Report of the Treasurer

for the year ended
June 30, 2020

Massachusetts
Institute of
Technology

Report of the Treasurer

for the year ended June 30, 2020

Massachusetts
Institute of
Technology

The Corporation
2019–2020

as of June 30, 2020

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Report of the Treasurer

To the Members of the Corporation

During fiscal 2020, the Institute demonstrated strong financial performance despite the profound challenges brought about by the COVID-19 pandemic. MIT closed the year with net assets of $24,216.9 million and net results of $187.0 million. Pooled investments yielded a return of 8.3 percent, as measured using valuations received within one month of fiscal year-end.

This performance reflects the generosity of MIT's donors and friends in supporting the Institute with philanthropy and success in investing contributions to sustain our mission. The Institute's ability to successfully steward MIT's future continues to be bolstered by the Campaign for a Better World, with $5.7 billion raised as of the end of fiscal 2020, or 95 percent of the $6 billion expanded goal. The COVID-19 pandemic affected the Institute's finances during the final few months of fiscal 2020, causing both revenue losses and decreased expenditures related to reducing campus activity and moving quickly to remote work and learning in early March to protect the health and safety of our community.

We anticipate larger pressures on fiscal 2021 finances as we implement steps to operate the campus safely for those faculty, staff, and students returning for limited classroom-based instruction and the pursuit of research requiring access to campus laboratories and facilities, and otherwise to support our community during uniquely challenging times. These pressures include a loss of student-related revenue as we mandate reduced density in residence halls to keep residents safe and provide financial relief to all undergraduates through a $5,000 one-time grant to offset their annual cost to attend MIT. The Institute is similarly incurring additional costs to meet faculty and staff childcare needs that have been accentuated by the pandemic. We are investing in the capacity to perform over 100,000 COVID-19 tests each month for those accessing the campus, as part of a comprehensive program to ensure a safe campus environment.

Prudent management of Institute resources and strong investment performance since the Great Recession of 2008-09 provide us with reserves to absorb a significant measure of COVID-related fiscal pressures without endangering MIT's capacity to sustain its mission. The Institute has leveraged these capabilities and will continue to do so. But we must also continue to be disciplined and cautious with our approach to ongoing fiscal management, mindful that we face significant uncertainties about the duration of the pandemic and the trajectory of macroeconomic dynamics affecting the performance of our endowment. The Institute has implemented targeted cost controls and moderated support from our endowment for operations in fiscal 2021 to help provide resilience to adapt to a wide range of potential short- and long-term financial impacts from COVID-19, and we continue to assess fiscal strategies required to weather this unprecedented challenge.

As we began to understand the magnitude of the pandemic and its impact on society, we came together as a community to confront the enormous undertaking of maintaining business continuity, fulfilling academic commitments, and maintaining the research enterprise in the face of a global pandemic. The campus population was quickly de-densified to protect public health as undergraduate students vacated residence halls, research was scaled back, and most staff members were compelled to work remotely.

The City of Cambridge implemented a temporary emergency construction moratorium on all construction activity to mitigate the impact of COVID-19, and all capital construction activities on campus were paused in mid-March. The suspension was later lifted, allowing campus construction to resume in June. Research activities ramped up over the summer, and we have begun a new academic year while maintaining a posture of preparedness amidst highly uncertain conditions.

SUMMARY OF KEY FINANCIAL HIGHLIGHTS (10-YEAR TREND)

(in millions of dollars)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,765	3,002	3,196	3,135	3,302	3,439	3,566	3,641	3,932	3,951
Expenses*	2,553	2,723	2,884	2,897	3,084	3,319	3,430	3,536	3,711	3,764
Net Results	212	279	312	237	218	120	136	105	221	187
Net Assets	12,106	12,495	13,858	16,028	17,507	16,929	19,125	21,517	22,769	24,217
Endowment	9,713	10,150	10,858	12,425	13,475	13,182	14,832	16,400	17,444	18,382
Net Borrowings	2,456	2,449	2,417	2,904	2,905	2,892	3,288	3,259	3,168	4,194

*Expenses include all components of net periodic benefit costs

In the face of these immense challenges, MIT has demonstrated its excellence, accelerating the implementation of tools and practices to expeditiously enable online teaching and remote work activities, and successfully responding to disruptions in the supply chain. MIT Medical has put into practice a comprehensive COVID-19 testing program for the MIT community in collaboration with the Broad Institute, with the capacity to complete testing and contact tracing for faculty, students, and staff returning to campus this fall.

As we work to address the immediate impacts of the pandemic, President Rafael Reif has charged Task Force 2021 and Beyond to develop “the blueprints for building a better MIT” for the post-pandemic world. Co-chaired by Chair of the Faculty Rick Danheiser and Vice President for Open Learning Sanjay Sarma, and comprised of approximately 150 faculty, staff, and students, the Task Force is organized into a series of working groups across four workstreams: academic, administrative, finance and data, and community and culture. Together, the community is reflecting on the unprecedented experiences of these past months, while working to imagine and create an even more inspired institute, capable of delivering on our aspirations for education, research, and innovation.

The following sections provide additional details regarding MIT’s fiscal 2020 financial statements: Consolidated Statements of Financial Position, Statement of Activities, and Statements of Cash Flows.

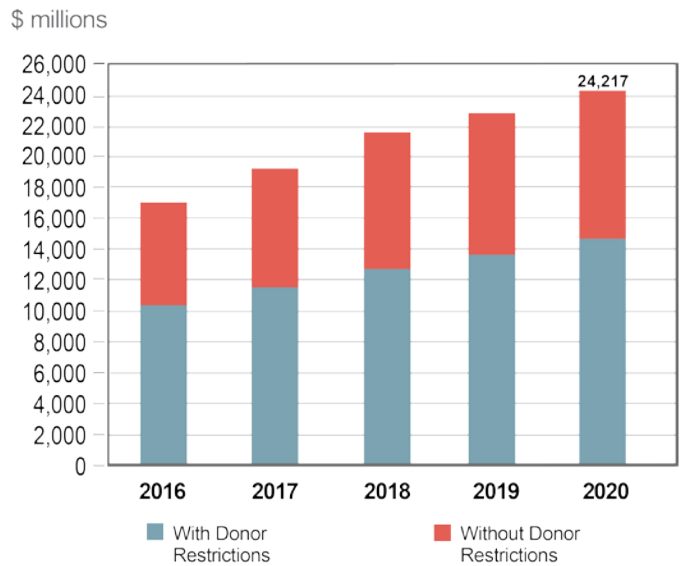
Net results, as presented in MIT’s Statement of Activities, is the measure to which the Institute manages its annual budget and is used in financial reports presented to MIT’s leadership, including the Executive Committee and the Corporation. It is a comprehensive measure of MIT’s annual financial performance, including operating activity and all components of our annual retirement benefit costs that serve as a basis for cost recovery.

The 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 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 activities costs included in net results.

Consolidated Statements of Financial Position

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

Net Assets



Total net assets increased to $24,216.9 million, an increase of 6.4 percent from fiscal 2019. Net assets are presented in two distinct categories to recognize the significant ways in which universities are different from profit-making organizations. The two categories reflect the nature of the restrictions placed on gifts by donors.

In fiscal 2020, net assets with donor restrictions increased $1,041.8 million, or 7.7 percent, to $14,634.9 million. The increase was primarily due to net return on donor-endowed investments and new donor-endowed gifts and pledges, partially offset by endowment gains distributed for spending. Net assets without donor restrictions increased $406.1 million, or 4.4 percent, to $9,582.0 million. The increase was primarily due to positive net results and net return on quasi-endowed and non-endowed investments, partially offset by investment gains distributed for spending and postretirement plan changes other than net periodic benefit costs.

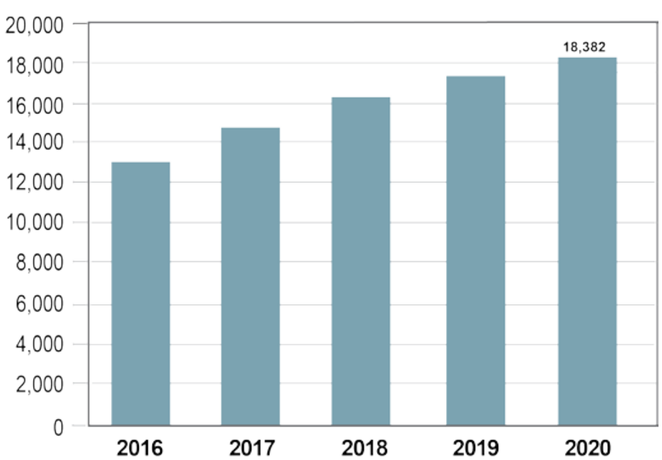
Investments

Investments at fair value were $24,364.7 million as of fiscal year-end 2020, an increase of $2,281.5 million, or 10.3 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 yielded a net return on investments of $2,142.7 million in fiscal 2020, and $1,970.9 million in fiscal 2019. The increase in the value of investments in both years was substantially driven by realized and unrealized gains 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, thereby allowing the Institute to access the best investment talent globally. By identifying a wide variety of top-tier investment managers with specific competencies, MIT is able to construct a broadly diversified portfolio while accessing deep sector expertise. Decision authority for the selection of managers, direct investments, and asset allocation resides with MIT's Investment Management Company (MITIMCo). The Board of Directors of MITIMCo holds four regularly scheduled meetings during the fiscal year in which investment policy, performance, and asset allocation are reviewed.

Endowment (without pledges)

$ millions



Endowment assets, the largest component of total investments, are managed to maximize total investment return relative to appropriate risk. The market value of investments in endowment funds, excluding pledges for endowed purposes, totaled $18,381.5 million as of fiscal year-end 2020, an increase of 5.4 percent compared to a total of $17,443.8 million last year.

This year, MIT's pooled investments (Pool A) produced a return of 8.3 percent, as measured using valuations received within one month of fiscal year-end. Investment income and a portion of gains are distributed for spending in a manner that preserves the long-term purchasing power of the endowment. Endowment funds invested in Pool A, MIT's primary investment pool, receive distributions based on relative ownership, which is valued monthly.

Land, Buildings, and Equipment

Land, buildings, and equipment had a net book value of $4,306.8 million as of fiscal year-end 2020, an increase of $313.5 million, or 7.9 percent. The Institute had a total of 134 capital projects under construction in fiscal 2020 with a cumulative spend of $859.5 million. Though we have adopted a more paced level of investment in our campus gated by fundraising for the coming decade, MIT continues to realize significant improvements in campus infrastructure and the surrounding innovation ecosystem.

As noted above, on March 18, 2020, the City of Cambridge implemented a temporary emergency construction moratorium on all construction activity to mitigate the impact of COVID-19, and as a result, all capital construction activities on campus were paused at that time. This stoppage was later lifted, allowing on-campus construction to resume in early June. The Campus Construction team worked tirelessly with the many contractors on campus to safely pause capital construction projects in response to the construction stoppage, and later to safely restart these projects.

As a result of the stoppage, completion of key capital construction projects has been delayed. The Vassar Street undergraduate residence originally slated to open in September 2020 is now targeted for completion at the beginning of the 2021 calendar year. Further down Vassar Street, work is ongoing to refurbish the Central Utilities Plant (CUP), with completion delayed from October 2020 to April 2021. And the Kendall Square site containing a graduate student residence with 454 units, an MIT childcare facility, an Innovation and Entrepreneurship (I&E) Hub, and a new MIT Welcome Center, originally set to open in September 2020, is now targeted for completion in the late fall of 2020.

Despite these delays, the Kendall Square streetscape is quickly taking shape, and the Square is being transformed into a gateway to MIT—an urban, mixed-use district with a focus on strengthening community interaction and the area's innovation and academic ecosystems. Plans include outdoor seating, public art, and a variety of landscapes and plantings to activate the open spaces in Kendall Square at MIT with year-round programming, offering the Cambridge, Kendall, and MIT communities opportunities for serendipitous interactions.

The Engine Accelerator, Inc., initially launched in October of 2016 to provide a home for tough-tech founders to create the next generation of world-changing companies, has continued to gain momentum. Effective June 30, 2020, The Engine's first investment fund had invested in 25 companies, and The Engine is now raising its second investment fund. In order to accommodate this growth, construction of The Engine expansion facility at 750 Main Street is underway.

A renovation of the landmark Wright Brothers Wind Tunnel is also in progress, and is expected to result in the most advanced academic wind tunnel in the nation. In addition, the Hayden Library and Pierce Boathouse renovations are nearing completion.

MIT continues to demonstrate its commitment to improving housing for both graduate and undergraduate students. In addition to the 450-bed residence hall that will soon open on Vassar Street, and the new graduate student residence and childcare facility in Kendall Square, MIT announced that it will soon begin to expand west campus housing options by constructing a new building with 550 beds on the site of the West Lot parking area and Building W89. Once finished, this project will complete our 2017 pledge to add 950 graduate student beds to our housing system.

Design work continued during the construction stoppage. Projects in design include a state-of-the-art building for MIT's music program to be constructed in close proximity to Kresge Auditorium, the MIT Stephen A. Schwarzman College of Computing building to be located on Vassar Street on the site of Building 44, the addition to Building 54 for the Department of Earth, Atmospheric and Planetary Sciences, and the historic Metropolitan Warehouse, which will be home to the School of Architecture and Planning.

Addressing deferred maintenance continues to be prioritized as an integral part of the overall capital program. Fiscal 2016 was the first year in recent decades with a reduction in deferred maintenance, and progress has continued since that time. For the fifth consecutive year, MIT's investment in campus renewal has had a positive impact on reducing deferred maintenance. The facility condition index (FCI), which is the ratio of deferred maintenance to replacement value, has decreased from 0.24 in fiscal 2016 to 0.18 at the end of fiscal 2020. Large renovation projects and the renewal of core infrastructure systems have been completed across much of the campus, reducing the backlog of deferred maintenance to $1,449.1 million, which is a 2 percent decrease from fiscal 2019. The replacement of Eastgate graduate student housing, which has high levels of deferred maintenance, with the new graduate student residence in Kendall Square will enable MIT to realize further reductions. At the end of fiscal 2020, the total campus backlog was equal to $112 per square foot, down from a peak of $150 per 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 $4,278.1 million as of fiscal year-end 2020, an increase of $219.9 million from fiscal year-end 2019. The plan's projected liabilities were $4,830.0 million as of fiscal year-end 2020, up $361.7 million from a year earlier. This resulted in a $141.9 million increase in net pension liabilities, totaling $551.9 million as of fiscal year-end 2020.

MIT also maintains a retiree welfare benefit plan that covers retiree expenses associated with medical and life insurance benefits. This plan had assets of $760.5 million as of fiscal year-end 2020, an increase of $49.4 million from fiscal year-end 2019. The plan's projected liabilities were $668.5 million as of fiscal year-end 2020, up $55.0 million from a year earlier. This resulted in a net asset position of $92.1 million at fiscal year-end 2020, a decrease of $5.6 million.

The changes in asset values of both plans in 2020 were primarily a function of payments made to beneficiaries, investment performance, and contributions. The change in pension liabilities was driven by higher pension obligations due to one more year of benefits being earned by MIT's employees and decreases in the discount rates used to discount expected future cash payments to MIT retirees. The discount rates for each plan were derived by identifying a theoretical settlement portfolio of high-quality corporate bonds sufficient to provide for the plan's projected benefit obligations. The year-over-year discount rates decreased 41 and 43 basis points as of June 30 for the defined benefit pension plan and retiree welfare benefit plan, respectively, due to the prevailing interest rate environment at fiscal year-end 2020.

On a generally accepted accounting principles (GAAP) basis at fiscal year-end 2020, the defined benefit pension plan had a funding level of 88.6 percent, down from 90.8 percent one year earlier. The retiree welfare benefit plan had a funding level of 113.8 percent at fiscal year-end 2020, a decrease from 115.9 percent one year earlier. There were no designated contributions to the defined benefit pension plan, and there was a $1.5 million contribution to the retiree welfare benefit plan during fiscal 2020. The investments of both plans' assets are managed by MITIMCo.

MIT also offers a 401(k) plan to its employees, which is not reflected in the 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 $5,347.1 million as of fiscal year-end.

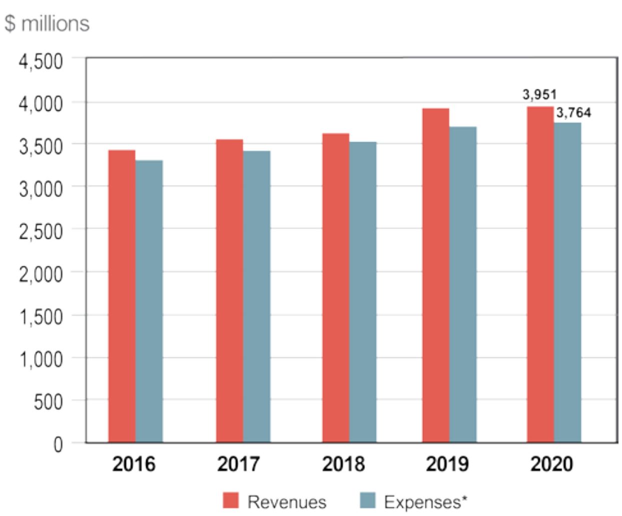
Borrowings

In fiscal year 2020, borrowings increased $1,025.6 million, or 32.4 percent, to $4,194.0 million. The increase was primarily due to the issuance of new taxable bonds, Series F and G, for $300 million and $350 million, respectively, and new tax-exempt bonds, Series P for $210 million, as well as a draw on a longstanding line of credit for an additional $250 million. The issuances of new taxable and tax-exempt bonds were planned borrowings to support capital construction. The line of credit draw was a strategic measure to bolster the Institute's short-term liquidity in light of the uncertain financial impacts of the pandemic. These increases were offset by principal payments of $66.4 million on the taxable Series D bonds, and $10.6 million on the tax-exempt Series M bonds.

MIT's financial strength is reviewed periodically by both Moody's Investors Service and S&P Global Ratings. In fiscal year 2020, the Institute maintained its "Aaa" and "AAA" ratings, respectively.

Consolidated Statement of Activities

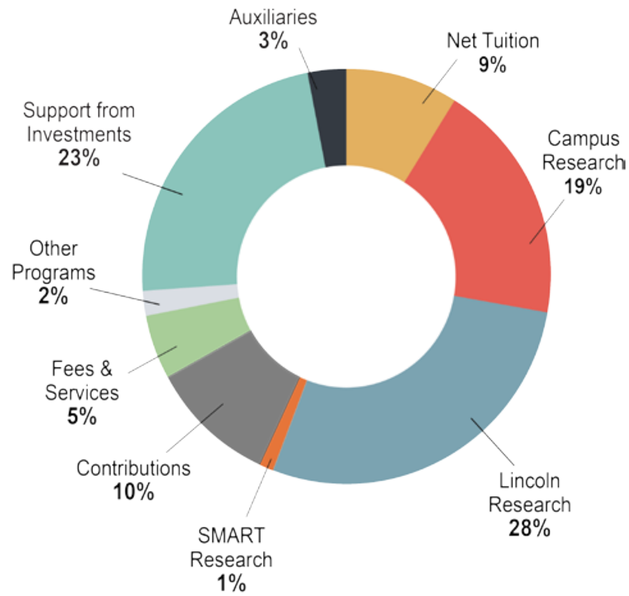
Revenues and Expenses



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

MIT ended fiscal 2020 with net results of $187.0 million. This is $34.1 million, or 15.4 percent, less than the fiscal 2019 result. Operating revenues increased $18.7 million, or 0.5 percent, to $3,950.6 million, while operating expenses together with all other components of net periodic retirement benefit costs increased $52.8 million, or 1.4 percent, to $3,763.6 million. Year-over-year comparisons of revenues and expenses are presented on the graph above.

Revenues



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

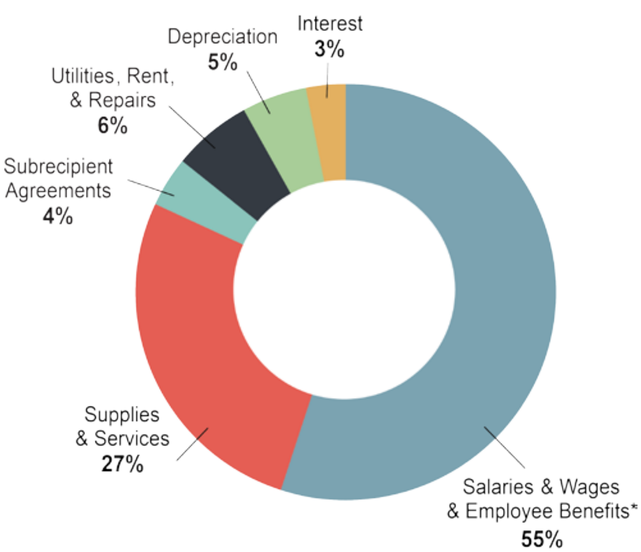
Tuition revenue for graduate and undergraduate programs, combined with tuition revenue for non-degree programs, decreased by $9.1 million, or 2.4 percent, to $374.7 million. This change was driven by a decrease of $11.8 million, or 14.7 percent, in non-degree program revenue, seen mostly in Executive Education at the Sloan School of Management. Undergraduate and graduate tuition increased $2.7 million, or 0.9 percent. Undergraduate tuition decreased $6.0 million, or 5.6 percent, as tuition at published rates grew by $3.7 million, or 1.6 percent, while financial aid grew by $9.7 million, or 7.5 percent. Graduate tuition increased by $8.7 million, or 4.4 percent, as tuition at published rates grew by $20.4 million, or 4.7 percent, while financial aid grew by $11.7 million, or 4.9 percent. The increase in tuition at published rates for undergraduates was driven by a 3.7 percent tuition rate increase partially offset by a 1.7 percent decrease is enrollment. The increase in tuition at published rates for graduates was driven by a 3.7 percent tuition rate increase and slight increase in enrollment.

Research revenues increased $31.4 million, or 1.7 percent, to $1,864.3 million in 2020, driven by increases in direct and indirect research revenues of $4.3 million and $27.1 million, respectively. Campus direct research revenue decreased $8.9 million, or 1.7 percent, driven by a slowdown in research activities in the last quarter of the fiscal year due to the pandemic, as well as an increase in the portion of research activities funded by internal Institute sources. Federal direct research activity decreased by 0.2 percent and non-federal research activity decreased by 0.7 percent. Lincoln direct research revenue increased $25.6 million, or 2.5 percent, driven by an increase in federal research activity. The Singapore-MIT Alliance for Research and Technology (SMART) direct revenue decreased $12.3 million, or 27.4 percent, due to a decrease in funding from the National Research Foundation of Singapore. The $27.1 million increase in indirect research revenue was due principally to growth in recoverable costs.

Support from investments increased $36.4 million, or 4.2 percent, primarily due to an increase in distribution from pooled investments in support of operations. The effective spending rate on pooled investments funds was 4.3 percent, or 4.8 percent on a three-year-average basis, in fiscal 2020.

Operating contributions, which include gifts and bequests for current use and expendable pledge payments, decreased $22.2 million, or 5.5 percent.

Expenses



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

MIT's operating expenses, combined with all other components of net periodic retirement benefit costs, increased $52.8 million, or 1.4 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 rose 4.3 percent. Average annualized salaries and wages for campus grew by 3.3 percent, while the number of full-time-equivalent employees increased 1.1 percent. Employee benefit expenses, together with all components of net periodic benefit costs for the retirement plans, increased 6.8 percent, driven by increases in annual costs associated with the defined benefit pension and the retiree welfare benefit plans, partially offset by a decrease in employee medical costs, driven by a drop in utilization due to the pandemic.

During fiscal 2020, expenses related to supplies and services decreased $2.2 million, or 0.2 percent, to $1,067.0 million. Subrecipient agreements decreased $13.1 million, or 7.4 percent, driven by fewer subawards at Lincoln and SMART. Utilities, rent, and repair expenses decreased $18.1 million, or 7.9 percent, driven by a decrease in repair expenses at Lincoln. Depreciation expenses increased $3.4 million, or 1.7 percent. Interest expenses decreased $8.7 million, or 6.9 percent, driven by an increase in capitalized interest due to construction costs in Kendall Square.

Other Revenues, Gains, and Losses Summary

Other revenues, gains, and losses contributed $1,260.9 million towards MIT's fiscal 2020 increase in net assets of $1,447.9 million. Other revenues, gains, and losses include net return on investments, contributions, and other changes, offset by changes in retirement plan obligations, and investment spending distribution. In fiscal 2020, net return on investments less spending distribution increased net assets by $1,230.8 million. Contributions revenue in other revenue, gains, and losses, which includes net current year pledge revenue and endowed gifts and bequests, increased net assets by $140.4 million, while changes in retirement plan obligations decreased net assets by $122.8 million.

Contributions

Contributions to MIT provide support for scholarships, fellowships, professorships, research, educational programming, student life activities, and the construction and renovation of buildings. Gifts and pledges (contributions) for fiscal 2020 totaled $523.8 million, a decrease of 13.0 percent from the fiscal 2019 total of $602.1 million. Contributions from individuals represented 38.5 percent of new gifts and pledges in fiscal 2020, up from 35.4 percent in fiscal 2019. Contributions from foundations represented 44.9 percent of new gifts and pledges in fiscal 2020, down from 51.6 percent in fiscal 2019. Contributions from corporations and other sources represented 16.6 percent of new gifts and pledges in fiscal 2020, up from 13.1 percent in fiscal 2019. New gifts and pledges for research and education were the largest categories of contributions for fiscal 2020.

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 note the investing activities as presented in the cash flow are an integral part of operations, since a large portion of operating activity is funded through distributions from pooled investments. In fiscal 2020, support from investments comprised 31.7 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 Statement of Activities (depreciation, net gain on investments, change in retirement plans' net assets, etc.), changes in certain non-cash assets and liabilities, and other reclassifications—consumed $359.6 million of cash in fiscal 2020. Net investing activities consumed $753.6 million in cash, due to spending on capital projects and purchases of investments, partially offset by proceeds from sales of investments to cover the Institute's endowment spending distribution. Cash provided by net financing activities was $1,157.6 million in fiscal 2020, driven primarily by proceeds from borrowings.

MIT's full consolidated financial statements and notes further describing our financial position, activities, and cash flows through June 30, 2020, are included on the following pages.

Closing Remarks

In closing, I want to express my deep gratitude for the pioneering leadership of Israel Ruiz as Vice President for Finance and Executive Vice President and Treasurer over the past 12 years. His vision and determination helped MIT realize far-reaching aspirations such as the revitalization of Kendall Square and the creation of The Engine and the MIT Stephen A. Schwarzman College of Computing. Israel likewise played a leading role in laying the strong fiscal foundation that has proven to be so important to our efforts to navigate the challenges posed by COVID-19.

MIT's response to COVID-19, across every dimension, is itself a testament to the Institute's innovative and resilient spirit. Our community has rapidly adapted to new modes of learning and working, collaborating to sustain MIT's mission in the face of a pandemic. In observing this, it is difficult to be anything but thoroughly optimistic that we will see these challenging times through to a bright future. With the unwavering commitment and support of our faculty, students, staff, alumni, friends, and members of the Corporation, we continue to imagine an even more inspired MIT intent on making a better world.

Respectfully submitted,

Glen Shor
Interim Executive Vice President and Treasurer
September 11, 2020

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Report of Independent Auditors

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

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, 2020 and 2019, and the related consolidated statement of activities for the year ended June 30, 2020 and statements of cash flows for the years ended June 30, 2020 and 2019.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Institute of Technology and its subsidiaries as of June 30, 2020 and 2019, the changes in their net assets for the year ended June 30, 2020, and their cash flows for the years ended June 30, 2020 and 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the consolidated financial statements, the Institute changed the manner in which it presents restricted cash and certain other cash balances within the statements of cash flows. Our opinion is not modified with respect to this matter.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2019, 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 September 13, 2019, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2019 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

September 11, 2020

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MASSACHUSETTS INSTITUTE OF TECHNOLOGY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as of June 30, 2020 and 2019

(in thousands of dollars)	2020	2019
Assets		
Cash	$ 572,448	$ 405,678
Accounts receivable, net	262,986	283,196
Pledges receivable, net, at fair value	620,340	583,383
Contracts in progress, principally US government	99,886	103,307
Deferred charges and other assets	186,360	201,131
Investments, at fair value	24,364,668	22,083,156
Net asset position - retiree welfare benefit plan	92,073	97,716
Land, buildings, and equipment (at cost of $6,334,817 for June 2020; $5,878,485 for June 2019), net of accumulated depreciation	4,306,769	3,993,253
Total assets	**$ 30,505,530**	**$ 27,750,820**
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accruals, and other liabilities	$ 646,072	$ 596,255
Deferred revenue and other credits	206,154	157,372
Advance payments	457,567	440,110
Liabilities due under life income fund agreements, at fair value	232,921	209,611
Borrowings, net of unamortized issuance costs	4,194,017	3,168,422
Net liability position - defined benefit pension plan	551,868	410,045
Total liabilities	**$ 6,288,599**	**$ 4,981,815**
Net Assets:		
Without donor restrictions	9,582,028	9,175,946
With donor restrictions	14,634,903	13,593,059
Total net assets	**$ 24,216,931**	**$ 22,769,005**
Total liabilities and net assets	**$ 30,505,530**	**$ 27,750,820**

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, 2020
(with summarized financial information for the year ended June 30, 2019)

	2020		Total	
(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	2020	2019
Operating Revenues				
Tuition and similar revenues, exclusive of financial aid of $387,338 in 2020 and $365,954 in 2019	$ 374,669	$ -	$ 374,669	$ 383,736
Research revenues:				
Campus	740,592	-	740,592	728,153
Lincoln	1,090,618	-	1,090,618	1,059,384
SMART	33,050	-	33,050	45,300
Total research revenues	1,864,260	-	1,864,260	1,832,837
Contributions	359,783	23,578	383,361	405,538
Fees and services	212,768	-	212,768	216,619
Other programs	87,711	-	87,711	79,632
Support from investments:				
Endowment	737,202	-	737,202	699,333
Other investments	174,672	-	174,672	176,095
Total support from investments	911,874	-	911,874	875,428
Auxiliary enterprises	115,981	-	115,981	138,132
Total revenues	$ 3,927,046	$ 23,578	$ 3,950,624	$ 3,931,922
Operating Expenses				
Salaries and wages	$ 1,593,091	$ -	$ 1,593,091	$ 1,527,709
Employee benefits	537,409	-	537,409	516,790
Supplies and services	1,066,952	-	1,066,952	1,069,183
Subrecipient agreements	164,095	-	164,095	177,168
Utilities, rent, and repairs	211,701	-	211,701	229,755
Total expenses before depreciation and interest	3,573,248	-	3,573,248	3,520,605
Results of operations before depreciation and interest	353,798	23,578	377,376	411,317
Depreciation	201,659	-	201,659	198,242
Interest expense	116,777	-	116,777	125,492
Results of operations	35,362	23,578	58,940	87,583
Net periodic benefit (cost) income other than service cost	128,066	-	128,066	133,542
Net results	$ 163,428	$ 23,578	$ 187,006	$ 221,125
Other Revenues, Gains, and Losses				
Contributions	$ -	$ 140,390	$ 140,390	$ 196,558
Net return on investments	804,828	1,337,827	2,142,655	1,970,892
Distribution of accumulated investment gains	(365,207)	(546,667)	(911,874)	(875,428)
Other changes	13,702	(1,184)	12,518	148,973
Postretirement plan changes other than net periodic benefit cost (income)	(122,769)	-	(122,769)	(409,896)
Net asset reclassifications and transfers	(87,900)	87,900	-	-
Total other revenue, gains, and losses	242,654	1,018,266	1,260,920	1,031,099
Increase in net assets	406,082	1,041,844	1,447,926	1,252,224
Net assets at the beginning of the year	9,175,946	13,593,059	22,769,005	21,516,781
Net assets at the end of the year	**$ 9,582,028**	**$ 14,634,903**	**$ 24,216,931**	**$ 22,769,005**

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, 2020 and 2019

(in thousands of dollars)	2020	2019
Cash Flow from Operating Activities		
Increase in net assets	$ 1,447,926	$ 1,252,224
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments	(2,149,914)	(1,776,949)
Change in retirement plan asset, net of accrued benefit liability	147,466	408,956
Depreciation	201,659	198,242
Net gain on life income funds	(13,464)	(14,960)
Amortization of bond premiums and discounts and other adjustments	(2,315)	(17,508)
Change in operating assets and liabilities:		
Pledges receivable	(36,957)	(23,241)
Accounts receivable	15,492	(23,705)
Contracts in progress	3,421	(4,386)
Deferred charges and other assets	15,359	(15,116)
Accounts payable, accruals, and other liabilities, excluding building and equipment accruals	51,065	51,385
Liabilities due under life income fund agreements	43,057	40,090
Deferred revenue and other credits	57,756	34,470
Advance payments	17,457	(9,120)
Reclassification of donated securities	(9,848)	(43,286)
Reclassification of investment income for restricted purposes	(5,028)	(4,404)
Reclassification of contributions restricted for long-term investment	(142,683)	(185,885)
Net cash and restricted cash used in operating activities	(359,551)	(133,193)
Cash Flow from Investing Activities		
Purchase of land, buildings, and equipment	(516,950)	(495,164)
Purchases of investments	(8,227,259)	(8,068,067)
Proceeds from sale of investments	7,986,183	8,693,127
Student notes issued	(5,143)	(5,038)
Collections from student notes	9,586	10,478
Net cash and restricted cash (used in) provided by investing activities	(753,583)	135,336
Cash Flow from Financing Activities		
Proceeds from sale of donated securities restricted for endowment	9,848	43,286
Investment income for restricted purposes	5,028	4,404
Contributions restricted for long-term investment	142,683	185,885
Payments to beneficiaries of life income funds	(19,747)	(17,928)
Proceeds from borrowings	1,105,742	-
Repayment of borrowings	(77,030)	(89,474)
Increase (decrease) in government advances for student loans	(8,974)	338
Net cash and restricted cash provided by financing activities	1,157,550	126,511
Net increase in cash and restricted cash	44,416	128,654
Cash and restricted cash at the beginning of the year	984,542	855,888
Cash and restricted cash at the end of the year	**$ 1,028,958**	**$ 984,542**

Supplemental Information on Cash and Restricted Cash:		
Cash as shown in the statements of financial position	$ 572,448	$ 405,678
Cash and restricted cash included in Investments (see Note B)	443,876	566,818
Restricted cash included in Other Assets (see Note G)	12,634	12,046
Total cash and restricted cash as shown on the Consolidated Statements of Cash Flows	**$ 1,028,958**	**$ 984,542**

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

Notes to Consolidated Financial Statements

A. Accounting Policies

Basis of Presentation

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

Net assets, revenues, expenses, and gains and losses are classified into two categories based on the existence or absence of donor-imposed restrictions. The categories are 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 where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (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 Statement of Activities. These amounts are released back to net assets without donor restrictions, through the net asset reclassification 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 (i.e., 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, research, contributions (expendable gifts and pledge payments), fees and services, other programs, support from investments, and auxiliary revenue.

Net results, as presented in MIT's 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) income that serve as a basis for cost recovery.

The 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) 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 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, 2020, there are no significant uncertain positions taken or expected to be taken.

Cash

Certain cash balances, totaling $82.6 million and $65.4 million as of June 30, 2020 and 2019, respectively, are restricted for use under certain sponsored research agreements or are held on behalf of a related party. These amounts are included within the cash line in the Consolidated Statements of Financial Position.

The Institute had approximately $561.7 million and $393.5 million as of June 30, 2020 and 2019, 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 financial statements in the amount of $59.4 million and $49.1 million during 2020 and 2019, respectively. Land, buildings, and equipment as of June 30, 2020 and 2019 are shown in Table 1 below.

TABLE 1. LAND, BUILDINGS, AND EQUIPMENT

(in thousands of dollars)	2020	2019
Land	$ 107,557	$ 107,557
Land improvements	84,414	84,374
Educational buildings	4,787,262	4,682,090
Equipment	392,726	377,377
Software	52,757	60,408
Total	5,424,716	5,311,806
Less: accumulated depreciation	(2,028,048)	(1,885,232)
Construction in progress	909,979	562,740
Software projects in progress	122	3,939
Net land, buildings, and equipment	**$ 4,306,769**	**$ 3,993,253**

Depreciation expense was $201.7 million in 2020 and $198.2 million in 2019. Net interest expense of $31.2 million and $17.9 million was capitalized during 2020 and 2019, 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)	2020	2019
Undergraduate and graduate programs*	$ 306,287	$ 303,593
Executive and continuing education programs	68,382	80,143
Tuition and similar revenues	**$ 374,669**	**$ 383,736**

** Undergraduate and graduate programs at published rates totaled $693,625 and $669,547 in 2020 and 2019, respectively, and financial aid applied to undergraduate and graduate programs was $387,338 and $365,954 in 2020 and 2019, 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

	2020			2019		
(in thousands of dollars)	Institute Sources	External Sponsors	Total Student Support	Institute Sources	External Sponsors	Total Student Support
Undergraduate tuition support	$ 138,041	$ 19,503	$ 157,544	$ 128,365	$ 18,956	$ 147,321
Graduate tuition support	249,297	62,963	312,260	237,589	63,437	301,026
Fellowship stipends	29,982	15,098	45,080	28,509	16,470	44,979
Student employment	51,251	85,676	136,927	48,978	83,322	132,300
Total	**$ 468,571**	**$ 183,240**	**$ 651,811**	**$ 443,441**	**$ 182,185**	**$ 625,626**

A. Accounting Policies (continued)

Research Revenues and Advance Payments

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

TABLE 4. RESEARCH REVENUES

(in thousands of dollars)	2020	2019
Direct:		
Campus	$ 529,410	$ 538,350
Lincoln	1,042,970	1,017,344
SMART	32,635	44,980
Total direct	1,605,015	1,600,674
Total indirect	259,245	232,163
Total research revenues	**$ 1,864,260**	**$ 1,832,837**

Almost all of Lincoln and SMART research revenue, and a portion of Campus research revenue, come from exchange contracts. Research revenue related to exchange contracts is recognized as MIT fulfills the terms of the agreements, which generally span less than five years. Almost all of Campus research revenue, and a portion of Lincoln and SMART research revenue, comes from non-exchange contracts. Research revenue associated with non-exchange contracts is recognized as the qualified expenditures are incurred. Research activities at Lincoln, for which the contractual performance obligations have not yet been met, totaled $752.3 million and $757.4 million as of 2020 and 2019, respectively. Research activities on campus, which are contractually authorized by the sponsor, but for which costs have not yet been incurred, totaled $785.6 million and $763.9 million as of 2020 and 2019, 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. The majority of these payments relate to activity at Lincoln.

Indirect research revenue includes the portion of facilities and administrative expenses that is attributed to research activities. MIT has recorded reimbursement of indirect costs relating to sponsored research at negotiated fixed billing rates. The revenue generated by the negotiated rates is adjusted each fiscal year to reflect any variance between the negotiated fixed rates and rates based on actual cost. The actual cost rate is audited by the Defense Contract Audit Agency (DCAA), and a final fixed-rate agreement is signed by the US government and MIT. The variance between the negotiated fixed rate and the final audited rate results in a carryforward (over- or under-recovery). The carryforward is included in the calculation of negotiated fixed billing rates in future years. Any adjustment in the rate is charged or credited to net assets without donor restrictions.

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 $72.9 million and $116.9 million in 2020 and 2019, 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 $10.9 million in 2020 and $0.7 million in 2019. 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 records items of collections as gifts at nominal value. They are received for educational purposes, and most are displayed throughout MIT. In general, collections are not disposed of for financial gain or otherwise encumbered in any manner.

Fees and Services, Auxiliary Enterprises, and Other Programs

For the majority of the revenue streams included in fees and services and auxiliary enterprises, revenue is recognized over the period during which the services are provided. Other program revenue primarily consists of non-research sponsored activities. Other program revenue related to exchange contracts is recognized as MIT fulfills the terms of the agreements, which generally span less than five years, and other program revenue related to non-exchange contracts is recognized as the related costs are incurred. Non-research sponsored activities, for which the contractual performance obligations have not yet been met, totaled $211.4 million and $188.7 million as of June 30, 2020 and 2019, respectively.

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 5 below.

TABLE 5. LIABILITIES DUE UNDER LIFE INCOME FUNDS

(in thousands of dollars)	2020	2019
Balance at the beginning of the year	$ 209,611	$ 187,449
Addition for new gifts	9,336	19,785
Termination and payments to beneficiaries	(23,029)	(22,682)
Net investment and actuarial gain	37,003	25,059
Balance at end of the year	**$ 232,921**	**$ 209,611**

Recently Adopted Accounting Standards

On July 1, 2019, the Institute adopted ASU 2016-15 - *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which provides clarification on classifying a variety of activities within the Statements of Cash Flows. The adoption of this standard did not have a material impact to the Institute's Statements of Cash Flows.

On July 1, 2019, the Institute adopted ASU 2016-18 - *Statement of Cash Flows* (Topic 230): *Restricted Cash*. Under this new guidance, the Institute must identify all cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents within the Statements of Financial Position for inclusion in the beginning and ending totals within the Statements of Cash Flows. The Institute has evaluated and applied this guidance on a retrospective basis and included all applicable cash balances within the Statements of Cash Flows.

On July 1, 2018, the Institute adopted ASU No. 2018-08 - *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which amends the accounting guidance related to (1) evaluating whether transactions should be accounted for as contributions or exchange transactions, and (2) determining whether a contribution is conditional.

The Institute has evaluated and applied the guidance on a modified prospective basis to the financial statements and added the required additional revenue disclosures. The adoption of this standard did not have a significant impact on the Institute's financial statements.

On July 1, 2018, the Institute adopted ASU No. 2014-09 - *Revenue from Contracts with Customers* (Topic 606), which outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 requires new and enhanced disclosures. These changes do not have a material impact on MIT's financial statements.

On July 1, 2018, the Institute adopted ASU No. 2017-07 - *Compensation - Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This guidance requires the service cost component of net periodic benefit costs for pension and other postretirement benefits to be presented as a component part of employee benefit expense. The other components of net periodic benefit costs, such as interest, expected return on plan assets, and amortization of net actuarial gains and losses, are required to be presented outside of operating activities. This change is reflected in the Institute's Statement of Activities.

On July 1, 2018, the Institute adopted ASU No. 2016-14 - *Not-for-Profit-Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit-Entities.* This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include presentation of two classes of net assets versus the previously required three, and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classifications. These changes are reflected in the Institute's financial statements and footnotes.

On July 1, 2018, the Institute adopted ASU 2018-13 - *Fair Value Measurement* (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.* Following this new guidance, the Institute is no longer required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. Additionally, the Institute has added to the disclosures in the Level 3 Valuation Techniques table to include the weighted average of the unobservable inputs presented therein. Lastly, for investments in certain entities that calculate net asset value, the requirement to disclose the estimated period of time over which the underlying assets might be liquidated is modified to only require disclosure if the investee has communicated the timing to the Institute or announced the timing publicly.

A. Accounting Policies (continued)

Non-Cash Items

Non-cash transactions excluded from the Consolidated Statements of Cash Flows include \$33.6 million and \$34.9 million of accrued liabilities related to plant and equipment purchases as of June 30, 2020 and 2019, respectively.

Use of Estimates

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

Reclassifications

Certain June 30, 2019, balances and amounts previously reported have been reclassified to conform to the June 30, 2020, presentation.

Subsequent Events

MIT has evaluated subsequent events through September 11, 2020, the date on which the financial statements were issued. There were no subsequent events that occurred after the balance sheet date that have a material impact on MIT's financial statements.

Summarized Information

The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MIT's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

B. Investments

Investments are presented at fair value in accordance with GAAP. 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, evaluating the overall fairness and consistent application of the valuation policies, and performing specific reviews of certain reported valuations. The Committee performs due diligence over the external managers and, based on this review, substantiates the use of net asset value (NAV) as a practical expedient for estimates of fair value of its investments in externally managed funds. The Committee is comprised of senior personnel with members who are independent of investment functions. The Committee meets biannually, or more frequently as needed. Members of the Committee report annually to MIT's Risk and Audit Committee. 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.

Exchange and over-the-counter investment transactions are accounted for on the trade date. External fund investment transactions are accounted for on the settle date. Dividend income is recorded on the ex-dividend date. Interest and real estate income are recorded on the accrual basis of accounting. Realized gains and losses are recorded by MIT using the average cost method. For external funds, the realized gains and losses are recognized subsequent to the return of all capital invested.

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 on the Consolidated Statements of Financial Position and in restricted cash included in investments on the Statements of Cash Flows.

MIT values its investments at fair value on the Consolidated Statements of Financial Position in accordance with GAAP which 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 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, which are observable, either directly or indirectly.
- Level 3 – Valuations based upon unobservable inputs that are significant to the overall fair value measurements.

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 6.

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

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.

B. Investments (continued)

Investments in non-exchange-traded debt are primarily valued using independent pricing sources that use broker quotes or models using observable market inputs.

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

As a practical expedient, MIT is permitted under GAAP to estimate the fair value of its investments with external managers using the external managers' reported NAV without further adjustment, unless MIT expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with GAAP.

Level 3 investments are valued by MIT based upon valuation information received from the relevant entity, which may include last trade information, third-party appraisals of real estate, or valuations prepared in connection with the administration of an employee stock ownership plan. MIT may also utilize industry standard valuation techniques, including discounted cash flow models. The significant unobservable inputs used in the fair value measurements of MIT's direct investments may include their cost of capital and equity and industry risk premiums.

Significant increases or decreases in these inputs in isolation may result in a significantly lower or higher fair value measurement, respectively. Split-interest agreements are generally valued at the present value of the future distributions expected to be received over the term of the agreement.

Over-the-counter positions, such as interest rate and total return swaps, credit default swaps, options, exchange agreements, and interest rate cap and floor agreements, are valued using broker quotes or models using market-observable inputs. Because the swaps and other over-the-counter derivative instruments have inputs that can usually be corroborated by observable market data, they are generally classified within Level 2. Derivatives usually include exchange traded derivatives, such as futures and options, and are generally classified within Level 1.

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 6. The liabilities associated with real estate investments were $331.3 million and $606.3 million in fiscal years 2020 and 2019, respectively. MIT's 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.

All net realized and unrealized gains and losses relating to financial instruments held by MIT shown in Table 6 are reflected in the Consolidated Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled $1,549.7 million and $1,766.6 million as of June 30, 2020 and 2019, respectively.

Certain investments in real estate, equities, and private investments may be subject to restrictions that: (i) limit MIT's ability to withdraw capital after such investment; and (ii) may limit the amount that may be withdrawn as of a given redemption date. Most absolute return, domestic equity, and foreign equity commingled funds limit withdrawals to monthly, quarterly, or other periods, and may require notice periods. In addition, certain of these funds are able to designate a portion of the investments as illiquid in "side-pockets," and these funds may not be available for withdrawal until liquidated by the investing fund. Generally, MIT has no discretion as to withdrawal with respect to its investments in private equity, 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.

B. Investments (continued)

Table 6 presents MIT's investments at fair value as of June 30, 2020 and 2019, respectively, grouped by the valuation hierarchy as defined earlier in this note.

TABLE 6. INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2020					
Cash and short-term investments	$ 567,092	$ 19,562	$ -	$ -	$ 586,654
US Treasury	1,881,118	-	-	-	1,881,118
US government agency	-	268,878	-	-	268,878
Domestic bonds	13,877	406,895	113,689	-	534,461
Foreign bonds	1,533	77,371	-	-	78,904
Common equity:					
Domestic	28,101	1	234,413	-	262,515
Foreign	472,971	-	13,502	-	486,473
Equity:**					
Absolute return	-	-	-	3,829,785	3,829,785
Domestic	-	-	-	2,487,684	2,487,684
Foreign	-	-	-	3,983,707	3,983,707
Private	-	-	-	5,903,638	5,903,638
Real estate*	2,579	-	2,884,164	887,799	3,774,542
Real assets*	-	-	356	202,096	202,452
Split-interest agreements	-	-	78,322	-	78,322
Other	-	-	2,507	-	2,507
Derivatives	13	3,015	-	-	3,028
Investments, at fair value	**$ 2,967,284**	**$ 775,722**	**3,326,953**	**$ 17,294,709**	**$ 24,364,668**
Fiscal Year 2019					
Cash and short-term investments	$ 1,346,557	$ -	$ -	$ -	$ 1,346,557
US Treasury	1,303,772	-	-	-	1,303,772
US government agency	635	119,688	-	-	120,323
Domestic bonds	17,923	363,871	108,735	-	490,529
Foreign bonds	6,016	89,831	-	-	95,847
Common equity:					
Domestic	24,055	-	234,516	-	258,571
Foreign	361,095	-	-	-	361,095
Equity:**					
Absolute return	-	-	-	2,777,992	2,777,992
Domestic	-	-	-	2,184,287	2,184,287
Foreign	-	-	-	4,423,446	4,423,446
Private	-	-	-	4,973,152	4,973,152
Real estate*	39,903	-	2,377,201	850,402	3,267,506
Real assets*	-	-	384	315,515	315,899
Split-interest agreements	-	-	159,098	-	159,098
Other	26	-	2,923	-	2,949
Derivatives	(274)	2,407	-	-	2,133
Investments, at fair value	**$ 3,099,708**	**$ 575,797**	**$ 2,882,857**	**$ 15,524,794**	**$ 22,083,156**

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

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

B. Investments (continued)

Table 7 below is a rollforward of the investments classified by MIT within Level 3 of the fair value hierarchy defined earlier in this note as of June 30, 2020 and 2019.

TABLE 7. 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 2020							
Domestic bonds	$ 108,735	$ -	$ -	$ 12,581	$ (7,627)	$ -	$ 113,689
Common equity:							
Domestic	234,516	1,198	(103)	-	(1,198)	-	234,413
Foreign	-	-	(1,179)	308	-	14,373	13,502
Real estate	2,377,201	447,658	(167,180)	664,959	(516,167)	77,693	2,884,164
Real assets	384	-	(28)	-	-	-	356
Split-interest agreements	159,098	190	(47,636)	-	(33,330)	-	78,322
Other	2,923	-	(691)	275	-	-	2,507
Investments, at fair value	**$ 2,882,857**	**$ 449,046**	**$ (216,817)**	**$ 678,123**	**$ (558,322)**	**$ 92,066**	**$ 3,326,953**
Fiscal Year 2019							
Domestic bonds	$ 104,896	$ -	$ -	$ 12,929	$ (9,090)	$ -	$ 108,735
Common equity:							
Domestic	202,840	2,366	3,273	27,131	(2,371)	1,277	234,516
Foreign	-	-	-	-	-	-	-
Real estate	2,385,683	697,689	(23,269)	759,841	(1,442,262)	(481)	2,377,201
Real assets	184	-	-	200	-	-	384
Split-interest agreements	156,494	(160)	2,407	11	(107)	453	159,098
Other	4,216	(71)	72	-	(1)	(1,293)	2,923
Investments, at fair value	**$ 2,854,313**	**$ 699,824**	**$ (17,517)**	**$ 800,112**	**$ (1,453,831)**	**$ (44)**	**$ 2,882,857**

Table 8 below sets forth a summary of valuation techniques and quantitative information utilized in determining the fair value of MIT's Level 3 investments as of June 30, 2020 and 2019.

TABLE 8. LEVEL 3 VALUATION TECHNIQUES

(in thousands of dollars)	Fair Value as of June 30, 2020	Fair Value as of June 30, 2019	Valuation Technique	Unobservable Input	2020 Rates	2020 Weighted Average	2019 Rates
Real estate	$ 2,884,164	$ 2,377,201	Discounted cash flow	Discount rate	4.75-8.25%	6.66%	4.75-8.5%
			Capitalization rate	Capitalization rate	4.25-7.0%	5.32%	4.25-7.0%
Equity securities	191,663	191,766	Discounted cash flow	Discount rate	12.5%	12.5%	12.5%
Split-interest agreements	78,322	159,098	Net present value	Discount rate	0.85%	0.85%	3.1%
Real assets	356	384	Discounted cash flow	Discount rate	25.0%	25.0%	25.0%
Total assets	**$ 3,154,505**	**$ 2,728,449**					

Certain Level 3 assets totaling $172,448 and $154,408 as of June 30, 2020, and June 30, 2019, respectively, have been valued using unadjusted third party quotations and thus have been excluded from this table.

B. Investments (continued)

MIT has made investments in various long-lived partnerships, and in other cases has entered into contractual arrangements that may limit its ability to initiate redemptions due to notice periods, lock-ups, and gates. Details on estimated remaining term and current redemption terms and restrictions by asset class and type of investment are provided below in Table 9 as of June 30, 2020 and 2019.

TABLE 9. UNFUNDED COMMITMENTS

	2020		2019			
(in thousands of dollars)	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value	Redemption Terms	Redemption Restrictions
Equity:						
Absolute return	$ 76,043	$ 3,829,785	$ 100,834	$ 2,777,992	Ranges from 30 days to 27 months[3]	30 to 365 days
Domestic[1]	51,757	2,487,684	23,152	2,184,287	Ranges from 2 months to 25 months[3]	30 to 90 days
Foreign[2]	-	3,983,707	51,675	4,423,446	Ranges from daily to 38 months[3]	0 to 180 days
Private	2,100,480	5,903,638	2,060,191	4,973,152	Closed-end funds not available for redemption	Not Applicable
Real estate	698,589	887,799	570,559	850,402	Closed-end funds not available for redemption	Not Applicable
Real assets	79,850	202,096	94,787	315,515	Ranges from 1 month to 4 months[3]	Lock up provision ranges from none to not redeemable
Total	**$ 3,006,719**	**$ 17,294,709**	**$ 2,901,198**	**$ 15,524,794**		

[1]*Domestic funds include funds that have remaining lock-up provisions up to 36 months.*

[2]*Foreign funds include funds that have remaining lock-up provisions up to 33 months.*

[3]*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 its exposure to extreme market events and fluctuations in asset classes or currencies. Instruments utilized include fixed income futures, options on interest rate exchange agreements, credit default swaps, equity, and index options.

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

MIT's portfolio of interest rate caps and swaptions is designed for protection from significant increases in interest rates. An interest rate swaption is an option to enter into an interest rate swap agreement on pre-set terms at a future date. The purchaser and seller of the swaption agree on the expiration date, option type, exercise style, the terms of the underlying swap, and the type of settlement. As the expiration date approaches, the swaption holder can either notify the seller of its intention to exercise or let the option expire. An interest rate cap places a ceiling on a floating rate of interest on a specified notional principal amount for a specific term. The buyer of the cap uses the cap contract to limit its maximum interest rate exposure.

If the buyer's floating rate rises above the cap strike, the cap contract provides for payments from the seller to the buyer of the cap for the difference between the floating rate and the cap strike. If the floating rate remains below the cap strike, no payments are required. The cap buyer is required to pay an upfront fee or premium for the cap. The cap premium charged by the seller depends upon the market's assessment of the probability that rates will move through the cap strike over the time horizon of the deal. The payoff is expected to occur in extreme market conditions that would negatively impact MIT's other assets.

Derivatives held by limited partnerships and commingled investment vehicles pose no off-balance sheet risk to MIT due to the limited liability structure of these investments. To manage the counterparty credit exposure of MIT's direct off-balance sheet financial instruments, MIT requires collateral to the maximum extent possible under normal trading practices. Collateral is moved on a daily basis as required by fluctuations in the market. The collateral is generally in the form of debt obligations issued by the US Treasury or cash. In the event of counterparty default, MIT has the right to use the collateral to offset the loss associated with the replacement of the agreements. MIT enters into arrangements only with counterparties believed to be creditworthy. On June 30, 2020, 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.

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C. Derivative Financial Instruments and Collateral (continued)

Table 10 summarizes the notional exposure and net ending fair value relative to the financial instruments with off-balance sheet risk as of June 30, 2020 and 2019, related to MIT's investment management.

TABLE 10. DERIVATIVE FINANCIAL INSTRUMENTS

(in thousands of dollars)	Notional Exposure Long	Notional Exposure Short	Net Ending Fair Value*	Net Gain (Loss)**
Fiscal Year 2020				
Fixed income and equity instruments:				
Fixed income futures	$ 19,100	$ (6,100)	$ 13	$ 2
Options on interest rate exchange agreements	839,000	-	1	(24)
Equity options	53	-	43	43
Total fixed income and equity instruments	858,153	(6,100)	57	21
Index instruments:				
Equity index swaps	-	(499,730)	(321)	(7,834)
Index options	299	-	3,407	397
Total index instruments	299	(499,730)	3,086	(7,437)
Credit instruments	-	(33,806)	(115)	587
2020 Total	**$ 858,452**	**$ (539,636)**	**$ 3,028**	**$ (6,829)**
Fiscal Year 2019				
Fixed income and equity instruments:				
Fixed income futures	$ 19,400	$ (10,400)	$ (274)	$ (1,021)
Options on interest rate exchange agreements	839,000	-	26	(1,061)
Equity options	-	-	-	-
Total fixed income and equity instruments	858,400	(10,400)	(248)	(2,082)
Index instruments:				
Equity index swaps	-	-	-	10,366
Index options	299	-	3,010	(343)
Total index instruments	299	-	3,010	10,023
Credit instruments	-	(31,130)	(629)	(276)
2019 Total	**$ 858,699**	**$ (41,530)**	**$ 2,133**	**$ 7,665**

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

*** Net gain (loss) from the derivative financial instruments is located in other revenue, gains, and losses as net return on investments in the Consolidated Statement of Activities.*

C. Derivative Financial Instruments and Collateral (continued)

Table 11 below provides further details related to MIT's credit instruments and summarizes the notional amounts and fair value of the purchased credit derivatives, classified by the expiration terms and the external credit ratings of the reference obligations as of June 30, 2020 and 2019.

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

TABLE 11. CREDIT DERIVATIVE INSTRUMENTS

	Purchased Protection		
(in thousands of dollars)	Purchased Notional Amounts	Purchased Fair Value*	Notional Amounts < 5 Years to Maturity
Fiscal Year 2020			
Credit rating on underlying or index:			
A- to AAA	$ -	$ -	$ -
BBB- to BBB+	33,806	(115)	33,806
2020 Total	**$ 33,806**	**$ (115)**	**$ 33,806**
Fiscal Year 2019			
Credit rating on underlying or index:			
A- to AAA	$ 8,018	$ (226)	$ 8,018
BBB- to BBB+	23,112	(403)	23,112
2019 Total	**$ 31,130**	**$ (629)**	**$ 31,130**

** The fair value of all instruments is reflected in Investments, at fair value, in the Consolidated Statements of Financial Position.*

C. Derivative Financial Instruments and Collateral (continued)

Counterparty risk may be partially or completely mitigated through master netting agreements included within an International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement between MIT and each of its counterparties. The ISDA Master Agreement allows MIT to offset with the counterparty certain derivative instruments' payables and/or receivables with collateral held with/from each counterparty. To the extent amounts due from the counterparties are not fully collateralized, contractually or otherwise, there is the risk of loss from counterparty non-performance.

Maximum risk of loss from counterparty credit risk on over-the-counter derivatives is generally the aggregate unrealized appreciation in excess of any collateral pledged by the counterparty. ISDA Master Agreements allow MIT or the counterparties to an over-the-counter derivative to terminate the contract prior to maturity in the event either party fails to meet the terms in the ISDA Master Agreements. This would cause an accelerated payment of net liability, if owed to the counterparty.

Tables 12 and 13 below summarize the effect that the offsetting of recognized assets and liabilities could have in the Consolidated Statements of Financial Position.

TABLE 12. OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES

	2020			2019		
(in thousands of dollars)	Gross Amount	Cash/Treasury Collateral Posted (Received)	Net Amount	Gross Amount	Cash/Treasury Collateral Posted (Received)	Net Amount
Assets						
Derivatives	$ 3,645	$ (13,690)	$ (10,045)	$ 3,089	$ (3,344)	$ (255)
Repurchase agreements	12,217	(5,068)	7,149	201,176	(206,468)	(5,292)
Total assets	15,862	(18,758)	(2,896)	204,265	(209,812)	(5,547)
Liabilities						
Derivatives	(630)	260	(370)	(682)	420	(262)
Total liabilities	(630)	260	(370)	(682)	420	(262)
Total assets and liabilities, net	**$ 15,232**	**$ (18,498)**	**$ (3,266)**	**$ 203,583**	**$ (209,392)**	**$ (5,809)**

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

TABLE 13. RECONCILIATION OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES

(in thousands of dollars)	2020	2019
Derivatives from Table 6	$ 3,028	$ 2,133
Repurchase agreements	12,217	201,176
Fixed income futures	(13)	274
Total	**$ 15,232**	**$ 203,583**

D. Pledges Receivable

Table 14 below shows the time periods in which pledges receivable as of June 30, 2020 and 2019, are expected to be realized.

TABLE 14. PLEDGES RECEIVABLE

(in thousands of dollars)		2020		2019
In one year or less	$	316,174	$	304,760
Between one year and five years		274,365		259,400
More than five years		98,441		83,790
Less: allowance for unfulfilled pledges		(68,640)		(64,567)
Pledges receivable, net	**$**	**620,340**	**$**	**583,383**

A review of pledges is periodically made with regard to 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 are discounted in the amount of $28.5 million and $60.3 million in 2020 and 2019, respectively. The pledge discount rate ranges from fiscal year 2021 at 0.2 percent to fiscal year 2046 at 2.2 percent. MIT has gross conditional pledges, not recorded, for the promotion of education and research of $367.4 million and $390.8 million in 2020 and 2019, respectively. Conditional pledges are categorized as follows: fundraising challenge, building construction progress, foundation grants, and other. As of June 30, 2020, conditional pledge amounts are broken out as follows: fundraising challenge of $157.9 million, building construction progress of $137.7 million, foundation grants of $53.7 million, and other of $18.0 million. As of June 30, 2019, conditional pledge amounts are broken out as follows: fundraising challenge of $207.0 million, building construction progress of $141.1 million, foundation grants of $32.5 million, and other of $10.2 million.

Table 15 below is a rollforward of pledges receivable as of June 30, 2020 and 2019.

TABLE 15. ROLLFORWARD OF PLEDGES RECEIVABLE

(in thousands of dollars)		2020		2019
Balance at beginning of the year	$	583,383	$	560,142
New pledges		182,734		192,342
Pledge payments received		(173,452)		(186,960)
Change in pledge discount		31,751		20,420
Change in reserve for unfulfilled pledges		(4,076)		(2,561)
Balance at the end of the year	**$**	**620,340**	**$**	**583,383**

E. Liquidity

Table 16 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 16. LIQUIDITY AND AVAILABILITY OF RESOURCES

(in thousands of dollars)	2020	2019
Financial assets:		
Cash and liquid operating investments	$ 2,190,390	$ 1,369,292
Accounts and notes receivable	241,281	256,773
Contributions receivable	201,527	196,310
Investments appropriated for spending in the following year	832,304	804,041
Total financial assets available within one year	**$ 3,465,502**	**$ 2,626,416**

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 operating liquidity, 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 $137.0 million and $387.0 million was undrawn at June 30, 2020 and 2019, respectively (see Note F for further details on the line of credit).

F. Net Borrowings

MIT's outstanding borrowings as of June 30, 2020 and 2019, are shown in Table 17 below.

TABLE 17. NET BORROWINGS

(in thousands of dollars / due dates are calendar based / par values as of 2020)	2020	2019
Educational plant		
Massachusetts Development Finance Agency (MassDevelopment)		
Series I, 5.20%, due 2028, par value $30,000	$ 30,432	$ 30,490
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 2022-2032, par value $177,000	183,268	183,905
Series L, 5.0%-5.25%, due 2023-2033, par value $115,670	121,149	121,686
Series M, 5.25%, due 2020-2030, par value $91,705	95,816	107,181
Series P, 5.0%, due 2050, par value $136,055	209,850	-
Total MassDevelopment	890,515	693,262
Taxable		
Medium Term Notes Series A, 7.125% due 2026, par value $17,415	17,390	17,386
Medium Term Notes Series A, 7.25%, due 2096, par value $45,604	45,472	45,468
Taxable Bonds, Series B, 5.60%, due 2111, par value $750,000	747,176	747,145
Taxable Bonds, Series C, 4.678%, due 2114, par value $550,000	550,000	550,000
Taxable Bonds, Series D, 2.051-3.959%, due 2026-2038, par value $456,000	456,000	522,410
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 $300,000	300,000	-
Taxable Bonds, Series G, 2.294% due 2051, par value 350,000	350,000	-
Notes payable to bank, variable rate, due 2023	113,034	113,034
Total Taxable	3,079,072	2,495,443
Total educational plant*	3,969,587	3,188,705
Notes payable to bank, variable rate, due 2023**	250,000	-
Total Other	250,000	-
Total borrowings	4,219,587	3,188,705
Unamortized bond issuance costs	(25,570)	(20,283)
Total borrowings net of unamortized debt issuance cost	**$ 4,194,017**	**$ 3,168,422**

** Proceeds from recent issuances were in the process of being invested in physical assets in 2019 and 2020 with unused balances held in investments.*

*** $250M of borrowing associated with line of credit is being held as a liquidity reserve in response to the COVID-19 crisis.*

F. Net Borrowings (continued)

The aggregate amounts of debt payments and sinking fund requirements for each of the next five fiscal years are shown in Table 18 below.

TABLE 18. DEBT PRINCIPAL OBLIGATIONS

(in thousands of dollars)		
2021	$	11,180
2022		11,765
2023		55,500
2024		51,455
2025		12,385

MIT maintains a line of credit with a major financial institution for an aggregate commitment of $500.0 million. As of June 30, 2020, $137.0 million was available under this line of credit (see Table 17). The line of credit expires on March 31, 2023.

Cash paid for interest on long-term debt in 2020 and 2019 was $138.3 million and $147.8 million, respectively.

Variable interest rates as of June 30, 2020, are shown in Table 19 below.

TABLE 19. VARIABLE INTEREST RATES

(in thousands of dollars)		Amount	Rate
MassDevelopment Series J-1	$	125,000	1.06%
MassDevelopment Series J-2		125,000	1.12%
Notes payable to bank		363,034	1.49%

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 or short-term investments from liquid operating investments 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 19 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. As of June 30, 2020 and 2019, the swap agreement had a fair value of ($61.0) million and ($48.8) million, respectively. The notional amount of this derivative is not recorded on MIT’s Consolidated Statements of Financial Position. This swap had a net loss of $12.2 million and $10.8 million in 2020 and 2019, respectively.

G. Commitments and Contingencies

Federal Government Funding

MIT receives funding or reimbursement from federal agencies for sponsored research under government grants and contracts. These grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Office of Naval Research (ONR), MIT's cognizant federal agency. MIT's indirect cost reimbursements are based on fixed rates with carryforward of under- or over-recoveries. As of June 30, 2020 and 2019, MIT recorded a net over-recovery of $10.2 million and $41.2 million, respectively.

The DCAA is responsible for auditing indirect charges to grants and contracts in support of ONR's negotiating responsibility. The Institute has had its rates audited by DCAA through 2018. Audits and negotiations for fiscal 2019 and forward are in progress. MIT's 2020 research revenues of $1,864.3 million include reimbursement of indirect costs of $259.2 million. In 2019, research revenues were $1,832.8 million, which included reimbursement of indirect costs of $232.2 million. Both years include adjustments for the variance between the indirect cost income determined by the fixed rates and actual costs.

Leases

As of June 30, 2020, there were no capital lease obligations. MIT has commitments under certain operating (rental) leases. Rent expense incurred under operating lease obligations was $35.1 million in both 2020 and 2019. Future minimum payments under operating leases are shown in Table 20 below.

TABLE 20. LEASE OBLIGATIONS

(in thousands of dollars)

2021	$ 36,587
2022	39,694
2023	41,063
2024	38,384
2025	35,309

Assets Pledged as Collateral

As of June 30, 2020, $12.6 million of assets were pledged as collateral to various suppliers and government agencies. This is classified as restricted cash on the Consolidated Statement of Cash Flows.

Future Construction

As of June 30, 2020, MIT had contractual obligations of approximately $214.6 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. At June 30, 2020, these commitments included approximately $341.0 million of contractual obligations related to the Kendall Square Initiative, and $144.2 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 14 acres of federally owned land located at the John 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. As of June 30, 2020, $90.0 million of costs related to the construction of the new facility have been incurred.

Related Entities

MIT has entered into agreements, including collaborations with third-party not-for-profit and for-profit entities, for education, research, and technology transfers. Some of these agreements involve funding from foreign governments. These agreements subject MIT to greater financial risk than do its normal operations. In the opinion of management, the likelihood of realization of increased financial risks by MIT under these agreements is remote.

General

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

H. Functional Expense Classification

MIT's expenditures on a functional basis for the years ended June 30, 2020 and 2019, are shown in Table 21 below.

TABLE 21. EXPENDITURES BY FUNCTIONAL CLASSIFICATION

(in thousands of dollars)	General and administrative	Instruction and unsponsored research	Sponsored research	Total
Fiscal Year 2020				
Compensation	$ 483,320	$ 598,880	$ 920,234	$ 2,002,434
Other operating	144,288	427,602	659,157	1,231,047
Space related	127,983	194,865	207,289	530,137
2020 Total	**$ 755,591**	**$ 1,221,347**	**$ 1,786,680**	**$ 3,763,618**
Fiscal Year 2019				
Compensation	$ 472,471	$ 569,190	$ 869,296	$ 1,910,957
Other operating	137,741	447,433	661,177	1,246,351
Space related	158,830	191,753	202,906	553,489
2019 Total	**$ 769,042**	**$ 1,208,376**	**$ 1,733,379**	**$ 3,710,797**

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 for 2020 and 2019. MIT designated contributions of $1.5 million and $0.7 million to the retiree welfare benefit plan in 2020 and 2019, respectively.

For the defined contribution plan, the amount contributed and expenses recognized during 2020 and 2019 were $67.3 million and $64.0 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) in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets for both the defined benefit pension plan and the retiree welfare benefit plan are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to $1.0 million.

Components of Net Periodic Benefit Cost

Table 22 below summarizes the components of net periodic benefit cost recognized in net results and other amounts recognized in other revenues, gains, and losses in net assets without donor restrictions for the years ended June 30, 2020 and 2019.

TABLE 22. COMPONENTS OF NET PERIODIC BENEFIT COST

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2020	2019	2020	2019
Components of net periodic benefit cost recognized in net results:				
Service cost	$ 123,255	$ 106,779	$ 30,988	$ 26,491
Interest cost	169,792	173,331	24,309	25,761
Expected return on plan assets	(298,900)	(285,552)	(50,605)	(47,783)
Amortization of net actuarial loss (gain)	30,285	4,237	(1,000)	(1,000)
Amortization of prior service cost (credit)	265	265	(2,212)	(2,801)
Net periodic benefit cost (income) recognized in net results	24,697	(940)	1,480	668
Other amounts recognized in other revenues, gains, and losses				
Current year actuarial loss	147,676	387,429	2,431	23,168
Amortization of actuarial (loss) gain	(30,285)	(4,237)	1,000	1,000
Amortization of prior service (cost) credit	(265)	(265)	2,212	2,801
Total other amounts recognized in other revenues, gains, and losses	117,126	382,927	5,643	26,969
Total recognized	**$ 141,823**	**$ 381,987**	**$ 7,123**	**$ 27,637**

I. Retirement Benefits (continued)

The estimated net actuarial loss and prior service cost for the defined benefit pension plan that will be amortized from net assets without donor restrictions into net periodic benefit cost during the next fiscal year are $44.5 million and $0.3 million, respectively. The estimated net actuarial gain and prior service credit for the retiree welfare benefit plan that will be amortized from net assets without donor restrictions into net periodic benefit cost during the next fiscal year are $1.0 million and zero, respectively.

Cumulative amounts recognized in net assets without donor restrictions are summarized in Table 23 below for the years ended June 30, 2020 and 2019.

TABLE 23. CUMULATIVE AMOUNTS RECOGNIZED IN NET ASSETS WITHOUT DONOR RESTRICTION

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2020	2019	2020	2019
Amounts recognized in unrestricted net assets without donor restrictions consist of:				
Net actuarial loss (gain)	$ 799,836	$ 682,445	$ (91,671)	$ (95,102)
Prior service cost (credit)	2,318	2,583	-	(2,212)
Total cumulative amounts recognized in net assets without donor restrictions	**$ 802,154**	**$ 685,028**	**$ (91,671)**	**$ (97,314)**

I. Retirement Benefits (continued)

Benefit Obligations and Fair Value of Assets

Table 24 below summarizes the benefit obligations, plan assets, and amounts recognized in the Consolidated Statements of Financial Position for MIT's retirement benefit plans. MIT uses a June 30 measurement date for its defined benefit pension plan and retiree welfare benefit plan.

The projected benefit obligation for the defined benefit pension plan, as shown in Table 24, was $4,830.0 million as of June 30, 2020, up $361.7 million from a year earlier. 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 $4,664.4 million and $4,268.3 million as of June 30, 2020 and 2019, respectively.

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

TABLE 24. PROJECTED BENEFIT OBLIGATIONS AND FAIR VALUE OF ASSETS

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2020	2019	2020	2019
Change in projected benefit obligations:				
Projected benefit obligations at beginning of year	$ 4,468,263	$ 3,931,212	$ 613,441	$ 566,642
Service cost	123,255	106,779	30,988	26,491
Interest cost	169,792	173,332	24,309	25,762
Retiree contributions	-	-	8,159	7,443
Net benefit payments, transfers, and other expenses	(161,473)	(153,584)	(35,125)	(36,127)
Employer Group Waiver Plan (EGWP) reimbursement	-	-	9,223	5,057
Assumption changes and actuarial net loss	230,130	410,524	17,478	18,173
Projected benefit obligations at end of the year	4,829,967	4,468,263	668,473	613,441
Change in plan assets:				
Fair value of plan assets at beginning of the year	4,058,218	3,903,154	711,157	691,328
Actual return on plan assets	381,354	308,648	65,652	42,788
Employer contributions	-	-	1,480	668
Employer Group Waiver Plan (EGWP) reimbursement	-	-	9,223	5,057
Retiree contributions	-	-	8,159	7,443
Net benefit payments, transfers, and other expenses	(161,473)	(153,584)	(35,125)	(36,127)
Fair value of plan assets at end of the year	4,278,099	4,058,218	760,546	711,157
(Unfunded) funded status at end of the year	**(551,868)**	**(410,045)**	**92,073**	**97,716**
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Net (liabilities) assets	**$ (551,868)**	**$ (410,045)**	**$ 92,073**	**$ 97,716**

I. Retirement Benefits (continued)

Assumptions for Financial Parameters and Healthcare Trend Rates

Table 25 below summarizes assumptions and healthcare trend rates. The expected long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

TABLE 25. ASSUMPTIONS

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2020	2019	2020	2019
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	3.36%	3.77%	3.42%	3.85%
Rate of compensation increase*	0.00%/4.00%	4.00%		
Assumptions used to determine net periodic benefit cost for the year ended June 30:				
Discount rate	3.77%	4.38%	3.85%	4.44%
Expected long-term return on plan assets	7.75%	7.75%	7.50%	7.50%
Rate of compensation increase	4.00%	4.00%		
Assumed health care cost trend rates:				
Healthcare cost trend rate assumed for next year			6.50%	5.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.75%	4.75%
Year the rate reaches the ultimate trend rate			2025	2021

** It is assumed that there will be no salary increases or cost-of-living adjustments through 2022; normative rates apply thereafter.*

As an indicator of sensitivity, a one percentage point change in the assumed healthcare cost trend rate would affect 2020's retiree welfare plan as shown in Table 26 below.

TABLE 26. HEALTHCARE COST TREND RATE SENSITIVITY

(in thousands of dollars)	1% Point Increase	1% Point Decrease
Effect on 2020 postretirement service and interest cost	$ 10,833	$ (8,499)
Effect on postretirement benefit obligation as of June 30, 2020	103,391	(84,396)

Plan Investments

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

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

I. Retirement Benefits (continued)

Tables 27A and 27B present investments at fair value of MIT's defined benefit pension plan and retiree welfare benefit plan, which are included in net assets available for benefits as of June 30, 2020 and 2019, 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 24.

TABLE 27A. DEFINED BENEFIT PENSION PLAN INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2020					
Cash and short-term investments	$ 89,862	$ -	$ -	$ -	$ 89,862
US Treasury	237,436	-	-	-	237,436
US government agency	-	34,237	-	-	34,237
Domestic bonds	-	-	-	-	-
Common equity:					
Domestic	28,382	-	74	-	28,456
Foreign	95,567	-	-	-	95,567
Equity:*					
Absolute return	-	-	-	700,276	700,276
Domestic	-	-	-	504,414	504,414
Foreign	-	-	-	1,003,706	1,003,706
Private	-	-	-	1,309,936	1,309,936
Real estate*	1,059	-	-	213,340	214,399
Real assets*	-	-	-	48,754	48,754
Other	-	-	419	-	419
Derivatives	737	696	-	-	1,433
Total plan investments	**$ 453,043**	**$ 34,933**	**$ 493**	**$ 3,780,426**	**$ 4,268,895**
Fiscal Year 2019					
Cash and short-term investments	$ 93,000	$ -	$ -	$ -	$ 93,000
US Treasury	329,996	-	-	-	329,996
US government agency	-	40,136	-	-	40,136
Domestic bonds	-	-	-	-	-
Common equity:					
Domestic	11,188	-	74	-	11,262
Foreign	62,546	-	-	-	62,546
Equity:*					
Absolute return	-	-	-	582,438	582,438
Domestic	-	-	-	447,243	447,243
Foreign	-	-	-	1,087,958	1,087,958
Private	-	-	-	1,093,149	1,093,149
Real estate*	12,957	-	-	220,185	233,142
Real assets*	-	-	-	70,126	70,126
Other	-	-	419	-	419
Derivatives	(101)	955	-	-	854
Total plan investments	**$ 509,586**	**$ 41,091**	**$ 493**	**$ 3,501,099**	**$ 4,052,269**

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

TABLE 27B. RETIREE WELFARE BENEFIT PLAN INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2020					
Cash and short-term investments	$ 36,610	$ -	$ -	$ -	$ 36,610
US Treasury	58,187	-	-	-	58,187
US government agency	-	8,387	-	-	8,387
Domestic bonds	-	-	-	-	-
Common equity:					
Domestic	4,923	-	-	-	4,923
Foreign	16,988	-	-	-	16,988
Equity:*					
Absolute return	-	-	-	130,375	130,375
Domestic	-	-	-	89,370	89,370
Foreign	-	-	-	199,787	199,787
Private	-	-	-	177,749	177,749
Real estate*	187	-	-	28,570	28,757
Real assets*	-	-	-	5,583	5,583
Derivatives	119	123	-	-	242
Total plan investments	**$ 117,014**	**$ 8,510**	**$ -**	**$ 631,434**	**$ 756,958**
Fiscal Year 2019					
Cash and short-term investments	$ 22,770	$ -	$ -	$ -	$ 22,770
US Treasury	75,768	-	-	-	75,768
US government agency	-	9,753	-	-	9,753
Common equity:					
Domestic					
Foreign	1,882	-	-	-	1,882
Equity:*	10,507	-	-	-	10,507
Absolute return					
Domestic	-	-	-	98,857	98,857
Foreign	-	-	-	89,602	89,602
Private	-	-	-	225,405	225,405
Real estate*	-	-	-	139,971	139,971
Real assets*	1,306	-	-	26,881	28,187
Other	-	-	-	7,778	7,778
Derivatives	(25)	161	-	-	136
Total plan investments	**$ 112,208**	**$ 9,914**	**$ -**	**$ 588,494**	**$ 710,616**

** 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 investments in various long-lived partnerships, and in other cases have entered into contractual arrangements that may limit their ability to initiate redemptions due to notice periods, lock-ups, and gates. Details on estimated remaining term 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 28 below as of June 30, 2020 and 2019.

TABLE 28. UNFUNDED COMMITMENTS

	2020		2019			
(in thousands of dollars)	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value	Redemption Terms	Redemption Restrictions
Defined Benefit Pension Plan						
Equity:						
Absolute return	$ 22,323	$ 700,276	$ 29,770	$ 582,438	Ranges from 4 months to 27 months[3]	45 to 180 days
Domestic[1]	396	504,414	398	447,243	Ranges from 4 months to 25 months[3]	30 to 90 days
Foreign[2]	-	1,003,706	37,612	1,087,958	Ranges from 3 months to 24 months	30 to 91 days
Private	380,663	1,309,936	382,755	1,093,149	Closed-end funds not available for redemption	Not Applicable
Real estate	155,389	213,340	142,042	220,185	Closed-end funds not available for redemption	Not Applicable
Real assets	18,233	48,754	22,196	70,126	Closed-end funds not available for redemption	Not Applicable
Total	**$ 577,004**	**$ 3,780,426**	**$ 614,773**	**$ 3,501,099**		
Retiree Welfare Benefit Plan						
Equity:						
Absolute return	$ 2,703	$ 130,375	$ 3,962	$ 98,857	Ranges from 4 months to 27 months[3]	45 to 180 days
Domestic[1]	44	89,370	44	89,602	Ranges from 4 months to 25 months[3]	30 to 90 days
Foreign[2]	-	199,787	5,688	225,405	Ranges from 3 months to 24 months	30 to 91 days
Private	62,732	177,749	63,518	139,971	Closed-end funds not available for redemption	Not Applicable
Real estate	22,983	28,570	20,345	26,881	Closed-end funds not available for redemption	Not Applicable
Real assets	2,995	5,583	3,667	7,778	Closed-end funds not available for redemption	Not Applicable
Total	**$ 91,457**	**$ 631,434**	**$ 97,224**	**$ 588,494**		

[1]Domestic funds include funds that have remaining lock-up provisions up to 36 months.

[2]Foreign funds include funds that have remaining lock-up provisions up to 7 months.

[3]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, 2020 and 2019 are shown in Table 29 below.

TABLE 29. PLANNED INVESTMENT ALLOCATION

	Defined Benefit Pension Plan			Retiree Welfare Benefit Plan		
	2020 Target Allocation	2020	2019	2020 Target Allocation	2020	2019
Cash and short-term investments	0-10%	2%	2%	0-10%	5%	3%
Fixed income	3-13%	7%	9%	10-20%	9%	12%
Equities	37.5-87.5%	69%	67%	37-87%	64%	66%
Marketable alternatives	9-19%	16%	14%	9.5-19.5%	17%	14%
Real assets	0-8%	1%	2%	0-5.5%	1%	1%
Real estate	2.5-12.5%	5%	6%	0-8%	4%	4%
Total		**100%**	**100%**		**100%**	**100%**

Expected Future Benefit Payments

In fiscal 2021, MIT expects to contribute $26.0 million to its defined benefit pension plan and expects to contribute $2.4 million to the retiree welfare benefit plan. These contributions assume a 7.75 percent and 7.50 percent expected return on assets for the defined benefit pension plan and retiree welfare benefit plan, respectively. MIT has 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-2019.

Table 30 below reflects the total expected benefit payments for the defined benefit pension plan and retiree welfare benefit plan over the next 10 years. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations as of June 30, 2020.

TABLE 30. EXPECTED FUTURE BENEFIT PAYMENTS

(in thousands of dollars)	Pension Benefits	Other Benefits*
2021	$ 178,723	$ 26,096
2022	191,190	28,998
2023	196,467	30,909
2024	201,927	32,488
2025	208,172	33,890
2026-2030	1,141,161	190,120

** Other 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 31A and 31B present the composition of net assets as of June 30, 2020, and June 30, 2019, respectively. The amounts listed in the without donor restriction 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 restriction in other invested funds is pledges, the majority of which will be reclassified to net assets without donor restrictions when cash is received.

TABLE 31A. 2020 TOTAL NET ASSET COMPOSITION

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
General purpose	$ 1,120,415	$ 1,712,557	$ 2,832,972
Departments and research	933,024	2,524,714	3,457,738
Library	14,880	62,550	77,430
Salaries and wages	707,388	4,342,847	5,050,235
Graduate general	110,256	301,133	411,389
Graduate departments	220,360	937,844	1,158,204
Undergraduate	293,639	1,952,567	2,246,206
Prizes	11,832	67,555	79,387
Miscellaneous	1,459,540	1,143,778	2,603,318
Investment income held for distribution	464,639	-	464,639
Endowment funds before pledges	5,335,973	13,045,545	18,381,518
Pledges	-	114,387	114,387
Total endowment funds	5,335,973	13,159,932	18,495,905
Other Invested Funds			
Student-related loan funds	18,509	32,115	50,624
Building funds	186,666	73,316	259,982
Designated purposes:			
Departments and research	460,286	-	460,286
Other purposes	195,261	17,205	212,466
Life income funds and donor advised funds	30,968	185,937	216,905
Pledges	-	505,953	505,953
Other funds available for current expenses	2,584,428	660,445	3,244,873
Funds for educational plant	769,937	-	769,937
Total other invested funds	4,246,055	1,474,971	5,721,026
Total net assets	**$ 9,582,028**	**$ 14,634,903**	**$ 24,216,931**

J. Components of Net Assets and Endowment (continued)

TABLE 31B. 2019 TOTAL NET ASSET COMPOSITION

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
General purpose	$ 1,080,333	$ 1,659,769	$ 2,740,102
Departments and research	887,685	2,399,708	3,287,393
Library	14,348	59,746	74,094
Salaries and wages	677,594	4,170,306	4,847,900
Graduate general	106,312	286,439	392,751
Graduate departments	204,562	875,364	1,079,926
Undergraduate	283,109	1,861,021	2,144,130
Prizes	10,388	64,775	75,163
Miscellaneous	1,330,006	1,024,265	2,354,271
Investment income held for distribution	448,020	-	448,020
Endowment funds before pledges	5,042,357	12,401,393	17,443,750
Pledges	-	125,578	125,578
Total endowment funds	5,042,357	12,526,971	17,569,328
Other Invested Funds			
Student-related loan funds	19,018	18,650	37,668
Building funds	201,860	80,530	282,390
Designated purposes:			
Departments and research	423,830	-	423,830
Other purposes	217,280	18,064	235,344
Life income funds and donor advised funds	22,764	185,135	207,899
Pledges	-	457,805	457,805
Other funds available for current expenses	2,539,706	305,904	2,845,610
Funds for educational plant	709,131	-	709,131
Total other invested funds	4,133,589	1,066,088	5,199,677
Total net assets	**$ 9,175,946**	**$ 13,593,059**	**$ 22,769,005**

MIT's endowment consists of approximately 4,300 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 making a determination to appropriate or accumulate endowment funds:

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

J. Components of Net Assets and Endowment (continued)

Table 32 below reflects changes in endowment net assets without and with donor restrictions as of June 30, 2020 and 2019, respectively.

TABLE 32. CHANGES IN ENDOWMENT NET ASSETS

(in thousands of dollars)	Without Donor Restriction	With Donor Restriction	Total
Fiscal Year 2020			
Endowment net assets, July 1, 2019	$ 5,042,357	$ 12,526,971	$ 17,569,328
Investment return:			
Net Investment income	3,481	11,652	15,133
Net appreciation (realized and unrealized)	484,684	1,123,005	1,607,689
Total investment return	488,165	1,134,657	1,622,822
Contributions	-	103,436	103,436
Appropriation of endowment assets for expenditure	(222,038)	(515,164)	(737,202)
Other changes:			
Net asset reclassifications and transfers	27,489	(89,968)	(62,479)
Endowment net assets, June 30, 2020	**$ 5,335,973**	**$ 13,159,932**	**$ 18,495,905**
Fiscal Year 2019			
Endowment net assets, July 1, 2018	$ 4,806,349	$ 11,723,083	$ 16,529,432
Investment return:			
Net Investment income	47,543	117,736	165,279
Net appreciation (realized and unrealized)	376,590	876,100	1,252,690
Total investment return	424,133	993,836	1,417,969
Contributions	-	177,015	177,015
Appropriation of endowment assets for expenditure	(208,439)	(490,894)	(699,333)
Other changes:			
Net asset reclassifications and transfers	20,314	123,931	144,245
Endowment net assets, June 30, 2019	**$ 5,042,357**	**$ 12,526,971**	**$ 17,569,328**

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of net assets with donor restrictions. There were no underwater endowment funds reported in net assets with donor restrictions as of June 30, 2020, and June 30, 2019.

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 4.3 percent, or 4.8 percent on a three-year-average basis, for both 2020 and 2019.

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 $81.80 and $77.90 per Pool A unit as of June 30, 2020 and 2019, 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.

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

(in thousands of dollars)	2020	2019	2018	2017	2016
Financial Position					
Investments, at fair value	$ 24,364,668	$ 22,083,156	$ 20,766,548	$ 19,077,677	$ 17,037,298
Land, buildings, and equipment, at cost less					
accumulated depreciation	4,306,769	3,993,253	3,684,377	3,397,070	3,092,429
Borrowings, net of unamortized issuance costs	4,194,017	3,168,422	3,259,389	3,287,545	2,892,093
Total assets	30,505,530	27,750,820	26,111,020	23,976,315	21,662,308
Total liabilities	6,288,599	4,981,815	4,594,239	4,851,257	4,733,227
Net assets without donor restriction	9,582,028	9,175,946	8,852,960	7,701,195	6,653,607
Net assets with donor restrictions	14,634,903	13,593,059	12,663,821	11,423,863	10,275,474
Total net assets	24,216,931	22,769,005	21,516,781	19,125,058	16,929,081
Total endowment funds before pledges	18,381,518	17,443,750	16,400,027	14,832,483	13,181,515
Principal Sources of Revenues					
Tuition and similar revenues, exclusive of					
financial aid	$ 374,669	$ 383,736	$ 353,721	$ 361,476	$ 340,005
Research revenues:					
Campus direct	529,410	538,350	510,254	496,877	516,283
Campus indirect	211,182	189,803	161,908	191,669	180,581
Lincoln Laboratory direct	1,042,970	1,017,344	947,295	929,348	921,377
Lincoln Laboratory indirect	47,648	42,040	33,997	39,909	34,617
SMART direct	32,635	44,980	41,988	32,981	32,415
SMART indirect	415	320	195	303	402
Contributions	523,751	602,096	481,817	594,471	474,959
Net return on investments	2,142,655	1,970,892	2,503,435	2,285,260	392,917
Distribution of investment returns	911,874	875,428	826,117	782,857	729,614
Principal Purposes of Expenditures					
Expenses*	$ 3,763,618	$ 3,710,797	$ 3,536,400	$ 3,429,751	$ 3,318,536
Compensation	2,002,434	1,910,957	1,838,629	1,729,760	1,628,286
Other Operating	1,231,047	1,246,351	1,180,895	1,192,437	1,217,862
Space Related	530,137	553,489	516,876	507,554	472,388

** Expenses include total operating expenses and other components of net periodic benefit costs.*

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

(in thousands of dollars)	2020	2019	2018	2017	2016
Research Revenues					
Campus					
Federal government sponsored:					
Health and Human Services	$ 132,995	$ 134,773	$ 130,668	$ 111,835	$ 113,522
Department of Defense	131,832	136,743	123,513	130,372	131,624
Department of Energy	66,145	66,975	72,828	82,157	84,419
National Science Foundation	81,390	79,617	81,563	80,410	82,161
National Aeronautics and Space Administration	34,866	32,430	33,024	39,809	49,664
Other federal	14,239	14,180	12,902	17,043	15,738
Total federal	461,467	464,718	454,498	461,626	477,128
Non-federally sponsored:					
State/local/foreign governments	20,596	21,052	24,471	25,686	28,495
Nonprofits	89,338	104,471	94,322	86,753	84,015
Industry	174,957	169,606	144,126	132,915	128,309
Total non-federal	284,891	295,129	262,919	245,354	240,819
Total federal and non-federal	746,358	759,847	717,417	706,980	717,947
F&A and other adjustments	(5,766)	(31,693)	(45,255)	(18,434)	(21,083)
Total campus	740,592	728,154	672,162	688,546	696,864
Lincoln Laboratory					
Federal government sponsored	1,097,487	1,048,801	966,179	965,830	920,271
Non-federally sponsored	18,291	17,467	7,240	5,436	6,355
F&A and other adjustments	(25,160)	(6,884)	7,873	(2,009)	29,368
Total Lincoln Laboratory	1,090,618	1,059,384	981,292	969,257	955,994
SMART [A]					
Non-federally sponsored	33,050	45,300	42,183	33,284	32,817
Total SMART	33,050	45,300	42,183	33,284	32,817
Total research revenues	**$ 1,864,260**	**$ 1,832,837**	**$ 1,695,637**	**$ 1,691,087**	**$ 1,685,675**

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

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

	2020	2019	2018	2017	2016
Students					
Undergraduate:					
Full-time	4,501	4,557	4,510	4,476	4,492
Part-time	29	45	37	48	35
Undergraduate applications:					
Applicants	21,312	21,706	20,247	19,020	18,306
Accepted	1,427	1,464	1,452	1,511	1,519
Acceptance rate	7%	7%	7%	8%	8%
Enrolled	1,102	1,114	1,097	1,110	1,106
Yield	77%	76%	76%	73%	73%
Freshmen ranking in the top 10% of their class	95%	98%	98%	97%	98%
Average SAT scores (math and verbal)	1,532	1,528	1,528	1,505	1,493
Graduate:					
Full-time	6,862	6,845	6,671	6,707	6,689
Part-time	128	127	248	145	115
Graduate applications:					
Applicants	29,114	28,826	27,634	26,463	23,750
Accepted	3,670	3,516	3,383	3,480	3,307
Acceptance rate	13%	12%	12%	13%	14%
Enrolled	2,312	2,321	2,208	2,277	2,165
Yield	63%	66%	65%	65%	65%
Tuition *(in dollars)*					
Tuition and fees	$ 53,450	$ 51,832	$ 49,892	$ 48,452	$ 46,704
Average room and board	16,390	15,510	14,720	14,210	13,730
Student Support *(in thousands of dollars)*					
Undergraduate tuition support	$ 157,544	$ 147,321	$ 137,936	$ 126,932	$ 112,902
Graduate tuition support	312,260	301,026	288,434	270,289	258,444
Fellowship stipends	45,080	44,979	42,309	39,518	38,731
Student employment	136,927	132,300	125,884	118,528	110,392
Total student support	**$ 651,811**	**$ 625,626**	**$ 594,563**	**$ 555,267**	**$ 520,469**
Faculty and Staff *(including unpaid appointments)*					
Faculty	1,067	1,056	1,047	1,040	1,036
Staff and fellows	15,584	15,366	15,212	15,077	14,732

Report of the Treasurer

for the year ended
June 30, 2020

Massachusetts
Institute of
Technology