Report of the Treasurer

for the year ended
June 30, 2021

Massachusetts
Institute of
Technology

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Report of the Treasurer

To the Members of the Corporation

During fiscal 2021, the Institute continued to demonstrate strong financial performance even as we navigated the immense challenges of operating in the COVID-19 pandemic environment. We closed the year with net results of $216.4 million—reflective of the modest margins we achieve in a more typical year—and our pooled investments yielded an exceptional return of 55.5 percent as measured using valuations received within one month of fiscal year-end. On account of these dynamics, MIT closed the year with net assets of $36,446.4 million.

The Institute implemented targeted cost controls as we began fiscal 2021, anticipating pressures on its finances from the need to adapt to COVID-19. These controls, along with additional spending restraint stemming from a reduced on-campus presence and pandemic-induced restrictions, allowed us to take unprecedented steps to keep our campus safe and support our community within a prudent financial framework. The Institute implemented social distancing restrictions within campus residences and tuition relief, resulting in the loss of student-related revenue; invested in a comprehensive COVID-19 testing program and enhanced cleanings of its facilities; and offered a one-time subsidy to faculty and staff to assist with heightened childcare needs. Along with other fiscal commitments, these policies have been critical to avoiding an outbreak of the virus on our campus and enabling our community to continue learning, exploring, and working during the pandemic.

We continue to wrestle with the implications of the pandemic as we resume a full program of teaching, learning, research, and residential life on campus for the fall. We have taken further steps to protect the health and safety of the MIT community, including requiring that our faculty, staff, and students be vaccinated for COVID-19 in order to access the campus. Even with these preparations, we acknowledge the need to remain vigilant and agile as the nature of the pandemic evolves, and that we will experience some additional financial stresses from COVID-19 in fiscal 2022.

MIT turns into fiscal 2022 with the financial resilience to continue navigating pandemic-related issues while delivering on an ambitious agenda of tackling global challenges, transforming our campus and the surrounding Kendall Square area, and strengthening our community. We surpassed our $6 billion expanded goal for the Campaign for a Better World, with $6.2 billion raised as of the end of fiscal 2021. Exceptional returns on our investment of philanthropic receipts and working capital—reflecting the expertise of our team at the MIT Investment Management Company and fortuitous market conditions—provide stability in today's uncertain times and enable transformational impact on consequential issues in the present and future.

Foremost among our priorities is to deploy MIT's expertise to unlock breakthrough solutions to climate change. This spring, President Reif introduced "Fast Forward: MIT's Climate Action Plan for the Decade," an all-MIT mobilization to help achieve the goal of decarbonizing the global economy by 2050. The plan includes a broad set of programs to catalyze the adoption of scientific and technical innovations that will have major impact on this critical global issue, educate and inspire future generations to confront the challenge of climate change, inform and leverage the power of government policy to speed progress, and reduce MIT's own climate impact.

We are also accelerating innovations in learning and work practices, spurred and informed by our experiences during the pandemic. As the global demand for remote learning expands, MIT is pursuing the next generation of online education with the transformation of edX, a non-profit massive open online course (MOOC) provider founded by Harvard and MIT in 2012. If approved by state regulators, edX will be acquired by the education technology company 2U and reorganized as a public benefit company, taking on the current portfolio of edX offerings. With $800 million in proceeds from the transaction, a nonprofit will be established to enhance Open edX, an open-source software platform upon which edX and more than 2,400 learning sites across the world are based. These two advances will extend the reach and impact of online learning, including making it more personalized to individual learners and accessible to economically disadvantaged populations.

SUMMARY OF KEY FINANCIAL HIGHLIGHTS (10-YEAR TREND)

(in millions of dollars)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,002	3,196	3,135	3,302	3,439	3,566	3,641	3,932	3,931	3,945
Expenses*	2,723	2,884	2,897	3,084	3,319	3,430	3,536	3,711	3,744	3,729
Net Results	279	312	237	218	120	136	105	221	187	216
Net Assets	12,495	13,858	16,028	17,507	16,929	19,125	21,517	22,769	24,217	36,446
Endowment	10,150	10,858	12,425	13,475	13,182	14,832	16,400	17,444	18,382	27,394
Net Borrowings	2,449	2,417	2,904	2,905	2,892	3,288	3,259	3,168	4,194	3,929

*Expenses include all components of net periodic benefit costs

MIT similarly aspires to be a leader in the evolution of work. Through the "Work Succeeding" initiative, we are reimagining how we work together by adopting flexible work practices and policies that enhance employee productivity and satisfaction, supported by technologies that facilitate new forms of collaboration. We are also bringing more intense focus to ensuring that the composition of our community reflects a commitment to diversity, cultivating an empathetic and inclusive environment at MIT, and creating pathways to success and accomplishment for all those who learn and work here.

As we look outward and inward to pursue this bold agenda, we are welcomed and inspired by a revitalized campus. Over the past year, the Kendall Square streetscape has been completely transformed into a dynamic gateway for MIT. The Institute has continued to demonstrate its commitment to improving housing for both graduate and undergraduate students with the opening of the undergraduate residence on Vassar Street and the graduate tower at Kendall Site 4, and work has begun on the MIT Stephen A. Schwarzman College of Computing building. With approval of special permitting by the Cambridge City Planning Board, MIT is advancing plans to create a vibrant mixed-use center on the Volpe site, building on the Cambridge community's extensive visioning efforts to increase housing and retail activity, along with commercial, laboratory, and innovation space.

MIT is committed to leading the way in sustainable growth and development, beginning with a careful examination of the impact of our own built environment. Serving as a model for urban sustainability, revitalization, and renewal, MIT incorporates Leadership in Energy and Environmental Design (LEED) standards for both our academic buildings and investment properties. All new construction and major renovation projects at MIT must earn or exceed LEED Gold certification. Incorporating walkable communities and accessible open spaces helps to create thriving places to live, learn, and work.

The following sections provide additional details regarding MIT's fiscal 2021 financial statements: Consolidated Statements of Financial Position, Statement of Activities, and Statements of Cash Flows.

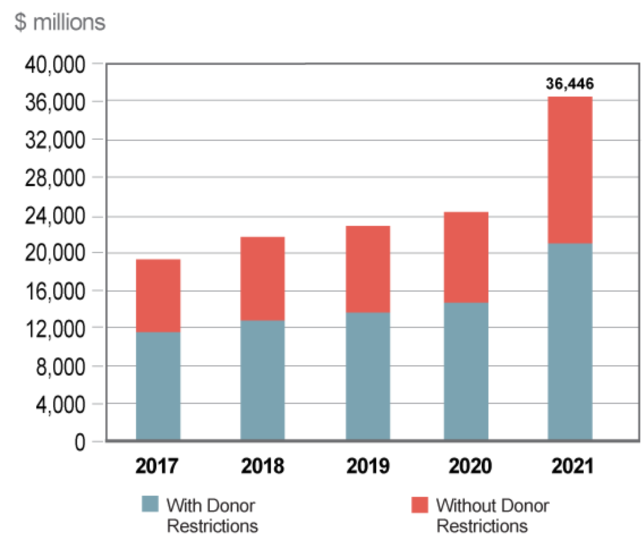
Net results, as presented in MIT's Statement of Activities, is the measure to which the Institute manages its annual budget and is used in financial reports presented to MIT's leadership, including the Executive Committee and the Corporation. It is a comprehensive measure of MIT's annual financial performance,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

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

Consolidated Statements of Financial Position

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

Net Assets



Total net assets increased to $36,446.4 million, an increase of 50.5 percent from fiscal 2020. Net assets are presented in two distinct categories to recognize the significant ways in which universities are different from profit-making organizations. The two categories reflect the nature of the restrictions placed on gifts by donors.

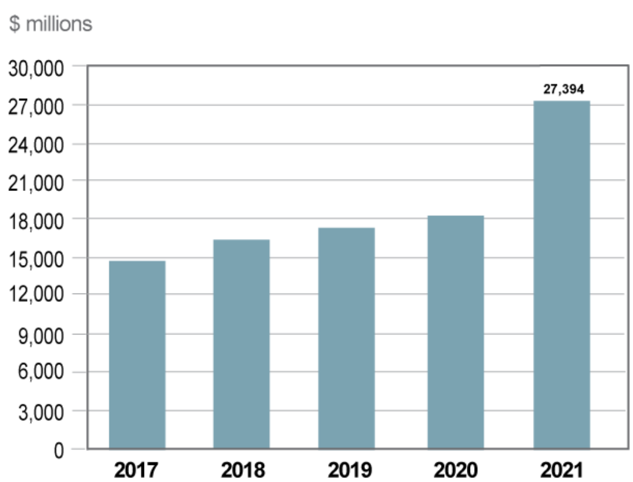
In fiscal 2021, net assets with donor restrictions increased $6,085.7 million, or 41.6 percent, to $20,720.6 million. The increase was primarily due to net return on donor-endowed investments and new donor-endowed gifts and pledges, partially offset by endowment returns distributed for spending. Net assets without donor restrictions increased $6,143.7 million, or 64.1 percent, to $15,725.7 million. The increase was primarily due to positive net results, the net return on quasi-endowed and non-endowed investments, and postretirement plan changes other than net periodic benefit costs.

Investments

Investments at fair value were $34,793.4 million as of fiscal year-end 2021, an increase of $10,428.8 million, or 42.8 percent. The consolidated financial statements include both realized and unrealized gains and losses on investments, as well as dividends and interest income, all net of investment expenses. These amounts yielded a net return on investments of $10,889.9 million in fiscal 2021, and $2,142.7 million in fiscal 2020. The increase in the value of investments in both years was substantially driven by realized and unrealized gains on pooled investments.

MIT's investment policy is based on the primary goal of generating high real rates of return without exceptional volatility. To reduce volatility, the portfolio is broadly diversified. To generate high real rates of return, MIT's investment policy favors equity investments over fixed-income instruments and is heavily weighted toward less efficient markets. MIT primarily invests through external fund managers, thereby allowing the Institute to access the best investment talent globally. By identifying a wide variety of top-tier investment managers with specific competencies, MIT is able to construct a broadly diversified portfolio while accessing deep sector expertise. Decision authority for the selection of managers, direct investments, and asset allocation resides with the MIT Investment Management Company (MITIMCo). The Board of Directors of MITIMCo holds four regularly scheduled meetings during the fiscal year in which investment policy, performance, and asset allocation are reviewed.

Endowment (without pledges)



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 $27,394.0 million as of fiscal year-end 2021, an increase of 49.0 percent compared to a total of $18,381.5 million last year.

This year, MIT's pooled investments (Pool A) produced a return of 55.5 percent, as measured using valuations received within one month of fiscal year-end. Investment income and a portion of gains are distributed for spending in a manner that preserves the long-term purchasing power of the endowment. Endowment funds invested in Pool A, MIT's primary investment pool, receive distributions based on relative ownership, which is valued monthly.

Land, Buildings, and Equipment

Land, buildings, and equipment had a net book value of $4,476.0 million as of fiscal year-end 2021, an increase of $169.2 million, or 3.9 percent. The Institute had a total of 127 capital projects under construction in fiscal 2021 with a cumulative spend of $475.2 million. As we advance our 2030 capital plan, MIT continues to realize significant improvements in academic, research and student life programs, campus infrastructure, and the surrounding innovation ecosystem.

Kendall Square along Main Street has been completely transformed with the completion of several significant building projects this past year. The graduate residence and the Innovation and Entrepreneurship (I&E) Hub, both at Site 4 on the corner of Main Street and Hayward Street, are complete. The graduate tower opened for the spring 2021 term, and the MIT Welcome Center opened on the ground level of the building this September. Open spaces in Kendall Square, adjacent to a redesigned MBTA station now under construction, will soon be activated with year-round programming, helping to make the experience of coming to our campus even more vibrant and inspiring.

The 17-floor tower at Site 5 at 314 Main Street is also complete, and construction at several other sites is evolving at a rapid pace. Site 5 will soon be the home of the MIT Museum (slated to open in the spring of 2022), the MIT Press Bookstore, and commercial space. Reflecting both the history of Kendall Square and its role in the future of innovation, Site 3 at 238 Main Street incorporates the original structure with a 12-story addition for commercial space and is nearing completion. Site 1, located at 165 Main Street, will include housing and retail/office space, and is targeted for completion in the spring of 2022. Work has recently begun at Site 2, which will provide commercial laboratory and office space at 200 Main Street, with enabling logistics for the demolition of Eastgate E55 and construction activity for Site 2 utilities.

MIT continues to demonstrate its commitment to improving housing for both graduate and undergraduate students. In addition to the new 454-bed graduate student residence and childcare facility in Kendall Square, MIT announced that it will soon begin to expand West Campus housing options by constructing a new 676-bed graduate residence on the site of the West Lot parking area and Building W89. The newly constructed 450-bed Vassar Street undergraduate residence opened at the beginning of the 2021 calendar year. Additionally, the renewal of the

Burton Conner undergraduate residence is underway and will provide updated building infrastructure and improvements to interior spaces.

Further down Vassar Street, work to refurbish the Central Utilities Plant (CUP) is nearing completion, and the CUP is expected to be fully operational at the end of calendar year 2021. A renovation of the landmark Wright Brothers Wind Tunnel is also nearing completion and will result in the most advanced academic wind tunnel in the nation. The Hayden Library and courtyard renovation is complete and ready for occupancy, and the Pierce Boathouse has been renewed and is in use.

Initiated last spring, the enabling phase for the MIT Stephen A. Schwarzman College of Computing building, also located on Vassar Street on the previous site of Building 44, is complete, and foundation work has begun. The eight-level building of 187,000 gross square feet is targeted for completion in June of 2023. The building program includes office and laboratory space for 50 faculty members and their research groups, the College headquarters offices, a lecture hall and classroom, and a variety of collaborative meeting, conference, and event spaces. Enabling work has also begun for a state-of-the-art building for MIT's music program to be constructed in close proximity to Kresge Auditorium (targeted for opening in 2024), as well as for the Building 54 addition for the Department of Earth, Atmospheric, and Planetary Sciences.

Addressing deferred maintenance continues to be prioritized as an integral part of the overall capital program. Our facility condition index (FCI), which is the ratio of deferred maintenance to replacement value, has decreased from 0.24 in fiscal 2016 to 0.16 at the end of fiscal 2021. Large renovation projects and the renewal of core infrastructure systems have been completed across much of the campus, reducing the backlog of deferred maintenance to $1.34 billion, which is a 7.4 percent decrease from fiscal 2020. At the end of fiscal 2021, the total campus backlog was equal to $101 per square foot, down from a peak of $150 per square foot in fiscal 2014.

Postretirement Benefit Assets and Liabilities

The defined benefit pension plan provides a basic retirement benefit to eligible MIT employees upon their retirement as monthly income for the rest of their lives. This plan had assets of $6,380.0 million as of fiscal year-end 2021, an increase of $2,101.9 million from fiscal year-end 2020. The plan's projected liabilities were $5,429.6 million as of fiscal year-end 2021, up $599.6 million from a year earlier. This resulted in a $1,502.3 million increase in net pension assets, which totaled $950.4 million as of fiscal year-end 2021.

MIT also maintains a retiree welfare benefit plan that covers retiree expenses associated with medical and life insurance benefits. This plan had assets of $1,102.3 million as of fiscal year-end 2021, an increase of $341.8 million from fiscal year-end 2020. The plan's projected liabilities were $663.2 million as of fiscal year-end 2021, down $5.3 million from a year earlier. This resulted in a $347.1 million increase in net asset position, which totaled $439.2 million as of fiscal year-end 2021.

The changes in asset values of both plans in 2021 were primarily a function of 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, increased inflation, and changes in 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. As of June 30, 2021, the defined benefit pension plan's discount rate decreased 11 basis points relative to June 30, 2020, while the retiree welfare plan's discount rate increased five basis points. The discount rates in both years were reflective of the prevailing interest rate environments at the dates of measurement (June 30, 2021, and June 30, 2020).

On a generally accepted accounting principles (GAAP) basis at fiscal year-end 2021, the defined benefit pension plan had a funding level of 117.5 percent, up from 88.6 percent one year earlier. The retiree welfare benefit plan had a funding level of 166.2 percent at fiscal year-end 2021, an increase from 113.8 percent one year earlier. There were no designated contributions to the defined benefit pension plan, and there was a $2.4 million contribution to the retiree welfare benefit plan during fiscal 2021. 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 $6,837.6 million as of fiscal year-end.

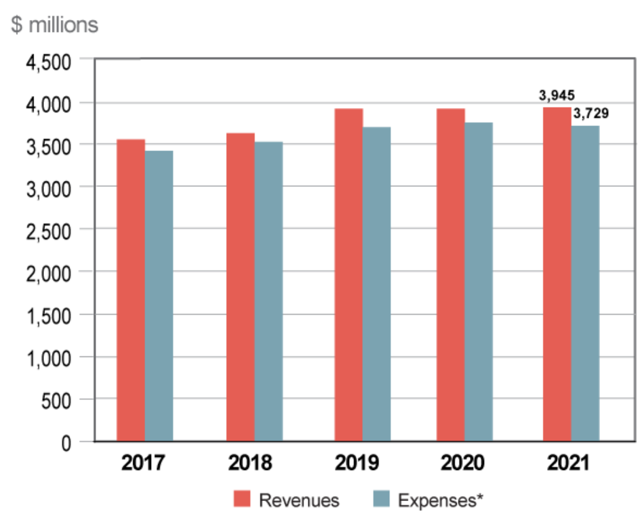
Borrowings

In fiscal year 2021, borrowings decreased $265.0 million, or 6.3 percent, to $3,929.0 million. The decrease was primarily due to the repayment of a line of credit worth $250 million, which had been drawn as a proactive liquidity reserve at the onset of the COVID-19 pandemic in 2020. MIT did not need to use this liquidity, and the $250 million was subsequently repaid in fiscal year 2021. Adding to the decrease, MIT made a Series M principal payment of $11.2 million.

MIT's financial strength is reviewed periodically by both Moody's Investors Service and S&P Global Ratings. In July 2021, the Institute maintained its "Aaa" and "AAA" ratings, respectively.

Consolidated Statement of Activities

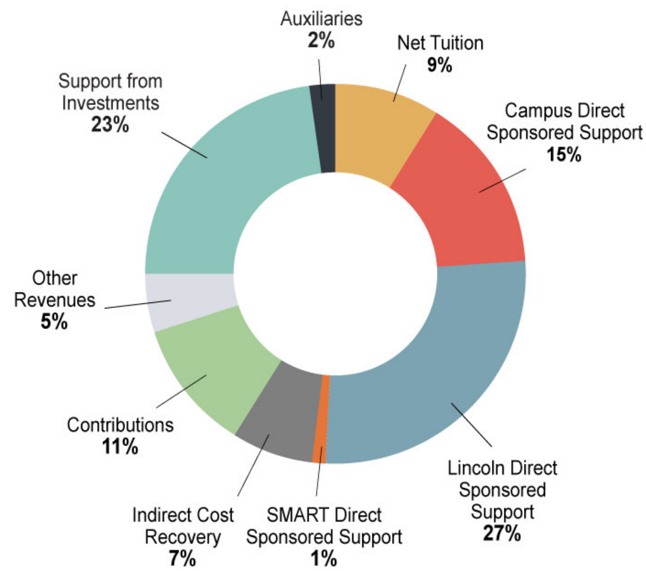
Revenues and Expenses



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

MIT ended fiscal 2021 with net results of $216.4 million. This is $29.4 million, or 15.7 percent, more than the fiscal 2020 result. Operating revenues increased $14.3 million, or 0.4 percent, to $3,945.1 million, while operating expenses together with all other components of our net periodic retirement benefit costs decreased $15.1 million, or 0.4 percent, to $3,728.7 million. Year-over-year comparisons of revenues and expenses are presented on the graph above.

Revenues



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

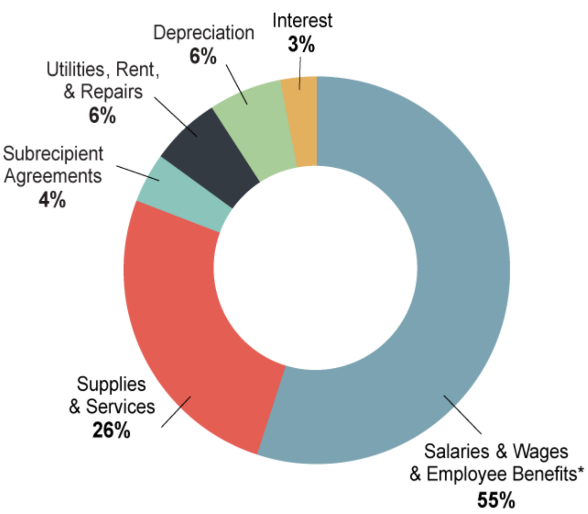
Tuition revenue for graduate and undergraduate programs, combined with tuition revenue for non-degree programs, decreased by $30.4 million, or 8.1 percent, to $344.3 million. Undergraduate net tuition decreased $13.5 million, or 13.4 percent, as tuition at published rates decreased by $13.8 million, or 5.8 percent, driven by a 3.7 percent decrease in enrollment, an increased portion of students taking reduced subject loads, and waived student activity fees. Undergraduate financial aid decreased by $0.3 million, or 0.2 percent, with the impacts of enrollment decreases and more students living off campus largely offset by one-time, $5,000-per-student tuition credits for the academic year. Graduate tuition decreased by $12.9 million, or 6.3 percent, as tuition at published rates grew by $1.2 million, or 0.3 percent, with elevated summer enrollment partially offset by waived student activity fees. Graduate financial aid grew by $14.1 million, or 5.7 percent, driven by one-time, $5,000-per-student tuition credits provided by the Sloan School of Management for current students, along with an increase in summer enrollment. Non-degree program revenue decreased $3.9 million, or 5.7 percent, incurred mostly in MIT Sloan Executive Education and MIT Professional Education.

Sponsored revenues increased $16.2 million, or 0.8 percent, to $1,957.1 million in fiscal 2021, of which direct sponsored revenues increased by $8.1 million and indirect revenues increased by $8.1 million. Campus direct sponsored revenue decreased $18.5 million, or 3.1 percent, driven by restrictions on travel and decreased sub-recipient invoicing due to the pandemic, offset by a decrease in the portion of research activities funded by internal Institute sources, which led to increased funding from external sources. Campus federal direct sponsored activity decreased by 2.0 percent, and Campus non-federal direct sponsored activity decreased by 6.8 percent. Lincoln Laboratory direct sponsored revenue increased $30.9 million, or 3.0 percent, driven by annual salary increases and major renovation projects. The Singapore-MIT Alliance for Research and Technology (SMART) direct revenue decreased $4.4 million, or 13.4 percent, largely due to decreases in costs for travel and supplies and services from the impact of COVID-19 restrictions. The $8.1 million increase in indirect sponsored revenue was due principally to growth in recoverable costs related to safely opening campus and conducting research during the pandemic.

Support from investments increased $0.8 million, or 0.1 percent, as the distribution rate from pooled investments stayed the same year over year. The effective spending rate on pooled investments funds was 4.2 percent, or 4.5 percent on a three-year-average basis, in fiscal 2021.

Operating contributions, which include gifts and bequests for current use and expendable pledge payments, experienced a notable increase of $64.8 million, or 16.9 percent.

Expenses



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

MIT's operating expenses, combined with all other components of net periodic retirement benefit costs, decreased $15.1 million, or 0.4 percent. These expenses include salaries and wages; employee benefits; supplies and services; subrecipient agreements; utilities, rent, and repairs; depreciation; and interest.

Overall Institute salary expenses rose 1.5 percent. Campus salaries included in operating expenses increased 0.5 percent, as average annualized salaries and wages grew by 1.5 percent while the number of full-time-equivalent employees decreased 1.0 percent. Employee benefit expenses, together with all components of net periodic benefit costs for retirement plans included in our net results calculation, increased 8.1 percent. The Institute provided employees with one-time childcare subsidies due to the pandemic, and medical costs in fiscal year 2021 returned to more typical levels following reduced utilization during the onset of the pandemic in fiscal 2020.

During fiscal 2021, expenses related to supplies and services decreased $82.6 million, or 7.9 percent, to $964.5 million. The reduced expenses were due to less need for travel, office supplies, food, equipment, events, conferences, and other supplies and services, offset by some COVID-related expenses such as testing and cleaning costs. Subrecipient agreements decreased $21.8 million, or 13.3 percent, driven by fewer subawards in engineering and at Lincoln. Utilities, rent, and repair expenses increased $14.5 million, or 6.8 percent, driven by an increase in repair expenses at Lincoln. Depreciation expenses increased $7.7 million, or 3.8 percent, partly due to two new student residences, and partly due to increased purchases of capitalized equipment. Interest expenses increased $9.7 million, or 8.3 percent, primarily due to the Institute's incurrence of a first full fiscal year of interest on taxable bonds borrowed during the course of fiscal 2020.

Other Revenues, Gains, and Losses Summary

Other revenues, gains, and losses contributed $12,013.1 million towards MIT's fiscal 2021 increase in net assets of $12,229.4 million. Other revenues, gains, and losses include net return on investments, contributions, other changes, and changes in retirement plan obligations, offset by investment spending distribution. In fiscal 2021, net return on investments less spending distribution increased net assets by $9,977.3 million. Contributions revenue in other revenue, gains, and losses, which includes net current year pledge revenue and endowed gifts and bequests, increased net assets by $57.0 million, while changes in retirement plan obligations increased net assets by $1,875.3 million.

Contributions

Contributions to MIT provide support for scholarships, fellowships, professorships, research, educational programming, student life activities, and the construction and renovation of buildings. Gifts and pledges (contributions) for fiscal 2021 totaled $505.2 million, a decrease of 3.5 percent from the fiscal 2020 total of $523.8 million. Of new gifts and pledges in fiscal 2021, contributions from individuals represented 43.7 percent, contributions from foundations represented 44.4 percent, and contributions from corporations and other sources represented 11.9 percent. New gifts and pledges for research and education were the largest categories of contributions for fiscal 2021.

Consolidated Statements of Cash Flows

The Consolidated Statements of Cash Flows divide cash inflows and outflows into three categories: operating, investing, and financing. Although this division is a requirement of GAAP, when reviewing the cash flow statement of a nonprofit organization such as MIT, it is important to also consider that investing activities as presented in the cash flow fund a large portion of operating activity through distributions from pooled investments. In fiscal 2021, support from investments comprised 32.1 percent of overall campus operating revenue.

Net operating activities—which result from a total increase in net assets adjusted for non-cash items in the Statement of Activities (depreciation, net gain on investments, change in retirement plans' net assets, etc.), changes in certain non-cash assets and liabilities, and other reclassifications—consumed $459.0 million of cash in fiscal 2021. Net investing activities provided $268.1 million in cash, as proceeds from the sale of investments to cover the Institute's endowment distribution exceeded the amount spent on capital projects and purchase of investments. Financing activities consumed $114.6 million in cash, as repayments of borrowings exceeded contributions restricted for long-term investment.

MIT's full consolidated financial statements and notes further describing our financial position, activities, and cash flows through June 30, 2021, are included on the following pages.

Closing Remarks

I conclude my first year as MIT's Executive Vice President and Treasurer with a deep sense of pride from having observed our community confront the pandemic with agility, compassion, and grace. Though I wish we were at a point where we could treat COVID-19 as a thing of the past, that is not the case. I am hopeful nonetheless, as MIT is at its best in taking on big challenges. As this letter highlights, we have set our sights high and are well-positioned to shape the response to some of the foremost issues of our time.

I am grateful to MIT's alumni and friends for their continued support of the Institute, and to our entire community, including our governance, for its collective contributions to the thoughtful stewardship of the Institute's financial assets.

Respectfully submitted,

Glen Shor
Executive Vice President and Treasurer
October 13, 2021

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of the Massachusetts Institute of Technology and its subsidiaries (the "Institute"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statement of activities for the year ended June 30, 2021 and the statements of cash flows for the years ended June 30, 2021 and 2020.

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, 2021 and 2020, the changes in their net assets for the year ended June 30, 2021, and their cash flows for the years ended June 30, 2021 and 2020 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the consolidated financial statements, the Institute changed the manner in which it accounts for leases in 2021. Our opinion is not modified with respect to this matter.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated September 11, 2020, 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, 2020 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 13, 2021

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MASSACHUSETTS INSTITUTE OF TECHNOLOGY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as of June 30, 2021 and 2020

(in thousands of dollars)		2021		2020
Assets				
Cash	$	345,519	$	572,448
Accounts receivable, net		358,742		262,986
Pledges receivable, net, at fair value		571,268		620,340
Contracts in progress, principally US government		81,766		99,886
Deferred charges and other assets		236,721		186,360
Investments, at fair value		34,793,438		24,364,668
Operating leases - right of use assets		273,512		-
Net asset position - defined benefit pension plan		950,414		-
Net asset position - retiree welfare benefit plan		439,150		92,073
Land, buildings, and equipment (at cost of $6,642,569 for June 2021; $6,334,817 for June 2020), net of accumulated depreciation		4,475,962		4,306,769
Total assets	**$**	**42,526,492**	**$**	**30,505,530**
Liabilities and Net Assets				
Liabilities:				
Accounts payable, accruals, and other liabilities	$	712,377	$	646,072
Deferred revenue and other credits		321,496		206,154
Advance payments		513,726		457,567
Operating lease liabilities		282,040		-
Liabilities due under life income fund agreements, at fair value		321,450		232,921
Borrowings, net of unamortized issuance costs		3,929,034		4,194,017
Net liability position - defined benefit pension plan		-		551,868
Total liabilities	**$**	**6,080,123**	**$**	**6,288,599**
Net Assets:				
Without donor restrictions	$	15,725,732	$	9,582,028
With donor restrictions		20,720,637		14,634,903
Total net assets	**$**	**36,446,369**	**$**	**24,216,931**
Total liabilities and net assets	**$**	**42,526,492**	**$**	**30,505,530**

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, 2021
(with summarized financial information for the year ended June 30, 2020)

	2021		Total	
(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	2021	2020
Operating Revenues				
Tuition and similar revenues, exclusive of financial aid of $401,198 in 2021 and $387,338 in 2020	$ 344,303	$ -	$ 344,303	$ 374,669
Sponsored support:				
Campus direct	578,900	-	578,900	597,357
Lincoln direct	1,073,876	-	1,073,876	1,042,970
SMART direct	28,246	-	28,246	32,635
Indirect cost recovery	276,103		276,103	268,004
Total sponsored support	1,957,125	-	1,957,125	1,940,966
Contributions	422,901	25,278	448,179	383,361
Other revenue	200,878	-	200,878	203,935
Support from investments:				
Endowment	749,106	-	749,106	737,202
Other investments	163,536	-	163,536	174,672
Total support from investments	912,642	-	912,642	911,874
Auxiliary enterprises	81,965	-	81,965	115,981
Total revenues	$ 3,919,814	$ 25,278	$ 3,945,092	$ 3,930,786
Operating Expenses				
Salaries and wages	$ 1,617,407	$ -	$ 1,617,407	$ 1,593,091
Employee benefits	577,802	-	577,802	537,409
Supplies and services	964,472	-	964,472	1,047,114
Subrecipient agreements	142,319	-	142,319	164,095
Utilities, rent, and repairs	226,187	-	226,187	211,701
Total expenses before depreciation and interest	3,528,187	-	3,528,187	3,553,410
Results of operations before depreciation and interest	391,627	25,278	416,905	377,376
Depreciation	209,325	-	209,325	201,659
Interest expense	126,468	-	126,468	116,777
Results of operations	55,834	25,278	81,112	58,940
Net periodic benefit income other than service cost	135,255	-	135,255	128,066
Net results	$ 191,089	$ 25,278	$ 216,367	$ 187,006
Other Revenues, Gains, and Losses				
Contributions	$ -	$ 57,005	$ 57,005	$ 140,390
Net return on investments	4,290,416	6,599,497	10,889,913	2,142,655
Distribution of investment income and gains	(387,782)	(524,860)	(912,642)	(911,874)
Other changes	3,916	99,588	103,504	12,518
Postretirement plan changes other than net periodic benefit cost	1,875,291	-	1,875,291	(122,769)
Net asset reclassifications and transfers	170,774	(170,774)	-	-
Total other revenues, gains, and losses	5,952,615	6,060,456	12,013,071	1,260,920
Increase in net assets	6,143,704	6,085,734	12,229,438	1,447,926
Net assets at the beginning of the year	9,582,028	14,634,903	24,216,931	22,769,005
Net assets at the end of the year	**$ 15,725,732**	**$ 20,720,637**	**$ 36,446,369**	**$ 24,216,931**

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, 2021 and 2020

(in thousands of dollars)	2021	2020
Cash Flow from Operating Activities		
Increase in net assets	$ 12,229,438	$ 1,447,926
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net gain on investments	(10,952,680)	(2,149,914)
Change in retirement plan asset, net of accrued benefit liability	(1,849,359)	147,466
Depreciation	209,325	201,659
Net gain on life income funds and donor advised funds	(204,534)	(13,464)
Non-cash operating lease costs	40,225	-
Amortization of bond premiums and discounts and other adjustments	4,735	(2,315)
Change in operating assets and liabilities:		
Pledges receivable	49,072	(36,957)
Accounts receivable	(98,983)	15,492
Contracts in progress	18,120	3,421
Deferred charges and other assets	(50,089)	15,359
Accounts payable, accruals, and other liabilities	71,552	51,065
Liabilities due under life income fund agreements	110,341	43,057
Deferred revenue and other credits	119,321	57,756
Advance payments	56,159	17,457
Operating lease liabilities	(39,335)	-
Reclassification of donated securities	(8,308)	(9,848)
Reclassification of investment income	(4,907)	(5,028)
Reclassification of contributions restricted for long-term investment	(159,110)	(142,683)
Net cash and restricted cash used in operating activities	(459,017)	(359,551)
Cash Flow from Investing Activities		
Purchase of land, buildings, and equipment	(384,586)	(516,950)
Purchases of investments	(9,173,044)	(8,227,259)
Proceeds from sale of investments	9,822,591	7,986,183
Student notes issued	(3,904)	(5,143)
Collections from student notes	7,054	9,586
Net cash and restricted cash provided by (used in) investing activities	268,111	(753,583)
Cash Flow from Financing Activities		
Proceeds from sale of donated securities restricted for endowment	8,308	9,848
Investment income for restricted purposes	4,907	5,028
Contributions restricted for long-term investment	159,110	142,683
Payments to beneficiaries of life income funds	(21,812)	(19,747)
Proceeds from borrowings	-	1,105,742
Repayment of borrowings	(261,180)	(77,030)
Repayments of government advances for student loans	(3,978)	(8,974)
Net cash and restricted cash (used in) provided by financing activities	(114,645)	1,157,550
Net (decrease) increase in cash and restricted cash	(305,551)	44,416
Cash and restricted cash at the beginning of the period	1,028,958	984,542
Cash and restricted cash at the end of the period	**$ 723,407**	**$ 1,028,958**
Supplemental Information on cash and restricted cash:		
Cash on Statements of Financial Position	$ 345,519	$ 572,448
Cash and restricted cash included in Investments (see Note B)	364,982	443,876
Restricted cash included in Other Assets (see Note G)	12,906	12,634
Total cash and restricted cash on Cash Flow	**$ 723,407**	**$ 1,028,958**

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

Notes to Consolidated Financial Statements

A. Accounting Policies

Basis of Presentation

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

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

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

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

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

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

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

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

A. Accounting Policies (continued)

Tax Status

MIT is a nonprofit organization that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, originally recognized in October 1926, with the most recent affirmation letter dated September 2017.

US GAAP requires MIT to evaluate tax positions taken by the Institute to recognize a tax liability (or asset) if the Institute has taken an uncertain tax position that, more likely than not, would not be sustained upon examination by the IRS. MIT has analyzed the tax positions taken and has concluded that as of June 30, 2021, there are no significant uncertain positions taken or expected to be taken.

Cash

Certain cash balances, totaling $56.2 million and $82.6 million at June 30, 2021 and 2020, respectively, are restricted for use under certain sponsored research agreements or are held on behalf of a related party. These amounts are included within the cash line in the Consolidated Statements of Financial Position.

The Institute had approximately $301.9 million and $561.7 million at June 30, 2021 and 2020, respectively, of its cash accounts with a single institution. The Institute has not experienced any losses associated with deposits at this institution.

Land, Buildings, and Equipment

Land, buildings, and equipment are shown at cost when purchased, or at fair value as of the date of a gift when received as a gift, net of accumulated depreciation. When expended, costs associated with the construction of new facilities are shown as construction in progress until such projects are completed and put into use. Depreciation is computed on a straight-line basis over the estimated useful lives of 25 to 50 years for buildings, 3 to 25 years for equipment, and 4 to 6 years for software.

Fully depreciated assets were removed from the financial statements in the amount of $71.5 million and $59.4 million during 2021 and 2020, respectively. Land, buildings, and equipment at June 30, 2021 and 2020, are shown in Table 1 below.

TABLE 1. LAND, BUILDINGS, AND EQUIPMENT

(in thousands of dollars)	2021	2020
Land	$ 107,557	$ 107,557
Land improvements	109,590	84,414
Educational buildings	5,448,940	4,787,262
Equipment	421,981	392,726
Software	45,693	52,757
Total	6,133,761	5,424,716
Less: accumulated depreciation	(2,166,607)	(2,028,048)
Construction in progress	503,281	909,979
Software projects in progress	5,527	122
Net land, buildings, and equipment	**$ 4,475,962**	**$ 4,306,769**

Depreciation expense was $209.3 million in fiscal 2021 and $201.7 million in fiscal 2020. Net interest expense of $31.8 million and $31.2 million was capitalized during fiscal 2021 and fiscal 2020, respectively, in connection with MIT's construction projects.

A. Accounting Policies (continued)

Tuition and Student Support

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

TABLE 2. TUITION AND SIMILAR REVENUES

(in thousands of dollars)	2021	2020
Undergraduate and graduate programs*	$ 279,831	$ 306,287
Executive and continuing education programs	64,472	68,382
Tuition and similar revenues	**$ 344,303**	**$ 374,669**

** Undergraduate and graduate programs at published rates totaled $681,029 and $693,625 in fiscal 2021 and fiscal 2020, respectively, and financial aid applied to undergraduate and graduate programs was $401,198 and $387,338 in fiscal 2021 and fiscal 2020, respectively.*

Tuition support shown in Table 3 below is awarded to undergraduate students by MIT based on need. Graduate students are provided with tuition support in connection with research assistance, teaching assistance, and fellowship appointments.

TABLE 3. STUDENT SUPPORT

	2021			2020		
(in thousands of dollars)	Institute Sources	External Sponsors	Total Student Support	Institute Sources	External Sponsors	Total Student Support
Undergraduate tuition support	$ 137,759	$ 21,447	$ 159,206	$ 138,041	$ 19,503	$ 157,544
Graduate tuition support	263,439	60,742	324,181	249,297	62,963	312,260
Fellowship stipends	35,608	16,185	51,793	29,982	15,098	45,080
Student employment	53,814	86,627	140,441	51,251	85,676	136,927
Total	**$ 490,620**	**$ 185,001**	**$ 675,621**	**$ 468,571**	**$ 183,240**	**$ 651,811**

A. Accounting Policies (continued)

Sponsored Support and Advance Payments

Almost all of Lincoln and SMART sponsored revenue, and a portion of Campus sponsored revenue, come from exchange contracts. Sponsored revenue related to exchange contracts is recognized as MIT fulfills the terms of the agreements, which generally span less than five years. Almost all of Campus sponsored revenue, and a portion of Lincoln and SMART sponsored revenue, comes from non-exchange contracts. Sponsored revenue associated with non-exchange contracts is recognized as the qualified expenditures are incurred. Sponsored activities at Lincoln, for which the contractual performance obligations have not yet been met, totaled $809.5 million and $752.3 million as of fiscal 2021 and fiscal 2020, respectively. Sponsored activities on campus, which are contractually authorized by the sponsor, but for which costs have not yet been incurred, totaled $1,048.5 million and $997.0 million as of fiscal 2021 and fiscal 2020, respectively.

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

Indirect sponsored revenue includes the portion of facilities and administrative expenses that is attributed to sponsored activities. MIT has recorded reimbursement of indirect costs relating to sponsored research activities at negotiated fixed billing rates. For non-research activities, such as instruction and other sponsored activity, MIT records reimbursement of indirect costs on federal awards using the de minimis rate allowed by Uniform Guidance, and for non-federal awards, based on internally generated rates that are not required to be negotiated.

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

Gifts and Pledges (Contributions)

Gifts and pledges (contributions) are recognized when MIT has an unconditional right to receive payment. Gifts of securities are recorded at their fair value at the date of contribution. Donated securities received totaled $58.6 million and $72.9 million in fiscal 2021 and fiscal 2020, respectively. Gifts of equipment received from manufacturers and other donors are put into use and recorded by MIT at fair value. Gifts of equipment totaled $1.2 million in fiscal 2021 and $10.9 million in fiscal 2020. Pledges consist of unconditional promises to contribute to MIT in the future. Pledges are reported at their estimated fair values. Pledges receivable are classified as Level 3 under the valuation hierarchy described in Note B.

Pledges, trusts, and remainder interests are reported at their estimated fair values. MIT records items of collections as gifts at nominal value. They are received for educational purposes, and most are displayed throughout MIT. In general, collections are not disposed of for financial gain or otherwise encumbered in any manner.

Other Revenue and Auxiliary Enterprises

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

A. Accounting Policies (continued)

Life Income Funds

MIT's life income fund agreements with donors consist primarily of irrevocable charitable gift annuities, pooled income funds, and charitable remainder trusts for which MIT serves as trustee. Assets are invested and payments are made to donors and other beneficiaries in accordance with the respective agreements. MIT records the assets that are associated with each life income fund at fair value and records as liabilities the present value of the estimated future payments at current interest rates to be made to the donors and beneficiaries under these agreements. Life income fund assets are included within investments in the Consolidated Statements of Financial Position. A rollforward of liabilities due under life income fund agreements is presented in Table 4 below.

TABLE 4. LIABILITIES DUE UNDER LIFE INCOME FUNDS

(in thousands of dollars)	2021	2020
Balance at the beginning of the year	$ 232,921	$ 209,611
Additions for new gifts	3,538	9,336
Termination and payments to beneficiaries	(31,550)	(23,029)
Net investment and actuarial gain	116,541	37,003
Balance at the end of the year	**$ 321,450**	**$ 232,921**

Recently Adopted Accounting Standards

On July 1, 2020, the Institute adopted ASU 2016-02 – *Leases* (Topic 842), which requires a lessee to recognize a right of use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The effects of adopting this guidance resulted in the inclusion of the present value of operating lease payments in the Statement of Financial Position as "Operating leases—right of use assets" of $313.7 million and "Operating leases liabilities" of $321.4 million upon adoption. The Institute elected the package of practical expedients to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) initial direct costs for any expired or existing leases. The Institute elected the short-term lease exemption policy as well as the practical expedient that allows lessees to treat the lease and non-lease components as a single lease component. In addition, the Institute elected to use hindsight to reassess lease terms or impairment at the adoption date. Refer to Note G for further details regarding leases.

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

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

A. Accounting Policies (continued)

Non-Cash Items

Non-cash transactions excluded from the Consolidated Statements of Cash Flows include $25.7 million and $33.6 million of accrued liabilities related to plant and equipment purchases as of June 30, 2021 and 2020, respectively.

Use of Estimates

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

Reclassifications

Certain June 30, 2020, balances and amounts previously reported have been reclassified to conform to the June 30, 2021, presentation.

Subsequent Events

In July 2021, MIT issued $225.0 million of taxable bonds. The taxable bonds was issued pursuant to the indenture agreement dated December 1, 2019, related to the previously issued $300.0 million Taxable Bonds, Series F, which has a fixed interest rate of 2.989 percent and a maturity date of July 1, 2050. Combined, the aggregate principal amount outstanding of Taxable Bonds, Series F, is $525.0 million. Proceeds from this debt issuance will help fund general corporate purposes, including a new graduate residence on West Campus.

MIT has evaluated subsequent events through October 13, 2021, the date on which the financial statements were issued. There were no subsequent events other than the above debt issuance that occurred after the balance sheet date that have a material impact on MIT's financial statements.

Summarized Information

The Consolidated Statement of Activities includes certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MIT's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

B. Investments

Investments are presented at fair value in accordance with GAAP. MIT performs ongoing due diligence to determine that the fair value of investments is reasonable. In particular, to ensure that the valuation techniques for investments that are categorized within the fair value hierarchy are fair, consistent, and verifiable, MIT has established a Valuation Committee ("the Committee") that oversees the valuation processes and procedures and ensures that the policies are fair and consistently applied. The Committee is responsible for conducting annual reviews of the valuation policies, evaluating the overall fairness and consistent application of the valuation policies, and performing specific reviews of certain reported valuations. The Committee performs due diligence over the external managers and, based on this review, substantiates the use of net asset value (NAV) as a practical expedient for estimates of fair value of its investments in externally managed funds. The Committee is comprised of senior personnel with members who are independent of investment functions. The Committee meets biannually, or more frequently as needed. Members of the Committee report annually to MIT's Risk and Audit Committee. The methods described in this note may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. While MIT believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

MIT may enter into short sales whereby it sells securities that may or may not be owned by MIT in anticipation of a decline in the price of such securities or in order to hedge portfolio positions. Cash collateral and certain securities owned by MIT may be held at counterparty brokers to collateralize these positions and are included in investments on the Consolidated Statements of Financial Position and in restricted cash included in investments on the Statements of Cash Flows.

MIT values its investments at fair value on the Consolidated Statements of Financial Position in accordance with GAAP, which establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. MIT follows a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is unobservable.

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

- Level 1 – Valuations based upon observable inputs that reflect quoted prices in active markets for identical assets and liabilities.
- Level 2 – Valuations based upon: (i) quoted market prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or liabilities in markets that are not active; or (iii) other significant market-based inputs, which are observable, either directly or indirectly.
- Level 3 – Valuations based upon unobservable inputs that are significant to the overall fair value measurements.

Investments managed by external managers in fund structures are not readily marketable and are reported at fair value utilizing the most current information provided by the external manager, subject to assessments that the information is representative of fair value and in consideration of any factors deemed pertinent to the fair value measurement. These investments are shown in the NAV column of Table 6.

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

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

B. Investments (continued)

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

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

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

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

As of June 30, 2021 and 2020, MIT held $235.6 million and $235.3 million, respectively of investments that are valued using the measurement alternative. These investments are included within Level 3 of the fair value hierarchy table. There have been no impairment adjustments or observable price changes recognized.

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

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

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

MIT leverages certain real estate investments to optimize the use of invested capital in support of the Institute's mission. The liabilities associated with these financings are presented, on a net basis, with the investment balances on the associated real estate asset found in Table 5. The liabilities associated with real estate investments were $716.4 million and $331.3 million in fiscal years 2021 and 2020, 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 5 are reflected in the Consolidated Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled $1,999.4 million and $1,549.7 million as of June 30, 2021 and 2020, respectively.

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

B. Investments (continued)

Table 5 presents MIT's investments at fair value as of June 30, 2021 and 2020, respectively, grouped by the valuation hierarchy as defined earlier in this note.

TABLE 5. INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2021					
Cash and short-term investments	$ 441,646	$ -	$ -	$ -	$ 441,646
US Treasury	2,481,174	-	-	-	2,481,174
US government agency	-	77,445	-	-	77,445
Domestic bonds	10,187	888,329	119,092	-	1,017,608
Foreign bonds	676	82,445	-	-	83,121
Common equity:					
Domestic	295,858	1	234,757	-	530,616
Foreign	948,655	-	87,539	-	1,036,194
Equity:**					
Absolute return	-	-	-	5,742,657	5,742,657
Domestic	-	-	-	3,158,017	3,158,017
Foreign	-	-	-	3,848,479	3,848,479
Private	-	-	-	11,658,356	11,658,356
Real estate*	2,397	-	3,321,213	1,054,112	4,377,722
Real assets*	9,287	-	313	235,127	244,727
Split-interest agreements	-	-	89,999	-	89,999
Other	-	-	6,445	-	6,445
Derivatives, asset/(liabilities)	(84)	(684)	-	-	(768)
Investments, at fair value	**$ 4,189,796**	**$ 1,047,536**	**$ 3,859,358**	**$ 25,696,748**	**$ 34,793,438**
Fiscal Year 2020					
Cash and short-term investments	$ 567,092	$ 19,562	$ -	$ -	$ 586,654
US Treasury	1,881,118	-	-	-	1,881,118
US government agency	-	268,878	-	-	268,878
Domestic bonds	13,877	406,895	113,689	-	534,461
Foreign bonds	1,533	77,371	-	-	78,904
Common equity:				-	
Domestic	28,101	1	234,413	-	262,515
Foreign	472,971	-	13,502	-	486,473
Equity:**					
Absolute return	-	-	-	3,829,785	3,829,785
Domestic	-	-	-	2,487,684	2,487,684
Foreign	-	-	-	3,983,707	3,983,707
Private	-	-	-	5,903,638	5,903,638
Real estate*	2,579	-	2,884,164	887,799	3,774,542
Real assets*	-	-	356	202,096	202,452
Split-interest agreements	-	-	78,322	-	78,322
Other	-	-	2,507	-	2,507
Derivatives, asset/(liabilities)	13	3,015	-	-	3,028
Investments, at fair value	**$ 2,967,284**	**$ 775,722**	**$ 3,326,953**	**$ 17,294,709**	**$ 24,364,668**

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

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

B. Investments (continued)

Table 6 below is a rollforward of the investments classified by MIT within Level 3 of the fair value hierarchy defined earlier in this note as of June 30, 2021 and 2020.

TABLE 6. ROLLFORWARD OF LEVEL 3 INVESTMENTS

(in thousands of dollars)	Fair Value Beginning	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases	Sales	Other Changes and Transfers	Fair Value Ending
Fiscal Year 2021							
Domestic bonds	$ 113,689	$ -	$ 12	$ 17,436	$ (12,045)	$ -	$ 119,092
Common equity:							
Domestic	234,413	58	119	225	(58)	-	234,757
Foreign	13,502	-	39,906	34,131	-	-	87,539
Real estate	2,884,164	38,501	397,440	520,286	(108,918)	(410,260)	3,321,213
Real assets	356	-	(43)	-	-	-	313
Split-interest agreements	78,322	-	13,092	58	(1,473)	-	89,999
Other	2,507	-	(62)	4,000	-	-	6,445
Investments, at fair value	**$ 3,326,953**	**$ 38,559**	**$ 450,464**	**$ 576,136**	**$ (122,494)**	**$ (410,260)**	**$ 3,859,358**
Fiscal Year 2020							
Domestic bonds	$ 108,735	$ -	$ -	$ 12,581	$ (7,627)	$ -	$ 113,689
Common equity:							
Domestic	234,516	1,198	(103)	-	(1,198)	-	234,413
Foreign	-	-	(1,179)	308	-	14,373	13,502
Real estate	2,377,201	447,658	(167,180)	664,959	(516,167)	77,693	2,884,164
Real assets	384	-	(28)	-	-	-	356
Split-interest agreements	159,098	190	(47,636)	-	(33,330)	-	78,322
Other	2,923	-	(691)	275	-	-	2,507
Investments, at fair value	**$ 2,882,857**	**$ 449,046**	**$ (216,817)**	**$ 678,123**	**$ (558,322)**	**$ 92,066**	**$ 3,326,953**

Table 7 below sets forth a summary of valuation techniques and quantitative information utilized in determining the fair value of MIT's Level 3 investments as of June 30, 2021 and 2020.

TABLE 7. LEVEL 3 VALUATION TECHNIQUES

(in thousands of dollars)	Fair Value as of June 30, 2021	Fair Value as of June 30, 2020	Valuation Technique	Unobservable Input	2021 Rates	2021 Weighted Average	2020 Rates	2020 Weighted Average
Real estate	$ 3,244,149	$ 2,628,076	Income approach	Discount Rate	4.5-7.75%	6.38%	4.75-8.25%	6.66%
				Capitalization Rate	3.0-6.5%	4.98%	4.25-7.0%	5.32%
				Terminal Capitalization Rate	4.25-7.0%	5.44%	4.5-7.25%	5.70%
Equity securities	279,321	191,663	Discounted cash flow	Discount Rate	12.50%	12.5%	12.50%	12.50%
			Market approach	Price/GWP	0.7-4.7x	3.2x	N/A	N/A
Split-interest agreements	89,999	78,322	Net present value	Discount Rate	1.45%	1.45%	0.85%	0.85%
Real assets	313	356	Discounted cash flow	Discount	25.0%	25.0%	25.0%	25.00%
Total assets	**$ 3,613,782**	**$ 2,898,417**						

Certain Level 3 assets totaling $245,576 and $428,536 as of June 30, 2021, and June 30, 2020, respectively, have been valued at cost or using unadjusted third party quotations and thus have been excluded from this table.

B. Investments (continued)

MIT has made commitments to make periodic contributions in future periods to investments managed by external managers, and in other cases has entered into contractual arrangements that may limit its ability to initiate redemptions due to notice periods, lock-ups, and gates. Details on the remaining unfunded commitments and current redemption terms and restrictions by asset class and type of investment are provided below in Table 8 as of June 30, 2021 and 2020.

TABLE 8. UNFUNDED COMMITMENTS AND REDEMPTON TERMS AND RESTRICTIONS

	2021		2020			
(in thousands of dollars)	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value	Redemption Terms	Redemption Restrictions
Equity:						
Absolute return[1]	$ 56,999	$ 5,742,657	$ 76,043	$ 3,829,785	Ranges from daily to 38 months[4]	0 to 365 days
Domestic[2]	52,723	3,158,017	51,757	2,487,684	Ranges from 55 days to 38 months[4]	15 to 105 days
Foreign[3]	-	3,848,479	-	3,983,707	Ranges from 4 months to 49 months[4]	40 to 91 days
Private	2,850,260	11,658,356	2,100,480	5,903,638	Close-ended funds not available for redemption	Not Applicable
Real estate	795,235	1,054,112	698,589	887,799	Close-ended funds not available for redemption	Not Applicable
Real assets	64,530	235,127	79,850	202,096	38 months[4]	Lock up provision ranges from 30 days to not redeemable
Total	**$ 3,819,747**	**$ 25,696,748**	**$ 3,006,719**	**$ 17,294,709**		

[1]Absolute return funds include funds that have remaining lock-up provisions up to 52 months.
[2]Domestic funds include funds that have remaining lock-up provisions up to 45 months.
[3]Foreign funds include funds that have remaining lock-up provisions up to 44 months .
[4]Includes funds that are not available for redemption.

C. Derivative Financial Instruments and Collateral

For its investment management, MIT uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement. MIT uses these instruments primarily to manage its exposure to extreme market events and fluctuations in asset classes or currencies. Instruments utilized include fixed income futures, options on interest rate exchange agreements, credit default swaps, equity, and index options.

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

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

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

Derivatives held by limited partnerships and commingled investment vehicles pose no off-balance sheet risk to MIT due to the limited liability structure of these investments. To manage the counterparty credit exposure of MIT's direct off-balance sheet financial instruments, MIT requires collateral to the maximum extent possible under normal trading practices. Collateral is moved on a daily basis as required by fluctuations in the market. The collateral is generally in the form of debt obligations issued by the US Treasury or cash. In the event of counterparty default, MIT has the right to use the collateral to offset the loss associated with the replacement of the agreements. MIT enters into arrangements only with counterparties believed to be creditworthy. On June 30, 2021, 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 9 summarizes the notional exposure and net ending fair value relative to the financial instruments with off-balance sheet risk as of June 30, 2021 and 2020, related to MIT's investment management.

TABLE 9. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional Exposure			
(in thousands of dollars)	Long	Short	Net Ending Fair Value*	Net Gain (Loss)**
Fiscal Year 2021				
Fixed income and equity instruments:				
Fixed income futures	$ 17,800	$ (6,300)	$ (84)	$ (91)
Options on interest rate exchange agreements	385,000	-	-	(1)
Equity options	-	-	-	(43)
Total fixed income and equity instruments	402,800	(6,300)	(84)	(135)
Index instruments:				
Equity index swaps	-	(1,060,419)	(335)	(33,005)
Index options	-	-	-	(3,407)
Total index instruments	-	(1,060,419)	(335)	(36,412)
Credit instruments	-	(13,282)	(349)	(173)
2021 Total	**$ 402,800**	**$ (1,080,001)**	**$ (768)**	**$ (36,720)**
Fiscal Year 2020				
Fixed income and equity instruments:				
Fixed income futures	$ 19,100	$ (6,100)	$ 13	$ 2
Options on interest rate exchange agreements	839,000	-	1	(24)
Equity options	53	-	43	43
Total fixed income and equity instruments	858,153	(6,100)	57	21
Index instruments:				
Equity index swaps	-	(499,730)	(321)	(7,834)
Index options	299	-	3,407	397
Total index instruments	299	(499,730)	3,086	(7,437)
Credit instruments	-	(33,806)	(115)	587
2020 Total	**$ 858,452**	**$ (539,636)**	**$ 3,028**	**$ (6,829)**

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

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

C. Derivative Financial Instruments and Collateral (continued)

Table 10 below provides further details related to MIT's credit instruments and summarizes the notional amounts and fair value of the purchased credit derivatives, classified by the expiration terms and the external credit ratings of the reference obligations as of June 30, 2021 and 2020.

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

TABLE 10. CREDIT DERIVATIVE INSTRUMENTS

	Purchased Protection		
(in thousands of dollars)	Purchased Notional Amounts	Purchased Fair Value*	Notional Amounts < 5 Years to Maturity
Fiscal Year 2021			
Credit rating on underlying or index:			
A- to AAA	$ -	$ -	$ -
BBB- to BBB+	13,282	(349)	13,282
2021 Total	$ 13,282	$ (349)	$ 13,282
Fiscal Year 2020			
Credit rating on underlying or index:			
A- to AAA	$ -	$ -	$ -
BBB- to BBB+	33,806	(115)	33,806
2020 Total	$ 33,806	$ (115)	$ 33,806

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

C. Derivative Financial Instruments and Collateral (continued)

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

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

Tables 11 and 12 below summarize the effect that the offsetting of recognized assets and liabilities could have in the Consolidated Statements of Financial Position.

TABLE 11. OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES

	2021			2020		
(in thousands of dollars)	Gross Amount	Cash/Treasury Collateral Posted (Received)	Net Amount	Gross Amount	Cash/Treasury Collateral Posted (Received)	Net Amount
Assets						
Derivatives	$ -	$ -	$ -	$ 3,645	$ (13,690)	$ (10,045)
Repurchase agreements	70,357	(71,485)	(1,128)	12,217	(12,482)	(265)
Total assets	70,357	(71,485)	(1,128)	15,862	(26,172)	(10,310)
Liabilities						
Derivatives	(684)	12,705	12,021	(630)	260	(370)
Total liabilities	(684)	12,705	12,021	(630)	260	(370)
Total assets and liabilities, net	**$ 69,673**	**$ (58,780)**	**$ 10,893**	**$ 15,232**	**$ (25,912)**	**$ (10,680)**

Table 12 below reconciles the net recognized assets and liabilities, as shown in Table 11, to derivative financial instruments, as shown in Table 6.

TABLE 12. RECONCILIATION OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES

(in thousands of dollars)	2021	2020
Derivatives from Table 5	$ (768)	$ 3,028
Repurchase agreements from Table 11	70,357	12,217
Fixed income futures	84	(13)
Total	**$ 69,673**	**$ 15,232**

D. Pledges Receivable

Table 13 below shows the time periods in which pledges receivable as of June 30, 2021 and 2020, are expected to be realized.

TABLE 13. PLEDGES RECEIVABLE

(in thousands of dollars)		2021		2020
In one year or less	$	352,658	$	316,174
Between one year and five years		250,565		274,365
More than five years		89,472		98,441
Less: allowance for unfulfilled pledges		(121,427)		(68,640)
Pledges receivable, net	**$**	**571,268**	**$**	**620,340**

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 $26.4 million and $28.5 million in 2021 and 2020, respectively. The pledge discount rate ranges from fiscal year 2022 at 0.3 percent to fiscal year 2044 at 2.4 percent. MIT has gross conditional pledges, not recorded, for the promotion of education and research of $353.6 million and $367.3 million in 2021 and 2020, respectively. Conditional pledges are categorized as follows: fundraising challenge, building construction progress, foundation grants, and other. As of June 30, 2021, conditional pledge amounts are broken out as follows: fundraising challenge of $141.0 million, building construction progress of $136.0 million, foundation grants of $52.6 million, and other of $24.0 million. As of June 30, 2020, conditional pledge amounts are broken out as follows: fundraising challenge of $157.9 million, building construction progress of $137.7 million, foundation grants of $53.7 million, and other of $18.0 million.

Table 14 below is a rollforward of pledges receivable as of June 30, 2021 and 2020.

TABLE 14. ROLLFORWARD OF PLEDGES RECEIVABLE

(in thousands of dollars)		2021		2020
Balance at beginning of the year	$	620,340	$	583,383
New pledges		192,190		182,734
Pledge payments received		(190,585)		(173,452)
Change in pledge discount		2,110		31,751
Change in reserve for unfulfilled pledges		(52,787)		(4,076)
Balance at the end of the year	**$**	**571,268**	**$**	**620,340**

E. Liquidity

Table 15 below details the Institute's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the Consolidated Statements of Financial Position.

TABLE 15. LIQUIDITY AND AVAILABILITY OF RESOURCES

(in thousands of dollars)	2021	2020
Financial assets:		
Cash and liquid operating investments	$ 2,327,158	$ 2,190,390
Accounts and notes receivable	340,265	241,281
Contributions receivable	174,392	201,527
Investments appropriated for spending in the following year	928,214	832,304
Total financial assets available within one year	**$ 3,770,029**	**$ 3,465,502**

As part of the MIT's liquidity management strategy, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. MIT invests its working capital, which is comprised of cash and capital project funds in excess of daily requirements, in various investment vehicles. To help manage unanticipated liquidity needs, MIT also maintains a bank line of credit for $500.0 million, of which $387.0 million and $137.0 million was undrawn at June 30, 2021 and 2020, respectively (see Note F for further details on the line of credit).

F. Net Borrowings

MIT's outstanding borrowings as of June 30, 2021 and 2020, are shown in Table 16 below.

TABLE 16. NET BORROWINGS

(in thousands of dollars / due dates are calendar based / par values as of 2021)	2021	2020
Educational plant		
Massachusetts Development Finance Agency (MassDevelopment)		
Series I, 5.20%, due 2028, par value $30,000	$ 30,374	$ 30,432
Series J-1, variable rate, due 2031, par value $125,000	125,000	125,000
Series J-2 variable rate, due 2031, par value $125,000	125,000	125,000
Series K, 5.5%, due 2022-2032, par value $177,000	182,600	183,268
Series L, 5.0%-5.25%, due 2023-2033, par value $115,670	120,588	121,149
Series M, 5.25%, due 2022-2030, par value $80,525	84,008	95,816
Series P, 5.0%, due 2050, par value $136,055	207,392	209,850
Total MassDevelopment	874,962	890,515
Taxable		
Medium Term Notes Series A, 7.125% due 2026, par value $17,415	17,394	17,390
Medium Term Notes Series A, 7.25%, due 2096, par value $45,604	45,476	45,472
Taxable Bonds, Series B, 5.60%, due 2111, par value $750,000	747,207	747,176
Taxable Bonds, Series C, 4.678%, due 2114, par value $550,000	550,000	550,000
Taxable Bonds, Series D, 2.051-3.959%, due 2026-2038, par value $456,000	456,000	456,000
Taxable Bonds, Series E, 3.885%, due 2116, par value $500,000	500,000	500,000
Taxable Bonds, Series F, 2.989%, due 2050, par value $300,000	300,000	300,000
Taxable Bonds, Series G, 2.294% due 2051, par value 350,000	350,000	350,000
Notes payable to bank, variable rate, due 2023	113,034	113,034
Total Taxable	3,079,111	3,079,072
Total educational plant*	3,954,073	3,969,587
Notes payable to bank, variable rate, due 2023**	-	250,000
Total Other	-	250,000
Total borrowings	3,954,073	4,219,587
Unamortized bond issuance costs	(25,039)	(25,570)
Total borrowings net of unamortized debt issuance cost	**$ 3,929,034**	**$ 4,194,017**

** Proceeds from recent issuances were in the process of being invested in physical assets in 2020 and 2021 with unused balances held in investments.*

*** $250 million of borrowing associated with line of credit was being held as a liquidity reserve in 2020 in response to the COVID-19 pandemic and was subsequently repaid in fiscal 2021.*

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 17 below.

TABLE 17. DEBT PRINCIPAL OBLIGATIONS

(in thousands of dollars)		
2022	$	11,765
2023		55,500
2024		51,455
2025		12,385
2026		13,030

MIT maintains a line of credit with a major financial institution for an aggregate commitment of $500.0 million. As of June 30, 2021, $387.0 million was available under this line of credit. The line of credit expires on March 31, 2023.

Cash paid for interest on long-term debt in 2021 and 2020 was $163.1 million and $138.3 million, respectively.

Variable interest rates as of June 30, 2021, are shown in Table 18 below.

TABLE 18. VARIABLE INTEREST RATES

(in thousands of dollars)		Amount	Rate
MassDevelopment Series J-1	$	125,000	0.05%
MassDevelopment Series J-2		125,000	0.06%
Notes payable to bank		113,034	0.62%

In the event that MIT receives notice of any optional tender on its Series J-1 and Series J-2 variable-rate bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, MIT will be obligated to purchase the bonds tendered at 100.0 percent of par on the tender date. In the event that MIT is obligated to purchase the bonds, cash or short-term investments from liquid operating investments would be used as a source of funds.

MIT maintains an interest rate swap agreement to manage the interest cost and risk associated with a portion of the variable rate debt included in Table 18 above. Under the agreement, MIT pays a fixed rate of 4.91 percent and receives a payment indexed to the Securities Industry and Financial Market Association (SIFMA) index on a notional amount of $125.0 million. As of June 30, 2021 and 2020, the swap agreement had a fair value of ($48.0) million and ($61.0) million, respectively. The notional amount of this derivative is not recorded on MIT's Consolidated Statements of Financial Position. This swap had a net gain of $13.0 million and net loss of $12.2 million in 2021 and 2020, respectively.

G. Commitments and Contingencies

Federal Government Funding

MIT receives funding or reimbursement from federal agencies for sponsored programs under government grants and contracts. These grants and contracts provide for reimbursement of indirect costs. MIT's indirect cost reimbursements for sponsored research activities are based on rates negotiated with the Office of Naval Research (ONR), MIT's cognizant federal agency. Research rates are based on fixed rates with carryforward of under- or over-recoveries. MIT recorded a net under-recovery of $37.8 million and a net over-recovery of $10.2 million as of June 30, 2021 and 2020, respectively.

The DCAA is responsible for auditing indirect charges to research grants and contracts in support of ONR's negotiating responsibility. The Institute's rates have been audited by DCAA through 2019, and the audit for fiscal years 2020 and forward is in progress. ONR has completed negotiations of final rates through 2018, and the negotiations for 2019 and forward are in progress.

Leases

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

Operating lease right of use assets and associated lease liabilities are recognized based on the present value of future minimum lease payments to be made over the expected lease term, using the incremental borrowing rate at the commencement date in determining the present value of future payments. Rent expense related to operating leases, including short-term leases, was $37.3 million and $35.1 million in 2021 and 2020, respectively.

Future minimum lease payments and reconciliation to the consolidated statement of financial position at June 30, 2021, are as follows:

TABLE 19. LEASE OBLIGATIONS

(in thousands of dollars)

2022	$	39,494
2023		40,493
2024		37,830
2025		35,737
2026		32,924
Thereafter		108,560
Total minimum lease payments		295,038
Less: Amount representing interest		(12,998)
Present value of net minimum lease payments	$	282,040

The lease cost and other required information for the year ended June 30, 2021, are:

TABLE 20. QUANTITATIVE DISCLOSURES

(in thousands of dollars)

Capitalized Operating Lease Cost*	$	39,335
Operating Cash flows from Capitalized Operating Leases**	$	36,307
Weighted Average Remaining Lease Term in Years		7.8
Weighted Average Discount Rate		1.1%

* The accretion of the operating lease liability for the period ending June 30, 2021

** Supplemental cash flow information representing lease cost reported in utilities, rent, and repairs in the consolidated statements of activities

Assets Pledged as Collateral

As of June 30, 2021, $12.9 million of assets were pledged as collateral to various suppliers and government agencies. This is classified as restricted cash on the Consolidated Statements of Cash Flows.

G. Commitments and Contingencies (continued)

Future Construction

As of June 30, 2021, MIT had contractual obligations of approximately $297.3 million in connection with educational plant construction projects. It is expected that the resources to satisfy these commitments will be provided from unexpended plant funds, anticipated gifts, bond proceeds, and funds without donor restrictions.

MIT has also made commitments related to the development of its commercial real estate holdings in Kendall Square and to the enhancement of its East Campus gateway. At June 30, 2021, these commitments included approximately $218.9 million of contractual obligations related to the Kendall Square Initiative, and $144.8 million related to other commercial real estate projects. In addition, MIT and the federal government have entered into an agreement whereby MIT will construct a new transportation center on four of the 14 acres of federally owned land located at the John A. Volpe National Transportation Systems Center site in Kendall Square in exchange for the fee interest to and the right to redevelop the adjacent ten acres of land. The exchange will be executed upon completion of the construction of the new facility. MIT is committed to investing $750.0 million in the exchange phase of the project. Costs incurred for construction of the new facility, which are included in investments, were $124.5 million and $90.0 million in fiscal 2021 and fiscal 2020, respectively.

Related Entities

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

General

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

H. Functional Expense Classification

MIT's expenditures on a functional basis for the years ended June 30, 2021 and 2020, are shown in Table 21 below.

TABLE 21. EXPENDITURES BY FUNCTIONAL CLASSIFICATION

(in thousands of dollars)	General and administrative	Instruction and unsponsored research	Sponsored research	Total
Fiscal Year 2021				
Compensation	$ 515,995	$ 600,591	$ 943,368	$ 2,059,954
Other operating	115,215	382,495	609,081	1,106,791
Space related	142,597	194,350	225,033	561,980
2021 Total	**$ 773,807**	**$ 1,177,436**	**$ 1,777,482**	**$ 3,728,725**
Fiscal Year 2020				
Compensation	$ 483,320	$ 598,880	$ 920,234	$ 2,002,434
Other operating	124,450	427,602	659,157	1,211,209
Space related	127,983	194,865	207,289	530,137
2020 Total	**$ 735,753**	**$ 1,221,347**	**$ 1,786,680**	**$ 3,743,780**

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

I. Retirement Benefits

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

MIT also offers a retiree welfare benefit plan (certain healthcare and life insurance benefits) for retired employees. Substantially all MIT employees may become eligible for those benefits if they reach a qualifying retirement age while working for MIT. The healthcare component of the welfare plan is paid for in part by retirees, their covered dependents, and beneficiaries. Benefits are provided through various insurance companies whose charges are based either on the claims and administrative expenses paid during the year or annual insured premiums. The life insurance component of the welfare plan includes basic life insurance and supplemental life insurance. The basic life insurance plan is non-contributory and covers the retiree only. The supplemental life insurance plan is paid for by the retiree. MIT maintains a trust to pay for the retiree welfare benefit plan.

MIT contributes to the defined benefit pension plan amounts that are actuarially determined to provide the retirement plan with sufficient assets to meet future benefit requirements. There were no designated contributions to the defined benefit pension plan for 2021 and 2020. MIT designated contributions of $2.4 million and $1.5 million to the retiree welfare benefit plan in 2021 and 2020, respectively.

For the defined contribution plan, the amount contributed and expenses recognized during 2021 and 2020 were $68.9 million and $67.3 million, respectively.

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

Cumulative gains and losses (including changes in assumptions) in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets for both the defined benefit pension plan and the retiree welfare benefit plan are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to $1.0 million.

Components of Net Periodic Benefit Cost

Table 22 below summarizes the components of net periodic benefit cost recognized in net results and other amounts recognized in other revenues, gains, and losses in net assets without donor restrictions for the years ended June 30, 2021 and 2020.

TABLE 22. COMPONENTS OF NET PERIODIC BENEFIT COST AND OTHER AMOUNTS RECOGNIZED IN OTHER REVENUES, GAINS, AND LOSSES

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2021	2020	2021	2020
Components of net periodic benefit cost recognized in net results:				
Service cost	$ 129,749	$ 123,255	$ 33,819	$ 30,988
Interest cost	163,467	169,792	23,562	24,309
Expected return on plan assets	(312,083)	(298,900)	(54,000)	(50,605)
Amortization of net actuarial loss (gain)	44,534	30,285	(1,000)	(1,000)
Amortization of prior service cost (credit)	265	265	-	(2,212)
Net periodic benefit cost (income) recognized in net results	25,932	24,697	2,381	1,480
Other amounts recognized in other revenues, gains, and losses				
Current year prior service cost	890	-	-	-
Current year actuarial (gain) loss	(1,484,305)	147,676	(348,077)	2,431
Amortization of actuarial (gain) loss	(44,534)	(30,285)	1,000	1,000
Amortization of prior service (cost) credit	(265)	(265)	-	2,212
Total other amounts recognized in other revenues, gains, and losses	(1,528,214)	117,126	(347,077)	5,643
Total recognized	**$ (1,502,282)**	**$ 141,823**	**$ (344,696)**	**$ 7,123**

I. Retirement Benefits (continued)

The estimated net actuarial loss and prior service cost for the defined benefit pension plan that will be amortized from net assets without donor restrictions into net periodic benefit cost during the next fiscal year are $33.4 million and $0.3 million, respectively. The estimated net actuarial gain and prior service credit for the retiree welfare benefit plan that will be amortized from net assets without donor restrictions into net periodic benefit cost during the next fiscal year are $10.3 million and zero, respectively.

Cumulative amounts recognized in net assets without donor restrictions are summarized in Table 23 below for the years ended June 30, 2021 and 2020.

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

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2021	2020	2021	2020
Amounts recognized in unrestricted net assets without donor restrictions consist of:				
Net actuarial (gain) loss	$ (729,003)	$ 799,836	$ (438,748)	$ (91,671)
Prior service cost	2,943	2,318	-	-
Total cumulative amounts recognized in net assets without donor restrictions	**$ (726,060)**	**$ 802,154**	**$ (438,748)**	**$ (91,671)**

I. Retirement Benefits (continued)

Benefit Obligations and Fair Value of Assets

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

The projected benefit obligation for the defined benefit pension plan, as shown in Table 24, was $5,429.6 million and $4,830.0 million as of June 30, 2021 and 2020, respectively. Another measure of the plan's liabilities is the accumulated benefit obligation. While the projected benefit obligation factors in future salary increases, the accumulated benefit obligation does not. The accumulated benefit obligation of MIT's defined benefit pension plan was $5,131.3 million and $4,664.4 million as of June 30, 2021 and 2020, respectively.

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

TABLE 24. PROJECTED BENEFIT OBLIGATIONS AND FAIR VALUE OF ASSETS

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2021	2020	2021	2020
Change in projected benefit obligations:				
Projected benefit obligations at beginning of year	$ 4,829,967	$ 4,468,263	$ 668,473	$ 613,441
Service cost	129,749	123,255	33,819	30,988
Interest cost	163,467	169,792	23,562	24,309
Retiree contributions	-	-	8,949	8,159
Net benefit payments, transfers, and other expenses	(160,548)	(161,473)	(39,151)	(35,125)
Employer Group Waiver Plan (EGWP) reimbursement	-	-	9,176	9,223
Plan amendments	890	-	-	-
Assumption changes and actuarial net loss (gain)	466,052	230,130	(41,648)	17,478
Projected benefit obligations at end of the year	5,429,577	4,829,967	663,180	668,473
Change in plan assets:				
Fair value of plan assets at beginning of the year	4,278,099	4,058,218	760,546	711,157
Actual return on plan assets	2,262,440	381,354	360,429	65,652
Employer contributions	-	-	2,381	1,480
Employer Group Waiver Plan (EGWP) reimbursement	-	-	9,176	9,223
Retiree contributions	-	-	8,949	8,159
Net benefit payments, transfers, and other expenses	(160,548)	(161,473)	(39,151)	(35,125)
Fair value of plan assets at end of the year	6,379,991	4,278,099	1,102,330	760,546
Funded (unfunded) status at end of the year	**950,414**	**(551,868)**	**439,150**	**92,073**
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Net assets (liabilities)	**$ 950,414**	**$ (551,868)**	**$ 439,150**	**$ 92,073**

I. Retirement Benefits (continued)

Assumptions for Financial Parameters and Healthcare Trend Rates

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

TABLE 25. ASSUMPTIONS

	Defined Benefit Pension Plan		Retiree Welfare Benefit Plan	
(in thousands of dollars)	2021	2020	2021	2020
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	3.25%	3.36%	3.47%	3.42%
Rate of compensation increase*	5.50%	0.00%/5.00%		
Assumptions used to determine net periodic benefit cost for the year ended June 30:				
Discount rate	3.36%	3.77%	3.42%	3.85%
Expected long-term return on plan assets	7.75%	7.75%	7.50%	7.50%
Rate of compensation increase**	0.00%/5.00%	4.00%		
Assumed health care cost trend rates:				
Healthcare cost trend rate assumed for next year			6.50%	6.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	4.75%
Year the rate reaches the ultimate trend rate			2027	2025

** For the 6/30/2020 plan measurement, it was assumed that there would be no salary increases or cost-of-living adjustments through 2022; normative rates apply thereafter.*

*** For determining fiscal 2021 benefit cost it is assumed that there will be no salary increase or cost-of-living adjustments through 2022; normative rates apply thereafter.*

As an indicator of sensitivity, a one percentage point change in the assumed healthcare cost trend rate would affect 2021's retiree welfare plan as shown in Table 26 below.

TABLE 26. HEALTHCARE COST TREND RATE SENSITIVITY

(in thousands of dollars)	1% Point Increase	1% Point Decrease
Effect on 2021 postretirement service and interest cost	$ 11,641	$ (9,130)
Effect on postretirement benefit obligation as of June 30, 2021	101,357	(83,062)

Plan Investments

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

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

I. Retirement Benefits (continued)

Tables 27A and 27B present investments at fair value of MIT's defined benefit pension plan and retiree welfare benefit plan, which are included in net assets available for benefits as of June 30, 2021 and 2020, grouped by the valuation hierarchy detailed in Note B. The investment values in these tables exclude certain items included in the assets and liabilities shown in Table 24.

TABLE 27A. DEFINED BENEFIT PENSION PLAN INVESTMENTS

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2021					
Cash and short-term investments	$ 298,777	$ -	$ -	$ -	$ 298,777
US Treasury	444,454	-	-	-	444,454
US government agency	-	17,996	-	-	17,996
Common equity:					
Domestic	139,135	-	74	-	139,209
Foreign	191,030	-	4,214	-	195,244
Equity:*					
Absolute return	-	-	-	939,409	939,409
Domestic	-	-	-	623,980	623,980
Foreign	-	-	-	973,895	973,895
Private	-	-	-	2,493,529	2,493,529
Real estate*	1,755	-	-	243,970	245,725
Real assets*	-	-	-	52,532	52,532
Other	-	-	850	-	850
Derivatives	(6)	-	-	-	(6)
Total plan investments assets	**$ 1,075,145**	**$ 17,996**	**$ 5,138**	**$ 5,327,315**	**$ 6,425,594**
Liabilities associated with investments					
Investments sold, but not yet purchased	(53,473)	-	-	-	(53,473)
Other liabilities	(1,276)	(99)	-	-	(1,375)
Total plan investment liabilities	**(54,749)**	**(99)**	**-**	**-**	**(54,848)**
Total plan investments	**$ 1,020,396**	**$ 17,897**	**$ 5,138**	**$ 5,327,315**	**$ 6,370,746**
Fiscal Year 2020					
Cash and short-term investments	$ 89,862	$ -	$ -	$ -	$ 89,862
US Treasury	237,436	-	-	-	237,436
US government agency	-	34,237	-	-	34,237
Domestic bonds	-	-	-	-	-
Common equity:					
Domestic	28,382	-	74	-	28,456
Foreign	95,567	-	-	-	95,567
Equity:*					
Absolute return	-	-	-	700,276	700,276
Domestic	-	-	-	504,414	504,414
Foreign	-	-	-	1,003,706	1,003,706
Private	-	-	-	1,309,936	1,309,936
Real estate*	1,059	-	-	213,340	214,399
Real assets*	-	-	-	48,754	48,754
Other	-	-	419	-	419
Derivatives	748	762	-	-	1,510
Total plan investments assets	**$ 453,054**	**$ 34,999**	**$ 493**	**$ 3,780,426**	**$ 4,268,972**
Liabilities associated with investments					
Investments sold, but not yet purchased	-	-	-	-	-
Other liabilities	**(11)**	**(66)**	**-**	**-**	**(77)**
Total plan investment liabilities	**(11)**	**(66)**	**-**	**-**	**(77)**
Total plan investments	**$ 453,043**	**$ 34,933**	**$ 493**	**$ 3,780,426**	**$ 4,268,895**

** 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

(in thousands of dollars)	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2021					
Cash and short-term investments	$ 47,922	$ -	$ -	$ -	$ 47,922
US Treasury	139,458	-	-	-	139,458
US government agency	-	5,647	-	-	5,647
Common equity:					
Domestic	24,336	-	-	-	24,336
Foreign	33,530	-	744	-	34,274
Equity:*					
Absolute return	-	-	-	179,596	179,596
Domestic	-	-	-	107,345	107,345
Foreign	-	-	-	169,879	169,879
Private	-	-	-	356,184	356,184
Real estate*	310	-	-	35,470	35,780
Real assets*	-	-	-	6,408	6,408
Other	-	-	150	-	150
Derivatives	(2)	-	-	-	(2)
Total plan investments assets	**$ 245,554**	**$ 5,647**	**$ 894**	**$ 854,882**	**$ 1,106,977**
Liabilities associated with investments					
Investments sold, but not yet purchased	(7,597)	-	-	-	(7,597)
Other liabilities	(227)	(54)	-	-	(281)
Total plan investment liabilities	**(7,824)**	**(54)**	**-**	**-**	(7,878)
Total plan investments	**237,730**	**5,593**	**894**	**854,882**	**1,099,099**
Fiscal Year 2020					
Cash and short-term investments	$ 36,610	$ -	$ -	$ -	$ 36,610
US Treasury	58,187	-	-	-	58,187
US government agency	-	8,387	-	-	8,387
Common equity:	-	-	-	-	-
Domestic					
Foreign	4,923	-	-	-	4,923
Equity:*	16,988	-	-	-	16,988
Absolute return					
Domestic	-	-	-	130,375	130,375
Foreign	-	-	-	89,370	89,370
Private	-	-	-	199,787	199,787
Real estate*	-	-	-	177,749	177,749
Real assets*	187	-	-	28,570	28,757
Other	-	-	-	5,583	5,583
Derivatives	122	135	-	-	257
Total plan investments assets	**$ 117,017**	**$ 8,522**	**$ -**	**$ 631,434**	**$ 756,973**
Liabilities associated with investments					
Investments sold, but not yet purchased	-	-	-	-	-
Other liabilities	(3)	(12)	-	-	(15)
Total plan investment liabilities	(3)	(12)	-	-	(15)
Total plan investments	**$ 117,014**	**$ 8,510**	**$ -**	**$ 631,434**	**$ 756,958**

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

I. Retirement Benefits (continued)

The plans have made commitments to make periodic contributions in future periods to investments managed by external managers, and in other cases have entered into contractual arrangements that may limit their ability to initiate redemptions due to notice periods, lock-ups, and gates. Details on the remaining unfunded commitments and current redemption terms and restrictions by asset class and type of investment for both the defined benefit pension plan and retiree welfare benefit plan are provided in Table 28 below as of June 30, 2021 and 2020.

TABLE 28. UNFUNDED COMMITMENTS AND REDEMPTON TERMS AND RESTRICTIONS

	2021		2020			
(in thousands of dollars)	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value	Redemption Terms	Redemption Restrictions
Defined Benefit Pension Plan						
Equity:						
Absolute return[1]	$ 16,173	$ 939,409	$ 22,323	$ 700,276	Ranges from 2 months to 37 months[4]	30 to 365 days
Domestic[2]	396	623,980	396	504,414	Ranges from 4 months to 38 months[4]	90 to 105 days
Foreign[3]	-	973,895	-	1,003,706	Ranges from 4 months to 49 months	40 to 91 days
Private	485,550	2,493,529	380,663	1,309,936	Close-ended funds not available for redemption	Not Applicable
Real estate	187,033	243,970	155,389	213,340	Close-ended funds not available for redemption	Not Applicable
Real assets	15,180	52,532	18,233	48,754	Close-ended funds not available for redemption	Not Applicable
Total	**$ 704,332**	**$ 5,327,315**	**$ 577,004**	**$ 3,780,426**		
Retiree Welfare Benefit Plan						
Equity:						
Absolute return[1]	$ 2,216	$ 179,596	$ 2,703	$ 130,375	Ranges from 2 months to 37 months[4]	30 to 365 days
Domestic[2]	44	107,345	44	89,370	Ranges from 4 months to 38 months[4]	30 to 365 days
Foreign[3]	-	169,879	-	199,787	Ranges from 4 months to 49 months	90 to 105 days
Private	81,572	356,184	62,732	177,749	Close-ended funds not available for redemption	40 to 91 days
Real estate	29,712	35,470	22,983	28,570	Close-ended funds not available for redemption	Not Applicable
Real assets	2,503	6,408	2,995	5,583	Close-ended funds not available for redemption	Not Applicable
Total	**$ 116,047**	**$ 854,882**	**$ 91,457**	**$ 631,434**		

[1]Absolute return funds include funds that have remaining lock-up provisions up to 22 months.

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

[3]Foreign funds include funds that have remaining lock-up provisions up to 32 months.

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

I. Retirement Benefits (continued)

Target allocations and weighted-average asset allocations of the investment portfolios for MIT's defined benefit pension plan and retiree welfare benefit plan as of June 30, 2021 and 2020, are shown in Table 29 below.

TABLE 29. PLANNED INVESTMENT ALLOCATION

	Defined Benefit Pension Plan			Retiree Welfare Benefit Plan		
	2021 Target Allocation	2021	2020	2021 Target Allocation	2021	2020
Cash and short-term investments	0-10%	5%	2%	0-10%	4%	5%
Fixed income	3-13%	7%	7%	10-20%	13%	9%
Equities	35.5-82.5%	68%	69%	32-82%	62%	64%
Marketable alternatives	14-24%	15%	16%	14.5-24.5%	17%	17%
Real assets	0-8%	1%	1%	0-5.5%	1%	1%
Real estate	2.5-12.5%	4%	5%	0-8%	3%	4%
Total		**100%**	**100%**		**100%**	**100%**

Expected Future Benefit Payments

In fiscal 2022, MIT does not expect to contribute to its defined benefit pension plan or to the retiree welfare benefit plan. These contributions assume a 7.75 percent and 7.50 percent expected return on assets for the defined benefit pension plan and retiree welfare benefit plan, respectively. MIT elected to adopt Pri-2012 mortality tables for employees and retirees issued by the Society of Actuaries (SOA) in October 2019. Mortality rates are projected generationally from the base year of 2012 using Scale MP-2020.

Table 30 below reflects the total expected benefit payments for the defined benefit pension plan and retiree welfare benefit plan over the next 10 years. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations as of June 30, 2021.

TABLE 30. EXPECTED FUTURE BENEFIT PAYMENTS

(in thousands of dollars)	Pension Benefits	Retiree Welfare
2022	$ 179,076	$ 26,012
2023	195,153	28,644
2024	213,002	30,475
2025	230,141	32,119
2026	237,491	33,661
2027 - 2031	1,252,166	188,760

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

J. Components of Net Assets and Endowment

Tables 31A and 31B present the composition of net assets as of June 30, 2021, and June 30, 2020, respectively. The amounts listed in the without donor restriction category under the endowment funds sections are those gifts and other funds received over the years that MIT designated as funds functioning as endowment and invested with the endowment funds. A large component of net assets with donor restriction in other invested funds is pledges, the majority of which will be reclassified to net assets without donor restrictions when cash is received.

TABLE 31A. 2021 TOTAL NET ASSET COMPOSITION

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
General purpose	$ 2,378,115	$ 2,577,284	$ 4,955,399
Departments and research	1,429,232	3,835,349	5,264,581
Library	22,323	97,900	120,223
Salaries and wages	1,064,538	6,542,497	7,607,035
Graduate general	165,405	458,401	623,806
Graduate departments	344,414	1,455,519	1,799,933
Undergraduate	440,869	2,957,116	3,397,985
Prizes	17,802	101,512	119,314
Miscellaneous	2,165,381	1,340,382	3,505,763
Endowment funds before pledges	8,028,079	19,365,960	27,394,039
Pledges	-	133,165	133,165
Total endowment funds	8,028,079	19,499,125	27,527,204
Other Invested Funds			
Student-related loan funds	18,056	32,427	50,483
Building funds	147,047	23,031	170,078
Designated purposes:			
Departments and research	482,791	-	482,791
Other purposes	288,503	28,496	316,999
Life income funds and donor advised funds	59,311	260,542	319,853
Pledges	-	438,103	438,103
Other funds available for current expenses	4,407,074	438,913	4,845,987
Retirement benefits overfunded	1,389,564	-	1,389,564
Funds for educational plant	905,307	-	905,307
Total other invested funds	7,697,653	1,221,512	8,919,165
Total net assets	**$ 15,725,732**	**$ 20,720,637**	**$ 36,446,369**

J. Components of Net Assets and Endowment (continued)

TABLE 31B. 2020 TOTAL NET ASSET COMPOSITION

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds			
General purpose	$ 1,585,054	$ 1,712,557	$ 3,297,611
Departments and research	933,024	2,524,714	3,457,738
Library	14,880	62,550	77,430
Salaries and wages	707,388	4,342,847	5,050,235
Graduate general	110,256	301,133	411,389
Graduate departments	220,360	937,844	1,158,204
Undergraduate	293,639	1,952,567	2,246,206
Prizes	11,832	67,555	79,387
Miscellaneous	1,459,540	1,143,778	2,603,318
Endowment funds before pledges	5,335,973	13,045,545	18,381,518
Pledges	-	114,387	114,387
Total endowment funds	5,335,973	13,159,932	18,495,905
Other Invested Funds			
Student-related loan funds	18,509	32,115	50,624
Building funds	186,666	73,316	259,982
Designated purposes:			
Departments and research	460,286	-	460,286
Other purposes	195,261	17,205	212,466
Life income funds and donor advised funds	30,968	185,937	216,905
Pledges	-	505,953	505,953
Other funds available for current expenses	3,044,223	660,445	3,704,668
Retirement benefits underfunded	(459,795)	-	(459,795)
Funds for educational plant	769,937	-	769,937
Total other invested funds	4,246,055	1,474,971	5,721,026
Total net assets	**$ 9,582,028**	**$ 14,634,903**	**$ 24,216,931**

MIT's endowment consists of approximately 4,400 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds that function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Committee has interpreted the Massachusetts-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing MIT to appropriate for expenditure or accumulate so much of an endowment fund as MIT determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Executive Committee. In accordance with UPMIFA, the Executive Committee considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

J. Components of Net Assets and Endowment (continued)

Table 32 below reflects changes in endowment net assets without and with donor restrictions as of June 30, 2021 and 2020, respectively.

TABLE 32. CHANGES IN ENDOWMENT NET ASSETS

(in thousands of dollars)	Without Donor Restriction	With Donor Restriction	Total
Fiscal Year 2021			
Endowment net assets, July 1, 2020	$ 5,335,973	$ 13,159,932	$ 18,495,905
Investment return:			
Net Investment income	12,244	37,062	49,306
Net appreciation (realized and unrealized)	2,867,324	6,672,003	9,539,327
Total investment return	2,879,568	6,709,065	9,588,633
Contributions	-	106,078	106,078
Appropriation of endowment assets for expenditure	(223,791)	(525,315)	(749,106)
Other changes:			
Net asset reclassifications and transfers	36,329	49,365	85,694
Endowment net assets, June 30, 2021	**$ 8,028,079**	**$ 19,499,125**	**$ 27,527,204**
Fiscal Year 2020			
Endowment net assets, July 1, 2019	$ 5,042,357	$ 12,526,971	$ 17,569,328
Investment return:			
Net Investment income	3,481	11,652	15,133
Net appreciation (realized and unrealized)	484,684	1,123,005	1,607,689
Total investment return	488,165	1,134,657	1,622,822
Contributions	-	103,436	103,436
Appropriation of endowment assets for expenditure	(222,038)	(515,164)	(737,202)
Other changes:			
Net asset reclassifications and transfers	27,489	(89,968)	(62,479)
Endowment net assets, June 30, 2020	**$ 5,335,973**	**$ 13,159,932**	**$ 18,495,905**

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of net assets with donor restrictions. There were no underwater endowment funds reported in net assets with donor restrictions as of June 30, 2021, or June 30, 2020.

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 4.2 percent, or 4.5 percent on a three-year-average basis, and 4.3 percent, or 4.8 percent on a three-year-average basis, for fiscal 2021 and fiscal 2020, respectively.

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

MIT has adopted spending policies designed to provide a predictable stream of funding to programs supported by its investments while maintaining the purchasing power of assets. For pooled investments, the Executive Committee of the Corporation votes to distribute funds for operational support from general investments. In accordance with MIT's spending policy, these distributions are funded from both investment income and market appreciation. The distribution rates were $81.80 per Pool A unit for both fiscal 2021 and fiscal 2020. For separately invested endowment funds, only the annual investment income generated is distributed for spending. For any underwater endowment funds, the distribution of funds for operational support is at the discretion of the Executive Committee.

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

(in thousands of dollars)	2021	2020	2019	2018	2017
Financial Position					
Investments, at fair value	$ 34,793,438	$ 24,364,668	$ 22,083,156	$ 20,766,548	$ 19,077,677
Land, buildings, and equipment, at cost less					
accumulated depreciation	4,475,962	4,306,769	3,993,253	3,684,377	3,397,070
Borrowings, net of unamortized issuance costs	3,929,034	4,194,017	3,168,422	3,259,389	3,287,545
Total assets	42,526,492	30,505,530	27,750,820	26,111,020	23,976,315
Total liabilities	6,080,123	6,288,599	4,981,815	4,594,239	4,851,257
Net assets without donor restriction	15,725,732	9,582,028	9,175,946	8,852,960	7,701,195
Net assets with donor restrictions	20,720,637	14,634,903	13,593,059	12,663,821	11,423,863
Total net assets	36,446,369	24,216,931	22,769,005	21,516,781	19,125,058
Total endowment funds before pledges	27,394,039	18,381,518	17,443,750	16,400,027	14,832,483
Principal Sources of Revenues					
Tuition and similar revenues, exclusive of					
financial aid	$ 344,303	$ 374,669	$ 383,736	$ 353,721	$ 361,476
Sponsored support:					
Campus direct	578,900	597,357	598,903	567,523	558,611
Lincoln direct	1,073,876	1,042,970	1,017,344	947,295	929,348
SMART direct	28,246	32,635	44,980	41,988	32,981
Indirect cost recovery	276,103	268,004	240,938	206,214	243,845
Total sponsored support	1,957,125	1,940,966	1,902,165	1,763,020	1,764,785
Contributions	505,184	523,751	602,096	481,817	594,471
Net return on investments	10,889,913	2,142,655	1,970,892	2,503,435	2,285,260
Distribution of investment returns	912,642	911,874	875,428	826,117	782,857
Principal Purposes of Expenditures					
Expenses*	$ 3,728,725	$ 3,743,780	$ 3,710,797	$ 3,536,400	$ 3,429,751
Compensation	2,059,954	2,002,434	1,910,957	1,838,629	1,729,760
Other operating	1,106,791	1,211,209	1,246,351	1,180,895	1,192,437
Space related	561,980	530,137	553,489	516,876	507,554

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

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

(in thousands of dollars)	2021	2020	2019	2018	2017
Sponsored Support					
Campus					
Federal government sponsored:					
Health and Human Services	$ 138,873	$ 135,355	$ 136,873	$ 132,634	$ 114,227
Department of Defense	131,960	137,621	142,178	129,238	136,013
Department of Energy	71,983	66,618	67,506	73,987	82,830
National Science Foundation	95,052	99,424	96,802	96,556	94,746
National Aeronautics and Space Administration	36,199	37,429	35,554	36,199	42,947
Other federal	24,481	27,748	23,620	20,969	27,764
Total federal	498,548	504,195	502,533	489,583	498,527
Non-federally sponsored:					
State/local/foreign governments	28,469	25,102	27,921	29,000	29,790
Foundations	76,109	83,731	97,810	90,152	83,283
Other Nonprofits	36,568	37,101	36,926	39,368	48,003
Industry	191,367	211,271	208,231	183,751	176,252
Total non-federal	332,513	357,205	370,888	342,271	337,328
Total federal and non-federal	831,061	861,400	873,421	831,854	835,855
F&A and other adjustments	(20,628)	(44,102)	(75,940)	(92,309)	(73,611)
Total campus	810,433	817,298	797,481	739,545	762,244
Lincoln Laboratory					
Federal government sponsored	1,085,592	1,097,487	1,048,801	966,179	965,830
Non-federally sponsored	23,638	18,291	17,467	7,240	5,436
F&A and other adjustments	8,772	(25,160)	(6,884)	7,873	(2,009)
Total Lincoln Laboratory	1,118,002	1,090,618	1,059,384	981,292	969,257
SMART *					
Non-federally sponsored	28,690	33,050	45,300	42,183	33,284
Total SMART	28,690	33,050	45,300	42,183	33,284
Total sponsored support	**$ 1,957,125**	**$ 1,940,966**	**$ 1,902,165**	**$ 1,763,020**	**$ 1,764,785**

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

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

	2021	2020	2019	2018	2017
Students					
Undergraduate:					
Full-time	4,234	4,501	4,557	4,510	4,476
Part-time	127	29	45	37	48
Undergraduate applications:					
Applicants	20,075	21,312	21,706	20,247	19,020
Accepted	1,457	1,427	1,464	1,452	1,511
Acceptance rate	7%	7%	7%	7%	8%
Enrolled	1,070	1,102	1,114	1,097	1,110
Yield	73%	77%	76%	76%	73%
Freshmen ranking in the top 10% of their class	100%	95%	98%	98%	97%
Average SAT scores (math and verbal)	1,539	1,532	1,528	1,528	1,505
Graduate:					
Full-time	6,766	6,862	6,845	6,671	6,707
Part-time	127	128	127	248	145
Graduate applications:					
Applicants	30,699	29,114	28,826	27,634	26,463
Accepted	4,448	3,670	3,516	3,383	3,480
Acceptance rate	14%	13%	12%	12%	13%
Enrolled	2,284	2,312	2,321	2,208	2,277
Yield	51%	63%	66%	65%	65%
Tuition (in dollars)					
Tuition and fees	$ 53,450	$ 53,790	$ 51,832	$ 49,892	$ 48,452
Average room and board	16,000	16,390	15,510	14,720	14,210
Student Support *(in thousands of dollars)*					
Undergraduate tuition support	$ 159,206	$ 157,544	$ 147,321	$ 137,936	$ 126,932
Graduate tuition support	324,181	312,260	301,026	288,434	270,289
Fellowship stipends	51,793	45,080	44,979	42,309	39,518
Student employment	140,441	136,927	132,300	125,884	118,528
Total student support	$ 675,621	$ 651,811	$ 625,626	$ 594,563	$ 555,267
Faculty and Staff *(including unpaid appointments)*					
Faculty	1,064	1,067	1,056	1,047	1,040
Staff and fellows	15,121	15,584	15,366	15,212	15,077

Report of the Treasurer

for the year ended
June 30, 2021

Massachusetts
Institute of
Technology

Photo: Steve Dunwell