 2022, cash collateral and certain securities owned by MIT were held at counterparty brokers to collateralize these positions and are included in investments in the Consolidated Statements of Financial Position.

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.

Cumulative net losses related to derivatives totaled $78.6 million for the year ended June 30, 2023. Cumulative net gains related to derivatives totaled $184.9 million for the year ended June 30, 2022.

D. Pledges Receivable

Table 9 below shows the time periods in which pledges receivable as of June 30, 2023, and 2022, are expected to be realized.

TABLE 9. PLEDGES RECEIVABLE

(in thousands of dollars)	2023	2022
In one year or less	$ 348,241	$ 325,612
Between one year and five years	367,618	313,267
More than five years	54,674	61,526
Less: allowance for unfulfilled pledges	(159,346)	(115,402)
Pledges receivable, net	**$ 611,187**	**$ 585,003**

A review of pledges is periodically made regarding collectability. As a result, the allowance for unfulfilled pledges is adjusted, and some pledges have been cancelled and are no longer recorded in the financial statements.

Pledges were discounted in the amount of $115.7 million and $78.3 million in 2023 and 2022, respectively. The pledge discount rate ranged from fiscal 2023 at 5.4 percent to fiscal 2044 at 4.5 percent. MIT had gross conditional pledges, not recorded, for the promotion of education and research of $193.4 million and $298.8 million in fiscal 2023 and 2022, respectively. Conditional pledges are categorized as follows: fundraising challenge, building construction progress, foundation grants, and other.

Table 10 below shows the breakout of conditional pledge amounts as of June 30, 2023, and 2022.

TABLE 10. CONDITIONAL PLEDGES

(in thousands of dollars)	2023	2022
Building Construction	$ 110,746	$ 124,495
Fundraising Challenge	25,309	100,380
Foundation Grants	30,162	59,760
Other	27,188	14,159
Total conditional pledges	**$ 193,405**	**$ 298,794**

Table 11 below is a rollforward of pledges receivable as of June 30, 2023, and 2022.

TABLE 11. ROLLFORWARD OF PLEDGES RECEIVABLE

(in thousands of dollars)	2023	2022
Balance at beginning of the year	$ 585,003	$ 571,268
New pledges	311,774	303,056
Pledge payments received	(204,206)	(243,443)
Change in pledge discount	(37,441)	(51,902)
Change in allowance for unfulfilled pledges	(43,943)	6,024
Balance at the end of the year	**$ 611,187**	**$ 585,003**

E. Liquidity

Table 12 below details the Institute’s financial assets and resources available to meet cash needs for general expenditures within one year of the date of the Consolidated Statements of Financial Position.

TABLE 12. LIQUIDITY AND AVAILABILITY OF RESOURCES

(in thousands of dollars)	2023	2022
Financial assets:		
Cash and liquid operating investments	$ 2,741,231	$ 3,020,767
Accounts receivable	320,984	379,812
Pledges receivable	132,617	170,826
Investments appropriated for spending in the following year	1,300,710	1,221,656
Total financial assets available within one year	**$ 4,495,542**	**$ 4,793,061**

As part of MIT's liquidity management strategy, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. MIT invests its working capital, which is comprised of cash and capital project funds in excess of daily requirements, in various investment vehicles. To help manage unanticipated liquidity needs, MIT also maintains a bank line of credit for $500.0 million, of which $500.0 million and $387.0 million was undrawn as of June 30, 2023, and 2022, respectively (see Note F for further details on the line of credit).

F. Net Borrowings

MIT's outstanding borrowings as of June 30, 2023, and 2022, are shown in Table 13 below.

TABLE 13. NET BORROWINGS

(in thousands of dollars / due dates are calendar based / par values as of 2023)	2023	2022
Educational plant		
Massachusetts Health and Educational Facilities Authority (MassDevelopment)		
Series I, 5.20%, due 2028, par value $30,000	$ 30,257	$ 30,316
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, 5.5%, due 2032, par value $121,500	126,010	181,900
Series L, 5.0%-5.25%, due 2023-2033, par value $115,670	119,391	120,003
Series M, 5.25%, due 2024-2030, par value $68,760	71,206	71,736
Series P, 5.0%, due 2050, par value $136,055	202,475	204,932
Total MassDevelopment	799,339	858,887
Taxable		
Medium Term Notes Series A, 7.125% due 2026, par value $17,415	17,402	17,398
Medium Term Notes Series A, 7.25%, due 2096, par value $45,604	45,485	45,480
Taxable Bonds, Series B, 5.60%, due 2111, par value $750,000	747,238	747,238
Taxable Bonds, Series C, 4.678%, due 2114, par value $550,000	550,000	550,000
Taxable Bonds, Series D, 3.308-3.959%, due 2026-2038, par value $456,000	456,000	456,000
Taxable Bonds, Series E, 3.885%, due 2116, par value $500,000	500,000	500,000
Taxable Bonds, Series F, 2.989%, due 2050, par value $525,000	547,395	548,225
Taxable Bonds, Series G, 2.294% due 2051, par value $350,000	350,000	350,000
Taxable Bonds, Series H, 3.067% due 2052, par value $500,000	500,000	500,000
Notes payable to bank, variable rate, due 2023	-	113,035
Total Taxable	3,713,520	3,827,376
Total borrowings*	4,512,859	4,686,263
Unamortized bond issuance costs	(28,397)	(29,213)
Total borrowings net of unamortized debt issuance costs	**$ 4,484,462**	**$ 4,657,050**

** Proceeds from recent issuances were in the process of being invested in physical assets in 2023 and 2022 with unused balances held in investments.*

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 14 below.

TABLE 14. DEBT PRINCIPAL OBLIGATIONS

(in thousands of dollars)	
2024	$ 51,455
2025	12,385
2026	13,030
2027	103,415
2028	30,000

MIT maintains an undrawn line of credit with a major financial institution for an aggregate commitment of $500.0 million. The line of credit was renewed in fiscal 2023 and now expires on March 31, 2026.

Cash paid for interest on long-term debt in fiscal 2023 and fiscal 2022 was $188.2 million and $164.9 million, respectively.

Variable interest rates as of June 30, 2023, are shown in Table 15 below.

TABLE 15. VARIABLE INTEREST RATES

(in thousands of dollars)	Amount	Rate
MassDevelopment Series J-1	$ 125,000	3.90%
MassDevelopment Series J-2	125,000	3.75%

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 100.0 percent of par on the tender date. In the event that MIT is obligated to purchase the bonds, cash on hand or liquidation of short-term investments from operating funds would be used as a source of funds.

MIT maintains an interest rate swap agreement to manage the interest cost and risk associated with a portion of the variable rate debt included in Table 15 above. 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) index on a notional amount of $125.0 million. The notional amount of this derivative is not recorded on MIT's Consolidated Statements of Financial Position. As of June 30, 2023, and 2022, the swap agreement had fair values of ($17.3) million and ($25.5) million, respectively, included in the Accounts payable, accruals, and other liabilities line item on the Consolidated Statements of Financial Position. Fair value is measured using Level 2 inputs as defined in Note B. This swap had net gains of $8.2 million and $22.5 million in fiscal 2023 and 2022, respectively.

G. Commitments and Contingencies

Federal Government Funding

MIT receives funding or reimbursement from federal agencies for sponsored programs under government grants and contracts. These grants and contracts provide for reimbursement of indirect costs. MIT's indirect cost reimbursements for sponsored research activities are based on rates negotiated with the Office of Naval Research (ONR), MIT's cognizant federal agency. Indirect research rates are based on fixed rates with carryforward of under- or over-recoveries. MIT recorded a net under-recovery of $87.3 million and $75.1 million as of June 30, 2023, and 2022, respectively. The Institute recorded a $75.0 million reserve in fiscal 2023 to reflect that MIT may not, over time, fully recover the $87.3 million under-recovery.

The DCAA is responsible for auditing indirect charges to research grants and contracts in support of ONR's negotiating responsibility. The Institute's rates have been audited by DCAA through fiscal 2021, and the audit for fiscal 2022 is in progress. ONR has completed negotiations of final rates through fiscal 2021 and forward pricing rates through fiscal 2024.

Leases

The Institute is the lessee of space under operating (rental) leases with contractual terms longer than twelve months. The Institute determines whether a contract is a lease at inception. Identified leases are subsequently measured, classified, and recognized at lease commencement. The Institute's leases generally have terms that range from one to fifteen years for property, with certain leases inclusive of renewal options if they are considered to be reasonably assured at lease commencement. Right-of-use assets and lease liabilities for operating leases are included in the Operating leases - right-of-use assets line item and Operating lease liabilities line item, respectively, in the Consolidated Statements of Financial Position. Lease assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease.

Operating lease right-of-use assets and associated lease liabilities are recognized based on the present value of future minimum lease payments to be made over the expected lease term, using the incremental borrowing rate at the commencement date in determining the present value of future payments. Rent expense related to operating leases, including short-term leases, was $41.1 million and $40.5 million in fiscal 2023 and fiscal 2022, respectively.

Future minimum lease payments with a reconciliation to the operating lease liabilities number in the Consolidated Statements of Financial Position as of June 30, 2023, are shown below.

TABLE 16. ANNUAL MINIMUM LEASE

(in thousands of dollars)		
2024	$	41,182
2025		38,327
2026		35,370
2027		35,433
2028		31,926
Thereafter		49,966
Total minimum lease payments		232,204
Less: Amount representing interest		(9,293)
Present value of net minimum lease payments	$	222,911

The lease cost and other required information for the year ended June 30, 2023, and 2022, are:

TABLE 17. QUANTITATIVE DISCLOSURES

(in thousands of dollars)	2023	2022
Accretion of the Lease Liability	$ 23,172	$ 35,957
Operating Cash Flows from Operating Leases*	$ 43,607	$ 39,192
Weighted Average Remaining Lease Term in Years	6.1	7.0
Weighted Average Discount Rate	1.2%	1.1%

** Supplemental cash flow information representing lease cost is reported in Utilities, rent, and repairs in the Consolidated Statement of Activities.*

Assets Pledged as Collateral

As of June 30, 2023, and 2022, $12.2 million and $13.4 million of assets, respectively, were pledged as collateral to various suppliers and government agencies. This is classified as Restricted cash on the Consolidated Statements of Cash Flows.

G. Commitments and Contingencies (continued)

Future Construction

As of June 30, 2023, MIT had contractual obligations of approximately $439.4 million in connection with educational plant construction projects. It is expected that the resources to satisfy these commitments will be provided from unexpended plant funds, anticipated gifts, bond proceeds, and funds without donor restrictions.

MIT has also made commitments related to the development of its commercial real estate holdings in Kendall Square and to the enhancement of its East Campus gateway. As of June 30, 2023, the outstanding commitments included approximately $57.0 million of contractual obligations related to the Kendall Square Initiative, and $40.7 million related to other commercial real estate projects. In addition, MIT and the federal government have entered into an agreement whereby MIT will construct a new transportation center on four of the fourteen acres of federally owned land located at the John A. Volpe National Transportation Systems Center site in Kendall Square in exchange for the fee interest to and the right to redevelop the adjacent ten acres of land. The exchange will be executed upon completion of the construction of the new facility. MIT is committed to investing $750.0 million in the exchange phase of the project. Costs incurred for construction of the new facility, which are included in investments, were $89.9 million and $173.5 million in fiscal 2023 and fiscal 2022, respectively.

General

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.

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 for the years ended June 30, 2023, and 2022, are shown in Table 18 below.

TABLE 18. EXPENDITURES BY FUNCTIONAL CLASSIFICATION

(in thousands of dollars)	General and administrative	Instruction and unsponsored research	Sponsored research	Total
Fiscal Year 2023				
Compensation	$ 593,496	$ 669,520	$ 1,011,039	$ 2,274,055
Other operating	187,315	508,481	694,717	1,390,513
Space-related	213,671	238,846	221,189	673,706
2023 Total	**$ 994,482**	**$ 1,416,847**	**$ 1,926,945**	**$ 4,338,274**
Fiscal Year 2022				
Compensation	$ 527,319	$ 619,460	$ 965,145	$ 2,111,924
Other operating	187,646	441,216	657,726	1,286,588
Space-related	175,515	212,215	207,086	594,816
2022 Total	**$ 890,480**	**$ 1,272,891**	**$ 1,829,957**	**$ 3,993,328**

Expenses are presented by functional classification in alignment with the overall mission of the Institute. Each functional classification displays all expenses related to the underlying operation by natural classification. Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation and utilities, rent, and repair expenses are allocated directly and/or based on square footage. Interest expense on indebtedness is allocated to the functional categories that have benefited from the proceeds of the associated debt.

I. Retirement Benefits

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

MIT also offers a retiree 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 the retiree welfare benefit plan.

MIT contributes to the defined benefit pension plan amounts that are actuarially determined to provide the retirement plan with sufficient assets to meet future benefit requirements. There were no designated contributions to the defined benefit pension plan and the retiree welfare benefit plan for fiscal 2023 and fiscal 2022.

For the defined contribution plan, the amounts contributed and expenses recognized during fiscal 2023 and fiscal 2022 were $76.4 million and $71.5 million, respectively.

For purposes of calculating net periodic benefit cost, plan amendments for the defined benefit pension 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 retiree 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.

Cumulative gains and losses (including changes in assumptions) more than 10.0 percent of the greater of the benefit obligation or the market-related value of assets for both the defined benefit pension plan and the retiree welfare benefit plan are amortized over the average future service of active participants. MIT accelerates recognition of cumulative gains or losses to the extent that the unrecognized balance partially or fully offsets the preliminary net periodic benefit cost or income calculated prior to this accelerated amount. In no event shall the annual amortization be less than the total amount of unrecognized gains and losses up to $1.0 million.

I. Retirement Benefits (continued)

Components of Net Periodic Benefit Cost

Table 19 below summarizes the components of net periodic benefit cost recognized in net results and other amounts recognized in other revenues, gains, and losses in net assets without donor restrictions for the years ended June 30, 2023, and 2022.

TABLE 19. COMPONENTS OF NET PERIODIC BENEFIT COST AND OTHER AMOUNTS RECOGNIZED IN OTHER REVENUES, GAINS, AND LOSSES

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2023	2022	2023	2022
Components of net periodic benefit cost recognized in net results:				
Service cost	$ 125,296	$ 152,837	$ 28,059	$ 33,299
Interest cost	247,139	178,186	32,352	23,700
Expected return on plan assets	(373,076)	(360,746)	(62,020)	(62,585)
Amortization of net actuarial loss (gain)	1,000	33,431	(20,212)	(10,269)
Amortization of prior service cost	347	347	1,646	-
Net periodic benefit cost (income) recognized in net results	706	4,055	(20,175)	(15,855)
Other amounts recognized in other revenues, gains, and losses:				
Current year prior service cost	-	-	-	14,308
Current year actuarial (gain) loss	(251,221)	597,273	60,453	118,062
Amortization of actuarial (loss) gain	(1,000)	(33,431)	20,212	10,269
Amortization of prior service (cost)	(347)	(347)	(1,646)	-
Total other amounts recognized in other revenues, gains and losses	(252,568)	563,495	79,019	142,639
Total recognized	**$ (251,862)**	**$ 567,550**	**$ 58,844**	**$ 126,784**

Cumulative amounts recognized in net assets without donor restrictions are summarized in Table 20 below for the years ended June 30, 2023, and 2022.

TABLE 20. CUMULATIVE AMOUNTS RECOGNIZED IN NET ASSETS WITHOUT DONOR RESTRICTION

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2023	2022	2023	2022
Amounts recognized in unrestricted net assets without donor restrictions consist of:				
Net actuarial (gain)	$ (417,382)	$ (165,162)	$ (229,753)	$ (310,417)
Prior service cost	2,249	2,597	12,663	14,308
Total cumulative amounts recognized in net assets without donor restrictions	**$ (415,133)**	**$ (162,565)**	**$ (217,090)**	**$ (296,109)**

I. Retirement Benefits (continued)

Benefit Obligations and Fair Value of Assets

Table 21 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 pension plan and retiree welfare benefit plan.

The projected benefit obligation for the defined benefit pension plan, as shown in Table 21, was $4,570.0 million and $5,074.7 million as of June 30, 2023, and 2022, respectively. Another measure of the plan's liabilities is the accumulated benefit obligation. While the projected benefit obligation factors in future salary increases, the accumulated benefit obligation does not. The accumulated benefit obligation of MIT's defined benefit pension plan was $4,430.6 million and $4,878.3 million as of June 30, 2023, and 2022, respectively.

MIT provides retiree drug coverage through an EGWP. Under an EGWP, the cost of drug coverage is offset through direct federal subsidies, brand-name drug discounts, and reinsurance reimbursements.

TABLE 21. BENEFIT OBLIGATIONS* AND FAIR VALUE OF ASSETS

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2023	2022	2023	2022
Change in benefit obligations*:				
Benefit obligations* at beginning of year	$ 5,074,737	$ 5,429,577	$ 640,049	$ 663,180
Service cost	125,296	152,837	28,059	33,299
Interest cost	247,139	178,186	32,352	23,700
Retiree contributions	-	-	11,065	9,966
Net benefit payments, transfers, and other expenses	(200,460)	(185,550)	(50,996)	(42,698)
Employer Group Waiver Plan (EGWP) reimbursement	-	-	12,221	10,197
Plan amendments	-	-	-	14,308
Assumption changes and actuarial net (gain)	(676,712)	(500,313)	(11,523)	(71,903)
Benefit obligations* at end of the year	4,570,000	5,074,737	661,227	640,049
Change in plan assets:				
Fair value of plan assets at beginning of the year	5,457,600	6,379,991	952,415	1,102,330
Actual return on plan assets	(52,415)	(736,841)	(9,956)	(127,380)
Employer contributions	-	-	-	-
Employer Group Waiver Plan (EGWP) reimbursement	-	-	12,221	10,197
Retiree contributions	-	-	11,065	9,966
Net benefit payments, transfers, and other expenses	(200,460)	(185,550)	(50,996)	(42,698)
Fair value of plan assets at end of the year	5,204,725	5,457,600	914,749	952,415
Funded status at end of the year	**634,725**	**382,863**	**253,522**	**312,366**
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Net asset position	**$ 634,725**	**$ 382,863**	**$ 253,522**	**$ 312,366**

**The benefit obligation for the Defined Benefit Pension Plan is the Projected Benefit Obligation (PBO); for the Retiree Welfare Benefit Plan it is the Accumulated Postretirement Benefit Obligation (APBO).*

I. Retirement Benefits (continued)

Assumptions for Financial Parameters and Healthcare Trend Rates

Table 22 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 several factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

TABLE 22. ASSUMPTIONS

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2023	2022	2023	2022
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	5.56%	4.85%	5.73%	4.96%
Rate of compensation increase*	7.00%/5.50%	5.75%		
Pension increases for in-payment benefits**	3.75%/1.88%	5.25%/2.06%		
Cash balance interest crediting rate	6.00%	6.00%		
Assumptions used to determine net periodic benefit cost for the year ended June 30:				
Discount rate	4.85%	3.25%	4.96%	3.47%
Expected long-term return on plan assets	7.25%	7.75%	6.75%	7.50%
Rate of compensation increase	5.75%	5.50%		
Cash balance interest crediting rate	6.00%	4.20%		
Assumed health care cost trend rates:				
Healthcare cost trend rate assumed for next year (pre-65/post-65/EGWP)***			8.00%/7.50%/13.00%	7.00%/7.00%/7.00%
Ultimate health care cost trend rate (pre-65/post-65/EGWP)****			5.25%/5.25%/4.00%	5.25%/5.25%/5.25%
Year the rate reaches the ultimate trend rate			2030	2026

**As of June 30, 2023, salary increases are assumed to be 7.00% on average in fiscal 2024 and 5.50% thereafter.*

***As of June 30, 2023, the pension increase assumption for in-payment benefits is assumed to be 3.75% in 2023, grading down to 1.88% over 6 years, updated from June 30, 2022 assumption of 5.25% grading down to 2.06% over 8 years.*

****As of June 30, 2023, the health care cost trend for next year is assumed to be 8.00% for pre-65 costs, 7.50% for post-65 costs and 13.00% for EGWP reimbursements.*

*****As of June 30, 2023, the ultimate health care cost trend is assumed to be 5.25% for pre-and post-65 costs and 4.00% for EGWP reimbursements.*

Plan Investments

The investment objectives for the assets of the plans are to minimize expected funding contributions and to meet or exceed the rates 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 23A and 23B present investments at fair value of MIT's defined benefit pension plan and retiree welfare benefit plan, which are included in Fair value of plan assets as of June 30, 2023, and 2022, grouped by the valuation hierarchy detailed in Note B. The investment values in these tables exclude certain items included in the assets and liabilities shown in Table 21.

TABLE 23A. DEFINED BENEFIT PENSION PLAN INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2023					
Cash and short-term investments	$ 157,776	$ -	$ -	$ -	$ 157,776
US Treasury	537,480	-	-	-	537,480
US government agency	-	4,800	-	-	4,800
Domestic bonds	-	87	-	-	87
Common equity:					
Domestic	197,973	-	173	-	198,146
Foreign	373,994	10,600	2,943	-	387,537
Equity:*					
Absolute return	-	-	-	682,055	682,055
Domestic	-	-	-	428,764	428,764
Foreign	-	-	-	569,442	569,442
Private	-	-	-	1,943,173	1,943,173
Real estate*	799	-	-	315,555	316,354
Real assets*	-	-	-	65,228	65,228
Other	2,976	-	1,577	-	4,553
Derivatives	74	1,577	-	-	1,651
Total plan investments assets	**$ 1,271,072**	**$ 17,064**	**$ 4,693**	**$ 4,004,217**	**$ 5,297,046**
Liabilities associated with investments					
Investments sold, but not yet purchased	(97,424)	-	-	-	(97,424)
Other liabilities	(3,753)	(1,972)	-	-	(5,725)
Total plan investment liabilities	**(101,177)**	**(1,972)**	**-**	**-**	**(103,149)**
Total plan investments	**$ 1,169,895**	**$ 15,092**	**$ 4,693**	**$ 4,004,217**	**$ 5,193,897**
Fiscal Year 2022					
Cash and short-term investments	$ 169,238	$ -	$ -	$ -	$ 169,238
US Treasury	540,501	-	-	-	540,501
US government agency	-	8,329	-	-	8,329
Domestic bonds	-	9	-	-	9
Common equity:					
Domestic	113,234	-	346	-	113,580
Foreign	262,285	11,887	3,057	-	277,229
Equity:*					
Absolute return	-	-	-	772,179	772,179
Domestic	-	-	-	438,094	438,094
Foreign	-	-	-	672,825	672,825
Private	-	-	-	2,108,178	2,108,178
Real estate*	1,263	-	-	298,418	299,681
Real assets*	-	-	-	60,838	60,838
Other	-	-	3,154	-	3,154
Derivatives	47	1,084	-	-	1,131
Total plan investments assets	**$ 1,086,568**	**$ 21,309**	**$ 6,557**	**$ 4,350,532**	**$ 5,464,966**
Liabilities associated with investments					
Investments sold, but not yet purchased	(14,522)	-	-	-	(14,522)
Other liabilities	(1,476)	(1,546)	-	-	(3,022)
Total plan investment liabilities	**(15,998)**	**(1,546)**	**-**	**-**	**(17,544)**
Total plan investments	**$ 1,070,570**	**$ 19,763**	**$ 6,557**	**$ 4,350,532**	**$ 5,447,422**

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

I. Retirement Benefits (continued)

TABLE 23B. RETIREE WELFARE BENEFIT PLAN INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2023					
Cash and short-term investments	$ 29,984	$ -	$ -	$ -	$ 29,984
US Treasury	143,492	-	-	-	143,492
US government agency	-	1,587	-	-	1,587
Domestic bonds	-	15	-	-	15
Common equity:					
Domestic	35,006	-	-	-	35,006
Foreign	66,664	1,871	519	-	69,054
Equity:*					
Absolute return	-	-	-	117,866	117,866
Domestic	-	-	-	67,526	67,526
Foreign	-	-	-	105,107	105,107
Private	-	-	-	296,593	296,593
Real estate*	141	-	-	51,008	51,149
Real assets*	-	-	-	10,051	10,051
Other	523	-	278	-	801
Derivatives	13	278	-	-	291
Total plan investment assets	**$ 275,823**	**$ 3,751**	**$ 797**	**$ 648,151**	**$ 928,522**
Liabilities associated with investments					
Investments sold, but not yet purchased	(17,129)	-	-	-	(17,129)
Other liabilities	(661)	(347)	-	-	(1,008)
Total plan investment liabilities	**(17,790)**	**(347)**	**-**	**-**	**(18,137)**
Total plan investments	**$ 258,033**	**$ 3,404**	**$ 797**	**$ 648,151**	**$ 910,385**
Fiscal Year 2022					
Cash and short-term investments	$ 18,948	$ -	$ -	$ -	$ 18,948
US Treasury	159,334	-	-	-	159,334
US government agency	-	2,893	-	-	2,893
Domestic bonds	-	2	-	-	2
Common equity:					
Domestic	20,106	-	-	-	20,106
Foreign	46,562	2,098	539	-	49,199
Equity:*					
Absolute return	-	-	-	137,190	137,190
Domestic	-	-	-	71,213	71,213
Foreign	-	-	-	118,896	118,896
Private	-	-	-	315,005	315,005
Real estate*	223	-	-	47,109	47,332
Real assets*	-	-	-	8,316	8,316
Other	-	-	557	-	557
Derivatives	8	188	-	-	196
Total plan investment assets	**$ 245,181**	**$ 5,181**	**$ 1,096**	**$ 697,729**	**$ 949,187**
Liabilities associated with investments					
Investments sold, but not yet purchased	(2,563)	-	-	-	(2,563)
Other liabilities	(260)	(273)	-	-	(533)
Total plan investment liabilities	(2,823)	(273)	-	-	(3,096)
Total plan investments	**$ 242,358**	**$ 4,908**	**$ 1,096**	**$ 697,729**	**$ 946,091**

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

I. Retirement Benefits (continued)

The plans have made commitments to make periodic contributions in future periods to investments managed by external managers, 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 the remaining unfunded commitments and current redemption terms and restrictions by asset class and type of investment for both the defined benefit pension plan and retiree welfare benefit plan are provided in Table 24 below as of June 30, 2023, and 2022.

TABLE 24. UNFUNDED COMMITMENTS AND REDEMPTON TERMS AND RESTRICTIONS

	2023		2022			
(in thousands of dollars)	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value	Redemption Terms	Days Notice
Defined Benefit Pension Plan						
Equity:						
Absolute return[1]	$ 17,848	$ 682,055	$ 17,579	$ 772,179	Ranges from 2 months to 48 months[5]	30 to 365 days
Domestic[2]	387	428,764	387	438,094	Ranges from 4 months to 48 months[5]	1 to 120 days
Foreign[3]	-	569,442	-	672,825	Ranges from 4 months to 48 months[5]	40 to 91 days
Private	514,984	1,943,173	560,217	2,108,178	Close-ended funds not available for redemption	Not redeemable
Real estate	215,100	315,555	166,113	298,418	Close-ended funds not available for redemption	Not redeemable
Real Assets[4]	3,905	65,228	8,194	60,838	4 months[5]	90 days
Total	**$ 752,224**	**$ 4,004,217**	**$ 752,490**	**$ 4,350,532**		
Retiree Welfare Benefit Plan						
Equity:						
Absolute return[1]	$ 2,581	$ 117,866	$ 2,468	$ 137,190	Ranges from 2 months to 48 months[5]	30 to 365 days
Domestic[2]	43	67,526	43	71,213	Ranges from 4 months to 48 months[5]	1 to 120 days
Foreign[3]	-	105,107	-	118,896	Ranges from 4 months to 48 months[5]	40 to 91 days
Private	84,811	296,593	92,935	315,005	Close-ended funds not available for redemption	Not redeemable
Real estate	36,284	51,008	26,108	47,109	Close-ended funds not available for redemption	Not redeemable
Real Assets[4]	651	10,051	1,382	8,316	4 months[5]	90 days
Total	**$ 124,370**	**$ 648,151**	**$ 122,936**	**$ 697,729**		

[1]Absolute return funds include funds that have remaining lock-up provisions up to 55 months.

[2]Domestic funds include funds that have remaining lock-up provisions up to 24 months.

[3]Foreign funds include funds that have remaining lock-up provisions up to 25 months.

[4] Real asset funds include funds that have remaining lock-up provisions up to 8 months.

[5] Includes funds that are not available for redemption.

I. Retirement Benefits (continued)

Target allocations and weighted-average asset allocations of the investment portfolios for MIT's defined benefit pension plan and retiree welfare benefit plan as of June 30, 2023, and 2022, are shown in Table 25 below.

TABLE 25. PLAN INVESTMENT ALLOCATION

	Defined Benefit Pension Plan			Retiree Welfare Benefit Plan		
	2023 Target Allocation	2023	2022	2023 Target Allocation	2023	2022
Cash and short-term investments	0-10%	3%	3%	0-10%	3%	2%
Fixed income	3-13%	11%	10%	10-20%	16%	17%
Equities	41.5-88.5%	66%	66%	34-84%	61%	60%
Marketable alternatives	12-22%	13%	14%	12.5-22.5%	13%	15%
Real assets	0-6%	1%	1%	0-5.5%	1%	1%
Real estate	0.5-10.5%	6%	6%	0-8%	6%	5%
Total		**100%**	**100%**		**100%**	**100%**

Expected Future Benefit Payments

In fiscal 2024, MIT does not expect to contribute to its defined benefit pension plan or to the retiree welfare benefit plan. These valuations assume a 7.25 percent and 6.75 percent expected return on assets for the defined benefit pension plan and retiree welfare benefit plan, respectively. MIT elected to adopt Pri-2012 mortality tables for employees and retirees issued by the Society of Actuaries (SOA) in October 2019. Mortality rates are projected generationally from the base year of 2012 using Scale MP-2021. The base tables are unchanged from last year.

Table 26 below reflects the total expected benefit payments for the defined benefit pension plan and retiree welfare benefit plan over the next ten years. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations as of June 30, 2023.

TABLE 26. EXPECTED FUTURE BENEFIT PAYMENTS

(in thousands of dollars)	Pension Benefits	Retiree Welfare Benefits*
2024	$ 208,170	$ 31,011
2025	232,348	34,377
2026	245,943	37,042
2027	258,025	39,488
2028	269,129	41,785
2029 - 2033	1,482,216	240,234

**Retiree Welfare Benefits reflect 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

Tables 27A and 27B present the composition of net assets as of June 30, 2023, and June 30, 2022, respectively. The amounts listed in the without donor restrictions category under the endowment funds sections 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 net assets with donor restrictions in other funds is pledges, the majority of which will be reclassified to Net assets without donor restrictions when cash is received.

TABLE 27A. 2023 TOTAL NET ASSET COMPOSITION

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds			
General purpose	$ 2,028,800	$ 2,198,534	$ 4,227,334
Departments and research	1,192,747	3,345,304	4,538,051
Library	18,983	84,256	103,239
Salaries and wages	918,914	5,626,221	6,545,135
Graduate general	140,658	390,732	531,390
Graduate departments	406,456	1,366,189	1,772,645
Undergraduate	390,026	2,556,294	2,946,320
Prizes	15,166	87,927	103,093
Miscellaneous	1,700,812	985,427	2,686,239
Endowment funds before pledges	6,812,562	16,640,884	23,453,446
Pledges	-	161,960	161,960
Total endowment funds	6,812,562	16,802,844	23,615,406
Other Funds			
Student-related loan funds	17,134	23,716	40,850
Building funds	89,988	5,001	94,989
Designated purposes:			
Departments and research	557,304	-	557,304
Other purposes	280,532	16,859	297,391
Life income funds and donor-advised funds	94,731	242,814	337,545
Pledges	-	449,227	449,227
Other funds available for current expenses	4,174,940	642,805	4,817,745
Retirement benefits overfunded	888,247	-	888,247
Funds for educational plant	1,084,267	-	1,084,267
Total other funds	7,187,143	1,380,422	8,567,565
Total net assets	**$ 13,999,705**	**$ 18,183,266**	**$ 32,182,971**

J. Components of Net Assets and Endowment (continued)

TABLE 27B. 2022 TOTAL NET ASSET COMPOSITION

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
General purpose	$ 2,187,620	$ 2,367,431	$ 4,555,051
Departments and research	1,236,136	3,582,491	4,818,627
Library	20,493	90,855	111,348
Salaries and wages	984,539	6,040,369	7,024,908
Graduate general	151,845	421,161	573,006
Graduate departments	423,061	1,421,348	1,844,409
Undergraduate	420,235	2,739,370	3,159,605
Prizes	16,367	94,707	111,074
Miscellaneous	1,712,462	690,319	2,402,781
Endowment funds before pledges	7,152,758	17,448,051	24,600,809
Pledges	-	139,053	139,053
Total endowment funds	7,152,758	17,587,104	24,739,862
Other Funds			
Student-related loan funds	17,542	23,716	41,258
Building funds	67,987	11,093	79,080
Designated purposes:			
Departments and research	543,694	-	543,694
Other purposes	231,303	20,373	251,676
Life income funds and donor-advised funds	97,353	256,228	353,581
Pledges	-	445,950	445,950
Other funds available for current expenses	4,514,579	590,474	5,105,053
Retirement benefits overfunded	695,229	-	695,229
Funds for educational plant	975,148	-	975,148
Total other funds	7,142,835	1,347,834	8,490,669
Total net assets	**$ 14,295,593**	**$ 18,934,938**	**$ 33,230,531**

MIT's endowment consists of approximately 4,700 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds that function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated 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 the 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. In accordance with UPMIFA, the Executive Committee considers the following factors in deciding 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

J. Components of Net Assets and Endowment (continued)

Table 28 below reflects changes in endowment net assets without and with donor restrictions for fiscal 2023 and fiscal 2022, respectively.

TABLE 28. CHANGES IN ENDOWMENT NET ASSETS

(in thousands of dollars)	Without Donor Restriction	With Donor Restriction	Total
Fiscal Year 2023			
Endowment net assets, July 1, 2022	$ 7,152,758	$ 17,587,104	$ 24,739,862
Investment return:			
Net Investment income	(1,262)	4,531	3,269
Realized and unrealized gains/(losses)	(79,123)	(186,683)	(265,806)
Total investment return	(80,385)	(182,152)	(262,537)
Contributions	-	129,034	129,034
Appropriation of endowment assets for expenditure	(325,542)	(767,739)	(1,093,281)
Other changes:			
Net asset reclassifications and transfers	65,731	36,597	102,328
Endowment net assets, June 30, 2023	**$ 6,812,562**	**$ 16,802,844**	**$ 23,615,406**
Fiscal Year 2022			
Endowment net assets, July 1, 2021	$ 8,028,079	$ 19,499,125	$ 27,527,204
Investment return:			
Net Investment income	947	9,626	10,573
Realized and unrealized gains/(losses)	(675,631)	(1,558,081)	(2,233,712)
Total investment return	(674,684)	(1,548,455)	(2,223,139)
Contributions	-	217,216	217,216
Appropriation of endowment assets for expenditure	(248,978)	(585,567)	(834,545)
Other changes:			
Net asset reclassifications and transfers	48,341	4,785	53,126
Endowment net assets, June 30, 2022	**$ 7,152,758**	**$ 17,587,104**	**$ 24,739,862**

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. The effective spending rate on pooled endowed funds was 4.4 percent, or 4.9 percent on a three-year-average basis, and 3.1 percent, or 4.4 percent on a three-year-average basis, for fiscal 2023 and fiscal 2022, respectively.

Pool A operates as a mutual fund with units purchased and redeemed based on the previous month's unit market value. Certain endowed assets are also maintained in separately invested funds.

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 $117.97 and $90.52 per Pool A unit as of fiscal 2023 and fiscal 2022, respectively. For separately invested endowment funds, only the annual investment income generated is distributed for spending. For any underwater endowment funds, the distribution of funds for operational support is at the discretion of the Executive Committee.

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

(in thousands of dollars)	2023	2022	2021	2020	2019
Financial Position					
Investments, at fair value	$ 30,692,919	$ 32,548,631	$ 34,793,438	$ 24,364,668	$ 22,083,156
Land, buildings, and equipment, at cost less					
accumulated depreciation	5,016,660	4,686,460	4,475,962	4,306,769	3,993,253
Borrowings, net of unamortized issuance costs	4,484,462	4,657,050	3,929,034	4,194,017	3,168,422
Total assets	38,637,992	39,883,400	42,526,492	30,505,530	27,750,820
Total liabilities	6,455,021	6,652,869	6,080,123	6,288,599	4,981,815
Net assets without donor restriction	13,999,705	14,295,593	15,725,732	9,582,028	9,175,946
Net assets with donor restrictions	18,183,266	18,934,938	20,720,637	14,634,903	13,593,059
Total net assets	32,182,971	33,230,531	36,446,369	24,216,931	22,769,005
Total endowment funds before pledges	23,453,446	24,600,809	27,394,039	18,381,518	17,443,750
Principal Sources of Revenues					
Tuition and similar revenues, exclusive of					
financial aid	$ 409,031	$ 415,252	$ 344,303	$ 374,669	$ 383,736
Sponsored support:					
Campus direct	657,193	608,753	578,900	597,357	598,903
Lincoln direct	1,166,956	1,072,814	1,073,876	1,042,970	1,017,344
SMART direct	23,857	21,639	28,246	32,635	44,980
Indirect cost recovery	215,004	284,643	276,103	268,004	240,938
Total sponsored support	2,063,010	1,987,849	1,957,125	1,940,966	1,902,165
Contributions	553,280	686,680	505,184	523,751	602,096
Net return on investments	(282,724)	(2,056,207)	10,889,913	2,142,655	1,970,892
Distribution of investment returns	1,360,833	1,022,202	912,642	911,874	875,428
Principal Purposes of Expenditures					
Expenses	$ 4,338,274	$ 3,993,328	$ 3,728,725	$ 3,743,780	$ 3,710,797
Compensation*	2,274,055	2,111,924	2,059,954	2,002,434	1,910,957
Other operating	1,390,513	1,286,588	1,106,791	1,211,209	1,246,351
Space-related	673,706	594,816	561,980	530,137	553,489

** Compensation includes the non-service-cost components of net periodic benefit costs.*

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

(in thousands of dollars)	2023	2022	2021	2020	2019
Sponsored Support					
Campus					
Federal government sponsored:					
Health and Human Services	$ 163,298	$ 148,837	$ 138,873	$ 135,355	$ 136,873
Department of Defense	134,214	140,341	131,960	137,621	142,178
Department of Energy	89,876	82,583	71,983	66,618	67,506
National Science Foundation	118,456	107,600	95,052	99,424	96,802
National Aeronautics and Space Administration	38,062	40,331	36,199	37,429	35,554
Other Federal	36,838	35,107	24,481	27,748	23,620
Total Federal	580,744	554,799	498,548	504,195	502,533
Non-Federally sponsored:					
State/local/foreign governments	26,729	29,341	28,469	25,102	27,921
Foundations	87,040	85,743	76,109	83,731	97,810
Other nonprofits	49,246	37,907	36,568	37,101	36,926
Industry	189,477	176,585	191,367	211,271	208,231
Total Non-Federal	352,492	329,576	332,513	357,205	370,888
Total Federal and non-Federal	933,236	884,375	831,061	861,400	873,421
F&A and other adjustments	(115,275)	(38,415)	(20,628)	(44,102)	(75,940)
Total Campus	817,961	845,960	810,433	817,298	797,481
Lincoln Laboratory					
Federal government sponsored	1,192,218	1,111,075	1,085,592	1,097,487	1,048,801
Non-Federally sponsored	28,753	24,258	23,638	18,291	17,467
F&A and other adjustments	(346)	(15,513)	8,772	(25,160)	(6,884)
Total Lincoln Laboratory	1,220,625	1,119,820	1,118,002	1,090,618	1,059,384
SMART *					
Non-Federally sponsored	24,424	22,069	28,690	33,050	45,300
Total SMART	24,424	22,069	28,690	33,050	45,300
Total Sponsored Support	**$ 2,063,010**	**$ 1,987,849**	**$ 1,957,125**	**$ 1,940,966**	**$ 1,902,165**

* *The amounts represent research that has predominantly taken place in Singapore.*

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

	2023	2022	2021	2020	2019
Students					
Undergraduate:					
Full-time	4,601	4,588	4,234	4,501	4,557
Part-time	56	50	127	29	45
Undergraduate applications:					
Applicants	33,767	33,240	20,075	21,312	21,706
Accepted	1,337	1,365	1,457	1,427	1,464
Acceptance rate	4%	4%	7%	7%	7%
Enrolled	1,136	1,177	1,070	1,102	1,114
Yield	85%	86%	73%	77%	76%
Freshmen ranking in the top 10% of their class	97%	99%	100%	95%	98%
Average SAT scores (math and verbal)	1,543	1,538	1,539	1,532	1,528
Graduate:					
Full-time	7,024	7,199	6,766	6,862	6,845
Part-time	177	97	127	128	127
Graduate applications:					
Applicants	33,991	37,798	30,699	29,114	28,826
Accepted	3,906	3,834	4,448	3,670	3,516
Acceptance rate	11%	10%	14%	13%	12%
Enrolled	2,380	2,339	2,284	2,312	2,321
Yield	61%	61%	51%	63%	66%
Tuition *(in dollars)*					
Tuition and fees	$ 57,986	$ 55,878	$ 53,450	$ 53,790	$ 51,832
Average room and board	18,790	18,100	16,000	16,390	15,510
Student Support *(in thousands of dollars)*					
Undergraduate tuition support	$ 173,868	$ 163,555	$ 159,206	$ 157,544	$ 147,321
Graduate tuition support	355,961	337,507	324,181	312,260	301,026
Fellowship stipends	68,840	55,243	51,793	45,080	44,979
Student employment	151,579	149,517	140,441	136,927	132,300
Total student support	**$ 750,248**	**$ 705,822**	**$ 675,621**	**$ 651,811**	**$ 625,626**
Faculty and Staff *(including unpaid appointments)*					
Faculty	1,080	1,069	1,064	1,067	1,056
Staff and fellows	15,247	14,653	15,121	15,584	15,366

Photo: John Horner
Courtesy: NADAAA

Report of the Treasurer

for the year ended
June 30, 2023

Massachusetts
Institute of
Technology