

2018



Report of the Treasurer

for the year ended

June 30, 2018



Massachusetts
Institute of
Technology

This page intentionally left blank.

Report of the Treasurer

for the year ended June 30, 2018



Massachusetts
Institute of
Technology

The Corporation

2017–2018

as of June 30, 2018

Chairman: Robert B. Millard*

President: L. Rafael Reif*

Executive Vice President and Treasurer: Israel Ruiz*

Senior Vice President and Secretary of the Corporation: R. Gregory Morgan

Life Members

Shirley A. Jackson; Denis A. Bovin*; Judy C. Lewent; Edie N. Goldenberg; Susan E. Whitehead*; Brian G. R. Hughes; Gururaj Deshpande; Barrie R. Zesiger*; John A. Thain*; Susan Hockfield; Lawrence K. Fish*; Diane B. Greene; Charlene C. Kabcenell; Barry Lam; Mohammed Jameel (on leave); Theresa M. Stone; Megan J. Smith; Mark P. Gorenberg; Diana C. Walsh*; Ursula M. Burns*.

Members

John W. Jarve; Alan G. Spoon*; R. Erich Caulfield; Abigail P. Johnson; Victor J. Menezes; Rafael del Pino; Phillip T. Ragon; Philip C.T. Ng; Arunas A. Chesonis; Fariborz Maseeh; Bruce N. Anderson; Patricia R. Callahan; Neil E. Rasmussen; Carmen M. Thain; David L. desJardins; Paul M. Kominers; Alan M. Leventhal; Ilene S. Gordon; Eran Broshy; Ronald A. Williams; Alan M. Dachs; Samantha O’Keefe; Donald E. Shobrys; Roger C. Altman; Leslie C. Dewan; Jeffrey S. Halis; Jean Hammond; Ray A. Rothrock; Jeffrey L. Silverman; Noubar B. Afeyan; John D. Chisholm; Vrajesh Y. Modi; Martin Y. Tang; Kenneth Wang; Songye Yoon; Nancy C. Andrews; Nicolas E. Chammas; José Antonio V. Fernández; Perry Ha; David M. Siegel; Anita Wu.

President of the Association of Alumni and Alumnae

Hyun-A C. Park

Representatives of the Commonwealth

Governor: Charles D. Baker, Jr.

Chief Justice of the Supreme Judicial Court: Ralph D. Gants

Secretary of Education: James A. Peyser

Life Members Emeriti and Emeritae

Irénée duPont, Jr.; Colby H. Chandler; Carl M. Mueller; Louis W. Cabot; Paul M. Cook; William S. Edgerly; Frank Press; Emily V. Wade; George N. Hatsopoulos; Mary Frances Wagley; Michael M. Koerner; Morris Tanenbaum; W. Gerald Austen; Richard P. Simmons; Morris Chang; Alexander W. Dreyfoos, Jr.; Ronald A. Kurtz; DuWayne J. Peterson, Jr.; Raymond S. Stata; Brit J. d’Arbeloff; Gordon M. Binder; Dana G. Mead; Arthur Gelb; Norman E. Gaut; Robert A. Muh; James H. Simons; Samuel W. Bodman, III; John S. Reed; David H. Koch; Robert M. Metcalfe; John K. Castle; Arthur J. Samberg; Kenan E. Sahin; L. Robert Johnson; A. Neil Pappalardo; James A. Champy; Mark R. Epstein.

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

* *Member of the Executive Committee*

Table of Contents

■ Report of the Treasurer	1–6
--	-----

■ **Consolidated Financial Statements**

The consolidated financial statements summarize the finances of MIT for the fiscal years 2017 and 2018.

Consolidated Statements of Financial Position	7
---	---

Consolidated Statement of Activities	8
--	---

Consolidated Statements of Cash Flows	9
---	---

Notes to Consolidated Financial Statements	10–40
--	-------

Report of Independent Auditors	41
--------------------------------------	----

■ **Additional Information**

Five-Year Trend Analysis (Unaudited) – Financial Highlights	42–44
---	-------

This page intentionally left blank.

Report of the Treasurer

To the Members of the Corporation

During fiscal 2018, the Institute preserved its sound financial position with both strong investment performance and positive operating results. MIT closed the year with net assets of \$21,516.8 million and a net operating result of \$48.8 million. Pooled investments produced a return of 13.5 percent.

While we expect pressure on future operating results due to investments in key academic priorities, the campus, and its infrastructure, the Institute is well positioned to weather potential volatility in the financial environment. As a result of the sustained generosity of our donors and friends, the solid performance of MIT's invested assets, and the continued careful management of growth in the years since the financial crisis, MIT is able to catalyze research, education, and innovation at an accelerated pace.

Following a number of years of planning, design and construction, MIT.nano—an unparalleled laboratory dedicated to the characterization and fabrication of nanoscale materials—received its certificate of occupancy in June of 2018. The 214,000-square-foot facility opening this fall more than doubles MIT's shared fabrication and imaging capabilities, and it is complemented by a pathway of adjacent and engaging open spaces extending to Massachusetts Avenue. It is envisioned that these connected spaces will stretch west as the West Campus evolves, and east as the Kendall Square Initiative takes shape, expanding MIT's indoor infinite corridor outdoors and across campus in both directions.

Construction has begun in Kendall Square with development of an underground parking structure and graduate student housing tower now underway. The graduate residence at 45 Hayward Street will open in 2020, and a 17-floor building at 314 Main Street opening in 2021 will be home to the MIT Museum, the MIT Press Bookstore, and commercial space. Building on this momentum in Kendall, on October 23, 2017, the Cambridge City Council approved MIT's zoning petition for the Volpe Center site nearby, paving the way for the development of approximately 1.7 million square feet of commercial space and about 1,400 units of housing, including 300 units of affordable housing.

In fiscal 2018, we worked to analyze and start adapting to changes in the federal tax laws, and have agreed upon an initial framework for bearing federal tax liabilities associated with the new endowment tax plus other tax provisions. As the Internal Revenue Service provides further guidance on these new tax provisions, we will refine and finalize this framework. Also, MIT began offering the option of a new MIT High Deductible Health Plan (HDHP) effective January 1, 2018, in addition to the MIT Traditional and MIT Choice Health Plans. The HDHP provides for a lower premium and higher deductible in conjunction with a tax-advantaged health savings account.

The Engine Accelerator, Inc., initially launched on October 26, 2016, to provide a home for tough tech founders to create the next generation of world-changing companies, continues to advance its goals. The Engine's first investment fund achieved a final close of \$205.2 million, exceeding the initial target of \$150.0 million. The team has already invested in 13 companies and is on pace to invest in 10 to 12 additional companies next year. The Engine headquarters in Central Square provides 26,000 square feet of space, and MIT seeks to make 200,000 square feet of additional space available in close proximity to campus. The Engine expansion vision continues to focus on creating a magnet for tough tech in Cambridge.

The Institute launched the MIT Quest for Intelligence, a new initiative on human and machine intelligence, on February 1, 2018. Positioning MIT to be at the forefront of advances in artificial intelligence (AI), the Quest is comprised of two principal entities, the Core and the Bridge. The Core is intended to advance the science and engineering of human and machine intelligence, and the Bridge is dedicated to extending computing tools and AI to disciplines across MIT.

The robust financial results realized in recent years, as depicted in the Summary of Key Financial Highlights table, reflect MIT's commitment to protecting its long-term future through sound planning. Having completed a number of significant infrastructure priorities, we are preparing for a more paced level of investment in our campus gated by fundraising capacity in the decade to come. The Institute's ability to successfully steward MIT's future is further strengthened by the Campaign for a Better World, with \$4,303.0 million raised at the end of fiscal

Summary of Key Financial Highlights (10-year trend)

<i>(in millions of dollars)</i>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Revenues	2,644	2,663	2,751	2,990	3,187	3,124	3,291	3,427	3,552	3,627
Operating Expenses	2,461	2,383	2,571	2,744	2,909	2,919	3,111	3,350	3,464	3,578
Operating Results	183	280	180	246	278	206	180	77	88	49
Net Assets	9,946	10,324	12,106	12,495	13,858	16,028	17,507	16,929	19,125	21,517
Endowment	7,880	8,317	9,713	10,150	10,858	12,425	13,475	13,182	14,832	16,400
Net Borrowings	1,730	1,723	2,456	2,449	2,417	2,904	2,905	2,892	3,288	3,259

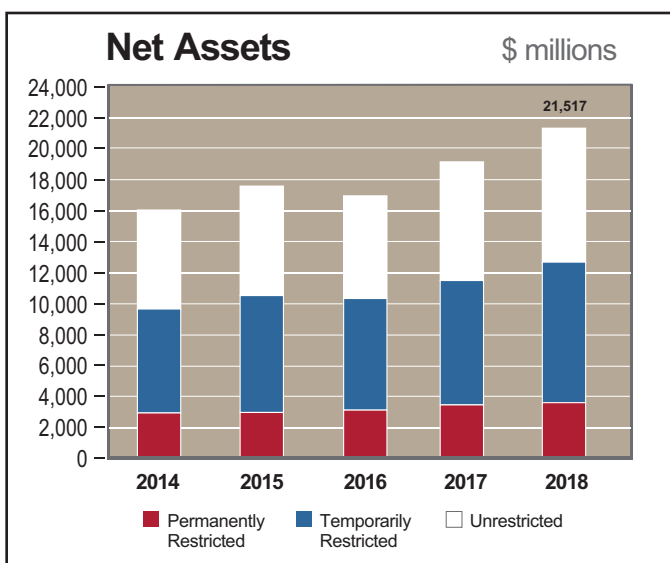
2018, or 86.1 percent of the \$5,000.0 million goal. In addition, we have been building a prudent level of financial reserves to provide flexibility should a financial downturn diminish investment returns.

The following are additional details regarding MIT’s fiscal 2018 financial statements: Statements of Financial Position, Statement of Activities, and Statements of Cash Flows.

Consolidated Statements of Financial Position

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

Net Assets



Total net assets increased to \$21,516.8 million, an increase of 12.5 percent from fiscal 2017. Net assets are presented in three distinct categories to recognize the significant ways in which universities are different from profit-making organizations. These categories reflect the nature of the restrictions placed on gifts by donors.

In fiscal 2018, permanently restricted net assets increased \$138.7 million, or 4.1 percent, to \$3,558.9 million, primarily due to new gifts and pledges made and net investment gains on permanently restricted, separately held endowment funds. Temporarily restricted net assets increased \$1,120.6 million, or 13.9 percent, to \$9,158.0 million, primarily due to investment gains on pooled permanently restricted endowment funds partially offset by endowment gains distributed for spending. The Commonwealth of Massachusetts requires that all universities located within the Commonwealth report accumulated market gains on both permanently and temporarily restricted pooled net assets as

temporarily restricted net assets until appropriated for use.

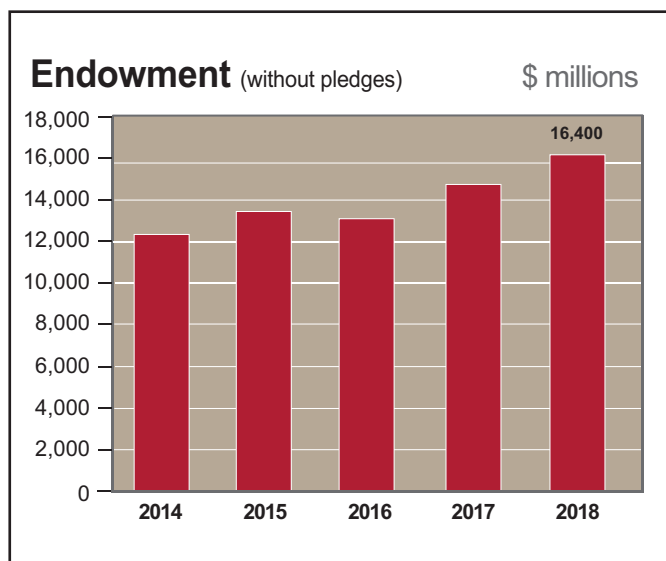
Unrestricted net assets increased \$1,132.5 million, or 14.8 percent, to \$8,799.8 million, primarily due to investment gains on quasi-endowed funds.

Investments

Investments at fair value were \$20,743.8 million as of fiscal year-end 2018, an increase of \$1,698.4 million, or 8.9 percent. The consolidated financial statements include both realized and unrealized gains and losses on investments. These amounts yielded a net gain of \$2,385.6 million in fiscal 2018, and \$2,185.9 million in fiscal 2017. The increase in the value of investments as of fiscal year-end 2018 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 such as private equity, real estate, and real assets. MIT primarily invests through external fund managers, thereby allowing MIT to access the best investment talent globally. By identifying a wide variety of top-tier investment managers with specific competencies, MIT is able to construct a broadly diversified portfolio while accessing deep sector expertise. Decision authority for the selection of managers, direct investments, and asset allocation resides with MIT’s Investment Management Company (MITIMCo). The Board of Directors of MITIMCo holds four regularly scheduled meetings during the fiscal year in which investment policy, performance, and asset allocation are reviewed.

Endowment



Endowment assets, the largest component of total investments, are managed to maximize total investment return relative to appropriate risk. The market value of investments in endowment funds, excluding pledges for endowed purposes, totaled \$16,400.0 million as of fiscal year-end 2018, an increase of 10.6 percent compared to a total of \$14,832.5 million last year.

This year, MIT's pooled investments (Pool A) produced a return of 13.5 percent. Investment income and a portion of gains are distributed for spending in a manner that preserves the long-term purchasing power of the endowment. Endowment funds invested in Pool A, MIT's primary investment pool, receive distributions based on relative ownership, which is valued monthly.

Land, Buildings, and Equipment

Land, buildings, and equipment had a net book value of \$3,684.4 million as of fiscal year-end 2018, an increase of \$287.3 million, or 8.5 percent. Within the land, buildings, and equipment line-item on the Consolidated Statements of Financial Position, during fiscal 2018, the Institute moved \$111.6 million previously categorized as construction in progress to a depreciable asset. The Institute currently has a total of 152 capital projects under construction with a cumulative cost of \$643.3 million. MIT's strong financial position has enabled continued investment in campus infrastructure and the surrounding innovation ecosystem.

As noted previously, the 214,000-square-foot MIT.nano facility received its certificate of occupancy in June of 2018 and will open its unequaled facilities this fall, more than doubling MIT's shared fabrication and imaging capabilities. Work to renew the facades and replace the windows of Buildings 4, 8, and 10 facing MIT.nano is nearing completion. Nearby, the 90-year-old Sloan Laboratories for Aircraft and Automotive Engines (Building 31) was fully renovated to modernize mechanical and electrical systems while addressing programming needs for Mechanical Engineering and Aeronautics and Astronautics, and reopened in September of 2017. At its heart is the Kresa Center for Autonomous Systems—an 80-foot-long by 40-foot-wide space boasting 25-foot ceilings for testing autonomous vehicles.

On June 14, 2018, the Institute announced the Metropolitan Warehouse building as a potential new home for the School of Architecture and Planning (SA+P). As proposed, the renovation of Met Warehouse would enlarge MIT's classroom and design studio space, significantly increase its exhibition capacity for arts and design programming, and feature a new maker space.

Work to refurbish the Central Utilities Plant (CUP) began following its May 22, 2017, Massachusetts Department of Environmental Protection approval, with completion targeted for 2020. By upgrading the cogeneration plant, MIT is creating a flexible power system that positions the Institute to explore emerging sustainability and efficiency measures. Able to adapt

and evolve in response to advances in the energy field, the new plant is central to MIT's commitment to reduce greenhouse gas (GHG) emissions by at least 32.0 percent by 2030.

MIT continues to demonstrate its commitment to improving housing for both graduate and undergraduate students, and on October 16, 2017, the MIT administration committed to expanding graduate student housing by 950 beds. As described above, the new graduate student residence in Kendall Square will come online in 2020. It will include 454 units of graduate student housing and an MIT child care facility, and will net 250 new beds after the demolition of Eastgate. In addition, MIT has committed to building another new graduate residence hall with at least 500 beds, and will apply for a building permit no later than the end of 2020. The Institute will also provide an additional 200 graduate student beds by converting existing beds and establishing new beds on MIT's campus or properties owned by MIT. Also, construction of a 450-bed undergraduate dormitory has begun on the site of the recently demolished West Garage parking facility (W45) on Vassar Street.

Construction has also started on site 1 at 165 Main Street in Kendall Square, which will include housing, retail and office space, and a supermarket, with completion planned for the summer of 2019. Site 5, a 17-floor building to be constructed at 314 Main Street, will be home to the MIT Museum, the MIT Press Bookstore, commercial space, and a café. The first major commercial tenant, Boeing, will lease 100,000 square feet of space, offering opportunities to deepen ties with nearby MIT collaborators and further advance the aerospace industry.

Addressing deferred maintenance continues to be prioritized as an integral part of overall campus renewal. Fiscal 2016 was the first year in recent decades with a reduction in deferred maintenance, and progress continued in fiscal years 2017 and 2018. For the third consecutive year, MIT's campus-wide facility condition index (FCI), which is the ratio of deferred maintenance to replacement value, decreased (from 0.24 in fiscal 2016 to 0.22 in fiscal 2017 to 0.21 in fiscal 2018). A combination of extensive renovations and system renewal projects benefiting more than 72 campus buildings contributed to this continued reduction. At the end of fiscal 2018, the total backlog of deferred maintenance was \$1,500.0 million, which is equal to \$120 per square foot, down from a peak of \$150 per square foot in fiscal 2014.

In accordance with MIT 2030, a flexible framework that guides the Institute's ongoing stewardship of the campus, MIT expects future pressure on operating results due to increasing depreciation and borrowing costs associated with the capital projects that actively address current and future academic needs and opportunities. As noted above, having completed a number of significant infrastructure priorities, we are preparing for a more paced level of investment in our campus gated by fundraising in the decade to come.

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 \$3,903.2 million as of fiscal year-end 2018, an increase of \$302.9 million from fiscal year-end 2017. The plan's projected liabilities were \$3,931.2 million as of fiscal year-end 2018, up \$9.5 million from a year earlier. This resulted in a \$293.5 million decrease in net pension liabilities, totaling \$28.1 million as of fiscal year-end 2018.

MIT also maintains a retiree welfare benefit plan that covers retiree expenses associated with medical and life insurance benefits. This plan had assets of \$691.3 million as of fiscal year-end 2018, an increase of \$67.8 million over fiscal 2017. The plan's projected liabilities were \$566.6 million as of fiscal year-end 2018, down \$3.9 million from fiscal 2017. This resulted in a net asset position of \$124.7 million at fiscal year-end 2018, an improvement of \$71.7 million.

The changes in asset values of both plans in 2018 were a function of payments made to beneficiaries and investment performance. The change in pension liabilities was driven by higher pension obligations due to one more year of benefits being earned by MIT's employees offset by increases 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 increased 26 and 30 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 2018.

On an accounting basis at fiscal year-end 2018, the defined benefit pension plan had a funding level of 99.3 percent, up from 91.8 percent one year earlier. The retiree welfare benefit plan had a funding level of 122.0 percent at fiscal year-end 2018, an improvement from 109.3 percent one year earlier. There were no designated contributions to the defined benefit pension plan, and there was a \$6.5 million contribution to the retiree welfare benefit plan during fiscal 2018. 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 \$4,799.2 million as of fiscal year-end.

Net Borrowings

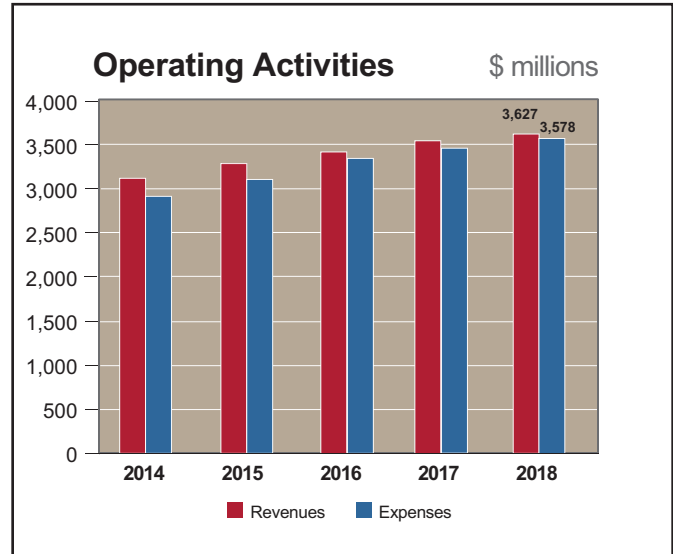
In fiscal year 2018, net borrowings decreased \$28.2 million, or 0.9 percent, to \$3,259.4 million, primarily due to the July 2017 Series K principal payment of \$26.5 million.

MIT's financial strength is reviewed periodically by both Moody's

Investors Service and S&P Global Ratings. In fiscal year 2018, these agencies reaffirmed MIT's credit as "Aaa" and "AAA," their highest rating levels.

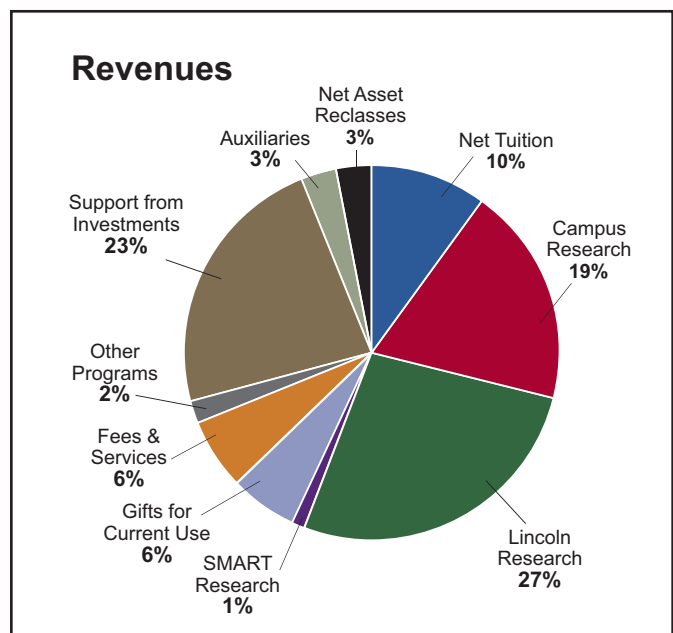
Consolidated Statement of Activities

Operating Activities



MIT ended fiscal 2018 with a net operating result of \$48.8 million. This is \$39.0 million, or 44.4 percent, lower than the fiscal 2017 result. Operating revenues increased \$74.9 million, or 2.1 percent, to \$3,626.6 million, while operating expenses increased \$113.9 million, or 3.3 percent, to \$3,577.9 million. Year-over-year comparisons of operating revenues and expenses are presented on the graph above.

Operating Revenues



MIT's operating revenues include tuition, research, unrestricted gifts and bequests for current use, fees and services, other programs, distribution from pooled investments (including endowment), income from other investments, auxiliaries, and payments on pledges for unrestricted purposes (included within net asset reclassifications and transfers).

Tuition revenue for graduate, undergraduate, and non-degree programs net of financial aid decreased by \$7.8 million, or 2.1 percent, to \$353.7 million. This change was driven by a decrease of \$7.7 million, or 2.6 percent, in undergraduate and graduate net tuition. Net undergraduate tuition decreased \$5.8 million, or 5.4 percent, as financial aid outpaced growth in gross tuition associated with a 3.0 percent tuition rate increase. Financial aid for undergraduate students increased by 10.5 percent to \$120.4 million. Graduate net tuition decreased by \$1.9 million, or 1.0 percent, as financial aid also outpaced growth in the tuition rate. Financial aid for graduate students grew by 8.1 percent to \$226.7 million. Non-degree revenue was essentially unchanged from last year at \$62.7 million.

Research revenues for on-campus departments, labs, and centers at MIT decreased \$25.1 million, or 3.6 percent, to \$681.8 million in 2018. Campus direct research revenue increased \$11.3 million, or 2.2 percent. The principal driver of the increase in campus direct research revenue was 6.3 percent growth in non-federal direct research activity, including an 8.4 percent increase from nonprofits and a 6.2 percent increase from industry. This was partly offset by a 1.8 percent decrease in federal direct research activity. Campus indirect research revenue decreased \$36.4 million, or 18.4 percent.

Research revenues for Lincoln Laboratory increased \$12.0 million, or 1.2 percent, to \$981.3 million, and the Singapore-MIT Alliance for Research and Technology (SMART) increased \$8.9 million, or 26.7 percent, to \$42.2 million.

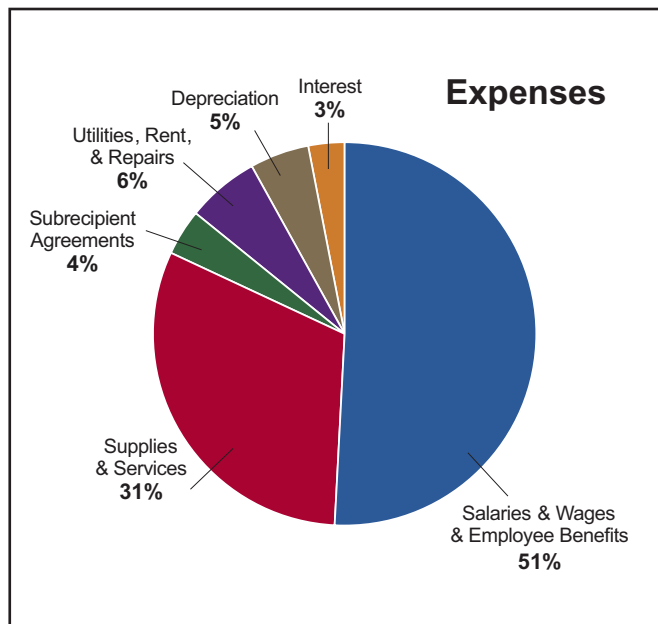
Support from investments increased \$44.6 million, or 5.7 percent, primarily due to an increase in endowment distribution in support of operations. The effective spending rate on pooled endowed funds was 4.5 percent, or 4.9 percent on a three-year-average basis, in fiscal 2018. Gifts and bequests for current use increased \$32.7 million, or 17.4 percent, as the MIT Campaign for a Better World continued in fiscal 2018.

Operating Expenses

MIT's operating expenses include salaries and wages, employee benefits, supplies and services, subrecipient agreements, utilities, rent and repairs, depreciation, and interest. Operating expenses grew to \$3,577.9 million, an increase of \$113.9 million, or 3.3 percent.

Overall Institute salary expenses rose 4.0 percent while employee benefits expenses decreased 0.4 percent. Average annualized salaries and wages for campus grew by 4.8 percent, while full-time-equivalent employees remained essentially unchanged. The decrease in employee benefits was driven primarily by decreases

in annual costs associated with the defined benefit pension plan and the retiree welfare benefit plan.



During fiscal 2018, expenses related to supplies and services increased \$38.7 million, or 3.7 percent, to \$1,097.3 million. Utilities, rent, and repair expenses increased \$11.9 million, or 5.6 percent, primarily driven by a rent increase of 17.5 percent. Depreciation expense increased \$9.8 million, or 5.8 percent, driven by depreciation on academic and research buildings, which increased 7.5 percent. Interest expense decreased \$10.6 million, or 8.1 percent, driven by more interest being capitalized in fiscal 2018.

Non-Operating Revenues, Gains, and Losses Summary

Non-operating activities contributed to a total \$2,391.7 million increase in MIT's fiscal 2018 net assets. Net appreciation on investments, pledge revenue, and gains related to changes in retirement plan obligations and assets were partially offset by the endowment spending distribution and were the principal contributors to the net positive non-operating performance. Net appreciation on investments less the endowment spending distribution totaled \$1,718.6 million. Pledge revenue and changes in retirement plan obligations and assets totaled \$187.1 million and \$383.7 million, respectively.

Gifts and Pledges

Gifts to MIT support scholarships, fellowships, professorships, research, educational programming, and student life activities, as well as construction and renovation of buildings. Operating and non-operating gift and pledge revenue for fiscal 2018 totaled \$471.7 million, a decrease of 17.8 percent from the fiscal 2017 total of \$573.5 million. Gifts from individuals represented 53.8 percent of new gifts and pledges in fiscal 2018, down from 54.7 percent in fiscal 2017. Gifts from foundations represented

31.0 percent of new gifts and pledges in fiscal 2018, down from 32.4 percent in fiscal 2017. Gifts from corporations and other sources represented 15.2 percent of new gifts and pledges in fiscal 2018, up from 12.9 percent in fiscal 2017. New gifts and pledges for research and education were the largest categories of contributions for fiscal 2018.

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 generally accepted accounting principles (GAAP), when reviewing the cash flow of a nonprofit organization such as MIT, it is important to note the investing activities as presented in the cash flow are an integral part of operations, since a large portion of operating activity is funded through distributions from pooled investments. In fiscal 2018, support from investment comprised 31.5 percent of overall campus operating revenue.

Net operating cash flow consumed \$362.8 million in fiscal 2018. Net operating cash flow resulted from a total increase in net assets, adjusted for non-cash items (depreciation, net gain on investments, change in retirement plans' net assets, etc.), offset by changes in working capital, excluding cash and debt. The net of pledges receivable, accounts receivable, accounts payable, and other operating assets and liabilities provided \$47.4 million of operating cash flow in fiscal 2018. Net investing activities provided \$230.4 million in cash due to spending on capital projects and purchases of investments, more than offset by proceeds from sales of investments to cover the Institute's endowment spending policy in fiscal 2018. Cash provided by financing activities was \$160.6 million in fiscal 2018, driven primarily by endowed contributions.

MIT's full consolidated financial statements and notes further describing our financial position, activities, and cash flows through June 30, 2018, are included on the following pages.

Closing Remarks

We begin fiscal 2019 with the financial strength to successfully steward MIT's core mission, the flexibility to enable strategic priorities, and the resiliency to withstand pressure on federal research funding and expected global financial volatility. While bolstered by the Campaign for a Better World, we remain aware to balance the needs of today with the Institute's evolving needs of the future.

MIT's strong financial position enables the Institute to invest in singular research facilities such as MIT.nano, to launch far-reaching scientific directions such as the Quest for Intelligence, and to catalyze innovation at an accelerated pace. The momentum of The Engine and advancement of construction in Kendall Square demonstrate MIT's ongoing commitment to investing in our surrounding innovation ecosystem. We are actively working to address pressures on housing for our graduate and undergraduate students.

These achievements reflect the enduring dedication of our

faculty, students, staff, alumni, friends, and members of the MIT Corporation to addressing the world's great challenges, realizing transformational innovations, and making a better world. I am grateful for their sustained generosity and commitment.

In closing, I would like to express my deep appreciation to Senior Vice President and Secretary of the Corporation R. Gregory Morgan, who has been both a trusted colleague and a friend, and acknowledge his many contributions as Secretary of the MIT Corporation since accepting these responsibilities in March 2015. I am also grateful to Vice President Suzanne Glassburn for accepting these responsibilities beginning in January 2019.

Respectfully submitted,



Israel Ruiz
Executive Vice President and Treasurer
September 14, 2018

Massachusetts Institute of Technology

Consolidated Statements of Financial Position

at June 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Assets		
Cash	\$ 428,030	\$ 399,825
Accounts receivable, net	233,068	225,648
Pledges receivable, net, at fair value	560,142	533,227
Contracts in progress, principally US government.	98,921	82,334
Deferred charges, inventories, and other assets	169,566	155,754
Student notes receivable, net	30,481	37,021
Investments, at fair value	20,743,773	19,045,347
Net asset position - retiree welfare plan	124,686	52,986
Land, buildings, and equipment (at cost of \$5,409,653 for June 2018; \$4,990,128 for June 2017), net of accumulated depreciation	3,684,377	3,397,070
Total assets	\$ 26,073,044	\$ 23,929,212
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accruals, and other liabilities	\$ 486,962	\$ 457,514
Liabilities due under life income fund agreements, at fair value	187,449	154,470
Deferred revenue and other credits	121,464	126,531
Advance payments	449,230	426,562
Borrowings, net of unamortized issuance costs	3,259,389	3,287,545
Government advances for student loans	23,711	30,015
Net liability position - defined benefit pension plan	28,058	321,517
Total liabilities	4,556,263	4,804,154
Net Assets:		
Unrestricted	8,799,838	7,667,379
Temporarily restricted.	9,158,017	8,037,426
Permanently restricted	3,558,926	3,420,253
Total net assets	21,516,781	19,125,058
Total liabilities and net assets	\$ 26,073,044	\$ 23,929,212

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, 2018

(with summarized financial information for the year ended June 30, 2017)

<i>(in thousands of dollars)</i>	2018			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	2017
Operating Activities					
Operating Revenues					
Tuition and similar revenues, net of discount of \$347,039 in 2018 and \$318,610 in 2017 . . .	\$ 353,721	\$ -	\$ -	\$ 353,721	\$ 361,476
Research revenues:					
Campus	681,809	-	-	681,809	706,939
Lincoln	981,293	-	-	981,293	969,257
SMART	42,183	-	-	42,183	33,284
Total research revenues	1,705,285	-	-	1,705,285	1,709,480
Gifts and bequests for current use	220,220	-	-	220,220	187,524
Fees and services	210,298	-	-	210,298	168,266
Other programs	76,926	-	-	76,926	82,141
Support from investments:					
Endowment	663,203	-	-	663,203	628,669
Other investments	168,447	-	-	168,447	158,358
Total support from investments	831,650	-	-	831,650	787,027
Auxiliary enterprises	131,841	-	-	131,841	127,720
Net asset reclassifications and transfers	96,701	-	-	96,701	128,154
Total operating revenues	\$ 3,626,642	\$ -	\$ -	\$ 3,626,642	\$ 3,551,788
Operating Expenses					
Salaries and wages	\$ 1,471,513	\$ -	\$ -	\$ 1,471,513	\$ 1,415,024
Employee benefits	335,735	-	-	335,735	337,030
Supplies and services	1,097,347	-	-	1,097,347	1,058,683
Subrecipient agreements	148,006	-	-	148,006	139,159
Utilities, rent, and repairs	225,897	-	-	225,897	213,978
Depreciation	178,630	-	-	178,630	168,809
Interest expense	120,749	-	-	120,749	131,341
Total operating expenses	3,577,877	-	-	3,577,877	3,464,024
Results of operations	\$ 48,765	\$ -	\$ -	\$ 48,765	\$ 87,764
Non-Operating Activities					
Pledge revenue	\$ -	\$ 146,720	\$ 40,408	\$ 187,128	\$ 287,245
Gifts and bequests	-	-	64,320	64,320	98,746
Investment income	1,852	1,786	197	3,835	3,743
Net gain on investments	970,980	1,397,266	17,356	2,385,602	2,185,920
Distribution of accumulated investment gains	(240,472)	(426,574)	-	(667,046)	(640,877)
Other changes	62,242	12,073	7,760	82,075	45,406
Postretirement plan changes other than net periodic benefit cost	383,745	-	-	383,745	256,184
Net asset reclassifications and transfers	(94,653)	(10,680)	8,632	(96,701)	(128,154)
Total non-operating activities	1,083,694	1,120,591	138,673	2,342,958	2,108,213
Increase in net assets	1,132,459	1,120,591	138,673	2,391,723	2,195,977
Net assets at the beginning of the year	7,667,379	8,037,426	3,420,253	19,125,058	16,929,081
Net assets at the end of the year	\$ 8,799,838	\$ 9,158,017	\$ 3,558,926	\$ 21,516,781	\$ 19,125,058

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, 2018 and 2017

<i>(in thousands of dollars)</i>	2018	2017
Cash Flow from Operating Activities		
Increase in net assets	\$ 2,391,723	\$ 2,195,977
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments	(2,385,602)	(2,185,920)
Change in retirement plan asset, net of accrued benefit liability	(365,159)	(227,498)
Depreciation	178,630	168,809
Net gain on life income funds	(23,386)	(29,824)
Amortization of bond premiums and discounts and other adjustments	3,176	5,577
Change in operating assets and liabilities:		
Pledges receivable	(26,915)	75,838
Accounts receivable	(7,420)	(24,636)
Contracts in progress	(16,587)	(1,531)
Deferred charges, inventories, and other assets	(13,812)	(19,689)
Accounts payable, accruals, and other liabilities, excluding building and equipment accruals	45,377	(83,509)
Liabilities due under life income fund agreements	49,138	23,676
Deferred revenue and other credits	(5,067)	(9,895)
Advance payments	22,668	(8,658)
Reclassify donated securities	(10,147)	(5,979)
Reclassify investment income	(3,835)	(3,743)
Reclassify contributions restricted for long-term investment	(195,538)	(347,570)
Net cash used in operating activities	<u>(362,756)</u>	<u>(478,575)</u>
Cash Flow from Investing Activities		
Purchase of land, buildings, and equipment	(486,413)	(473,134)
Purchases of investments	(32,952,998)	(32,028,007)
Proceeds from sale of investments	33,663,560	32,186,808
Student notes issued	(5,439)	(6,736)
Collections from student notes	11,694	11,838
Net cash provided by (used in) investing activities	<u>230,404</u>	<u>(309,231)</u>
Cash Flow from Financing Activities		
Contributions restricted for long-term investment	195,538	347,570
Payments to beneficiaries of life income funds	(16,159)	(14,422)
Proceeds from sale of donated securities restricted for endowment	10,147	5,980
Increase in investment income for restricted purposes	3,835	3,743
Proceeds from borrowings	-	500,000
Repayment of borrowings	(26,500)	(98,090)
Decrease in government advances for student loans	(6,304)	(6,158)
Net cash provided by financing activities	<u>160,557</u>	<u>738,623</u>
Net increase (decrease) in cash	28,205	(49,183)
Cash at the beginning of the year	399,825	449,008
Cash at the end of the year	<u>\$ 428,030</u>	<u>\$ 399,825</u>

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

Notes to Consolidated Financial Statements

A. Accounting Policies

Basis of Presentation

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

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

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

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

market value are recorded as a reduction to unrestricted net assets.

Unrestricted net assets are all the remaining net assets of MIT. Donor-restricted gifts and distributed restricted endowment income for which the restriction is met within the same year of gift or distribution are reported as unrestricted revenue. Gifts of long-lived assets are reported as unrestricted revenue.

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

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

MIT's operations include tuition, research revenues, unrestricted gifts and bequests for current use, fees and services, other programs, support from investments, auxiliary enterprises, net asset reclassifications and transfers, and operating expenditures. Results of operations are displayed in the Consolidated Statement of Activities.

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.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was enacted. The Act impacts the Institute in several ways, including the addition of excise taxes on executive compensation and net investment income, as well as new rules for calculating unrelated business taxable income. The overall impact of the Act remains uncertain until further regulatory guidance is issued to assist the Institute in calculating tax liabilities.

US GAAP requires MIT to evaluate tax positions taken by the Institute and recognize a tax liability (or asset) if the Institute has taken an uncertain position that more likely than not, would not be sustained upon examination by the IRS. MIT has analyzed the tax positions taken and has concluded that as of June 30, 2018, there are no significant uncertain positions taken or expected to be taken, apart from those impacted by the Act. The Institute continues to evaluate the impact of the Act on current and future tax positions.

Cash

Certain cash balances, totaling \$97.8 million and \$68.9 million at June 30, 2018 and 2017, respectively, are restricted for use under certain sponsored research agreements or are held on behalf of a related party.

The Institute had approximately \$418.5 million and \$390.2 million at June 30, 2018 and 2017, respectively, of its cash accounts with a single institution. The Institute has not experienced any losses associated with deposits at this institution.

Advance Payments

Amounts received by MIT from the US government, corporations, industrial sources, foundations, and other non-MIT sponsors under the terms of agreements that generally require the exchange of assets, rights, or privileges between MIT and the sponsor are recorded as advance payments. Revenue is recognized as MIT fulfills the terms of the agreements.

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 \$46.2 million and \$50.9 million during 2018 and 2017, respectively. Land, buildings, and equipment at June 30, 2018 and 2017, are shown in Table 1 below.

	2018	2017
Land	\$ 107,557	\$ 93,407
Land improvements	73,815	72,773
Educational buildings	4,127,736	3,986,375
Equipment	306,364	292,087
Software	68,328	61,730
Total	4,683,800	4,506,372
Less: accumulated depreciation	(1,725,276)	(1,593,058)
Construction in progress	723,249	479,865
Software projects in progress	2,604	3,891
Net land, buildings, and equipment	\$ 3,684,377	\$ 3,397,070

Depreciation expense was \$178.6 million in 2018 and \$168.8 million in 2017. Net interest expense of \$22.1 million and \$10.6 million was capitalized during 2018 and 2017, 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.

Table 2. Tuition and Similar Revenues

<i>(in thousands of dollars)</i>	2018	2017
Undergraduate and graduate programs	\$ 638,083	\$ 617,368
Executive and continuing education programs	62,677	62,718
Total	<u>700,760</u>	<u>680,086</u>
Less: tuition discount	<u>(347,039)</u>	<u>(318,610)</u>
Net tuition and similar revenues	<u>\$ 353,721</u>	<u>\$ 361,476</u>

Tuition support is awarded to undergraduate students by MIT based on need. Graduate students are provided with tuition support in connection with research assistance, teaching assistance, and fellowship appointments. Tuition support from MIT sources is displayed as tuition discount. Total student

support granted to students was \$594.6 million and \$555.3 million in 2018 and 2017, respectively. Of that amount, \$175.0 million in 2018 and \$169.0 million in 2017 was aid from sponsors. Components of student support are detailed in Table 3 below.

Table 3. Student Support

<i>(in thousands of dollars)</i>	2018			2017		
	Institute Sources	External Sponsors	Total Student Support	Institute Sources	External Sponsors	Total Student Support
Undergraduate tuition support . . .	\$ 120,352	\$ 17,584	\$ 137,936	\$ 108,930	\$ 18,002	\$ 126,932
Graduate tuition support.	226,687	61,747	288,434	209,680	60,609	270,289
Fellowship stipends	26,199	16,110	42,309	23,344	16,174	39,518
Student employment	46,329	79,555	125,884	44,301	74,227	118,528
Total	<u>\$ 419,567</u>	<u>\$ 174,996</u>	<u>\$ 594,563</u>	<u>\$ 386,255</u>	<u>\$ 169,012</u>	<u>\$ 555,267</u>

A. Accounting Policies (continued)

Sponsored Research

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

<i>(in thousands of dollars)</i>	2018	2017
Direct:		
Campus	\$ 519,977	\$ 508,677
Lincoln.	940,798	926,871
SMART	41,988	32,981
Total direct.	1,502,763	1,468,529
Indirect:		
Campus	\$ 161,832	\$ 198,262
Lincoln.	40,495	42,386
SMART	195	303
Total indirect	202,522	240,951
Total research revenues. . .	\$ 1,705,285	\$ 1,709,480

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

Gifts and Pledges

Gifts and pledges are recognized when received. Gifts of securities are recorded at their fair value at the date of contribution. Donated securities received totaled \$66.8 million and \$39.3 million in

2018 and 2017, respectively, and are shown separately in the Consolidated Statements of Cash Flows. Gifts of equipment received from manufacturers and other donors are put into use and recorded by MIT at fair value. Gifts of equipment totaled \$2.2 million in 2018 and less than \$0.1 million in 2017. Pledges in the amount of \$560.1 million and \$533.2 million were recorded as receivables at June 30, 2018 and 2017, respectively, with the revenue assigned to the appropriate classification of restriction. Pledges consist of unconditional written promises to contribute to MIT in the future and are recorded after discounting the future cash flows to the present value.

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

Life Income Funds

MIT's life income fund agreements with donors consist primarily of irrevocable charitable gift annuities, pooled income funds, and charitable remainder trusts for which MIT serves as trustee. Assets are invested and payments are made to donors and other beneficiaries in accordance with the respective agreements. MIT records the assets that are associated with each life income fund at fair value and records as liabilities the present value of the estimated future payments at current interest rates to be made to the donors and beneficiaries under these agreements. Life income fund assets are included within investments on the Consolidated Statements of Financial Position. A rollforward of liabilities due under life income fund agreements is presented in Table 5 below.

<i>(in thousands of dollars)</i>	2018	2017
Balance at the beginning of the year. . .	\$ 154,470	\$ 145,216
Addition for new gifts	28,768	8,122
Termination and payments to beneficiaries.	(17,782)	(19,671)
Net investment and actuarial gain. . .	21,993	20,803
Balance at end of the year	\$ 187,449	\$ 154,470

A. Accounting Policies (continued)

Accounts Payable, Accruals, and Other Liabilities

MIT's accounts payable, accruals, and other liabilities totaled \$487.0 million and \$457.5 million at June 30, 2018 and 2017, respectively. These totals included accrued vacation of \$88.4 million at June 30, 2018, and \$88.2 million at June 30, 2017.

Recently Adopted Accounting Standards

On July 1, 2016, the Institute early adopted new guidance related to how *Not-for-Profit Entities that are a General or Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, which impacts consolidation for not-for-profit entities. As a result of adopting this guidance, certain previously consolidated limited liability investment entities are no longer consolidated.

On July 1, 2016, the Institute early adopted new guidance related to *Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance eliminates the requirement to disclose the fair value of our outstanding debt. The Institute has evaluated the impact of the guidance on the financial statements and accompanying notes and has removed the fair value reference previously included in Note F.

Non-Cash Items

Non-cash transactions excluded from the Consolidated Statements of Cash Flows include (\$13.9) million and \$12.3 million of accrued liabilities related to plant and equipment purchases for 2018 and 2017, respectively. The (\$13.9) million excluded in fiscal 2018 was driven by over-accruing for plant and equipment purchases in fiscal 2017.

Use of Estimates

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

Subsequent Events

MIT has evaluated subsequent events through September 14, 2018, 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 and the certain Notes to the Consolidated Financial Statements include 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, 2017, from which the summarized information was derived.

A. Accounting Policies (continued)

Cash Flow Revisions

MIT has revised the Consolidated Statement of Cash Flows for the year ended June 30, 2017, to correct the classification of \$254.8 million of cash receipts which are restricted for long-term investment. This amount was primarily attributable to an endowed pledge payment of \$175.9 million from one donor. The Institute has concluded that these receipts should have been classified as a cash inflow from financing activities, rather than from operating activities, in accordance with Accounting Standards Codification (ASC) 230, Statement of Cash Flows. The Consolidated Statement of Cash Flows for the year ended June 30, 2017 has been corrected to reflect this and other immaterial revisions between cash flow categories.

These revisions have no impact on the amounts disclosed in MIT's Statement of Activities or Statement of Financial Position, or on the net change in cash and cash balances shown in the Consolidated Statement of Cash Flows, all of which were accurately stated. Additionally, the Institute has evaluated the impact of these misclassifications and concluded that they are not material, individually or in the aggregate, to the previously reported June 30, 2017 financial statements.

The following exhibit shows the impact of the revisions to correct these classification errors in the 2017 Consolidated Statement of Cash Flows.

Consolidated Statement of Cash Flows — Revisions			
<i>to the year ended June 30, 2017</i>			
<i>(in thousands of dollars)</i>	As Previously Reported	Adjustment	As Revised
Cash Flow from Operating Activities			
Amortization of bond premiums and discounts and other adjustments	\$ 13,294	\$ (7,717)	\$ 5,577
Liabilities due under life income fund agreements	9,254	14,422	23,676
Reclassify contributions restricted for long-term investment	(92,767)	(254,803)	(347,570)
All other operating activities	(160,258)	-	(160,258)
Net cash used in operating activities	<u>(230,477)</u>	<u>(248,098)</u>	<u>(478,575)</u>
Cash Flow from Investing Activities			
Student notes issued	(14,453)	7,717	(6,736)
All other investing activities	(302,495)	-	(302,495)
Net cash used in investing activities	<u>(316,948)</u>	<u>7,717</u>	<u>(309,231)</u>
Cash Flow from Financing Activities			
Contributions restricted for long-term investment	92,767	254,803	347,570
Payments to beneficiaries of life income funds	-	(14,422)	(14,422)
All other financing activities	405,475	-	405,475
Net cash provided by financing activities	<u>498,242</u>	<u>240,381</u>	<u>738,623</u>
Net decrease in cash	(49,183)	-	(49,183)
Cash at the beginning of the year	449,008	-	449,008
Cash at the end of the year	<u>\$ 399,825</u>	<u>\$ -</u>	<u>\$ 399,825</u>

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 is 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.

MIT values its investments at fair value on the Consolidated Statements of Financial Positions in accordance with the

principles of accounting standards that establish a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity’s own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. MIT follows a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is unobservable.

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

- Level 1 – 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 cash equivalents include cash, money market funds, repurchase agreements, and negotiable certificates of deposit and are valued at cost, which approximates fair value. Instruments listed or traded on a securities exchange are valued at the last quoted price on the primary exchange where the securities are traded.

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. Exchange traded derivatives, such as futures and options, are generally classified within Level 1.

MIT, through some of its direct and indirect subsidiaries, 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 \$768.6 million and \$777.3 million in fiscal years 2018 and 2017, 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 \$1,812.1 million and \$1,716.2 million as of June 30, 2018 and 2017, respectively. The net change in unrealized gains (losses) related to Level 3 investments held by MIT at June 30, 2018, and June 30, 2017, are disclosed in Table 7.

Certain investments in real estate, equities, and private investments may be subject to restrictions that: (i) limit MIT's ability to withdraw capital after such investment; and (ii) may limit the amount that may be withdrawn as of a given redemption date. Most absolute return, domestic equity, and foreign equity commingled funds limit withdrawals to monthly, quarterly, or other periods, and may require notice periods. In addition, certain of these funds are able to designate a portion of the investments as illiquid in "side-pockets," and these funds may not be available for withdrawal until liquidated by the investing fund. Generally, MIT has no discretion as to withdrawal with respect to its investments in private equity and real estate funds. Distributions are made when sales of assets are made within these funds and the investment cycle for these funds can be as long as 15 to 20 years. These restrictions may limit MIT's ability to respond quickly to changes in market conditions. MIT does have various sources of liquidity at its disposal, including cash, cash equivalents, marketable debt and equity securities, and lines of credit.

B. Investments (continued)

Table 6 presents MIT's investments at fair value as of June 30, 2018 and 2017, respectively, grouped by the valuation hierarchy as defined earlier in this note.

<i>(in thousands of dollars)</i>	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2018					
Cash and cash equivalents	\$ 1,354,618	\$ -	\$ -	\$ -	\$ 1,354,618
US Treasury	1,159,000	-	-	-	1,159,000
US government agency	554	68,332	-	-	68,886
Domestic bonds	19,612	795,566	120,096	-	935,274
Foreign bonds	2,106	95,154	-	-	97,260
Common equity:					
Long domestic	53,262	-	202,840	-	256,102
Long foreign	170,023	215	-	-	170,238
Equity:**					
Absolute return	-	-	-	1,948,154	1,948,154
Domestic	-	-	-	2,335,421	2,335,421
Foreign	-	-	-	4,426,017	4,426,017
Private	-	-	-	4,020,787	4,020,787
Real estate*	49,308	-	2,385,683	729,463	3,164,454
Real assets**	-	-	184	687,581	687,765
Split-interest agreements	-	-	156,494	-	156,494
Other	-	200	4,216	-	4,416
Derivatives	(193)	(40,920)	-	-	(41,113)
Investments, at fair value.	\$ 2,808,290	\$ 918,547	\$ 2,869,513	\$ 14,147,423	\$ 20,743,773
Fiscal Year 2017					
Cash and cash equivalents	\$ 1,289,440	\$ -	\$ -	\$ -	\$ 1,289,440
US Treasury	983,110	-	-	-	983,110
US government agency	-	68,972	-	-	68,972
Domestic bonds	11,085	827,798	112,325	-	951,208
Foreign bonds	21	218,676	-	-	218,697
Common equity:					
Long domestic	122,824	-	199,643	-	322,467
Long foreign	522,712	934	-	-	523,646
Equity:**					
Absolute return	-	-	-	1,948,414	1,948,414
Domestic	-	-	-	1,860,682	1,860,682
Foreign	-	-	-	3,939,887	3,939,887
Private	-	-	-	3,352,743	3,352,743
Real estate*	8,885	-	2,094,523	711,635	2,815,043
Real assets**	-	-	205	667,986	668,191
Split-interest agreements	-	-	142,499	-	142,499
Other	2,796	200	3,881	-	6,877
Derivatives	32	(46,561)	-	-	(46,529)
Investments, at fair value.	\$ 2,940,905	\$ 1,070,019	\$ 2,553,076	\$ 12,481,347	\$ 19,045,347

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

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

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 at June 30, 2018 and 2017.

<i>(in thousands of dollars)</i>	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Other Changes and Transfers*	Fair Value Ending
Fiscal Year 2018							
Domestic bonds	\$ 112,325	\$ -	\$ -	\$ 15,123	\$ (7,352)	\$ -	\$ 120,096
Common equity:							
Long domestic	199,643	7,525	3,008	6,084	(13,420)	-	202,840
Short domestic	-	-	-	43	(43)	-	-
Real estate	2,094,523	179,169	122,784	182,674	(193,467)	-	2,385,683
Real assets	205	-	(21)	-	-	-	184
Split-interest agreements . .	142,499	169	14,391	163	(728)	-	156,494
Other	3,881	-	(76)	772	(361)	-	4,216
Investments, at fair value . . .	\$ 2,553,076	\$ 186,863	\$ 140,086	\$ 204,859	\$ (215,371)	\$ -	\$ 2,869,513
Fiscal Year 2017							
Domestic bonds	\$ 104,048	\$ -	\$ -	\$ 16,306	\$ (8,029)	\$ -	\$ 112,325
Common equity:							
Long domestic	95,120	601	104,736	5,927	(6,741)	-	199,643
Short domestic	-	-	-	-	-	-	-
Real estate	2,005,145	14,320	244,061	170,833	(52,611)	(287,225)	2,094,523
Real assets	275	-	(70)	-	-	-	205
Split-interest agreements . .	126,832	1,120	7,135	11,308	(3,896)	-	142,499
Other	2,809	-	60	1,012	-	-	3,881
Investments, at fair value . . .	\$ 2,334,229	\$ 16,041	\$ 355,922	\$ 205,386	\$ (71,277)	\$ (287,225)	\$ 2,553,076
<i>*Other Changes and Transfers include cash received and paid related to the real estate financings described earlier in this footnote. There were no transfers in or out of Level 3 for fiscal years 2018 and 2017.</i>							

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, 2018 and 2017.

<i>(in thousands of dollars)</i>	Fair Value at June 30, 2018	Fair Value at June 30, 2017	Valuation Technique	Unobservable Input	2018 Rates	2017 Rates
Real estate	\$ 2,385,683	\$ 2,094,523	Discounted cash flow	Discount rate	5.0-8.0%	4.5-8.5%
			Capitalization rate	Capitalization rate	4.5-7.3%	4.5-7.0%
Equity securities	183,169	180,654	Discounted cash flow	Discount rate	12.5%	13.2%
Split-interest agreements	119,260	105,581	Net present value	Discount rate	3.7%	2.65-4.5%
Real assets	184	205	Discounted cash flow	Discount	25.0%	25.0%
Other illiquid assets	650	882	Varies	Varies	Varies	Varies
Total assets	\$ 2,688,946	\$ 2,381,845				
<i>Certain Level 3 assets totaling \$180,567 and \$171,231 as of June 30, 2018 and June 30, 2017, respectively, have been valued using unadjusted third-party quotations and thus have been excluded from this table.</i>						

B. Investments (continued)

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

Asset Class <i>(in thousands of dollars)</i>	2018		2017		Redemption Terms	Redemption Restrictions
	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value		
Equity:						
Absolute return	\$ 209,572	\$ 1,948,154	\$ 153,487	\$ 1,948,414	Redemption terms range from 45 days with 1 month's notice to closed-end funds not available for redemption	Lock-up provisions range from none to not available for redemption
Domestic	6,173	2,335,421	1,790	1,860,682	Redemption terms range from 2 months with 1 month's notice to 25 months with 30 days' notice and closed-end funds not available for redemption	Lock-up provisions range from none to 60 months; certain funds are not available for redemption
Foreign	20,000	4,426,017	36,200	3,939,887	Redemption terms range from daily with 10 days' notice to 38 months with 6 months' notice and closed-end funds not available for redemption	Lock-up provisions range from none to 58 months
Private	1,658,030	4,020,787	1,517,659	3,352,743	Closed-end funds not available for redemption	Closed-end funds not available for redemption
Real estate	605,483	729,463	563,739	711,635	Closed-end funds not available for redemption	Closed-end funds not available for redemption
Real assets	133,174	687,581	102,689	667,986	Redemption terms range from 1 month with 7 days' notice to closed-end funds not available for redemption	Lock-up provisions range from none to not available for redemption
Total	\$ 2,632,432	\$ 14,147,423	\$ 2,375,564	\$ 12,481,347		

C. Derivative Financial Instruments and Collateral

MIT maintains an interest rate swap agreement to manage the interest cost and risk associated with a portion of its variable rate debt, described in Note F. Under the agreement, MIT pays a fixed rate of 4.91 percent and receives a payment indexed to the Securities Industry and Financial Market Association (SIFMA) index on a notional amount of \$125.0 million. At June 30, 2018, the swap agreement had a fair value of (\$38.0) million and at June 30, 2017, had a fair value of (\$47.1) million. This swap had a total net gain for 2018 of \$9.1 million and a total net gain of \$16.3 million for 2017. The notional amount of this derivative is not recorded on MIT's Consolidated Statements of Financial Position.

For its investment management, MIT uses a variety of financial instruments with off-balance-sheet risk involving contractual or optional commitments for future settlement. MIT uses these instruments primarily to manage its exposure to extreme market events and fluctuations in asset classes or currencies. Instruments utilized include futures, total return and credit default swaps, and interest rate cap and swaption agreements. The futures are exchange-traded, and the swap, swaptions, and cap agreements are executed over the counter.

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

MIT's portfolio of interest rate caps and swaptions is designed for protection from significant increases in interest rates. An interest rate swaption is an option to enter into an interest rate swap agreement on pre-set terms at a future date. The purchaser and seller of the swaption agree on the expiration date, option type,

exercise style, the terms of the underlying swap, and the type of settlement. As the expiration date approaches, the swaption holder can either notify the seller of its intention to exercise or let the option expire. An interest rate cap places a ceiling on a floating rate of interest on a specified notional principal amount for a specific term. The buyer of the cap uses the cap contract to limit its maximum interest rate exposure. If the buyer's floating rate rises above the cap strike, the cap contract provides for payments from the seller to the buyer of the cap for the difference between the floating rate and the cap strike. If the floating rate remains below the cap strike, no payments are required. The cap buyer is required to pay an upfront fee or premium for the cap. The cap premium charged by the seller depends upon the market's assessment of the probability that rates will move through the cap strike over the time horizon of the deal. The payoff is expected to occur in extreme market conditions that would negatively impact MIT's other assets.

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, 2018, 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.

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, 2018 and 2017 related to MIT's investment management.

<i>(in thousands of dollars)</i>	Notional Exposure		Net Ending Fair Value *	Net Gain (Loss)**
	Long	Short		
Fiscal Year 2018				
Fixed income instruments:				
Fixed income futures	\$ 4,000	\$ (29,200)	\$ (193)	\$ -
Options on interest rate exchange agreements	949,000	-	1,086	(730)
Equity options	134	-	-	(11)
Total fixed income instruments	953,134	(29,200)	893	(741)
Commodity and index instruments:				
Equity index swaps.	-	(194,583)	(7,293)	14,642
Index options	95,000	-	3,353	(210)
Total commodity and index instruments	95,000	(194,583)	(3,940)	14,432
Credit instruments	-	(12,750)	(92)	(332)
2018 Total	\$ 1,048,134	\$ (236,533)	\$ (3,139)	\$ 13,359
Fiscal Year 2017				
Fixed income instruments:				
Fixed income futures	\$ 1,900	\$ (9,200)	\$ 32	\$ -
Options on interest rate exchange agreements	1,039,000	-	1,818	(139)
Equity options	134	-	11	-
Total fixed income instruments	1,041,034	(9,200)	1,861	(139)
Commodity and index instruments:				
Equity index swaps.	-	(79,332)	744	(32,183)
Total commodity and index instruments	-	(79,332)	744	(32,183)
Credit instruments	-	(76,119)	(2,032)	(973)
2017 Total	\$ 1,041,034	\$ (164,651)	\$ 573	\$ (33,295)
* 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 the non-operating section as net gain 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 at June 30, 2018 and 2017.

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.

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.

Table 11. Credit Derivative Instruments

	Purchased Protection		
	Purchased Notional Amounts*	Purchased Fair Value**	< 5 Years to Maturity
<i>(in thousands of dollars)</i>			
Fiscal Year 2018			
Credit rating on underlying or index:			
A- to AAA	\$ 2,250	\$ (49)	\$ 2,250
BBB- to BBB+	5,500	(2)	5,500
Non-rated	5,000	(41)	5,000
2018 Total	\$ 12,750	\$ (92)	\$ 12,750
Fiscal Year 2017			
Credit rating on underlying or index:			
A- to AAA	\$ 25,000	\$ 474	\$ 25,000
BBB- to BBB+	51,119	1,558	51,119
Non-rated	-	-	-
2017 Total	\$ 76,119	\$ 2,032	\$ 76,119

* All instruments included in these amounts have maturity less than 5 years.

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

C. Derivative Financial Instruments and Collateral (continued)

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

<i>(in thousands of dollars)</i>	2018			2017		
	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount
Assets						
Counterparty A.....	\$ 391	\$ (405)	\$ (14)	\$ 720	\$ (880)	\$ (160)
Counterparty B.....	25,402	(25,916)	(514)	27,000	(27,663)	(663)
Counterparty C.....	15,000	(15,273)	(273)	-	-	-
Counterparty D.....	-	-	-	-	-	-
Counterparty E.....	-	-	-	-	-	-
Counterparty F.....	58,584	(59,772)	(1,188)	-	-	-
Counterparty G.....	36,383	(37,185)	(802)	18,528	(18,916)	(388)
Counterparty H.....	-	-	-	-	-	-
Counterparty I.....	-	-	-	-	-	-
Counterparty J.....	3,353	(3,330)	23	-	-	-
Counterparty K.....	-	-	-	1,843	7,183	9,026
Total assets.....	<u>139,113</u>	<u>(141,881)</u>	<u>(2,768)</u>	<u>48,091</u>	<u>(40,276)</u>	<u>7,815</u>
Liabilities						
Counterparty A.....	(32)	50	18	(59)	60	1
Counterparty B.....	-	-	-	-	-	-
Counterparty C.....	-	60	60	(527)	550	23
Counterparty D.....	-	-	-	(1,052)	1,091	39
Counterparty E.....	-	-	-	-	-	-
Counterparty F.....	-	-	-	-	-	-
Counterparty G.....	-	-	-	(33)	60	27
Counterparty H.....	(37,974)	-	(37,974)	(47,103)	-	(47,103)
Counterparty I.....	(49)	-	(49)	(6)	-	(6)
Counterparty J.....	(11)	40	29	(355)	340	(15)
Counterparty K.....	(6,598)	806	(5,792)	-	-	-
Total liabilities.....	<u>(44,664)</u>	<u>956</u>	<u>(43,708)</u>	<u>(49,135)</u>	<u>2,101</u>	<u>(47,034)</u>
Total assets and liabilities, net ...	<u>\$ 94,449</u>	<u>\$ (140,925)</u>	<u>\$ (46,476)</u>	<u>\$ (1,044)</u>	<u>\$ (38,175)</u>	<u>\$ (39,219)</u>

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

<i>(in thousands of dollars)</i>	2018	2017
Derivatives from Table 6.....	\$ (41,113)	\$ (46,529)
Repurchase agreements.....	135,369	45,528
Fixed income futures.....	193	(32)
Equity options.....	-	(11)
Total.....	<u>\$ 94,449</u>	<u>\$ (1,044)</u>

D. Pledges Receivable

Table 14 below shows the time periods in which pledges receivable at June 30, 2018 and 2017 are expected to be realized.

<i>(in thousands of dollars)</i>	2018	2017
In one year or less	\$ 276,883	\$ 239,548
Between one year and five years . .	264,333	266,586
More than five years	80,931	86,103
Less: allowance for unfulfilled pledges	(62,005)	(59,010)
Pledges receivable, net.	\$ 560,142	\$ 533,227

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 \$80.7 million and \$64.6 million in 2018 and 2017, respectively. The pledge discount rate

ranges from fiscal year 2019 at 2.48 percent to fiscal year 2044 at 3.81 percent. MIT has gross conditional pledges, not recorded, for the promotion of education and research of \$100.6 million and \$80.6 million in 2018 and 2017, respectively.

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

Table 15 below is a rollforward of the pledges receivable at June 30, 2018 and 2017.

<i>(in thousands of dollars)</i>	2018	2017
Balance at beginning of the year. .	\$ 533,227	\$ 609,065
New pledges	206,146	320,750
Pledge payments received	(160,213)	(363,083)
Change in pledge discount	(16,023)	(41,915)
Change in reserve for unfulfilled pledges	(2,995)	8,410
Balance at the end of the year. . .	\$ 560,142	\$ 533,227

E. Student Notes Receivable

Table 16 below details the components of student notes receivable at June 30, 2018 and 2017.

<i>(in thousands of dollars)</i>	2018	2017
Institute-funded student notes receivable.	\$ 12,258	\$ 12,540
Perkins student notes receivable.	21,223	27,481
Total student notes receivable	33,481	40,021
Less: allowance for doubtful accounts	(3,000)	(3,000)
Student notes receivable, net.	\$ 30,481	\$ 37,021

Under federal law, the authority for schools to make new Perkins Loans ended on September 30, 2017, and final disbursements were permitted through June 30, 2018. Perkins student notes receivable were funded by the US government and by MIT. Those funds advanced by the US government for this program are ultimately refundable to the US government and are classified as liabilities in US government advances for student loans in the Consolidated Statements of Financial Position. Due to the nature and terms of the student loans, which are subject to significant restrictions, it is not feasible to determine the fair value of such loans.

Allowance for Credit Losses

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral, and, where applicable, the existence of any guarantees or indemnifications. MIT's Perkins Loans receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the US government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

F. Net Borrowings

MIT's outstanding borrowings at June 30, 2018 and 2017, are shown in Table 17 below.

<i>(in thousands of dollars / due dates are calendar based / par values as of 2018)</i>	2018	2017
Educational plant		
Massachusetts Development Finance Agency (MassDevelopment)		
Series I, 5.20%, due 2028, par value \$30,000	\$ 30,548	\$ 30,606
Series J-1, variable rate, due 2032, par value \$125,000	125,000	125,000
Series J-2, variable rate, due 2032, par value \$125,000	125,000	125,000
Series K, 5.5%, due 2022-2032, par value \$177,000	184,512	211,590
Series L, 5.0%-5.25%, due 2018-2033, par value \$141,670	148,200	148,950
Series M, 5.25%, due 2019-2030, par value \$102,325	108,041	108,866
Total MassDevelopment	<u>721,301</u>	<u>750,012</u>
Medium Term Notes Series A, 7.125% due 2026, par value \$17,415	17,382	17,379
Medium Term Notes Series A, 7.25%, due 2096, par value \$45,604	45,463	45,459
Taxable Bonds, Series B, 5.60%, due 2111, par value \$750,000*	747,113	747,082
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 2019-2038, par value \$522,410 . .	522,410	522,410
Taxable Bonds, Series E, 3.885%, due 2116, par value \$500,000*	500,000	500,000
Notes payable to bank, variable rate, due 2020	113,034	113,033
Total Taxable	<u>2,495,402</u>	<u>2,495,363</u>
Total educational plant	<u>3,216,703</u>	<u>3,245,375</u>
Other		
Notes payable to bank, variable rate, due 2020	63,476	63,476
Total borrowings	<u>3,280,179</u>	<u>3,308,851</u>
Unamortized bond issuance costs	(20,790)	(21,306)
Total borrowings net of unamortized debt issuance cost	<u><u>\$ 3,259,389</u></u>	<u><u>\$ 3,287,545</u></u>

** The proceeds of recent taxable bonds were in the process of being invested in physical assets in 2017 and 2018, with unused balances held as investments.*

F. Net Borrowings (continued)

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

2019	\$	26,000
2020		77,030
2021		11,180
2022		11,765
2023		55,500

MIT maintains a line of credit with a major financial institution for an aggregate commitment of \$500.0 million. As of June 30, 2018, \$323.5 million was available under this line of credit (see "Notes payable" on Table 17). The line of credit expires on March 31, 2020.

Cash paid for interest on long-term debt in 2018 and 2017 was \$146.8 million and \$137.7 million, respectively.

Variable interest rates at June 30, 2018, are shown in Table 19 below.

	Amount	Rate
MassDevelopment Series J-1.	\$ 125,000	1.45%
MassDevelopment Series J-2.	125,000	1.40%
Notes payable to bank.	176,509	2.51%

In the event that MIT receives notice of any optional tender on its Series J-1 and Series J-2 variable-rate bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, MIT will be obligated to purchase the bonds tendered at 100 percent of par on the tender date.

G. Commitments and Contingencies

Federal Government Funding

MIT receives funding or reimbursement from federal agencies for sponsored research under government grants and contracts. These grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Office of Naval Research (ONR), MIT's cognizant federal agency. MIT's indirect cost reimbursements are based on fixed rates with carryforward of under- or over-recoveries. At June 30, 2018 and 2017, MIT recorded a net over-recovery of \$41.2 million and \$15.4 million, respectively.

The DCAA is responsible for auditing indirect charges to grants and contracts in support of ONR's negotiating responsibility. MIT has final audited rates through 2009. MIT's 2018 research revenues of \$1,705.3 million include reimbursement of indirect costs of \$202.5 million, which includes the adjustment for the variance between the indirect cost income determined by the fixed rates and actual costs for 2018. It also includes reductions resulting from prior-year audits, contributing to the drop in indirect cost revenue experienced in fiscal 2018. In 2017, research revenues were \$1,709.5 million, which included reimbursement of indirect costs of \$241.0 million.

Leases

At June 30, 2018, there were no capital lease obligations. MIT has commitments under certain operating (rental) leases. Rent expense incurred under operating lease obligations was \$47.5 million and \$44.0 million in 2018 and 2017, respectively.

Future minimum payments under operating leases are shown in Table 20 below.

2019	\$	48,462
2020		46,632
2021		44,838
2022		39,302
2023		37,246

Investments

As of June 30, 2018, \$13.5 million of investments were pledged as collateral to various suppliers and government agencies.

Future Construction

At June 30, 2018, MIT had contractual obligations of approximately \$490.7 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 unrestricted funds.

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, 2018,

G. Commitments and Contingencies (continued)

these commitments included approximately \$371.7 million of contractual obligations related to the Kendall Square Initiative. 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.

Related Entities

MIT has entered into agreements, including collaborations with

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

General

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

H. Functional Expense Classification

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

Table 21. Expenditures by Functional Classification

<i>(in thousands of dollars)</i>	2018	2017
General and administrative	\$ 848,230	\$ 865,337
Instruction and unsponsored research	1,029,050	928,448
Sponsored research	1,523,543	1,498,790
Auxiliary enterprises	159,736	154,289
Operation of Alumni Association	17,318	17,160
Total operating expenses	<u>\$ 3,577,877</u>	<u>\$ 3,464,024</u>

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 2018 and 2017. MIT also designated contributions of \$6.5 million and \$17.1 million to the retiree welfare benefit plan in 2018 and 2017, respectively. The current healthcare cost trend

rate decreased from 5.5 percent in 2017 to 5.0 percent in 2018.

For the defined contribution plan, the amount contributed and expenses recognized during 2018 and 2017 were \$60.7 million and \$58.6 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 operating activity and other amounts recognized in non-operating activity in unrestricted net assets for the years ended June 30, 2018 and 2017.

Table 22. Components of Net Periodic Benefit Cost

<i>(in thousands of dollars)</i>	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
	2018	2017	2018	2017
Components of net periodic benefit cost recognized in operating activity:				
Service cost	\$ 109,366	\$ 106,097	\$ 27,153	\$ 27,963
Interest cost	162,917	155,368	24,205	24,060
Expected return on plan assets	(277,597)	(262,479)	(41,010)	(37,558)
Amortization of net actuarial loss (gain)	23,610	33,183	(1,000)	1,000
Amortization of prior service cost (credit)	285	953	(2,801)	(2,801)
Net periodic benefit cost recognized in operating activity . . .	18,581	33,122	6,547	12,664
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year actuarial gain	(288,146)	(140,569)	(75,505)	(83,280)
Amortization of actuarial (loss) gain	(23,610)	(33,183)	1,000	(1,000)
Amortization of prior service (cost) credit	(285)	(953)	2,801	2,801
Total other amounts recognized in non-operating activity . .	(312,041)	(174,705)	(71,704)	(81,479)
Total recognized	\$ (293,460)	\$ (141,583)	\$ (65,157)	\$ (68,815)

The estimated net actuarial loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost during the next fiscal year are \$4.2 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 unrestricted net assets into net periodic benefit cost during the next fiscal year are \$1.0 million and \$2.8 million, respectively.

I. Retirement Benefits (continued)

Cumulative amounts recognized as non-operating changes in unrestricted net assets are summarized in Table 23 below for the years ended June 30, 2018 and 2017.

<i>(in thousands of dollars)</i>	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
	2018	2017	2018	2017
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss (gain)	\$ 299,253	\$ 611,010	\$ (119,271)	\$ (44,766)
Prior service cost (credit)	2,848	3,132	(5,012)	(7,813)
Total cumulative amounts recognized in unrestricted net assets	\$ 302,101	\$ 614,142	\$ (124,283)	\$ (52,579)

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.

<i>(in thousands of dollars)</i>	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
	2018	2017	2018	2017
Change in projected benefit obligations:				
Projected benefit obligations at beginning of year	\$ 3,921,738	\$ 3,795,334	\$ 570,512	\$ 582,084
Service cost	109,366	106,097	27,153	27,963
Interest cost	162,917	155,368	24,205	24,060
Retiree contributions	-	-	6,858	6,192
Net benefit payments, transfers, and other expenses	(150,456)	(140,253)	(31,223)	(31,710)
Employer Group Waiver Plan (EGWP) reimbursement	-	-	6,094	5,701
Assumption changes and actuarial net loss (gain)	(112,353)	5,192	(36,957)	(43,778)
Projected benefit obligations at end of the year	3,931,212	3,921,738	566,642	570,512
Change in plan assets:				
Fair value of plan assets at beginning of the year	3,600,221	3,332,233	623,498	549,156
Actual return on plan assets	453,389	408,241	79,558	77,059
Employer contributions	-	-	6,543	17,100
Employer Group Waiver Plan (EGWP) reimbursement	-	-	6,094	5,701
Retiree contributions	-	-	6,858	6,192
Net benefit payments, transfers, and other expenses	(150,456)	(140,253)	(31,223)	(31,710)
Fair value of plan assets at end of the year	3,903,154	3,600,221	691,328	623,498
(Unfunded) funded status at end of the year	(28,058)	(321,517)	124,686	52,986
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Net (liabilities) assets	\$ (28,058)	\$ (321,517)	\$ 124,686	\$ 52,986

I. Retirement Benefits (continued)

The projected benefit obligation for the defined benefit pension plan, as shown in Table 24, was \$3,931.2 million as of fiscal year-end 2018, up \$9.5 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 \$3,766.6 million and \$3,740.2 million as of June 30, 2018 and 2017, respectively.

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

Assumptions 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.

<i>(in thousands of dollars)</i>	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
	2018	2017	2018	2017
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	4.38%	4.12%	4.44%	4.14%
Rate of compensation increase*	4.00%	4.00%		
Assumptions used to determine net periodic benefit cost for the year ended June 30:				
Discount rate	4.12%	4.06%	4.14%	4.03%
Expected long-term return on plan assets	8.00%	8.00%	7.00%	7.00%
Rate of compensation increase*	4.00%	4.00%		
Assumed healthcare cost trend rates:				
Healthcare cost trend rate assumed for next year			5.00%	5.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.75%	4.75%
Year the rate reaches the ultimate trend rate			2021	2021

* The average rate of salary increase is assumed to be 4.00% for 2019, and thereafter.

As an indicator of sensitivity, a one percentage point change in the assumed healthcare cost trend rate would affect 2018's retiree welfare plan as shown in Table 26 below.

<i>(in thousands of dollars)</i>	1% Point Increase	1% Point Decrease
Effect on 2018 postretirement service and interest cost	\$ 9,725	\$ (7,701)
Effect on postretirement benefit obligation as of June 30, 2018.	80,787	(66,696)

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 plan net assets/(liabilities) as of June 30, 2018 and 2017, 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. There were no transfers in and out of Level 1 and Level 2 fair value measurements in 2018 and 2017.

Table 27A. Defined Benefit Pension Plan Investments

<i>(in thousands of dollars)</i>	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2018					
Cash and cash equivalents	\$ 164,469	\$ -	\$ -	\$ -	\$ 164,469
US Treasury	356,637	-	-	-	356,637
US government agency	-	4,777	-	-	4,777
Domestic bonds	-	45,059	-	-	45,059
Foreign bonds	-	-	-	-	-
Common equity:					
Long domestic	842	-	74	-	916
Long foreign	18,374	-	-	-	18,374
Equity:*					
Absolute return	-	-	-	417,100	417,100
Domestic	-	-	-	562,843	562,843
Foreign	-	-	-	1,113,636	1,113,636
Private	-	-	-	885,679	885,679
Real estate*	16,016	-	-	213,012	229,028
Real assets*	-	-	-	95,182	95,182
Other	-	-	433	-	433
Derivatives	(90)	817	-	-	727
Total plan investments	\$ 556,248	\$ 50,653	\$ 507	\$ 3,287,452	\$ 3,894,860
Fiscal Year 2017					
Cash and cash equivalents	\$ 256,999	\$ -	\$ -	\$ -	\$ 256,999
US Treasury	352,736	-	-	-	352,736
US government agency	-	6,351	-	-	6,351
Domestic bonds	-	45,598	-	-	45,598
Foreign bonds	-	6,120	-	-	6,120
Common equity:					
Long domestic	1,769	-	74	-	1,843
Long foreign	88,625	-	-	-	88,625
Equity:*					
Absolute return	-	-	-	375,354	375,354
Domestic	-	-	-	494,196	494,196
Foreign	-	-	-	909,020	909,020
Private	-	-	-	719,867	719,867
Real estate*	2,037	-	-	220,914	222,951
Real assets*	-	-	-	106,646	106,646
Other	5,220	-	433	-	5,653
Derivatives	19	202	-	-	221
Total plan investments	\$ 707,405	\$ 58,271	\$ 507	\$ 2,825,997	\$ 3,592,180

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

I. Retirement Benefits (continued)

Table 27B. Retiree Welfare Benefit Plan Investments

<i>(in thousands of dollars)</i>	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2018					
Cash and cash equivalents	\$ 47,225	\$ -	\$ -	\$ -	\$ 47,225
Domestic bonds	-	76,615	-	-	76,615
Foreign bonds	-	-	-	-	-
Common equity:					
Long domestic	142	-	-	-	142
Long foreign	3,017	-	-	-	3,017
Equity:*					
Absolute return	-	-	-	61,430	61,430
Domestic	-	-	-	103,724	103,724
Foreign	-	-	-	255,605	255,605
Private	-	-	-	104,799	104,799
Real estate*	1,615	-	-	23,377	24,992
Real assets*	-	-	-	9,635	9,635
Other	-	-	-	-	-
Derivatives	-	206	-	-	206
Total plan investments	\$ 51,999	\$ 76,821	\$ -	\$ 558,570	\$ 687,390
Fiscal Year 2017					
Cash and cash equivalents	\$ 73,779	\$ -	\$ -	\$ -	\$ 73,779
Domestic bonds	-	76,842	-	-	76,842
Foreign bonds	-	437	-	-	437
Common equity:					
Long domestic	275	-	-	-	275
Long foreign	10,783	-	-	-	10,783
Equity:*					
Absolute return	-	-	-	52,616	52,616
Domestic	-	-	-	93,018	93,018
Foreign	-	-	-	212,104	212,104
Private	-	-	-	73,644	73,644
Real estate*	278	-	-	21,381	21,659
Real assets*	-	-	-	7,211	7,211
Other	373	-	-	-	373
Derivatives	-	15	-	-	15
Total plan investments	\$ 85,488	\$ 77,294	\$ -	\$ 459,974	\$ 622,756

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

I. Retirement Benefits (continued)

Table 28 below is a rollforward of the investments classified by MIT's defined benefit pension plan within Level 3 of the fair value hierarchy defined in Note B as of June 30, 2018 and 2017.

<i>(in thousands of dollars)</i>	Fair Value Beginning	Realized Losses	Unrealized Gains (Losses)	Purchases	Sales	Transfers	Fair Value Ending
Defined Benefit Pension Plan							
Fiscal Year 2018							
Common equity:							
Long domestic	\$ 74	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74
Other	433	(430)	430	-	-	-	433
Total	\$ 507	\$ (430)	\$ 430	\$ -	\$ -	\$ -	\$ 507
Fiscal Year 2017							
Common equity:							
Long domestic	\$ 53	\$ -	\$ 21	\$ -	\$ -	\$ -	\$ 74
Other	589	-	(156)	-	-	-	433
Total	\$ 642	\$ -	\$ (135)	\$ -	\$ -	\$ -	\$ 507

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 29 below as of June 30, 2018 and 2017.

Table 29. Unfunded Commitments

<i>(in thousands of dollars)</i>	2018		2017		Redemption Terms	Redemption Restrictions
	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value		
Defined Benefit Pension Plan						
Equity:						
Absolute return . . .	\$ 47,844	\$ 417,100	\$ 41,983	\$ 375,354	Redemption terms range from 97 days with 1 month's notice to closed-end funds not available for redemption	Lock-up provisions range from none to not available for redemption
Domestic	403	562,843	403	494,196	Redemption terms range from 4 months with 30 days' notice to closed-end funds not available for redemption	Lock-up provisions range from none to not available for redemption
Foreign	41,705	1,113,636	54,781	909,020	Redemption terms range from 45 days with 1 month's notice to 25 months with 3 months' notice not available for redemption	Lock-up provisions range from none to 32 months
Private	323,032	885,679	289,447	719,867	Closed-end funds not available for redemption	Closed-end funds not available for redemption
Real estate	158,085	213,012	140,114	220,914	Closed-end funds not available for redemption	Closed-end funds not available for redemption
Real assets	31,118	95,182	25,265	106,646	Redemption terms range from 8 months with 45 days' notice for 1 fund to closed-end funds not available for redemption	Closed-end funds not available for redemption except for 1 fund with no lock-up provisions
Total	\$ 602,187	\$ 3,287,452	\$ 551,993	\$ 2,825,997		
Retiree Welfare Benefit Plan						
Equity:						
Absolute return . . .	\$ 6,052	\$ 61,430	\$ 4,589	\$ 52,616	Redemption terms range from 97 days with 1 month's notice to closed-end funds not available for redemption	Lock-up provisions range from none to not available for redemption
Domestic	45	103,724	44	93,018	Redemption terms range from 4 months with 30 days' notice to closed-end funds not available for redemption	Lock-up provisions range from none to not available for redemption
Foreign	6,295	255,605	8,269	212,104	Redemption terms range from 4 months with 30 days' notice to 25 months with 3 months' notice	Lock-up provisions range from none to 32 months
Private	50,681	104,799	43,592	73,644	Closed-end funds not available for redemption	Closed-end funds not available for redemption
Real estate	22,747	23,377	18,182	21,381	Closed-end funds not available for redemption	Closed-end funds not available for redemption
Real assets	5,131	9,635	3,721	7,211	Closed-end funds not available for redemption	Closed-end funds not available for redemption
Total	\$ 90,951	\$ 558,570	\$ 78,397	\$ 459,974		

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 at June 30, 2018 and 2017 are shown in Table 30 below.

	Defined Benefit Pension Plan			Retiree Welfare Benefit Plan		
	2018 Target Allocation	2018	2017	2018 Target Allocation	2018	2017
Cash and cash equivalents	0-10%	4%	7%	0-10%	7%	12%
Fixed income	3-13%	11%	11%	10-20%	11%	12%
Equities	33.5-83.5%	66%	62%	40.5-86.5%	68%	63%
Marketable alternatives	7.5-17.5%	11%	11%	10-20%	9%	9%
Real assets	1-11%	2%	3%	0-10%	1%	1%
Real estate	2.5-12.5%	6%	6%	0-10%	4%	3%
Total		100%	100%		100%	100%

Expected Future Benefit Payments

In fiscal 2019, MIT does not expect to contribute to its defined benefit pension plan, but expects to contribute \$0.7 million to the retiree welfare benefit plan. With the exception of the expected return on assets assumption, these contributions have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2018. 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.

Table 31 below reflects total expected benefit payments for the defined benefit pension plan and retiree welfare benefit plan over the next ten years. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2018.

	Pension Benefits	Other Benefits*
2019	\$ 152,947	\$ 25,324
2020	166,952	28,238
2021	175,246	29,950
2022	183,342	31,578
2023	191,867	33,100
2024-2028	1,082,776	189,076

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

J. Components of Net Assets and Endowment

Table 32 below presents the composition of net assets as of June 30, 2018. The amounts listed in the unrestricted category under endowment funds are those gifts and other funds received over the years that MIT designated as funds functioning as

endowment and invested with the endowment funds. A large component of temporarily restricted net assets in other invested funds is pledges, the majority of which will be reclassified to unrestricted net assets when cash is received.

<i>(in thousands of dollars)</i>	2018				2017 Total <i>(Summarized)</i>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Endowment Funds					
General purpose	\$ 1,060,947	\$ 1,316,955	\$ 270,557	\$ 2,648,459	\$ 2,386,938
Departments and research	733,963	1,361,866	884,127	2,979,956	2,708,197
Library	13,767	33,975	22,784	70,526	63,743
Salaries and wages	638,694	3,173,587	794,890	4,607,171	4,204,787
Graduate general	102,010	183,137	90,437	375,584	374,802
Graduate departments	181,410	471,550	337,382	990,342	882,098
Undergraduate	262,909	1,363,074	402,993	2,028,976	1,849,985
Prizes	9,963	40,066	20,977	71,006	65,196
Miscellaneous	1,372,794	358,077	467,244	2,198,115	1,901,178
Investment income held for distribution	429,892	-	-	429,892	395,559
Endowment funds before pledges	4,806,349	8,302,287	3,291,391	16,400,027	14,832,483
Pledges	-	-	129,405	129,405	135,500
Total endowment funds	4,806,349	8,302,287	3,420,796	16,529,432	14,967,983
Other Invested Funds					
Student loan funds	19,403	-	18,940	38,343	38,614
Building funds	80,564	58,934	-	139,498	96,869
Designated purposes:					
Departments and research	401,794	-	-	401,794	382,603
Other purposes	353,171	13,953	-	367,124	368,814
Life income funds and donor advised funds	9,919	53,703	119,190	182,812	150,560
Pledges	-	430,737	-	430,737	397,727
Other funds available for current expenses	2,374,456	298,403	-	2,672,859	1,954,077
Funds expended for educational plant . . .	754,182	-	-	754,182	767,811
Total other invested funds	3,993,489	855,730	138,130	4,987,349	4,157,075
Total net assets	\$ 8,799,838	\$ 9,158,017	\$ 3,558,926	\$ 21,516,781	\$ 19,125,058

J. Components of Net Assets and Endowment (continued)

MIT's endowment consists of approximately 4,000 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds that function as endowment, as shown in Table 33 below. 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. As a result of this interpretation, MIT has not changed the way permanently restricted net assets are classified. (See Note A for further information on net asset classification.) The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until

those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Executive Committee considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted net assets. There were no underwater endowment funds reported in unrestricted net assets as of June 30, 2018, and June 30, 2017.

Table 33. Endowment Net Asset Composition by Type of Fund

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fiscal Year 2018				
Donor-restricted endowment funds	\$ -	\$ 8,302,287	\$ 3,420,796	\$ 11,723,083
Board-designated endowment funds	4,806,349	-	-	4,806,349
Total endowment funds	\$ 4,806,349	8,302,287	3,420,796	16,529,432
Fiscal Year 2017				
Donor-restricted endowment funds	\$ 395	\$ 7,318,465	\$ 3,294,069	\$ 10,612,929
Board-designated endowment funds	4,355,054	-	-	4,355,054
Total endowment funds	\$ 4,355,449	7,318,465	3,294,069	14,967,983

J. Components of Net Assets and Endowment (continued)

Table 34 below reflects changes in unrestricted, temporarily restricted, and permanently restricted endowment net assets for fiscal year 2018 and 2017, respectively.

Table 34. Changes in Endowment Net Assets				
<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fiscal Year 2018				
Endowment net assets, July 1, 2017	\$ 4,355,449	\$ 7,318,465	\$ 3,294,069	\$ 14,967,983
Investment return:				
Investment income	18,829	40,951	12,864	72,644
Net appreciation (realized and unrealized)	<u>599,861</u>	<u>1,397,233</u>	<u>17,356</u>	<u>2,014,450</u>
Total investment return	618,690	1,438,184	30,220	2,087,094
Contributions	-	843	119,567	120,410
Appropriation of endowment assets for expenditure . . .	(196,908)	(456,323)	(9,972)	(663,203)
Other changes:				
Underwater gain adjustment	-	-	-	-
Net asset reclassifications and transfers to create board-designated endowment funds	<u>29,118</u>	<u>1,118</u>	<u>(13,088)</u>	<u>17,148</u>
Endowment net assets, June 30, 2018	<u>\$ 4,806,349</u>	<u>\$ 8,302,287</u>	<u>\$ 3,420,796</u>	<u>\$ 16,529,432</u>
Fiscal Year 2017				
Endowment net assets, July 1, 2016	\$ 3,961,216	\$ 6,511,079	\$ 2,960,741	\$ 13,433,036
Investment return:				
Investment income	15,522	32,678	17,275	65,475
Net appreciation (realized and unrealized)	<u>525,183</u>	<u>1,199,048</u>	<u>109,389</u>	<u>1,833,620</u>
Total investment return	540,705	1,231,726	126,664	1,899,095
Contributions	-	-	319,718	319,718
Appropriation of endowment assets for expenditure . . .	(187,982)	(425,999)	(14,688)	(628,669)
Other changes:				
Underwater gain adjustment	395	(395)	-	-
Net asset reclassifications and transfers to create board-designated endowment funds	<u>41,115</u>	<u>2,054</u>	<u>(98,366)</u>	<u>(55,197)</u>
Endowment net assets, June 30, 2017	<u>\$ 4,355,449</u>	<u>\$ 7,318,465</u>	<u>\$ 3,294,069</u>	<u>\$ 14,967,983</u>

J. Components of Net Assets and Endowment (continued)

Endowment Investment and Spending Policies

MIT's investment policy is based on the primary goal of maximizing return relative to appropriate risk such that performance exceeds appropriate benchmark returns at the total pool, asset class, and individual manager levels. To achieve its long-term rate-of-return objectives, MIT relies on a total return strategy in which investment returns are realized through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). MIT targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Institute's primary investment pool, Pool A, is principally for endowment and funds functioning as endowment. The effective spending rate on pooled endowed funds was 4.5

percent, or 4.9 percent on a three-year-average basis, in fiscal 2018. 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 \$74.88 and \$72.20 per Pool A unit as of June 30, 2018 and 2017, respectively. For separately invested endowment funds, only the annual investment income generated is distributed for spending.



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, 2018 and 2017 and the related consolidated statement of activities for the year ended June 30, 2018, and statements of cash flows for the years ended June 30, 2018 and 2017.

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, 2018 and 2017 and the changes in their net assets for the year ended June 30, 2018 and their cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and of cash flows for the year then ended (not presented herein), and in our report dated September 8, 2017, 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, 2017 and for the year then ended, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

September 14, 2018

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

Massachusetts Institute of Technology

Five-Year Trend Analysis (Unaudited) – Financial Highlights

<i>(in thousands of dollars)</i>	2018	2017	2016	2015	2014
Financial Position					
Investments, at fair value	\$ 20,743,773	\$ 19,045,347	\$ 16,988,407	\$ 17,533,764	\$ 16,228,756
Land, buildings, and equipment, at cost less accumulated depreciation	3,684,377	3,397,070	3,092,429	2,822,312	2,624,271
Borrowings, net of unamortized issuance costs	3,259,389	3,287,545	2,892,093	2,904,559	2,903,586
Total assets	26,073,044	23,929,212	21,598,926	21,652,768	20,055,657
Total liabilities	4,556,263	4,804,154	4,669,845	4,146,195	4,027,990
Unrestricted net assets	8,799,838	7,667,379	6,634,100	7,071,258	6,467,131
Temporarily restricted net assets	9,158,017	8,037,426	7,210,822	7,553,447	6,718,225
Permanently restricted net assets	3,558,926	3,420,253	3,084,159	2,881,868	2,842,311
Total net assets	21,516,781	19,125,058	16,929,081	17,506,573	16,027,667
Total endowment funds before pledges	16,400,027	14,832,483	13,181,515	13,474,743	12,425,131
Principal Sources of Revenues					
Tuition and similar revenues	\$ 700,760	\$ 680,086	\$ 635,424	\$ 612,101	\$ 595,801
Research revenues:					
Campus direct	519,977	508,677	513,991	482,563	475,382
Campus indirect	161,832	198,262	187,426	183,020	188,136
Lincoln Laboratory direct	940,798	926,871	908,506	844,588	791,292
Lincoln Laboratory indirect	40,495	42,386	47,488	34,739	37,367
SMART direct	41,988	32,981	32,416	31,620	31,519
SMART indirect	195	303	402	117	98
Gift, bequests, and pledges	471,668	573,515	469,162	493,690	452,655
Net gain on investments	2,385,602	2,185,920	254,303	1,693,141	2,158,011
Investment income and distributions	835,485	790,770	736,193	675,744	634,454
Principal Purposes of Expenditures					
Total operating expenditures	\$ 3,577,877	\$ 3,464,024	\$ 3,349,899	\$ 3,111,119	\$ 2,918,517
General and administrative	848,230	865,337	858,441	763,680	713,103
Instruction and unsponsored research	1,029,050	928,448	854,595	811,495	777,382
Direct cost of sponsored research					
current dollars	1,523,543	1,498,790	1,479,158	1,386,334	1,283,189
Direct cost of sponsored research					
constant dollars (2014 = 100)	1,442,736	1,451,290	1,458,625	1,376,314	1,283,189

Massachusetts Institute of Technology

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

<i>(in thousands of dollars)</i>	2018	2017	2016	2015	2014
Research Revenues					
Campus					
Federal government sponsored:					
Health and Human Services	\$ 130,668	\$ 111,835	\$ 113,522	\$ 116,469	\$ 115,075
Department of Defense	123,513	130,372	131,625	125,854	122,761
Department of Energy	72,828	82,157	84,419	81,528	88,451
National Science Foundation	81,563	80,410	82,161	78,953	78,979
National Aeronautics and Space Administration	33,024	39,809	49,664	41,740	32,062
Other federal	12,902	17,043	15,738	15,435	17,610
Total federal	<u>454,498</u>	<u>461,626</u>	<u>477,129</u>	<u>459,979</u>	<u>454,938</u>
Non-federally sponsored:					
State/local/foreign governments	24,471	25,686	28,495	27,951	28,967
Nonprofits	93,339	86,753	84,015	78,667	72,118
Industry	145,109	132,914	128,309	119,238	112,379
Total non-federal	<u>262,919</u>	<u>245,353</u>	<u>240,819</u>	<u>225,856</u>	<u>213,464</u>
Total federal and non-federal	<u>717,417</u>	<u>706,979</u>	<u>717,948</u>	<u>685,835</u>	<u>668,402</u>
F&A and other adjustments	(35,608)	(40)	(16,531)	(20,252)	(4,884)
Total campus	<u>681,809</u>	<u>706,939</u>	<u>701,417</u>	<u>665,583</u>	<u>663,518</u>
Lincoln Laboratory					
Federal government sponsored	966,179	965,830	920,272	886,637	809,011
Non-federally sponsored	7,240	5,437	6,355	3,609	2,333
F&A and other adjustments	7,874	(2,010)	29,367	(10,919)	17,315
Total Lincoln Laboratory	<u>981,293</u>	<u>969,257</u>	<u>955,994</u>	<u>879,327</u>	<u>828,659</u>
SMART ^(A)					
Non-federally sponsored	42,183	33,284	32,818	31,737	31,617
Total SMART	<u>42,183</u>	<u>33,284</u>	<u>32,818</u>	<u>31,737</u>	<u>31,617</u>
Total research revenues	<u>\$ 1,705,285</u>	<u>\$ 1,709,480</u>	<u>\$ 1,690,229</u>	<u>\$ 1,576,647</u>	<u>\$ 1,523,794</u>

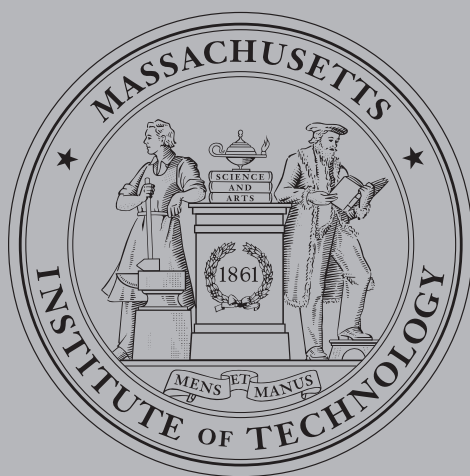
^(A) The amounts represent research that has predominantly taken place in Singapore.

Massachusetts Institute of Technology

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

	2018	2017	2016	2015	2014
Students					
Undergraduate:					
Full-time	4,510	4,476	4,492	4,476	4,499
Part-time	37	48	35	36	29
Undergraduate applications:					
Applicants	20,247	19,020	18,306	18,356	18,989
Accepted	1,452	1,511	1,519	1,447	1,548
Acceptance rate	7%	8%	8%	8%	8%
Enrolled	1,097	1,110	1,106	1,043	1,115
Yield	76%	73%	73%	72%	72%
Freshmen ranking in the top 10% of their class	98%	97%	98%	97%	99%
Average SAT Scores (math and verbal) ..	1,528	1,505	1,493	1,500	1,492
Graduate:					
Full-time	6,671	6,707	6,689	6,630	6,639
Part-time	248	145	115	177	134
Graduate applications:					
Applicants	27,634	26,463	23,750	24,468	24,029
Accepted	3,383	3,480	3,307	3,718	3,320
Acceptance rate	12%	13%	14%	15%	14%
Enrolled	2,208	2,277	2,165	2,441	2,163
Yield	65%	65%	65%	66%	65%
Tuition (in dollars)					
Tuition and fees	\$ 49,892	\$ 48,452	\$ 46,704	\$ 45,016	\$ 43,498
Average room and board	14,720	14,210	13,730	13,224	12,744
Student Support (in thousands of dollars)					
Undergraduate tuition support	\$ 137,936	\$ 126,932	\$ 112,902	\$ 107,148	\$ 103,076
Graduate tuition support	288,434	270,289	258,444	247,361	240,022
Fellowship stipends	42,309	39,518	38,731	38,759	38,792
Student loans	3,233	4,726	7,263	8,348	9,095
Student employment	125,884	118,528	110,392	105,261	99,890
Total student support	\$ 597,796	\$ 559,993	\$ 527,732	\$ 506,877	\$ 490,875
Faculty and Staff (including unpaid appointments)					
Faculty	1,047	1,040	1,036	1,021	1,030
Staff and fellows	15,212	15,077	14,732	14,307	13,787

This page intentionally left blank.



Report of the Treasurer

for the year ended
June 30, 2018



Massachusetts
Institute of
Technology