NEW ISSUE

In the opinion of Bond Counsel, under existing law, interest on the Bonds (which includes any original issue discount properly allocable to the owners thereof) is excluded from the gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the Authority and the Institution with the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will be taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. In the opinion of Bond Counsel, under existing law, interest on the Bonds and any profit on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts property taxes. See "TAX EXEMPTION" herein.

$59,200,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY REVENUE BONDS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY ISSUE, SERIES I

Dated: January 15, 1998 **Due: January 1, 2028**

The Series I-1 and Series I-2 Bonds (together, the "Bonds") will be issued only as fully registered bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchase of the Bonds will be made in book-entry form. Purchasers will not receive certificates representing their interests in the Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Bonds. See "THE BONDS — Book-Entry Only System" herein.

Principal of and interest on the Bonds will be paid by State Street Bank and Trust Company, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein. Interest on the Bonds will be payable on July 1, 1998 and semiannually thereafter on January 1 and July 1 to the Bondowners of record as of the close of business on the fifteenth day of the month preceding such Interest Payment Date.

The Series I-2 Bonds are subject to redemption prior to maturity in certain circumstances, as set forth herein.

The Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority (the "Authority") payable solely from the Revenues (as hereinafter defined) of the Authority, including payments to State Street Bank and Trust Company, Boston, Massachusetts, as Trustee, for the account of the Authority by the Massachusetts Institute of Technology (the "Institution") in accordance with the provisions of the Agreement (as defined herein). Such payments pursuant to the Agreement are a general obligation of the Institution. Reference is made to this Official Statement for pertinent security provisions of the Bonds.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY SUCH POLITICAL SUBDIVISION, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ACT DOES NOT IN ANY WAY CREATE A SO-CALLED MORAL OBLIGATION OF THE COMMONWEALTH TO PAY DEBT SERVICE IN THE EVENT OF DEFAULT BY THE INSTITUTION. THE AUTHORITY DOES NOT HAVE TAXING POWER.

$30,000,000 5.20% Series I-1 Bonds due January 1, 2028 — Yield 4.83%
$29,200,000 4.75% Series I-2 Bonds due January 1, 2028 — Yield 4.97%
(accrued interest from January 15, 1998 to be added)

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Institution by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about January 29, 1998.

BT ALEX. BROWN **SALOMON SMITH BARNEY**

January 13, 1998.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson, or other person has been authorized by the Authority, the Institution or the Underwriters to give any information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the Institution, The Depository Trust Company and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Authority or the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

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MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

99 Summer Street, Boston, Massachusetts 02110

OFFICIAL STATEMENT

Relating to

$59,200,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Revenue Bonds, Massachusetts Institute of Technology Issue, Series I

INTRODUCTION

Purpose of this Official Statement

The purpose of this Official Statement, including the cover page and the appendices, is to set forth certain information concerning the Massachusetts Health and Educational Facilities Authority (the "Authority"), Massachusetts Institute of Technology (the "Institution") and the $59,200,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Massachusetts Institute of Technology Issue, Series I (the "Bonds") authorized by the Loan and Trust Agreement dated as of January 13, 1998 (the "Agreement") among the Authority, the Institution and State Street Bank and Trust Company, as trustee (the "Trustee"), to be issued in accordance with the provisions of the Agreement and Chapter 614 of the Massachusetts Acts of 1968, as amended (the "Act"). The information contained in this Official Statement is provided for use in connection with the initial sale of the Bonds.

Use of Proceeds

The net proceeds from the sale of the Bonds (including accrued interest on the Bonds to the date of delivery) will be used to: (i) deposit into the Debt Service Fund interest accruing on the Bonds from January 15, 1998 to the date of delivery of the Bonds; (ii) deposit into the Bond Payment Fund established under the Agreement an amount sufficient to pay the principal of the Authority's Revenue Bonds, Massachusetts Institute of Technology Issue, Series G (the "Series G Bonds") currently outstanding in the aggregate principal amount of $25,000,000 and certain accrued interest thereon; (iii) refinance certain outstanding loans in the aggregate principal amount of $34,200,000 and pay certain accrued interest thereon; (iv) reimburse the Institution for certain internal advances related to the renovation of the Uncas A. Whitaker Building; and (v) deposit into the Expense Fund the amount necessary to pay certain costs relating to the issuance of the Bonds. See "APPLICATION OF BOND PROCEEDS."

SECURITY FOR THE BONDS

The Authority, the Institution, and the Trustee shall execute the Agreement, which provides that to the extent permitted by law, it is a general obligation of the Institution and that the full faith and credit of the Institution are pledged to its performance. With respect to the Bonds, the Agreement also provides, among other things, that the Institution shall make payments to the Trustee equal to principal and interest on the Bonds and certain other payments required by the Agreement. The Agreement shall remain in full force and effect until such time as all of the Bonds and the interest thereon have been fully paid or until adequate provision for such payments has been made.

The Bonds are special obligations of the Authority, equally and ratably secured by and payable from a pledge of and lien on, to the extent provided by the Agreement, the moneys received with respect to the Bonds by the Trustee for the account of the Authority pursuant to the Agreement.

The Authority will not have a mortgage on or security interest in any of the facilities, furnishings, equipment or other property of the Institution.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY OR MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DERIVED BY THE AUTHORITY UNDER THE AGREEMENT. THE AUTHORITY DOES NOT HAVE TAXING POWER.

THE AUTHORITY

The Massachusetts Health and Educational Facilities Authority is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") organized and existing under and by virtue of the Act. The purpose of the Authority, as stated in the Act, is essentially to provide assistance for nonprofit institutions for higher education, nonprofit schools for the handicapped, nonprofit hospitals and their nonprofit affiliates, and nonprofit cultural institutions in the construction, financing, and refinancing of projects to be undertaken in relation to programs for such institutions.

Authority Membership and Organization

The Act provides that the Authority shall consist of nine members who shall be appointed by the Governor and shall be residents of the Commonwealth. At least two members shall be associated with institutions for higher education, at least two shall be associated with hospitals, at least one shall be knowledgeable in the field of state and municipal finance (by virtue of business association or other association) and at least one shall be knowledgeable in the field of building construction. All Authority members serve without compensation, but are entitled to reimbursement for necessary expenses incurred in the performance of their duties as members of the Authority. The Authority elects annually one of its members to serve as Chairman and one to serve as Vice Chairman.

The members of the Authority are as follows:

ROBERT R. FANNING, JR., Chairman; term as member expires July 1, 2002.

Mr. Fanning, a resident of Boxford, is President and Chief Executive Officer of Northeast Health Systems, Inc./Beverly Hospital in Beverly, Massachusetts. He is a Fellow in the American College of Healthcare Executives and is a past Chairman of that organization. Mr. Fanning is also a past chairman of the Massachusetts Hospital Association Board of Trustees. He is an outside Director of Health Care Property Investors, Inc., an equity-oriented real estate investment trust specializing in health care related facilities. Mr. Fanning is also a Director of the Warren Five Cents

Savings Bank. He also serves as a Trustee of Endicott College in Beverly, Massachusetts and Bridgton Academy in North Bridgton, Maine.

JOHN R. SMITH, Vice Chairman; term as member expires July 1, 2000.

Mr. Smith, a resident of Sudbury, is President of New England Fiduciary Company; a firm specializing in financial strategies and long-term planning for colleges and universities primarily in the areas of student financial aid and physical facilities. He is also Chairman of the Massachusetts Educational Financing Authority; a Director of Northstar Advantage Funds; and Trustee of a Boston condominium trust. He had formerly been Vice President and Treasurer of Boston College; Director of the Massachusetts Higher Education Assistance Corporation (now American Student Assistance Corporation). Before coming to Boston College, Mr. Smith was employed by Bendix Corporation and Raytheon Company in executive financial analysis and management positions. He is a Certified Public Accountant.

DAVID T. HANNAN, Secretary; term as member expires July 1, 1999.

Mr. Hannan, a resident of Hingham, is President and Chief Executive Officer of South Shore Hospital and its not-for-profit, tax-exempt parent organization, South Shore Health & Educational Corporation of South Weymouth, Massachusetts. Mr. Hannan is a member of the American College of Healthcare Executives, American Hospital Association, and Massachusetts Hospital Association. He is a director of VHA-HealthFront.

ROBERT E. FLYNN, M.D.; term as member expires July 1, 2000.

Dr. Flynn, a resident of Dedham, is Chairman of the Board of Caritas Christi, former Secretary of Health Care Services for the Archdiocese of Boston, Immediate Past Chairperson of the Massachusetts Hospital Association, and former Director of the Department of Medicine at Saint Elizabeth's Medical Center. In 1991, Dr. Flynn was named a Distinguished Professor by Tufts University School of Medicine. He is a Trustee of St. Elizabeth's Medical Center, Good Samaritan Hospice and St. Mary's Women and Infant's Center. His current memberships in Medical Societies include the Boston Society of Psychiatry and Neurology, the Massachusetts Medical Society and the American Medical Association, and he is a Fellow of the American Academy of Psychiatry and Neurology.

E. BYRON HENSLEY, JR.; term as member expires July 1, 2003.

Mr. Hensley, a resident of Brookline, is Chairman and Chief Executive Officer of Admiral Ventures, Inc. of Boston, Massachusetts. Admiral Ventures, Inc. provides financing and strategic consulting services to innovative, development-stage companies in a variety of industries. Prior to Admiral Ventures, Inc., Mr. Hensley was Founder, Chairman and Chief Executive Officer of Magellan Health Services, the parent company of National Mentor, Inc. which provides behavior health services to clients in the homes of specially trained caregivers, or "mentors." Prior to founding Mentor in 1980, Mr. Hensley worked for Dare, Inc. of Cambridge, Massachusetts, and the Judge Baker Guidance Center in Boston. Mr. Hensley is a Trustee of the Massachusetts Association for the Blind and is on the Board of Overseers for the Boys and Girls Club of Boston and is a member of the Board of Visitors for Bunker Hill Community College in Boston.

HERMAN B. LEONARD; term as member expired July 1, 1995. Professor Leonard will continue to serve until he is reappointed or his successor takes office.

Professor Leonard, a resident of Concord, is the Academic Dean for Curriculum and Instruction and the Baker Professor of Public Sector Financial Management at Harvard University's John F. Kennedy School of Government. Professor Leonard was a member of the Governor's Council on Economic Policy of the State of Alaska, of the Governor's Advisory Council on Infrastructure in Massachusetts, and of the Senate Budget Committee Private Sector Advisory Committee on Infrastructure. He served as Chairman of the Massachusetts Governor's Task Force on Tuition Prepayment Plans, and on the National Academy of Sciences Committees on National Urban Policy and on the Superconducting Super Collider. He is currently a member of the Board of Directors of ENA-Recherches, the research affiliate of the Ecole Nationale d'Administration in France. Professor Leonard has been chief financial officer and chief executive officer of a human services agency and has served as a director of several firms.

JOSEPH G. SNEIDER; term as member expires July 1, 1998.

Joseph G. Sneider, a resident of Newton, is Senior Vice President of Business Development of People's Savings Bank in New Bedford. He is a member of the Public Health Council. Mr. Sneider served as a trustee of Boston University Medical Center, University Hospital, Boston. He has also served on a number of public boards and commissions, and he belongs to several civic associations.

RINA K. SPENCE; term as member expires July 1, 2001.

Ms. Spence, a resident of Cambridge, is founder, President and Chief Executive Officer of RKS Health Ventures Corporation. RKS operates Spence Centers of Women's Health, a network of comprehensive outpatient health facilities. Prior to Spence Centers for Women's Health, Ms. Spence served as the president and chief executive of Emerson Hospital for ten years. She was also the founding executive director of the Commonwealth Health Care Corporation, a prepaid managed care plan for health care delivery to Medicaid recipients. Ms. Spence has been actively engaged in the civic life of Boston and its corporate affairs for more than 25 years. Her affiliations include the United Way of MassBay, and The Partnership. Ms. Spence is a trustee of Eastern Enterprises and a Director of Berkshire Mutual Life and PNC Bank, New England. Ms. Spence holds a degree from Boston University and Harvard University's John F. Kennedy School of Government.

C. VINCENT VAPPI; term as member expired July 1, 1997. Mr. Vappi will continue to serve until he is reappointed or his successor takes office.

Mr. Vappi, a resident of Cambridge, is former Chairman and Chief Executive Officer of Vappi & Company, Inc. of Cambridge, Massachusetts, general building contractors. Mr. Vappi is a member of the Corporation of Simmons College, and a Director of The Boston Company, the John Hancock Mutual Life Insurance Company, Landauer, Inc., and Tech/Ops Sevcon, Inc.

Staff and Advisers

ROBERT J. CIOLEK, a resident of Charlestown, was appointed Executive Director of the Authority on January 9, 1996, and is responsible for the management of the Authority's affairs. Mr. Ciolek served as the Chief Operating Officer of the City of Boston from January, 1994 through January, 1996. From 1989 to 1994, he was the Executive Director at the Boston Water and Sewer Commission. Prior to heading the Commission, Mr. Ciolek was the Budget Director for the City of Boston. Mr. Ciolek holds a B.A. Degree from Rutgers University and a Juris Doctor from Boston University School of Law.

PALMER & DODGE LLP, attorneys of Boston, Massachusetts, are serving as General Counsel and Bond Counsel to the Authority and will submit their approving opinion with regard to the legality of the Bonds as provided by the Agreement in substantially the form attached hereto as Appendix D.

The Act provides that the Authority may employ such other counsel, engineers, architects, accountants, construction and financial experts, or others as the Authority deems necessary.

Powers of the Authority

Under the Act, the Authority is authorized and empowered, among other things, directly or by and through a participating institution for higher education, a participating school for the handicapped, a participating hospital or hospital affiliate, a participating cultural institution, or a participating nursing home as its agent, to acquire real and personal property and to take title thereto in its own name or in the name of one or more participants as its agent; to construct, remodel, maintain, manage, enlarge, alter, add to, repair, operate, lease, as lessee or lessor, and regulate any project: to enter into contracts for any or all of such purposes, or for the management and operation of a project; to issue bonds, bond anticipation notes and other obligations, and to fund or refund the same; to fix and revise from time to time and charge and collect rates, rents, fees and charges for the use of and for the services furnished or to be furnished by a project or any portion thereof and to enter into contracts in respect thereof; to establish rules and regulations for the use of a project or any portion thereof; to receive and accept from any public agency loans or grants for or in the aid of the construction of a project or any portion thereof, to mortgage any project and the site thereof for the benefit of the holders of revenue bonds issued to finance such projects; to make loans to any participant for the cost of a project or to refund outstanding obligations, mortgages or advances issued, made or given by such participant for the cost of a project; to charge participants its administrative costs and expenses incurred; to acquire any federally guaranteed security and to pledge or use such security to secure or provide for the repayment of its bonds; and to do all things necessary or convenient to carry out the purposes of the Act. Additionally, the Authority may undertake a joint project or projects for two or more participants.

Indebtedness of the Authority

The Authority has heretofore authorized and issued certain series of its revenue bonds for public and private colleges, universities, hospitals and their affiliates, nursing homes, community providers, cultural institutions, and schools for the handicapped in the Commonwealth. Each series of revenue bonds has been a special obligation of the Authority.

The Authority expects to enter into separate agreements with eligible institutions in the Commonwealth for the purpose of providing projects for such institutions. Each series of bonds issued by the Authority constitutes a separate obligation of the borrowing institutions for such series, and the general funds of the Authority are not pledged to any bonds or notes.

THE BONDS

Pledge of Revenues Under the Agreement

Under the Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement: (i) all Revenues to be received from the Institution or derived from any security provided thereunder; (ii) all rights to receive such Revenues and the proceeds of such rights and (iii) funds established under the Agreement. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues is valid and binding from the time when such pledge is made and the Revenues and all income and receipts earned on funds held by the Trustee for the account of the Authority shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof.

The assignment and pledge by the Authority does not include: (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority, or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions thereof.

Description of the Bonds

The Bonds will be issued in the aggregate principal amount of $59,200,000 and will be dated and bear interest from January 15, 1998. Interest on the Bonds is payable on January 1 and July 1 beginning on July 1, 1998. The Bonds will bear interest at the rates and will mature on the dates and in the principal amounts set forth on the cover page.

Subject to the provisions discussed under "Book-Entry Only System," the Bonds will be issued only as fully registered bonds in the denomination of $5,000 or any multiple of that amount. Principal or redemption price will be payable upon surrender of the Bonds at the corporate trust office of the Paying Agent. Interest on the Bonds will be paid by check (or by wire transfer to owners of $1,000,000 or more of the Bonds) mailed to the Bondowners of record as of the close of business on the fifteenth day (whether or not a business day) of the month preceding such interest payment date (the "Regular Record Date"). Interest on the Bonds is based on a 360-day year consisting of twelve 30-day months.

Redemption Provisions

Optional Redemption. The Series I-1 Bonds are not subject to redemption prior to maturity. The Series I-2 Bonds are subject to optional redemption prior to maturity on and after January 1, 2008 by the Authority with the written consent of the Institution or at the direction of the Institution, as a whole or in part at any time, at the following redemption prices expressed as percentages of their principal amounts, plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
January 1, 2008 to December 31, 2008, inclusive	102%
January 1, 2009 to December 31, 2009, inclusive	101
January 1, 2010 and thereafter	100

Selection of Bonds. The Series I-2 Bonds to be redeemed shall be selected by the Trustee by lot or in any customary manner of selection as determined by the Trustee; provided, however, that so long as DTC (as defined below) or its nominee is the Bondowner, if less than all of the Bonds of Series I-2 shall be called for redemption, the particular Bonds or portions of Bonds of Series I-2 to be redeemed shall be selected by DTC in such manner as DTC may determine. If a Series I-2 Bond is of a denomination in excess of five thousand dollars ($5,000), portions of the principal amount in the amount of five thousand dollars ($5,000) or any multiple of that amount may be redeemed.

Acceleration. In addition to the foregoing redemption provisions, it should be noted that under the Agreement, the Trustee may declare all of the Bonds due and payable at par upon an Event of Default as defined in the Agreement.

Effect of Redemption. On the redemption date, the redemption price of each Series I-2 Bond to be redeemed will become due and payable; and from and after such date, notice having been properly given and amounts having been available and set aside for such redemption in accordance with the provisions of the Agreement, notwithstanding that any Series I-2 Bonds called for redemption have not been surrendered, no further interest will accrue on any Series I-2 Bonds called for redemption.

Notice of Redemption and Other Notices. So long as DTC or its nominee is the Bondowner, the Authority, the Trustee, and the Paying Agent will recognize DTC or its nominee as the Bondowner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Trustee shall give notice of redemption to the Bondowners of any Series I-2 Bonds which are to be redeemed not less than thirty (30) days nor more than forty-five (45) days prior to the date fixed for redemption. Failure to mail notice to a particular Bondowner or any defect in the notice of such Bondowner, shall not affect the redemption of any other Bond. So long as DTC or its nominee is the Bondowner, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of CEDE & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued in the aggregate principal amount of each series of the Bonds, and will be deposited with DTC. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory of regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a single maturity of an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede &

Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and indirect payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable dates. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts for customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but none of the Authority, the Institution or the Underwriters take responsibility for the accuracy thereof.

For every transfer and exchange of the Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Responsibility of Authority, Trustee and Paying Agent. NONE OF THE AUTHORITY, THE PAYING AGENT OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DTC PARTICIPANTS, OR INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Certificated Bonds. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Trustee. In addition, the Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners. If for either reason the Book-Entry-Only system is discontinued, Bond certificates will be delivered as described in the Agreement and the Beneficial Owners, upon registration of certificates held in the Beneficial Owners' name, will become the Bondowners. Thereafter, Bonds may be exchanged for an equal aggregate principal amount of the same series of Bonds in other authorized denominations, upon surrender thereof at the principal corporate trust office of the Paying Agent. The transfer of any Bond may be registered on the books maintained by the Paying Agent for such purpose only upon assignment in form satisfactory to the Paying Agent. For every exchange or registration of transfer of Bonds, the Authority and the Paying Agent may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the Bondowner for any exchange or registration of transfer of the Bonds. The Paying Agent will not be required to transfer or exchange any Bond during the notice period preceding any redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

APPLICATION OF BOND PROCEEDS

The Institution intends, at or prior to the issuance of the Bonds, to direct the Trustee to provide the required redemption notice for the Series G Bonds which are subject to optional redemption. A portion of the proceeds of the Bonds will be deposited in the Bond Payment Fund. Such moneys will be sufficient in amount and available when necessary to pay when due the principal of the Series G Bonds on their call date. Interest accruing on the Series G Bonds to their date of redemption will be paid from proceeds of the Bonds or other moneys of the Institution legally available therefor, including funds on deposit in the debt service fund with respect to the Series G Bonds. A portion of the proceeds of the Bonds will be applied to the payment of principal of and certain accrued interest on certain outstanding loans, the proceeds of which were applied to pay certain costs of the Institution in connection with the renovation of the Uncas A. Whitaker Building which has a street address at 21 Ames Street on the Institution's campus, which has been completed. In addition, a portion of the proceeds of the Bonds will be applied to reimburse the Institution for certain internal advances related to the renovation of the Uncas A. Whitaker Building.

The proceeds from the sale of the Bonds, exclusive of accrued interest, are expected to be applied as follows:

SOURCE OF FUNDS:

Principal Amount of Bonds	$59,200,000
Premium on the Series I-1 Bonds	1,745,700
Less Original Issue Discount on the Series I-2 Bonds	(996,304)
TOTAL SOURCES OF FUNDS	$59,949,396

USES OF FUNDS:

Deposit to Bond Payment Fund	$25,052,632
Repayment of Loan	34,238,800
Costs of Issuance	175,000
Underwriters' Discount	296,000
Reimbursement for internal advances	186,964
TOTAL USES OF FUNDS	$59,949,396

TAX EXEMPTION

In the opinion of Palmer & Dodge LLP, Bond Counsel to the Authority, under existing law interest on the Bonds (including any original issue discount properly allocable to the owners thereof) is excluded from the gross income of the owners of the Bonds for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will be taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excluded from gross income for federal income tax purposes. These requirements include restrictions on the use, expenditure and investment of bond proceeds and the payment of rebates, or penalties in lieu of rebates, to the United States. Failure to comply with these requirements may cause interest on the Bonds to become included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The Institution and, to the extent necessary, the

Authority have covenanted to take all lawful action necessary under the Code to ensure that interest on the Bonds will remain excluded from gross income for federal income tax purposes and to refrain from taking any action which would cause interest on the Bonds to become included in such gross income.

Prospective purchasers of the Bonds should be aware that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, or, in the case of a financial institution, for that portion of the owner's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase the taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the Bonds earned by certain corporations could be taken into account in determining the foreign branch profits tax imposed by Section 884 of the Code, and may be included in passive investment income subject to federal income taxation under Section 1375 of the Code applicable to certain Subchapter S corporations. The Code also requires recipients of certain social security and railroad retirement benefits to take into account receipts and accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income, and the receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code.

In the opinion of Bond Counsel, under existing law, interest on the Bonds and any profit on the sale thereof are exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

For federal and Massachusetts income tax purposes, interest includes any original issue discount on a Bond allocable to the owner thereof. At maturity original issue discount is equal to the excess of the stated principal amount of the Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all substantially identical Bonds were sold. Original issue discount accrues over the term of a Bond in accordance with Section 1272 of the Code. Purchasers of Bonds to be sold at an original issue discount should consult their own tax advisors with respect to the computation of interest accruing on such Bonds.

No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

On the date of delivery of the Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix D.

LEGALITY OF THE BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Bonds are securities in which all public officers and public bodies of The Commonwealth of Massachusetts and its political subdivisions, all Massachusetts insurance companies, trust companies, savings banks, cooperative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. The Bonds, under the Act, are securities which may properly and legally be deposited with and received by any Commonwealth or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information. The Institution has undertaken all responsibilities for any continuing disclosure to owners of the Bonds as described below, and the Authority shall have no liability to the owners of the Bonds or any other person with respect to Securities and Exchange Commission Rule 15c2-12.

The Institution has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the Institution (the "Annual Report") by not later than 180 days after the end of each fiscal year, commencing with the report for the 1998 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the Institution or a dissemination agent with each Nationally Recognized Municipal Securities Information Repository and with the State Repository, if any. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

On the date of delivery of the offered Bonds, the Institution and the Trustee will enter into the Continuing Disclosure Agreement substantially in the form attached hereto as Appendix E— "FORM OF CONTINUING DISCLOSURE AGREEMENT."

COMMONWEALTH NOT LIABLE ON THE BONDS

The Bonds shall not be deemed to constitute a debt or liability of the Commonwealth or any political subdivision thereof, or a pledge of the faith and credit of the Commonwealth or any such political subdivision, but shall be payable solely from the Revenues derived by the Authority under the Agreement. Neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Act does not in any way create a so-called moral obligation of the Commonwealth or of any political subdivision thereof to pay debt service in the event of default by the Institution. The Authority does not have taxing power.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services have assigned ratings of "Aaa" and "AAA" respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's Corporation, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

The above ratings are not recommendations to buy, sell or own the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any or all ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by BT Alex. Brown Incorporated and Salomon Smith Barney (the "Underwriters"). Salomon Smith Barney is a trademark of the broker-dealer Smith Barney Inc. The Underwriters have agreed to purchase the Bonds at an aggregate discount of $296,000 from the public offering prices set forth on the cover page hereof and will be reimbursed for certain expenses. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at a price lower than the public offering prices or yields stated on the cover page hereof. The purchase contract provides that the Underwriters will purchase all the Bonds if any are purchased, and requires the Institution to deliver to the Underwriters and the Authority on the date the Bonds are sold its letters of representation constituting the agreement of the Institution, in accordance with their terms, to indemnify the Underwriters and the Authority and certain other parties against losses, claims, damages, and liabilities arising out of any incorrect statements or information, including the omission of material facts, contained in this Official Statement pertaining to the Institution and other specified matters. The public offering prices or yields set forth on the cover page of this Official Statement may be changed after the initial offering by the Underwriters.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the Authority are subject to the approval of Palmer & Dodge LLP of Boston, Massachusetts, Bond Counsel to the Authority, whose opinion approving the validity and tax-exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of the opinion is attached hereto as Appendix D. Certain legal matters will be passed on for the Institution by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. There is no litigation pending which in any manner questions the right of the Authority to make a loan to the Institution to refund the Series G Bonds and other loans in accordance with the provisions of the Act and the Agreement.

MISCELLANEOUS

The references to the Act and the Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to the Act and the Agreement for full and complete statements of such provisions. The agreements of the Authority with the Bondowners are fully set forth in the Agreement, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the Bondowners. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority.

Information relating to DTC and the book-entry system described under the headings "THE BONDS - Book-Entry Only System" has been based on information provided by DTC and is believed to be reliable, but the Authority does not make any representations or warranties whatsoever with respect to such information.

Appendix A contains a letter from the Institution to the Authority which contains certain information relating to the Institution. With respect to the letter from the Institution, while the information contained therein is believed to be reliable, the Authority and the Underwriters do not make any representations or warranties whatsoever with respect to such information.

Appendix B to this Official Statement sets forth the report of the Treasurer of the Institution for the fiscal year ended June 30, 1997, which includes the audited Financial Statements of the Institution and related notes for the fiscal year ended June 30, 1997 (with comparative totals for fiscal year 1996), together with the report of its independent public accountants. The Authority and the Underwriters have relied on the information contained in Appendix A and Appendix B.

Appendix C-1, Definitions of Certain Terms, Appendix C-2, Summary of Loan and Trust Agreement, and Appendix D, Proposed Form of Legal Opinion, have been prepared by Palmer & Dodge LLP, Bond Counsel to the Authority. All Appendices are incorporated as an integral part of this Official Statement.

The Institution has reviewed the portions of this Official Statement describing the Application of Bond Proceeds, and has furnished Appendix A and Appendix B to this Official Statement. At the closing, the Institution will certify that such portions of this Official Statement do not contain an untrue statement of a material fact or omit a statement of material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading and that the aforesaid forecasts and opinions are believed to be reasonable in light of the experience of the officers of the Institution and the facts known to them at that time.

The execution and delivery of this Official Statement by its Executive Director have been duly authorized by the Authority.

MASSACHUSETTS HEALTH AND
EDUCATIONAL FACILITIES AUTHORITY

By: /s/ Robert J. Ciolek
Executive Director

APPENDIX A

GLENN P. STREHLE
VICE PRESIDENT FOR FINANCE AND TREASURER

77 MASSACHUSETTS AVENUE
CAMBRIDGE, MA 02139

January 13, 1998

Massachusetts Health and Educational
Facilities Authority
Summer Street, Suite 1000
Boston, MA 02110

Dear Members of the Authority:

We are pleased to submit the following information with respect to Massachusetts Institute of Technology ("MIT" or the "Institute"). This letter and the information contained herein are submitted to the Massachusetts Health and Educational Facilities Authority for inclusion as Appendix A to the Official Statement relating to the Authority's Revenue Bonds, Massachusetts Institute of Technology Issue, Series I (the "Bonds").

The Institute

The Massachusetts Institute of Technology ("MIT" or "the Institute") is a private, nonprofit, coeducational, nonsectarian institution of higher education chartered under the laws of The Commonwealth of Massachusetts. There are 9,880 students attending the Institute of which 5,331 are full-time graduate students. The Institute's faculty numbers approximately 916 members with other academic staff of approximately 2,614. The Institute is located on a 154-acre residential campus fronting the Charles River in Cambridge, Massachusetts, opposite Boston. In addition, MIT owns property in several suburban communities.

The Institute is organized into five schools -- Architecture and Planning, Engineering, Humanities and Social Science, Management, and Science, which contain 21 academic departments -- and a College of Health Sciences and Technology. The academic programs are organized primarily along the lines of traditional disciplines and each department offers one or more degree programs. Increasing numbers of students choose fields of concentration that cross regular departmental lines. Among these are programs in fields such as planetary and space science, communications, health sciences and technology, visual arts, transportation, urban studies, and energy.

Teaching and research both fulfill MIT's purpose of advancing knowledge. Research makes special contributions to the Institute's educational program by providing both theoretical and laboratory experience for students and faculty and by assuring classroom teaching is at the cutting edge.

Institute Facilities for Teaching and Research

MIT's campus includes 165 buildings, with a total building area of approximately 9.9 million gross square feet. In addition to academic departments, these buildings include 37 major laboratories and centers which provide a focus for interdisciplinary research that crosses classical departmental disciplines. The Institute's major interdisciplinary facilities include the Laboratory for Computer Science, the Artificial Intelligence Laboratory, The Center for Cancer Research, the Center for Space Research, the Laboratory for Nuclear Science, the Media Laboratory, the Research Laboratory of Electronics, the Plasma Fusion Center, and the Energy Laboratory.

In addition, the Institute has three major off campus research facilities: Lincoln Laboratory in Lexington, Haystack Observatory located in Tyngsboro, and the Bates Linear Accelerator Center in Middleton. Lincoln Laboratory is operated by MIT as a Federally Funded Research and Development Center for performing research and development in advanced electronics. Haystack Observatory is a research center engaged in radio astronomy, geodesy, atmospheric science, and radar applications. The Bates Linear Accelerator, operated under the joint auspices of the Laboratory for Nuclear Science and the Department of Energy, supports a broad program of research in nuclear physics with electromagnetic probes.

Accreditations and Memberships

The New England Association of Schools and Colleges, Inc., is the major agency accrediting the Institute. Each professional school holds accreditation from its respective professional association. The Institute is a member of the American Council on Education, the Association of American Universities, the National Association of Independent Colleges and Universities, the Association of Independent Colleges and Universities in Massachusetts, the Consortium on Financing Higher Education, the New England Association of Schools and Colleges, and the National Association of State Universities and Land-Grant Colleges.

Governance

The governing body of the Institute is a board of trustees known as the Corporation. Its members number approximately 70 active members and approximately 25 Emeriti members and include leaders of science, engineering, industry, education, and public service including as members, ex-officio, the Chairman, the President, the Treasurer, the Secretary of the Corporation of MIT, and the President of the Alumni Association. Also included are the following representatives of The Commonwealth of Massachusetts: the Governor, the Chief Justice of the Supreme Judicial Court, and the Commissioner of Education. The Corporation meets four times a year with additional meetings called by the Chairman as necessary.

The Corporation elects the Executive Committee, which has responsibility for the general administration and superintendence of all matters relating to the Institute. The Executive Committee authorizes officers to borrow money on behalf of the Institute in such amounts as the Committee may determine.

The current members of the Executive Committee and their principal business or other affiliation are as follows:

<u>**Executive Committee Members**</u>	<u>**Principal Affiliation**</u>
Charles M. Vest, ex-officio *(Chairman)*	President of the Massachusetts Institute of Technology, Cambridge, Massachusetts
Alexander V. d'Arbeloff, ex-officio	Chairman of the Corporation of the Massachusetts Institute of Technology, Cambridge, Massachusetts
Glenn P. Strehle, ex-officio	Vice President for Finance and Treasurer of the Massachusetts Institute of Technology, Cambridge, Massachusetts
W. Gerald Austen	President, Massachusetts General Physicians Organization, Boston, Massachusetts
Samuel W. Bodman	Chairman and CEO, Cabot Corporation, Boston, Massachusetts
Arthur Gelb	President, Four Sigma Corporation, Woburn, Massachusetts
Judy C. Lewent	Senior Vice President and Chief

	Financial Officer, Merck and Co., Inc. Whitehouse Station, New Jersey
A. Neil Pappalardo	Chairman and CEO, Medical Information Technology, Westwood, Massachusetts
Raymond S. Stata	Chairman, CEO, and Co-Founder, Analog Devices, Inc., Norwood, Massachusetts
Morris Tanenbaum	Retired Vice Chairman of the Board, AT&T, Short Hills, New Jersey

Administration

The principal administrative officers of the Institute are:

Dr. Alexander V. d'Arbeloff, Chairman of the MIT Corporation

Dr. Charles M. Vest, President

Dr. Joel Moses, Provost

Mr. Glenn P. Strehle, Vice President for Finance and Treasurer

Mr. William R. Dickson, Senior Vice President

Dr. J. David Litster, Vice President for Research and Dean for Graduate Education

Dr. James D. Bruce, Vice President for Information Systems

Ms. Joan F. Rice, Vice President for Human Resources

Ms. Barbara G. Stowe, Vice President for Resource Development

Faculty and Staff

The Institute has 900 full-time and 16 part-time faculty as well as approximately 2,614 other academic staff, which include instructors, technical instructors, lecturers, postdoctoral associates and fellows, and senior research scientists and associates. Currently 73% of the faculty are tenured. In addition to the Institute's 916 faculty and 2,614 other academic staff, there are 5,555 research, administrative and support staff employees and 1,269 service staff employees for a total of 10,354 employees.

Student Enrollments

The following table shows actual enrollments for the last five academic years based on fall term registrations:

	Undergraduate		Graduate		
Academic Year	Full-Time Students	Part-Time Students	Full-Time Students	Part-Time Students	Totals
1993-94	4,481	28	4,997	284	9,790
1994-95	4,443	29	5,022	280	9,774
1995-96	4,443	52	5,323	142	9,960
1996-97	4,376	53	5,389	129	9,947
1997-98	4,326	55	5,331	168	9,880

Note: There is normally a decline in the undergraduate enrollment of approximately 3% in the course of an academic year due primarily to graduations at midyear.

Undergraduate Applications

MIT attracts students worldwide with representation in the 1997-1998 freshman class from 49 states and 41 foreign countries. The following tables show information concerning undergraduate applications and admissions over the last five academic years:

Academic Year	Applicants	Accepted	Acceptance Rate	Enrollment	Yield
1993-94	6,410	2,140	33%	1,080	50%
1994-95	7,139	2,158	30%	1,104	51%
1995-96	7,958	2,113	27%	1,122	53%
1996-97	8,022	1,947	24%	1,071	55%
1997-98	7,836	1,938	25%	1,067	55%

Academic Year	Freshmen Ranking in the top 10% of their High School Class	Average SAT Scores
1993-94	97%	1370
1994-95	94%	1373
1995-96	97%	1380
1996-97*	94%	1448
1997-98	93%	1447

*Scores were recentered for classes after 1995.

Graduate Applications

The following tables show information concerning graduate applications and admissions over the last five academic years:

Academic Year	Applicants	Accepted	Acceptance Rate	Enrollment	Yield
1993-94	10,081	2,140	21%	1,116	52%
1994-95	10,739	2,331	22%	1,100	47%
1995-96	11,207	2,490	22%	1,251	50%
1996-97	12,148	2,445	20%	1,353	55%
1997-98	12,785	2,548	20%	1,304	51%

Sponsored Research

Sponsored research represents a substantial portion of the income and expenditures of MIT. The following table shows the total direct costs of sponsored research in current and constant dollars for each of the five fiscal years ended June 30th:

Fiscal Year Ended June 30,	Current Dollars	Constant Dollars*
1993	591,787,000	559,857,352
1994	584,849,000	542,864,652
1995	595,507,000	541,572,083
1996	600,605,000	544,964,159
1997	620,871,000	554,745,354

* GDP deflator 1992 = 100

Research revenues received from sponsors pay for both the direct costs of research mentioned above, as well as that portion of Institute expenses jointly applicable to instruction and research which are attributable to research activities, also known as indirect costs. The following table presents the level of total sponsored research revenues at MIT, covering both direct and indirect costs, for fiscal years 1993 through 1997:

	Fiscal Year Ended June 30,				
	1993	1994	1995 (in thousands)	1996	1997
RESEARCH AT THE MIT CAMBRIDGE CAMPUS					
Federal Government Sponsored Research:					
Health and Human Services	$64,882	$60,192	$61,066	$58,211	$57,215
Department of Energy	57,325	63,180	67,114	69,588	70,753
Department of Defense	66,769	61,601	55,866	59,997	67,858
National Science Foundation	38,008	39,574	38,564	35,837	36,347
National Aeronautics and Space Administration	32,324	37,449	41,292	39,190	36,947
Other Federal	8,898	8,722	9,641	8,721	7,232
Total Federal	268,206	270,718	273,543	271,544	276,352
Non-Federal Sponsored Research:					
State/Local Foreign	912	836	944	1,652	2,855
Non-profits	25,593	23,666	26,430	25,926	28,952
Internal	4,575	5,337	4,653	3,997	4,527
Industry	62,068	59,117	56,120	67,164	75,194
Total Non-Federal	93,148	88,956	88,146	98,739	111,528
CAMPUS TOTAL	361,354	359,674	361,689	370,283	387,880
RESEARCH AT THE MIT LINCOLN LABORATORY	355,198	341,929	344,657	338,264	352,592
TOTAL RESEARCH	$716,552	$701,603	$706,346	$708,547	$740,472

Budget Process

The Executive Committee of the Corporation approves and monitors a five-year fiscal plan covering the current fiscal year and four years into the future. The current-year portion of the plan is based on detailed budgets submitted by each of the Institute's departments. The responsibility for controlling expenditures within an account rests with the supervisor of the account, usually a faculty member or department head. Monthly account statements are issued which show both budgeted and actual charges. These accounts are monitored not only by the supervisor but also by a department head who has overall responsibility for the accounts within the department. Certain expenses are controlled centrally to assure conformance with the Institute's fiscal policy, contractual obligations to program sponsors, or donor restrictions. The Executive Committee reviews the fiscal plan regularly throughout the year. In addition, there is a Budget

Group that meets monthly to review the status of the operating budget. The Provost, Vice President for Finance and Treasurer, and Senior Vice President are members of this committee.

Administration's Discussion of Current Operations

The following table summarizes the Statement of Operations and Other Changes in Unrestricted Net Assets for fiscal years 1996 and 1997, Schedule C in the Report of the Treasurer, Appendix B to the Official Statement:

	Fiscal Year Ended June 30, 1996 (in thousands)	Fiscal Year Ended June 30, 1997 (in thousands)
Total Unrestricted Revenues	$1,363,500	$1,446,899
Operating Unit Expenses	(1,182,801)	(1,186,573)
Change in Unrestricted Net Assets	$ 180,699	$ 260,326

The increase in unrestricted net assets for fiscal year 1997 was $260.3 million. This increase included gains on investments of $255.8 million which are made up of $137.2 million of realized gain and $118.6 of unrealized gain. 1997 operations resulted in the use of $4.9 million of unrestricted net assets (shown in Schedule C in the Report of the Treasurer in Appendix B to the Official Statement). That is, expenses and other charges to operations exceeded unrestricted operating revenues by $4.9 million. This use of additional net assets represents significantly less than 1% of the market value of unrestricted net assets. At June 30, 1997 the market value of unrestricted net assets approached $1.748 billion, an increase from the June 30, 1996 level of approximately $1.488 billion.

In the fiscal year 1998, operating unit expenses and other charges to operations are estimated to be $1.2 billion. The Institute's management expects that expenses and other charges will exceed unrestricted operating revenues by about $5.5 million in fiscal year 1998.

The underlying financial strength of the Institute can be demonstrated by the growth of the market value of the investments. The following table shows total investments at market for the five fiscal years ended June 30:

Fiscal Year Ended June 30,	Investments at Market (in thousands)
1993	$2,126,057
1994	$2,152,102
1995	$2,501,184
1996	$2,917,103
1997	$3,636,782

Tuition and Fees

Tuition for full-time undergraduate and graduate students for the 1997-1998 academic year is $23,100, except for students in the Sloan School of Management Master's Program for whom the tuition is $25,575. For the 1997 summer session, the tuition for all full-time graduate students was $7,700.

Residence fees for on-campus housing vary according to accommodations. For the 1997-98 academic year, room charges for the various undergraduate residences range from $1,503 to $1,814 for each of the two terms. For the past five years the housing facilities, both undergraduate and graduate, have operated at full occupancy. Room rates are set so that the housing system operates on a break-even basis.

The following table shows the Institute's undergraduate tuition (which includes a compulsory MIT Health Service fee), and average undergraduate room and board expenses for the indicated academic years:

Academic Year	Tuition and Fees	Average Undergraduate Room & Board	Total
1992-93	$18,000	$5,565	$23,565
1993-94	19,000	5,800	24,800
1994-95	20,100	5,975	26,075
1995-96	21,000	6,150	27,150
1996-97	22,000	6,300	28,300
1997-98	23,100	6,495	29,595

The Executive Committee of the Corporation has the power to alter or revise the fees and charges.

Student Financial Aid

MIT has a policy of admitting undergraduate students without regard to financial capacity, together with a commitment to meet the full financial needs of those admitted. During the year ended June 30, 1997, 2,609 MIT undergraduate students (60% of the enrollment) received some form of Institute-administered student aid. The average award for the 1997-1998 academic year was $20,668.

The following table provides information to the extent to which the Institute has provided financial assistance to students (both graduate and undergraduate) and parents for each of the last five fiscal years:

Student Financial Aid (in thousands)

	1993	1994	1995	1996	1997
Undergraduate Grants	$32,545	$33,560	$35,896	$31,188	$32,053
Graduate Fellowships	26,653	26,408	29,086	29,410	30,612
Student Loans	9,274	8,421	9,551	11,671	12,073
Student Employment	42,700	44,462	44,683	44,618	47,990
Total Financial Assistance	$111,172	$112,851	$119,216	$116,887	$122,728

A substantial portion of financial aid funding is provided by federal and other programs in which the Institute regularly seeks participation. The Institute cannot be certain that the levels of federal support which existed during the five years ended June 30, 1997 will be maintained. All federal programs are subject to the judgments of the Congress and the recommendations of the United States Department of Education.

Labor Relations

Collective bargaining for service staff employees has been established at MIT since the first collective bargaining unit was organized in 1936. Approximately 1,300 service staff employees belong to unions. These unions include one international and three independent unions representing employees through five separate collective bargaining agreements. The occupational groups covered include trade and maintenance personnel, guards, campus police, and research technicians. More than 80% of these employees have had union agreements since 1946, during which period there have been three work stoppages; one in 1955, one in 1962, and one in 1974, each of relatively short duration. At present four of the five bargaining units have contracts in place and the fifth is being negotiated.

The faculty, research and administrative staffs of the Institute are not represented by any union.

Educational Plant Assets

The Institute's land, buildings and equipment are shown at cost net of accumulated depreciation in its financial statements. When expended, costs associated with the construction of new educational facilities are shown as construction in progress until such projects are completed. Fully-depreciated buildings and equipment are removed from the financial statements.

The book value of the land, buildings and equipment net of depreciation was \$535,980,000 as of June 30, 1997 up from \$491,443,000 as of June 30, 1996. This change includes \$91,164,000 of net additions to the educational plant offset by \$46,627,000 of net depreciation.

The following table shows the book value of the Institute's educational plant funds, including land, buildings and equipment and temporary investments, for each of the last five fiscal years:

	Fiscal Year Ended June 30,				
	1993	1994	1995	1996	1997
			(in thousands)		
Land, buildings and equipment at cost	\$541,630	\$651,328	\$688,612	\$794,961	\$850,492
Less: accumulated depreciation	(213,704)	(248,605)	(287,450)	(324,668)	(339,566)
Construction in progress	56,042	28,360	61,553	21,150	25,054
Subtotal	383,968	431,083	462,715	491,443	535,980
Temporary investments[(1)]	26,950	8,857	(5,825)	(20,971)	57,032
Total Educational Plant Assets	\$410,918	\$439,940	\$456,890	\$470,472	\$593,012

[(1)] Includes investments at cost and interfund payables. Plant funds borrow monies from current invested funds for the temporary financing of certain capital projects.

For further information, please refer to Schedule A, Statement of Financial Position, and Note A, Accounting Policies, in the Report of the Treasurer in Appendix B to the Official Statement.

The following table provides information on the recently completed major additions and renovations to educational plant:

Property	**Fiscal Year**	**Description**	**Approximate Cost** (in millions)
Cogeneration Plant	1996	New Construction	$51
Jack C Tang Center for Management Education	1996	New Construction	$14
Senior House, Undergraduate Dormitory	1997	Renovation	$14
Chiller Plant Expansion	1998	New Construction	$14
211 Massachusetts Ave. Information Systems	1998	Renovation	$5
201 Vassar Street ROTC	1998	Renovation	$3

Other Current and Future Building Plans

The Institute annually budgets approximately seven million dollars to upgrade its research, instructional and support facilities, including improvements to ensure reasonable access as stipulated in the Americans with Disabilities Act (ADA). These expenditures are in addition to normal maintenance expenses and will not require external debt financing.

The Institute has several construction and renovation projects which are anticipated to be completed in the coming years. The most significant of these projects are the Computing, Information and Intelligence Sciences (C.I.I.S.) Building and the expansion of undergraduate dormitory resources to allow more students to live on campus. The C.I.I.S. Building is a new construction project which will house the Laboratory for Computer Science, the Artificial Intelligence Laboratory, the Laboratory for Information and Decision Systems and the Linguistics and Philosophy Department. The Institute anticipates funding these projects through a combination of gifts, internal funding sources, and future borrowings.

Litigation

The Institute is not aware of any litigation pending or threatened which would materially affect the ability of the Institute to enter into the Loan and Trust Agreement or carry out its obligations thereunder.

Contingencies

The Institute receives funding or reimbursement from Federal Government agencies for sponsored research under Government grants and contracts. These grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Office of Naval Research (ONR), the Institute's cognizant Federal agency. The Institute's indirect cost reimbursements have been based on fixed rates with carryforward of under or over recoveries. The Defense Contract Audit Agency (DCAA) is responsible for auditing both direct and indirect charges to grants and contracts in support of ONR's negotiating responsibility. The Institute has final audited rates through the 1995 fiscal year. The audit for fiscal year 1996 is in progress, with no material audit issues anticipated. The audit for fiscal year 1997 is expected to start soon and no material audit issues are anticipated.

For further information on these issues, please refer to Note F of the Report of the Treasurer, Notes to Financial Statements in Appendix B to the Official Statement.

This letter and the information contained herein are submitted to the Authority for inclusion in its Official Statement relating to its Revenue Bonds, Massachusetts Institute of Technology, Series I.

By: /s/Glenn P. Strehle
Vice President for Finance and Treasurer

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Report of the Treasurer

For the year ended
June 30, 1997

MIT Massachusetts
Institute
of Technology

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THE CORPORATION
1996-97

Chairman: Paul E. Gray
President: Charles M. Vest
Treasurer: Glenn P. Strehle
Secretary: Kathryn A. Willmore

Life Members

Paul M. Cook, Breene M. Kerr, Kenneth H. Olsen, W. Gerald Austen, Howard W. Johnson, Edward E. David, Jr., John S. Reed, Mary Frances Wagley, Emily V. Wade, Charles H. Spaulding, Shirley A. Jackson (on leave), Frank Press, Angus N. MacDonald, Raymond S. Stata, Alexander V. d'Arbeloff, Samuel W. Bodman, James A. Levitan, Alexander W. Dreyfoos, Jr., Christian J. Matthew, Morris Tanenbaum, William J. Weisz

Members

Denis A. Bovin, John M. Hennessy, Michael M. Koerner, Claudine B. Malone, Pedro Aspe, Gerald J. Burnett, Alan B. Davidson, George N. Hatsopoulos, Robert B. Horton, Nannerl O. Keohane, William B. Lenoir, Robert M. Metcalfe, Romano Prodi, William S. Edgerly, Lawrence A. Hough, Brian G.R. Hughes, David H. Koch, Ronald A. Kurtz, John A. Morefield, Jr., Robert A. Muh, Kenichi Ohmae, Darcy D. Prather, James A. Champy, Edie N. Goldenberg, Richard A. Jacobs, Judy C. Lewent, Patrick J. McGovern, A. Neil Pappalardo, Peter M. Saint Germain, Richard P. Simmons, Mark Y.D. Wang, John K. Castle, Arthur Gelb, Barbara A. Gilchrest, Mark E. Lundstrom, Antonia D. Schuman, R. Gary Schweikhardt, George N. Butzow, Josephine S. Jiménez, L. Robert Johnson, Dana G. Mead, Paul Rudovsky, Theresa M. Stone, R. Robert Wickham, Elliot K. Wolk

President of the Association of Alumni and Alumnae

DuWayne J. Peterson, Jr.

Representatives of the Commonwealth

Governor: His Excellency, William F. Weld
Chief Justice of the Supreme Judicial Court: The Honorable Herbert P. Wilkins
Commissioner of Education: Robert V. Antonucci

Life Members Emeriti

Cecil H. Green, George P. Gardner, Robert C. Gunness, Laurance S. Rockefeller, Luis A. Ferré, Semon E. Knudsen, Irénée du Pont, Jr., J. Kenneth Jamieson, John C. Haas, George W. Thorn, Ralph Landau, Carl M. Mueller, Richard L. Terrell, D. Reid Weedon, Jr., Ellmore C. Patterson, Frank T. Cary, Norman B. Leventhal, Harold J. Muckley, David S. Saxon, Colby H. Chandler, Mitchell W. Spellman, Joseph G. Gavin, Jr., Edward O. Vetter, T. A. Wilson, Louis W. Cabot

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Report of the Treasurer

To Members of the Corporation

Introduction

This year MIT has implemented Financial Accounting Standards (FAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations" and the guidelines of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide, Not-for-Profit Organizations."

FAS No. 124 requires that investments in equity securities with readily determinable values and all investments in debt securities be recorded at market value. The impact of this change is an increase in net assets of $736.5 million as of June 30, 1996 and an additional $277.8 million for the year ended June 30, 1997 compared to the amortized cost basis of accounting for investments. Market values had been reported in the past in the text and footnotes, but not in the statements.

The AICPA Audit Guide changes the reporting for scholarship and fellowship grants provided by the Institute to be a reduction in tuition revenue. These grants in prior years were recorded with other expenses, and tuition was reported as the amount that would have been collected if paid in full. This change reduces revenues and expenses for a like amount of $62.7 million in 1997 and $60.6 million in 1996. The Audit Guide also requires that expenses be reported by functional classification. The classifications are determined based on the function the expenditure supports such as sponsored research or instruction. As a result, relevant depreciation is now included in each functional unit rather than reported separately. The 1996 financial statements have been restated to make them comparable to 1997.

Despite only modest growth in tuition and sponsored research revenues, the overall financial results of the Institute were favorable last year as measured by the increase in the market value of invested assets. The operating results produced an additional need for general funds of $4.9 million, a decline from the $8.5 million in the prior year. The Generally Accepted Accounting Principles (GAAP) definition of unrestricted results includes market gains in unrestricted net assets and does not include as an expense the amounts set aside for facilities and certain reserve strengthening. Accordingly, under GAAP, there was an increase in unrestricted net assets of $260.3 million. The value of all net assets increased by $626.1 million to a new high of $3,894.2 million. Our financial strength ranks with a small number of very successful corporations and institutions. The Institute's publicly held debt continues to be rated triple A by both Moody's and Standard and Poor's.

Schedule A - Statement of Financial Position

The Statement of Financial Position is the balance sheet of the Institute at June 30, 1997. The investment assets are reported at market value while other assets are valued based on amortized cost. The assets less the liabilities result in net assets which is comparable to stockholders' equity in a for-profit corporation. During the past year, the net assets increased by 19.1 percent on a restated basis.

Net assets, divided into three different categories, recognizes a very significant way that universities are different from a profit-making concern — MIT receives gifts restricted as to purpose and assumes a fiduciary responsibility for their proper use. Net assets are categorized into three groups according to the nature of the restrictions placed on gifts by donors. These are described as follows:

Permanently restricted net assets are those gifts for which the original principal can never be spent. They comprise gifts and pledges to true endowment together with assets held in trust, such as life income plans, which, when paid or matured, will go to the endowment. The increase of $86.8 million to a total of $782.6 million primarily reflects the inflow of gifts and pledges to restricted endowment funds. Miscellaneous receipts includes the recording of a perpetual trust held for MIT of $18.6 million.

Temporarily restricted net assets are those gifts which can ultimately become available to meet the expenses of operations or capital expenditures. They require an event or lapse of time to take place before they are available for spending. Over ninety percent of the assets in this category result from the accumulated market gains held in permanently restricted endowment funds. It also includes pledges, except those to permanently restricted endowment funds, gifts for construction projects which have not been completed, and life income funds which, upon maturity, will be available for spending. The increase of $279.0 million to a total of $1,363.4 million primarily results from the increase in the market value of securities held in restricted funds.

Unrestricted net assets comprise all the remaining economic resources available to the Institute. This definition of unrestricted net assets is quite broad and covers assets which need to be maintained to generate future investment income. It includes current funds received from donors for restricted purposes which, under the accounting rules, are categorized as unrestricted if the Institute spends equivalent unrestricted funds for the same purpose. Endowment and Similar Funds categorized as unrestricted in Note J include all those gifts received since our founding which the Institute defined as funds functioning as endowment. Unrestricted net assets total $1,748.1 million and are 44.9 percent of total net assets.

Pledges receivable of $90.0 million have been recorded as an asset as required by GAAP with the corresponding addition to temporarily or permanently restricted net assets. Pledges have been reduced to present value as detailed in Note A.

Schedule B - Statement of Activities

The changes in the balance sheet during the year for the three categories of net assets is detailed in Schedule B - Statement of Activities.

The increase in unrestricted net assets of $260.3 million was caused primarily by $255.8 million in net investment gains. The Institute also benefited from a larger than usual increase in the accumulation of current funds in both departmental and central accounts. The large number of faculty and staff accepting the Early Retirement Incentive caused a temporary accumulation of assets awaiting the hiring of new faculty and the allocation of resources to their support.

The net asset reclassifications result primarily from the collection of pledges and the use of building funds for construction and other project costs.

The investment gains resulting from permanently restricted endowment funds are categorized as temporarily restricted as they might be distributed for spending in future years for the purposes given. Such distributions would take place under the Institute's endowment income spending policies and be consistent with the Massachusetts Management of Institutional Funds Act.

Pledges, gifts to be received in future years, are recorded as permanently restricted if the gift is to be for an endowment purpose defined, or restricted, by the donor. If, however, the pledge is defined as either an expendable gift for a restricted purpose or an unrestricted gift, then the pledge is categorized as temporarily restricted. When the gift in the form of a pledge payment is actually received and its purpose restriction met, then the temporarily restricted pledge is reduced by the amount of the gift and the net asset is reclassified as an unrestricted asset.

Schedule C - Statement of Operations and Other Changes in Unrestricted Net Assets

This statement details the Institute's unrestricted revenues by source and the operating expenses by major functional classification. Total unrestricted revenues in 1996-97 were $1,446.9 million, and $255.8 million of this was due to net gains on investments. Of these revenues, $1,181.7 million were used for operations.

The research revenues of Departmental and Interdepartmental Laboratories, almost all on campus, were $387.9 million in 1996-97 as compared to $377.7 million in the prior year, an increase of 2.8 percent. For the first time, industry has replaced a government agency as MIT's leading sponsor of research on campus with a volume of $75.2 million, an increase of 11.9 percent. The second largest provider of research is the Department of Energy with $70.8 million, an increase of 1.7 percent. The Department of Defense is the third largest source with total research volume of $67.9 million, an increase of 13.2 percent. Total research from all non-Federal sources increased by 13.0 percent to $107.0 million.

The research revenues at the Lincoln Laboratory increased to $352.6 million in 1996-97 from $343.2 million in 1995-96, an increase of 2.7 percent.

The difference between the research revenues and the direct cost of sponsored research is used to fund indirect costs which are those costs applicable to both research and instruction. As research revenues grow more slowly than other sources of revenues, it causes a continued increase in the proportion of indirect costs that must be paid from unrestricted resources such as tuition and general funds.

Investment income was flat for 1997 due to continued investment in low yielding equities. Fixed income investments were increased late in the fiscal year and did not affect investment income.

Scholarship and fellowship grants are accounted for as a reduction in tuition revenue as required by the Audit Guide rather than as an expense. Scholarships and fellowships were $62.7 million, an increase of $2.1 million or 3.5 percent. Total undergraduate scholarships were $32.0 million, an increase of $0.8 million or 2.6 percent. Graduate fellowships were $30.6 million, an increase of $1.2 million or 4.0 percent. The unrestricted operating funds to support these scholarships and fellowships in 1996-97 were $15.9 million ($12.9 million for undergraduates and $3.0 million for graduate students), a decrease of 14.5 percent from the previous year total of $18.6 million ($15.2 million for undergraduates and $3.4 million for graduate students). The decline in need for unrestricted operating funds was caused by the increase of more than $1.4 million in endowment income for this purpose and to a reduced need for undergraduate grants. The 8.5 percent increase in such income resulted from both a large inflow of endowment gifts and a 5.0 percent increase in the income distributed to existing funds.

The Institute settled its case with the Internal Revenue Service regarding payments to graduate assistants in earlier years at no cost to the Institute.

The increase in net assets this year includes both realized and unrealized gains on investments. A different view of current period results would be a review of the net increase or decrease in the net asset value of Institute funds excluding net investments gains during 1997. This measure shows what the change in net assets would have been without the increased value of the capital market. The following table displays the net increase in fund balances in this fashion:

Table 1
Increase in Net Assets After Investment Gains
(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Increase in Net Assets	$260,326	$ 278,994	$86,813	$626,133
Deduct:				
Net Investment Gains	255,784	301,119	7,667	564,570
Increase in Net Assets Excluding Net Investment Gains	**$ 4,542**	**$(22,125)**	**$79,146**	**$ 61,563**

Operations

The Institute does not use the GAAP accounting model for internal management reporting. The difference between the $260.3 million net change in unrestricted net assets reported for financial statement purposes in Schedule C and the additional need for general funds of $4.9 million deserves explanation. The largest difference is the net investment gains of $255.8 million, of which $211.2 million was reinvested and $44.6 million was distributed to funds. The future cost of facilities and renovations plus the reserve strengthening increased general funds by $32.6 million. Also, departmental controlled funds increased by $31.7 million from unrestricted activity. These items were partially offset by not including $10.3 million of unrestricted principal and gifts used in operations.

Schedule D - Statement of Cash Flows

This statement explains the change in the cash balances of the Institute from the end of the preceding year to the end of the current year. The statement starts with the overall change in net assets for the year, then adds back expenses and other transactions which did not require cash, and then explains the changes in the specific balance sheet items. Receivables and payables are created when transactions are booked for reporting purposes, but cash has not yet been received or paid. A negative adjustment for accounts receivable during the year reflects the net increase in receivables. In a similar manner, a positive adjustment in accounts payable reflects an increase in payables.

Distribution of Investment Income to Funds (see schedule immediately following the Treasurer's discussion)

This schedule, not subject to audit, describes the distribution of investment income in the general investments and separately invested funds and the sources of earnings distributed. It also describes the purposes to which such income was distributed and used.

Gifts

Gifts to the Institute set new records in 1996-97 by every measure. Gifts are reported as either "Gifts and bequests" or "Pledges" in Schedule B. The total amount of gifts for all classes of net assets were $128.8 million and $115.1 million for 1997 and 1996 respectively. Gifts and bequests by this measure excludes payments on pledges made in earlier years and records life income gifts only at their actuarial present value for Institute purposes. Gifts are divided into the three categories of net assets. It is noted that all pledges to unrestricted net assets are shown as temporarily restricted, since the funds are not yet available for spending.

The traditional method of reporting total gifts of cash, securities, and real estate set a new record of $130.3 million, as compared to the previous year's total of $116.5 million. This method records gifts only when received and paid rather than recognizing the present value of certain gifts when they are pledged. For comparison purposes, Table 2 of Gifts, Grants and Bequests that was presented prior to the implementation two years ago of FAS No. 116 is included below with the gifts to life income plans shown at their actuarial present value to the Institute. This table includes both new gifts and gifts received as payments on pledges made in prior years.

Table 2
Gifts, Grants, and Bequests
(in thousands of dollars)

	1996-97	**1995-96**
Gifts:		
for endowment	$ 43,459	$ 41,237
for buildings	3,572	6,041
for life income plans	6,527	5,887
for student loans	23	14
for current funds-restricted	57,208	42,969
for current funds-unrestricted	6,262	9,499
of equipment	10,788	7,805
Total gifts to funds	**127,839**	**113,452**
Grants-in-aid	2,483	3,068
Total	**$130,322**	**$116,520**

In addition, there is $90.0 million in pledges outstanding, net of a present value discount of $7.9 million, at June 30, 1997.

The gifts reported by the Alumni/ae Fund totaled $26.6 million, a new record and an increase of 7.5 percent above the prior year. These gifts are recorded on the Institute's records when assets are transferred by donors to the Institute, consistent with prior procedures.

Endowment and Similar Funds

The market value of all the endowment and similar funds totaled $3,023.6 million at year end as compared to $2,493.6 million, an increase of $530.0 million or 21.3 percent on a restated basis. The market value at June 30, 1997 includes $2,934.4 million held in Pool A of the general investments and $89.2 million held in separately invested funds. These values include both the value of the investments at market value and the other assets and liabilities related to these funds as shown on Schedule A. This measure of endowment is identical to that in Note J except that the present value of pledges to endowment funds is excluded as the payments have not yet been received.

The endowment assets are managed to maximize total investment return relative to appropriate risk. Income is distributed for spending to existing funds in a manner that retains for reinvestment those amounts that are not less than the amounts needed to match the growth rate of inflation over time. A continuous inflow of gifts to endowment funds is also needed to increase the growth of income above inflation and help offset the slow growth of operating revenues from other sources.

Endowment funds in Pool A receive income based on the number of units held by such funds. Gifts and transfers receive units based on current market value. As a result, it is the market value which is the appropriate measure of the proportion of endowment income that is distributed to each category of funds. The following table provides information on the endowment funds specified by the purpose supported:

Table 3
Value of Endowment Funds by Purpose
(in thousands of dollars)

	June 30, 1997 Market Value
Unrestricted purposes (general)	$ 657,456
Departments and research	458,771
Library	9,825
Salaries (professorships, etc.)	959,417
Graduate fellowships-general	40,550
Graduate fellowships-departmental	100,189
Undergraduate scholarships	401,064
Prizes	9,367
Miscellaneous	272,583
Subtotal	**2,909,222**
Investment income held for distribution to funds	114,367
Total	**$3,023,589**

Investments

Total investments at market value were $3,636.8 million, an increase of $719.7 million or 24.7 percent from last year on a restated basis. This increase compares with an increase of $415.9 million in the previous year and represents the eighth consecutive year in which the market value of total investments has increased. Total invested assets at market value have now increased approximately $1.7 billion over the last five years as a result of gifts and market appreciation.

Table 4
Investments[1]
(in thousands of dollars)

	June 30, 1997 Book	June 30, 1997 Market	June 30, 1996 Book	June 30, 1996 Market
General Investments				
Cash equivalents	$ 72,177	$ 72,328	$ 52,843	$ 52,891
Fixed income	667,288	671,791	459,169	455,671
Equities	1,518,016	2,443,875	1,373,804	2,067,092
Real Estate:				
Held for present or future academic use	42,485	42,542	41,663	41,838
Held for investment or other purposes	104,070	139,048[2]	97,232	112,719[2]
Total general investments	**2,404,036**	**3,369,584**	**2,024,711**	**2,730,211**
Separately invested	119,411	136,120	68,154	78,510
Life income funds	92,306	124,368	78,411	99,025
Receivables/payables arising from securities transactions	6,710	6,710	9,357	9,357
Total investments	**$2,622,463**	**$3,636,782**	**$2,180,633**	**$2,917,103**

[1] This table excludes students' notes receivable, amounts due from educational plant funds, cash, receivables and payables, and other liabilities.
[2] At values determined by professional appraisers.

The general investments at market value were $3,369.6 million, an increase of $639.4 million or 23.4 percent from last year. This increase compares with an increase of $378.2 million in the previous year. General investments at market value have now increased approximately $1.5 billion over the last five years. This increase in the general investments resulted substantially from gifts and market appreciation. There were net additions to borrowings in fiscal year 1997 of $111.4 million, primarily for financing of new construction and refurbishment of physical plant, as further detailed in Schedule D.

The balance between fixed income and equity investments changed slightly during the year. Equity investments, at market value, were 72.5 percent of the general investments at year end, a decrease from 75.7 percent at the prior year end. Realized gains in the general investments during the year included $263.7 million from equities and $7.2 million from fixed income securities. The $376.8 million increase in market value of equities in the general investments resulted primarily from market action. The $54.5 million increase in market value of fixed income securities and cash equivalents resulted primarily from a net investment of cash.

The increase of $0.8 million in book value of real estate held for possible future academic use was due primarily to the funding of capital improvements. The increase in book value of $6.8 million in real estate held for investment or other purposes was primarily due to new acquisitions. The market value of real estate held for investment or other purposes increased $26.3 million, or 23.4 percent, and resulted primarily from increases in the appraised value of these properties. The income from real estate held for investment or other purposes increased by $2.4 million, or 46.7 percent from the previous year, due primarily to lease renewals at current market rates.

The Investment and Executive Committees of the Corporation have continued the practice whereby spending by funds in the general investments may come from both investment income and realized market gains, and in the separately invested funds only from investment income. This spending policy is consistent with the investment policy for the general investments which focuses on total investment return, a combination of both capital appreciation and investment income from interest, dividends, and rents. In 1997, the amount distributed for spending from the general investments endowment funds totaled $101.1 million, an increase of 5.9 percent from the $95.5 million distributed in 1996. The 1997 amount distributed for spending from the general investment endowment funds included $44.6 million from realized gains, or 36.7 percent of the total distributed to those funds. In 1996, the comparable amount invested endowment funds) was $103.3 million, a 5.6 percent increase over the $97.8 million made available in 1996. This is detailed in the schedule of Distribution of Investment Income to Funds on page 13.

The investments held by the separately invested funds increased by $57.6 million to a market value of $136.1 million. This increase resulted primarily from the inclusion of perpetual trusts held outside of MIT but for which the Institute is the beneficiary ($18.6 million), a reserve fund established for future capital expenditures ($25.0 million), and market action.

The investments held by the life income funds increased $25.3 million to a market value of $124.4 million. The increase resulted from the net of $13.1 million of current year gifts less transfers to the general investments of $2.2 million, and market appreciation.

Investment income in the form of dividends, interest, and rents (after administrative expenses) was $80.0 million as shown in the schedule of Distribution of Investment Income to Funds on page 13. This compares to $76.6 million of investment income in the previous year and represented an increase of 4.4 percent. This measure of investment income does not include any realized gains. The amount distributed to endowment funds for spending included realized gains. The investment income earned by the current invested funds was fully distributed.

The reserve of investment income held for distribution, which is invested with the general investment funds, was not availed of for distribution to endowment funds. This reserve had a book value of $25.8 million and a market value of $114.4 million on June 30, 1997.

The Investment Committee held three regularly scheduled meetings during the fiscal year, under the chairmanship of Samuel W. Bodman. The Wellington Management Company continued as the primary investment manager and advisor for publicly traded securities, both domestic and international. The Investment Committee continued the investment program of domestic public-equity investments in smaller capitalization companies through four investment management firms. The investment program in non-marketable and marketable alternative investments in both the domestic and international markets was expanded. Non-marketable alternatives include investments such as venture capital. Marketable alternatives include investments in event arbitrage and hedge funds. The alternative investments are typically managed by several independent organizations through pooled investment funds.

Plant

The book value of the educational plant assets was $536.0 million at June 30, 1997 up from $491.4 million at June 30, 1996. This change includes $91.2 million of net additions to educational plant offset by $46.6 million of net depreciation charges.

Major projects completed during the year included the reconstruction of the Whitaker Building and the interior reconstruction of the Senior House on Ames Street. The renovations of the Rosalind Denny Lewis Music Library in the Hayden Memorial Library and the renovations of the fourth floors of the Rogers and Maclaurin Buildings for the School of Architecture and Planning were also completed. The Central Utility Chiller and the total reconstruction of the Dorrance Building are well underway and are expected to be completed in Fiscal Year 1998.

Total indebtedness for educational plant at June 30, 1997 was $293.4 million of which $111.1 million is tax-exempt debt financed through the Massachusetts Health and Educational Facilities Authority.

During the fall, the Institute issued $125 million of unsecured debt to the public of which $75 million is due in 100 years and $50 million is due in 30 years. The proceeds were used to repay internal advances and external borrowings for plant funds already expended and for other Institute purposes.

General

The favorable growth of net assets both in the past year and over the past twenty years can provide an important and growing base for increasing the resources available for spending that do not depend on sponsored research. These assets came from both market appreciation on the large proportion of invested assets committed to equities, and from a strong inflow of gifts to endowment. Of the MIT endowment, about one-fourth results from gifts made just during the past ten years, including their market appreciation in the relatively short time they have been held.

This growing resource is needed to offset the adverse changes in the funding from government research sponsors since 1990. Over the decade of the 90's, we now estimate the very slow growth of campus research revenues, adverse changes in the cost recovery for facilities and administration (indirect costs) from research sponsors, and the loss of more favorable support for graduate research and teaching assistants will have a cumulative negative effect of some $50 million per year. Much of this has already occurred and the cost reductions in recent years have helped to hold our operating deficit at less than one percent of revenues. We have taken major steps to offset the impact on our education and research programs, and the growth of investment income available for spending and increased gifts are vital to continued success.

Dr. Vest, with assistance from the senior officers, outlined the financial challenges ahead and how to meet them.

Looking to the future, the Institute must preserve a strong financial condition in order to maintain and enhance its excellence. The challenges ahead include:

1. Maintaining or establishing the levels of compensation, infrastructure, and support services necessary to attract and retain truly excellent faculty and students in an increasingly competitive environment.

2. Continuing efforts to reduce the growth of administrative costs, while maintaining or improving services provided to students, faculty, and staff.

3. Maintaining the necessary financial resources to support our policy of need-blind admission of excellent undergraduate students and to substantially increase Institute resources for graduate student support.

4. Increasing financial resources for new capital projects, renovations, and maintenance of our academic plants.

5. Enhancing the flexible resources for seeding or establishing innovative new programs in education and research.

We have an opportunity to successfully meet our challenges in the years ahead if we are even more successful in fundraising, and if we make prudent increases in the distribution of earnings on our endowment and other investments. This assumes a continued favorable economic environment and no further erosion in our ability to recover the costs of research.

Allan Bufferd, Deputy Treasurer and Director of Investments, continues to lead our investment management activities. During the year, James Morgan joined the Institute as Controller and Stefano Falconi joined the Institute as Director of Budget and Financial Planning. They provided important support in the preparation of this report.

Respectfully submitted,

Glenn P. Strehle

Glenn P. Strehle
Vice President for Finance and Treasurer

September 5, 1997

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
DISTRIBUTION OF INVESTMENT INCOME TO FUNDS
for the year ended June 30, 1997
with comparative totals for 1996
(in thousands of dollars)
(unaudited)

	Total 1996	Total 1997	General Investments	Separately Invested Funds
Investment income before distribution:				
balance beginning of year, at market	$ 81,767	$ 96,829	$ 96,829	$ -
current year investment income	76,583 (a)	79,977 (a)	76,686	3,291
market appreciation	14,838	17,762	17,762	-
Total before distribution	173,188	194,568	191,277	3,291
Distribution:				
Income distributed:				
From current year's earnings	(76,359)	(79,977)	(76,686)	(3,291)
From prior year's earnings	-	(224)	(224)	-
From accumulated realized gains on investments - regular distribution	(42,031)	(44,582)	(44,582)	-
Total distribution to funds before special distribution	(118,390)	(124,783)	(121,492)	(3,291)
Special distribution	-	(20,000)	(20,000)	-
*Total distribution to funds	(118,390)	(144,783)	(141,492)	(3,291)
Less: reduction in accumulated gains on investments	42,031	64,582	64,582	-
Total distributed from investment income	(76,359)	(80,201)	(76,910)	(3,291)
Investment income held for distribution to funds, balance end of year	$ 96,829	$ 114,367	$ 114,367	$ -
Balances include:				
Funds functioning as endowment	$ 96,605	$ 114,367	$ 114,367	$ -
Current invested funds	224	-	-	-
Total	$96,829	$114,367	$114,367	$ -
*Total distribution to funds:				
Endowment funds:				
Used for operations	88,076	72,746	71,766	980
Used for scholarships and fellowships	15,976	17,341	16,848	493
Used for other charges	(280)	693	693	-
Added to principal	2,942	2,633	2,168	465
Added to (distributed from) unexpended balances of endowment income	2,385	11,009	10,974	35
Transferred to other funds	(11,333)	(1,095)	(1,387)	292
	97,766	103,327	101,062	2,265
Other funds:				
Life income funds	4	3	3	-
Building funds	2,967	2,981	2,703	278
Other expendable funds	17,653	38,472	37,724	748
	20,624	41,456	40,430	1,026
Total distribution to funds	$118,390	$144,783	$141,492	$3,291

(a) Includes agency funds which are not reported on Schedule B.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
FIVE YEAR TREND ANALYSIS

(In thousands of dollars)

	1997	1996	1995	1994	1993
Financial Position:					
Investments, at Market	3,636,782	2,917,103	2,501,184	2,152,102	2,126,057
Land, Building, and Equipment:					
at cost less accum. depr	535,980	491,443	462,715	431,083	383,968
Borrowings	314,027	202,610	199,974	184,071	164,766
Student Notes	63,644	59,371	55,284	53,450	52,602
Total Assets (1)	4,504,859	3,734,803	3,225,129	2,758,150	2,699,237
Total Liabilities	610,623	466,701	432,969	352,490	324,684
Unrestricted Net Assets, at market (2)	1,748,142	1,487,816	1,307,117	998,179	-
Market Value of Endowment Funds	3,023,588	2,493,627	2,093,216	1,777,777	1,752,943
Principal Sources of Revenue					
Tuition and Other Income	222,932	214,152	205,193	194,864	184,320
Research Revenue:					
Campus	387,880	377,702	371,990	354,236	350,106
Lincoln Laboratory	352,592	343,243	340,711	336,934	355,795
Gifts and Bequests (3)	128,831	115,112	97,548	92,850	93,453
Net realized gains on Investments	286,725	276,464	109,949	179,036	82,361
Investment Income Distributed	124,783	118,390	111,945	103,348	101,173
Principal Purposes of Expenditures					
Total Operating Expenditures	1,186,573	1,182,801	1,117,182	1,137,474	1,133,891
Instruction and Unsponsored Research	255,000	242,401	235,365	226,084	215,540
Direct Cost of Sponsored Research	620,871	600,605	595,507	578,872	591,787
General and Administrative	260,615	237,124	224,741	205,029	205,541
Scholorships and Fellowships (4)	62,665	60,598	64,982	59,968	59,198
Students:					
Enrollment (5)					
Undergraduate	4,429	4,495	4,472	4,509	4,520
Graduate	5,518	5,465	5,302	5,281	5,278
Tuition Rate	22,000	21,000	20,100	19,000	18,000
Faculty	896	960	954	966	950
Employees	7,850	8,100	8,350	8,350	8,300

(1) Includes investments at market, reported for FY96 & FY97, other years as adjusted.
(2) Reported beginning in FY94 in accordance with FAS 117; In addition reported at market beginning in FY95.
(3) As defined by FAS 116 & 117 beginning in FY94.
(4) Represents amounts paid by MIT.
(5) Full time students.

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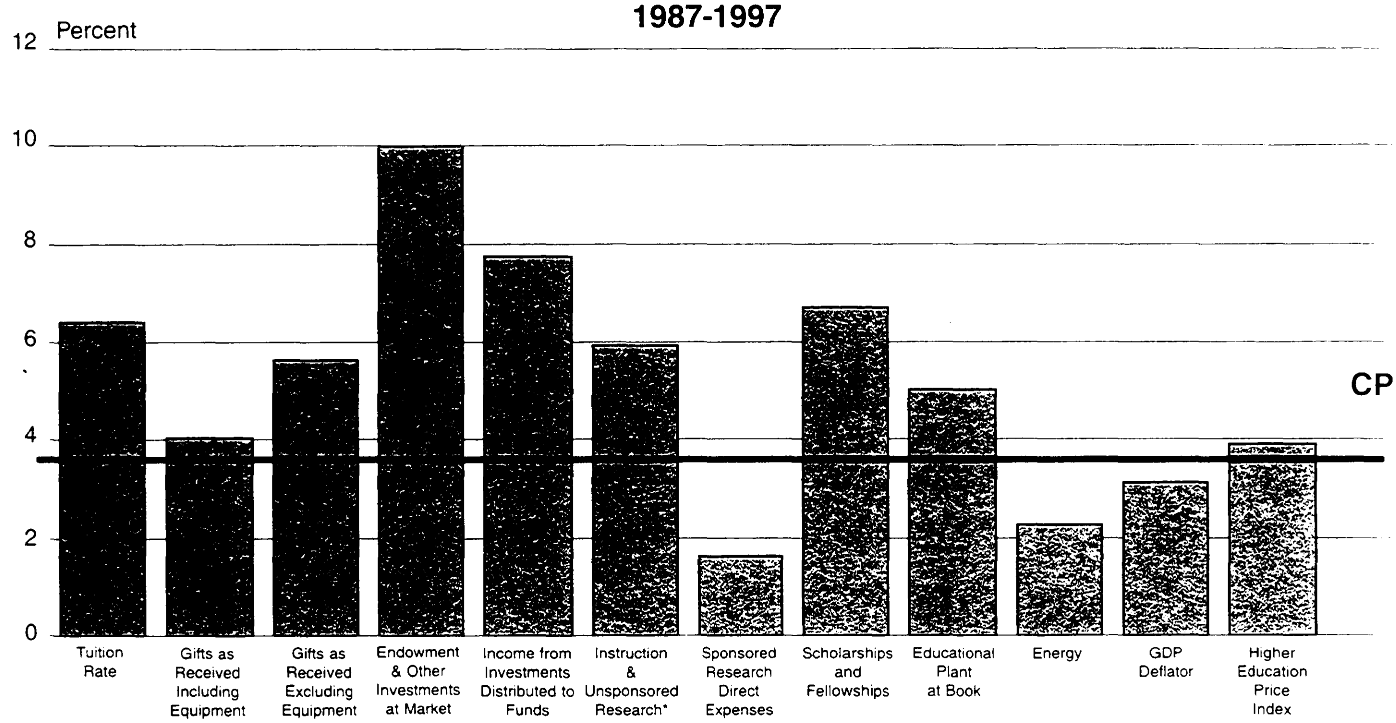
Figure 1
Compound Growth Rates of Selected MIT Data Versus the Consumer Price Index (CPI) 1987-1997



* Excluding the functional allocation of depreciation and other expenses

Figure 2
Income From Investments Distributed to Funds (Consumer Price Index 1988=100)

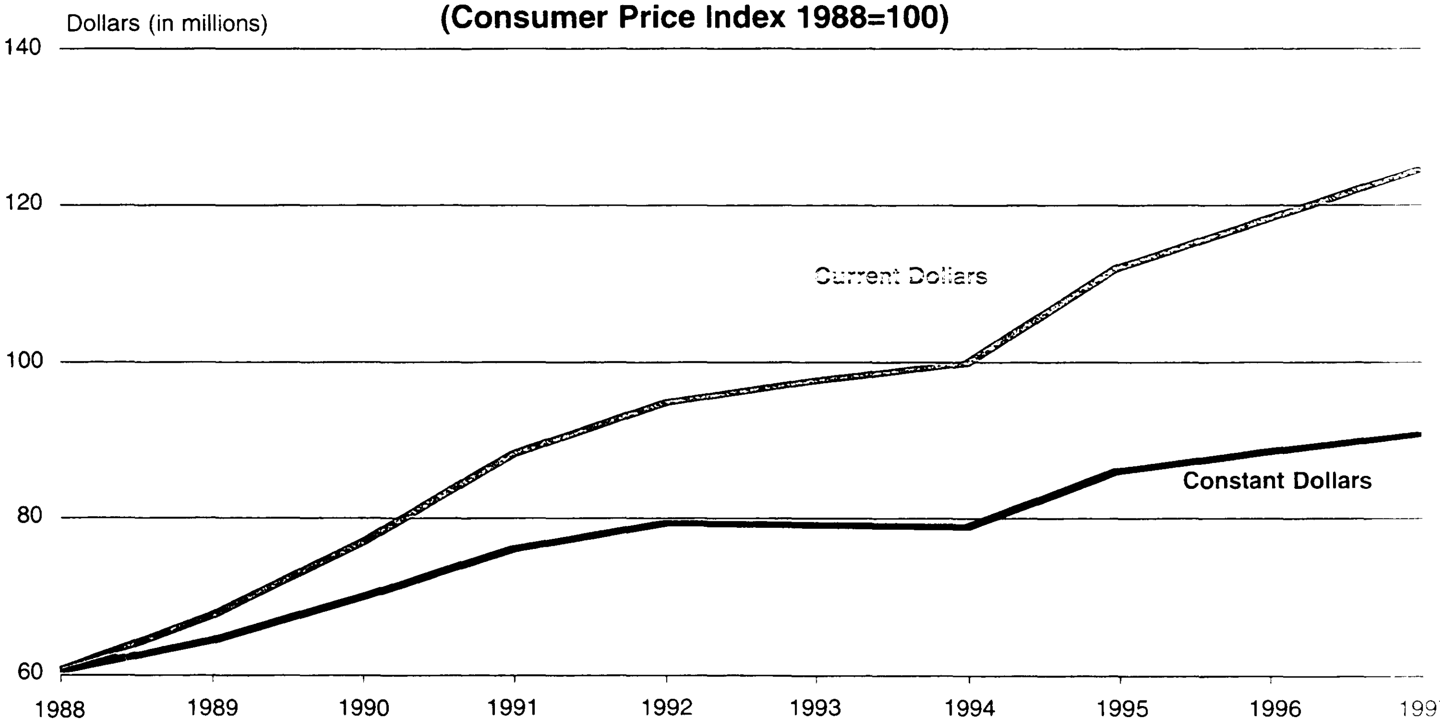
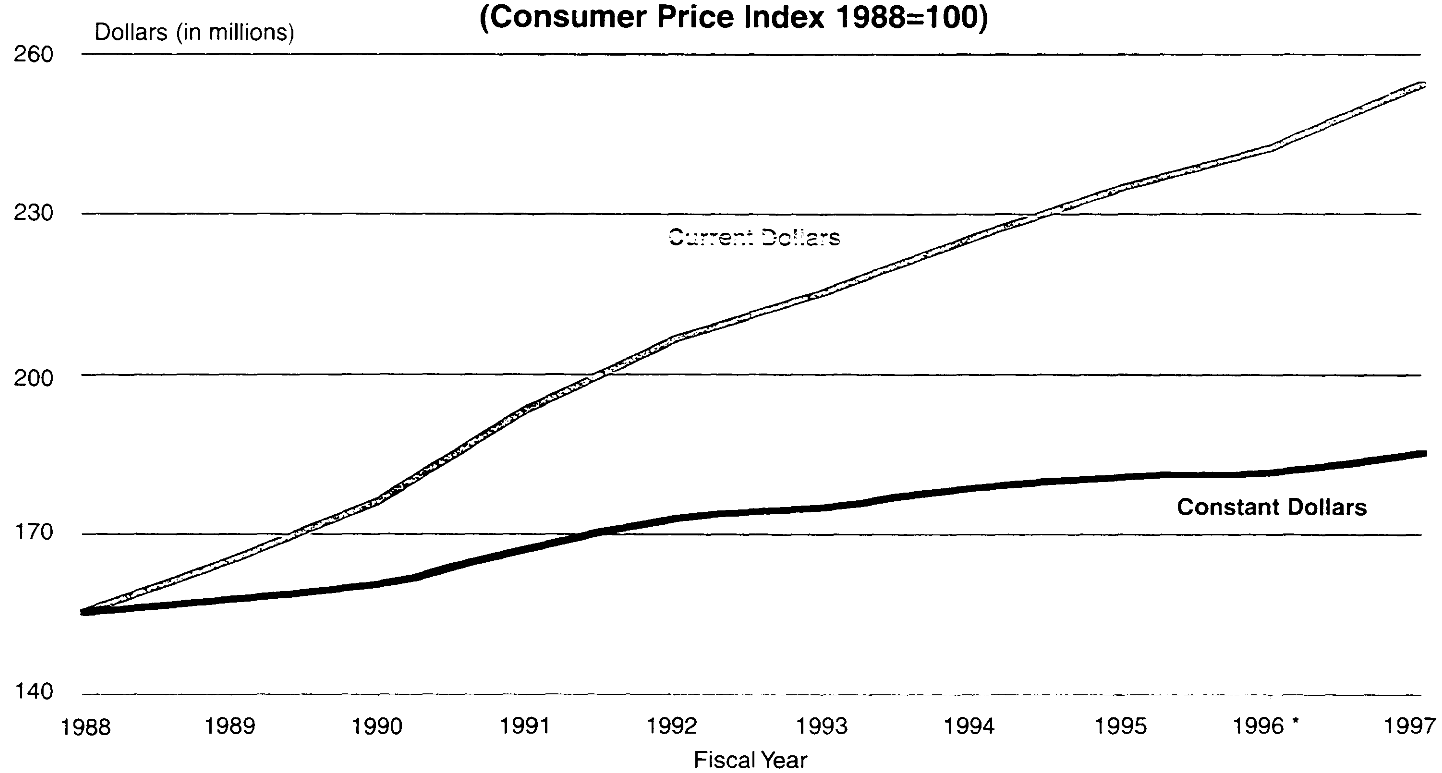
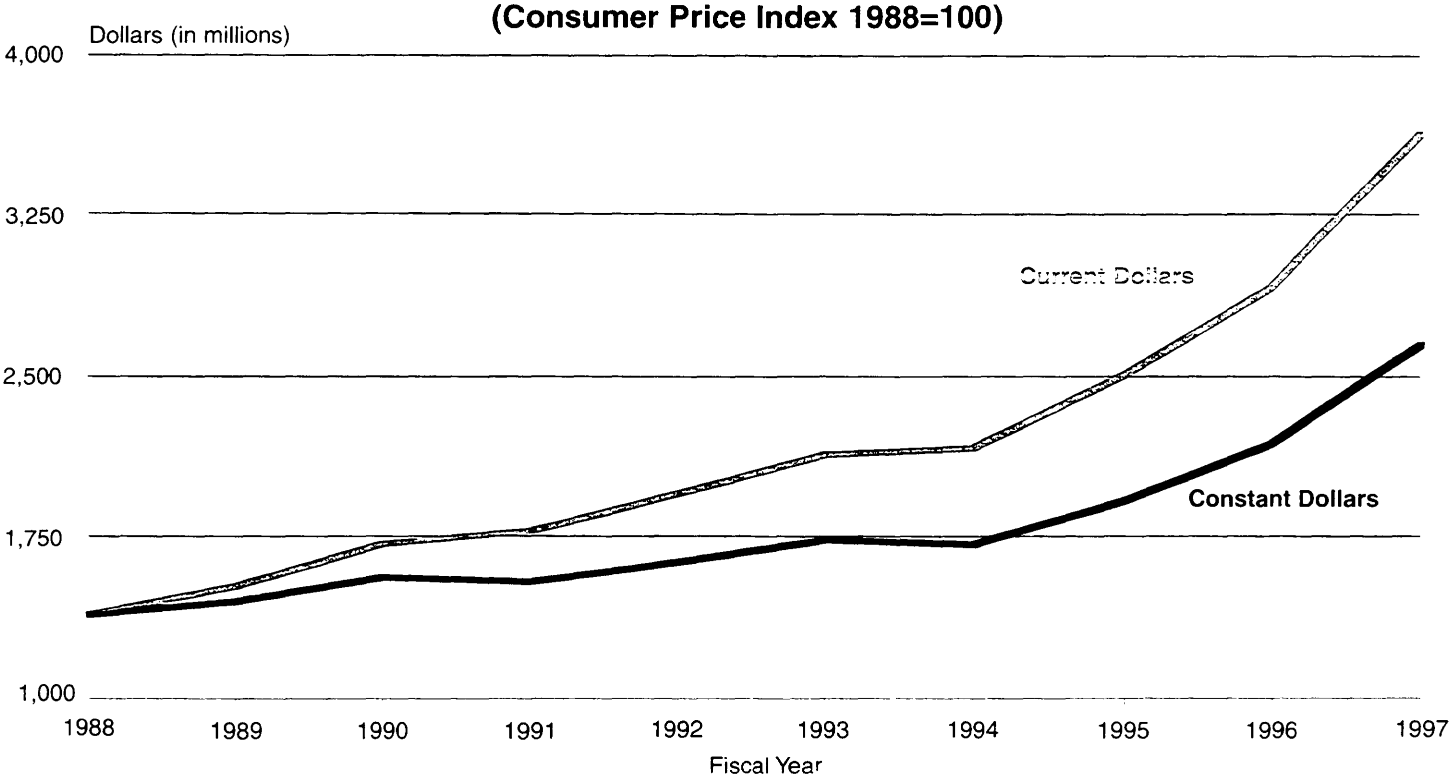


Figure 3
Instruction and Unsponsored Research
(Consumer Price Index 1988=100)



* Excluding the functional allocation of depreciation and other expenses

Figure 4
Endowment and Other Investments at Market
(Consumer Price Index 1988=100)



FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

FINANCIAL STATEMENTS

The financial statements summarize the finances of the Institute during the fiscal year 1996-97 and at the close of the year on June 30, 1997 and 1996.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENT OF FINANCIAL POSITION
at June 30, 1997 and 1996
(in thousands of dollars)

Schedule A

	Total 1996	Total 1997
ASSETS		
Cash	$ 22,584	$ 25,942
Accounts receivable, net	61,453	68,547
Pledges receivable, net	89,030	89,989
Contracts in progress, principally U.S. Government	44,250	35,976
Deferred charges, inventories and other assets	56,934	47,999
Students' notes receivable, net	59,371	63,644
Investments, at fair value	2,917,103	3,636,782
Land, buildings, and equipment, at cost, net of accumulated depreciation	491,443	535,980
Total assets	$ 3,742,168	$ 4,504,859
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accruals and other liabilities	$ 192,892	$ 204,663
Withholdings, deposits and other credits	43,705	50,757
Advance payments, primarily U.S. Government, industrials and foundations	7,747	13,468
Borrowings - bonds and notes payable	202,610	314,027
Government advances for student loans	27,111	27,708
Total liabilities	474,065	610,623
Net Assets (Note J):		
Unrestricted	1,487,816	1,748,142
Temporarily restricted	1,084,486	1,363,480
Permanently restricted	695,801	782,614
Total net assets	3,268,103	3,894,236
Total liabilities and net assets	$ 3,742,168	$ 4,504,859

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

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENT OF ACTIVITIES
for the year ended June 30, 1997 and 1996
(in thousands of dollars)

Schedule B

	Total 1996	Total 1997
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and other additions:		
Tuition and Other Income, net of discount of $60,598 in 1996 and $62,665 in 1997	$ 153,554	$ 160,267
Research Revenues	720,945	740,472
Gifts and Bequests	58,056	69,925
Investment income	74,898	74,853
Net gains on investments	203,440	255,784
Fees, services, and miscellaneous receipts	93,296	91,954
Auxiliary activities	41,095	42,833
Present value actuarial adjustment	338	(2,416)
Net asset reclassifications	17,878	13,227
Total revenues and other additions	1,363,500	1,446,899
Expenses and other deductions:		
Operating expenses	1,182,801	1,186,573
Increase in unrestricted net assets	180,699	260,326
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Gifts and bequests	8,179	4,727
Pledges	13,186	4,917
Investment income	513	538
Fees, services, and miscellaneous receipts	902	150
Net gains on investments	232,085	301,119
Present value actuarial adjustment	26	(18,893)
Net asset reclassifications	(17,530)	(13,564)
Increase in temporarily restricted net assets	237,361	278,994
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Gifts and bequests	21,161	27,255
Pledges	14,530	22,007
Net gains on investments	18,539	7,667
Fees, services, and miscellaneous receipts	2,328	22,835
Present value actuarial adjustment	606	4,096
Investment income added to principal	1,068	2,616
Net asset reclassifications	(348)	337
Increase in permanently restricted net assets	57,884	86,813
Increase in net assets	475,944	626,133
Net assets at the beginning of the year (Note K)	2,792,159	3,268,103
Net assets at the end of the year	$ 3,268,103	$ 3,894,236

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

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENT OF OPERATIONS AND OTHER
CHANGES IN UNRESTRICTED NET ASSETS
for the year ended June 30, 1997 and 1996
(in thousands of dollars)

Schedule C

	Total 1996	**Total 1997**	1997 Operations	Other Changes to Unrestricted Net Assets
UNRESTRICTED REVENUES:				
Tuition and other income, net of discount of				
$60,598 in 1996 and $62,665 in 1997	$ 153,554	$ 160,267	$ 160,267	$ -
Research revenues:				
Campus	377,702	387,880	387,880	-
Lincoln Laboratory	343,243	352,592	352,592	-
Gifts and bequests	58,056	69,925	-	69,925
Investment income	74,898	74,853	-	74,853
Net gains on investments	203,440	255,784	-	255,784
Fees, services, and miscellaneous receipts	93,296	91,954	-	91,954
Auxiliary enterprises	41,095	42,833	42,833	-
Present value of actuarial adjustment	338	(2,416)	-	(2,416)
Net asset reclassification	17,878	13,227	-	13,227
Funds allocated to operating unit expenses	-	-	238,135	(238,135)
Total	1,363,500	1,446,899	1,181,707	265,192
OPERATING UNIT EXPENSES:				
Instruction and unsponsored research	242,552	255,000	255,000	-
Sponsored research	600,605	620,871	620,871	-
General and administrative	291,388	260,440	260,440	-
Auxiliary enterprises	41,095	42,833	42,833	-
Operation of alumni association	7,161	7,429	7,429	-
Total	1,182,801	1,186,573	1,186,573	-
Net change in unrestricted net assets	$ 180,699	$ 260,326	$ (4,866) *	$ 265,192

* Need for general funds

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

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
at June 30, 1997 and 1996
(in thousands of dollars)

Schedule D

	1996	1997
Cash flows from operating activities:		
Increase in net assets	$475,944	626,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net gains	(454,064)	(564,570)
Depreciation	46,438	46,627
Student loan cancellations, change in reserve and Government reclassifications	336	377
Gifts of equipment and securities	(7,805)	(10,788)
Change in operating assets and liabilities:		
Pledges receivable	(1,680)	(959)
Accounts receivable	(24,912)	(7,095)
Contracts in progress	(14,920)	8,274
Deferred charges, inventories, and other assets	(10,765)	8,935
Accounts payable	25,625	11,771
Withholdings, deposits and other credits	7,286	7,052
Advances, and unexpended grants	(2,330)	5,721
Reclassify investment income	(3,909)	(6,805)
Reclassify contributions restricted for long-term investment	(29,340)	(31,981)
Net cash received from operating activities	5,904	92,692
Cash flow from investing activities:		
Purchase of land, buildings and equipment	(67,361)	(80,376)
Purchase of investments	(2,051,629)	(2,414,155)
Proceeds from sale of investments	2,089,772	2,259,047
Student notes issued	(11,671)	(12,073)
Collections from student notes	7,248	7,423
Net cash used in investing activities	(33,641)	(240,134)
Cash flow from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	20,208	23,264
Investment in plant	3,269	2,305
Investment in other	5,863	6,412
Total proceeds from contributions	29,340	31,981
Increase in investment income for restricted purposes	3,909	6,805
Proceeds from borrowings, bonds and notes payable	13,600	133,563
Repayment of borrowings, bonds and notes payable	(10,964)	(22,146)
Increase in Government advance for student loans	515	597
Net cash received from financing activities	36,400	150,800
Net increase in cash	8,663	3,358
Cash at the beginning of the year	13,921	22,584
Cash at the end of the year	$22,584	$25,942

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

NOTES TO FINANCIAL STATEMENTS

A. ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). In 1997, MIT adopted Financial Accounting Standards Board (FAS) Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." FAS No. 124 requires that investments in equity with readily determinable fair values and all investment in debt securities be reported at fair value with the gains and losses included in the statement of activities. Footnote K to the financial statements discloses the effect of the retroactive implementation of FAS No. 124. Also in 1997, MIT adopted the requirements of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide, Not-for-Profit Organizations" (Audit Guide). The significant changes in the financial statements due to the Audit Guide are (1) Tuition Discount has been reclassified from an expense to a reduction of Tuition Revenue, and (2) the Statement of Operations and Other Changes in Unrestricted Net Assets operating expenses are reported by functional classification.

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

Permanently restricted net assets include amounts of gifts, including pledges, trusts, and remainder interests, which are required by donors to be permanently retained. Pledges, trusts, and remainder interests are reported at their estimated present values. See Note on Gifts on page 25 for more information on pledges.

Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, income and gains which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period).

Unrestricted net assets are all the remaining net assets of the Institute.

The Institute is a non-profit organization which is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

Donor-restricted gifts which are received and either spent or deemed spent within the same year are reported as unrestricted revenue. Gifts of long-lived assets are reported as unrestricted revenue. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

The Institute administers its various funds, including endowments, funds functioning as endowment, 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 the Institute's total return investment policy. Each year, the Investment and Executive Committees of the Corporation approve the rates of distribution of investment income to the funds from the Institute's investment pools. See Note B for further information on income distributed to funds.

The Institute operates in accordance with a budget plan approved and monitored by the Executive Committee. In addition to tuition and research revenues received to meet operating expenses, the budget contemplates the appropriation of approved amounts from available funds of the schools, departments and general Institute funds. Any shortfall is met by identification of additional available funds, including unrestricted current year gifts.

In order to display the results of operations as described above, a Statement of Operations and Other Changes in Unrestricted Net Assets is presented. The Operations column displays tuition, research, and auxiliary revenues and approved funds availed of to meet operating unit expenses.

The gifts, investment income, and miscellaneous receipts for scholarships and fellowships is less than the total amount of expenditures for this student support. This difference which is funded by the Institute's operating budget and reported in the scholarships and fellowships is accounted for as a reduction of gross tuition.

CASH

Current banking arrangements do not require outstanding checks to be funded until actually presented for payment. Outstanding checks in the amount of $36.2 million and $30.7 million in 1997 and 1996, respectively, are, therefore, recorded in accounts payable until such time as the banks present them for payment.

SPONSORED RESEARCH

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

LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are shown at cost or fair value as of the date of 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. Depreciation is computed on a straight-line basis over the estimated useful lives of 25 to 50 years for buildings and 3 to 25 years for equipment. Fully depreciated buildings and equipment are removed from the financial statements. These amounts totaled $36.3 million and $8.9 million during 1997 and 1996, respectively. In addition, depreciation relating to various service facilities and equipment are charged directly to the appropriate operating unit expenses. Land, buildings and equipment are as follows at June 30:

	1997	**1996**
	(in thousands of dollars)	
Land	$ 30,967	$ 28,994
Educational Buildings	387,773	326,394
Dormitories	80,839	80,956
Medical, athletic, and recreational buildings	70,832	70,832
Other	22,688	22,734
Equipment	257,393	265,051
Total	**850,492**	**794,961**
Less: accumulated depreciation	(339,566)	(324,668)
Construction in progress	25,054	21,150
Land, buildings, and equipment	**$ 535,980**	**$ 491,443**

Depreciation expense, presented net, comprises:

	1997	**1996**
	(in thousands of dollars)	
Total depreciation expense	$ 46,627	$ 46,438
Less: Depreciation charged directly to operating units	(9,336)	(9,084)
Capitalized equipment charged directly to operating units	(14,807)	(17,682)
Net depreciation	**$ 22,484**	**$ 19,672**

GIFTS

Gifts, including unconditional promises to give, are recognized when received. Gifts of securities are recorded at their fair market value at the date of contribution. Gifts of equipment during 1997 and 1996 totaling $10.8 million and $7.8 million respectively, from manufacturers and other donors were put into use and recorded by the Institute during the respective fiscal years. Pledges in the amount of $90.0 million and $89.0 million are recorded as receivables with the revenue assigned to the appropriate category of restriction for 1997 and 1996 respectively. Pledges consist of unconditional written or oral promises to contribute to the Institute in the future. Pledges are recorded after discounting to the present value of the future cash flows.

Pledges reeivable at June 30, 1997 are expected to be realized in the following time frame:

	(in thousands of dollars)
In one year or less	$ 46,421
Between one year and five years	20,295
More than five years	27,273
Less allowance for unfulfilled pledges	(4,000)
Pledges receivable, net of discount	**$ 89,989**

A review of pledges has been made with regard to individual collectibility. As a result, some pledges have either been canceled or are no longer recorded in the statements. There were no conditional promises received. In addition, the pledge receivable is discounted in the amount of $7.9 million which is determined using a discount rate based on the seasoned U.S. Treasury rate.

The Institute records items of collections as a gift at nominal value. They are received for educational purposes and generally displayed throughout the Institute. They are not disposed of for financial gain or otherwise encumbered in any manner.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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, 1996 balances previously reported have been reclassified to conform with June 30, 1997 presentation.

B. INVESTMENTS

Total market value of investments approximated $3.6 billion and $2.9 billion at June 30, 1997 and 1996, respectively. The market values of investments are generally determined based upon quoted market prices or estimated fair values provided by external investment managers. Such amounts also include market values of certain real estate, which was determined by professional appraisers, and cash equivalents invested in money market funds, commercial paper, banker acceptances and negotiable certificates of deposit, maturing within 30 days.

Investments
(in thousands of dollars)

	June 30, 1997		**June 30, 1996**	
	Book	**Market**	**Book**	**Market**
General Investments				
Cash equivalents	$ 72,177	$ 72,328	$ 52,843	$ 52,891
Fixed income	667,288	671,791	459,169	455,671
Equities	1,518,016	2,443,875	1,373,804	2,067,092
Real Estate:				
Hold for present or future academic use	42,485	42,542	41,663	41,838
Hold for investment or other purposes	104,070	139,048	97,232	112,719
Total general investments	**2,404,036**	**3,369,584**	**2,024,711**	**2,730,211**
Separately invested	119,411	136,120	68,154	78,510
Life income funds	92,306	124,368	78,411	99,025
Receivables/payables arising from securities transactions	6,710	6,710	9,357	9,357
Total investments	**$2,622,463**	**$3,636,782**	**$2,180,633**	**$2,917,103**

The Institute pools a substantial portion of its investments into two major investment pools, Pool A principally for endowment and funds functioning as endowment and Pool C, principally for investment of current funds of the schools and departments and Institute temporary funds. Shares in Pool A, like a mutual fund, are purchased and redeemed at the fair value of the share units as determined each month end. The total market value of Pool A approximated $2.9 billion and $2.4 billion at June 30, 1997 and 1996 respectively. The unit market values at June 30, 1997 and 1996 respectively were $480.4594 and $405.8418. On a unit basis, the ownership assigned to each net asset classification at June 30, 1997 and 1996 was as follows:

	1997	1996
Unrestricted	2,014,970	2,035,379
Temporarily Restricted	-	-
Permanently Restricted	4,092,495	3,954,102
Total units	**6,107,465**	**5,989,481**

Fund balances in Pool C are at the dollar amount "deposited" and earn income at rates as determined by the Executive Committee, with reference to short-term money market rates.

The following schedule summarizes the total investment gains (losses) by classification of net assets for the year ended June 30:

(in thousands of dollars)

1996	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Realized Gains	$139,125	$132,478	$ 4,861	$276,464
Increase in Net Unrealized Gains	64,315	99,607	13,678	177,600
Total	**$203,440**	**$232,085**	**$ 18,539**	**$454,064**

1997	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Realized Gains	$137,179	$144,623	$4,923	$286,725
Increase in Net Unrealized Gains	118,605	156,496	2,744	277,845
Total	**$255,784**	**$301,119**	**$ 7,667**	**$564,570**

The Investment and Executive Committees of the Corporation have approved the practice whereby spending by funds in the General Investments may come from both investment income and realized market gains. The policy of focusing on total investment return, a combination of both capital appreciation and investment income from interest, dividends and rents, is consistent with this spending policy. Although a portion of accumulated realized gains and losses are reported as part of the Institute's unrestricted resources, their use is availed of in a manner consistent with the Institute's spending policy and long term goal of preservation of the endowment. The distribution rate on Pool A is declared by the Investment and Executive Committees each year for the upcoming new fiscal year. Pertinent information is as follows:

	1997	1996
Pool A - Distribution per unit	$16.70	$15.90
Pool C - Declared rate before other distributions	4.0%	4.5%

The total distribution to funds was $124.8 million in 1997 and $118.4 million in 1996 and included accumulated investment gains of $44.6 million and $42.0 million, respectively. Investment income is reported net of related expenses of $6.7 million and $5.8 million in 1997 and 1996, respectively.

The Institute in conformity with GAAP has recorded perpetual trusts held by outside trustees of $38.2 million as an increase to investments and net assets.

Realized gains and losses are recorded by the Institute using the average cost basis. Investment transactions are recorded on trade date. Net gains and losses are classified as unrestricted net assets unless they are restricted by the donor or the law. Net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the Institute in accordance with the Massachusetts Management of Institutional Funds Act and guidance from the Massachusetts Attorney General.

C. DERIVATIVE INSTRUMENTS

The Institute has entered into various forward currency exchange contracts solely as a partial offset of exchange rate movements affecting the U.S. dollar value of portfolio holdings of bonds denominated in foreign currencies. These contracts obligate the Institute to deliver currencies at specified future dates in return for U.S. dollars at fixed exchange rates. At June 30, 1996 the Institute had contracts maturing in fiscal year 1997 to deliver in various foreign currencies the equivalent of $7.1 million at the fixed exchange rates. The Institute did not have any forward currency exchange contracts outstanding at June 30, 1997.

D. STUDENT LOAN FUNDS

Perkins National Direct Student Loan Funds of $27.7 million and $27.1 million at June 30, 1997 and 1996, respectively, are ultimately refundable to the United States Government, and are classified as liabilities. The allowance for doubtful notes receivable was $1.1 million in both 1997 and 1996. Due to the nature and terms of the student loans which are subject to significant restrictions, it is not practicable to determine the fair value of such loans.

E. BORROWINGS-BONDS AND NOTES PAYABLE

Borrowings-Mortgage Bonds and Notes Payable consist of the following at June 30, 1997 and 1996:

	(in thousands of dollars)	
	1997	**1996**
EDUCATIONAL PLANT		
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Series A, lease purchase obligations (Note F)	$ 2,000*	$ 2,164*
Series B, 5%, due 1997-2003	3,650***	4,150***
Series C, 5-6.2%, due 1997-2006	3,120***	3,370***
Series E, 8%, due 1997-2000	1,134	1,512
Series F, 8%, due 1997	-	3,655
Series G, variable, due 2021	25,000	25,000
Series H, 3.25%, due 1997-2023	76,232	78,582
Total MHEFA	**111,136****	**118,433**
Medium Term Notes Series A, 7.125% due 2026	49,670	-
Medium Term Notes Series A, 7.25% due 2096	74,692	-
Notes payable to bank, variable percent, due 1999	47,250	-
Notes payable Student Loan Marketing Association (SLMA), variable percent, due 1997-2000	10,612	61,278
Total Educational Plant	**293,360**	**179,711**
INVESTMENT REAL ESTATE		
Notes payable, 7%, due 1997	-	10
Total Investment Real Estate	**-**	**10**
STUDENT LOANS		
Notes payable SLMA, variable percent, due 1997	20,000	20,000
Notes payable to bank, variable percent, due 1996	-	2,000
Total Student Loans	**20,000**	**22,000**
OTHER		
Massachusetts Health and Educational Facilities Authority Series E, 8%, due 1997-2000	667	889
Total Borrowings-Bonds and Notes Payable	**$314,027**	**$202,610**

* The Institute receives interest supplements from the Department of Housing and Urban Development with respect to this issue.

** At June 30, 1997 the Institute had pledged securities with a market value of $60.9 million, annual unrestricted operating revenue of $14.5 million, and certain other project revenue to comply with the terms of the bond indentures.

** *Certain land and buildings are pledged as collateral for MHEFA Series B and C bonds.

The aggregate amount of long-term debt payments and sinking fund requirements for each of the next five years is:

(in thousands of dollars)

1998	$ 48,850
1999	13,419
2000	8,388
2001	6,718
2002	5,285

Interest cost incurred on long-term debt in 1997 and 1996 was $16.1 million and $11.3 million respectively. The interest rate for the SLMA notes payable was 6.031% at June 30, 1997.

In 1997 the Multi-Modal Variable Demand bonds through the Massachusetts Health and Educational Facilities Authority (Series G) were held in the Weekly mode. The interest rate at June 30, 1997 was 3.90%.

MIT maintained an unused line of credit totaling $9.0 million at June 30, 1997.

The carrying value of the outstanding debt approximates fair value based on estimates using current interest rates available for similarly rated debt of the same remaining maturities.

F. COMMITMENTS AND CONTINGENCIES

1. The Institute receives funding or reimbursement from Federal Government agencies for sponsored research under Government grants and contracts. These grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Office of Naval Research (ONR), the Institute's cognizant Federal agency. The Institute's indirect cost reimbursements have been based on fixed rates with carryforward of under or over recoveries.

The DCAA is responsible for auditing both direct and indirect charges to grants and contracts in support of ONR's negotiating responsibility. The Institute has final audited rates through the 1996 fiscal year. The Institute's 1997 research revenues of $740.5 million include reimbursement of indirect costs of $126.7 million which includes the adjustment of the variance between the indirect cost income generated from the predetermined rates and rates based on actual 1997 costs.

2. The Institute is subject to certain other legal proceedings and claims which 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 the Institute's financial position.

3. The Institute is committed under real estate leases. Rent expense was $17.8 million and $17.5 million in 1997 and 1996, respectively. Certain leases expiring in 1998 are subject to renewal or may be renewed. Future minimum payments under operating leases are as follows:

(in thousands of dollars)

1998	$18,360
1999	18,626
2000	18,904
2001	19,197
2002	19,504

4. The Institute is committed to invest approximately $326.6 million in private equity and other alternative investments over the next five years.

5. The Institute is committed for Educational Plant in the amount of $81.8 million at June 30, 1997. It is expected that the resources to satisfy these commitments will be provided from unexpended plant funds, anticipated gifts, and unrestricted funds.

G. RETIREMENT BENEFITS

The Massachusetts Institute of Technology Retirement Plan (the "Retirement Plan") has two components: a defined benefit plan, and a defined contribution plan. The Retirement Plan covers substantially all employees of the Institute. The assets of the plan are invested primarily in equity and fixed income securities.

The Institute contributes to the defined benefit plan amounts which are actuarially determined to provide the Retirement Plan with sufficient assets to meet future benefit requirements. In fiscal 1996, the Institute offered an early retirement plan which included an incentive benefit to employees who were 55 years of age with 10 years of service. The costs associated with the plan recognized in fiscal 1996 totaled $51.1 million. The net pension expense for the defined benefit plan during 1997 and 1996 included the following components:

	1997	1996
	(in thousands of dollars)	
Current service cost	$ 24,075	$ 26,339
Interest on projected benefit obligations	77,737	66,013
Actual return on assets	(261,229)	(153,638)
Net amortization and deferral	161,262	67,507
Net pension cost	**$ 1,845**	**$ 6,221**

The following table summarizes the funded status of the Institute's defined benefit plan and the related amounts recognized in the Institute's Balance Sheets as of June 30:

	1997	1996
	(in thousands of dollars)	
Vested benefit obligation	$ 1,060,593	$ 882,233
Accumulated benefit obligation	1,105,189	939,668
Projected benefit obligation	1,117,290	941,409
Fair value of plan assets	1,378,906	1,095,828
Plan assets in excess of the projected benefit obligation	261,616	154,418
Unrecognized net transition asset	(42,873)	(48,997)
Unrecognized prior service costs	3,961	4,329
Unrecognized net (gain) loss	(222,481)	(110,083)
Prepaid pension cost	**$ 223**	**$(333)**

The discount rate and the average rate of increase in future compensation used to determine the projected benefit obligation as of June 30, 1997 were 7.8 percent and 6.0 percent, respectively, as compared with 8.0 and 6.0 as of June 30, 1996. The expected return on plan assets was 9.25 percent in 1997 and 1996.

The amount of costs recognized during 1997 and 1996 related to the defined contribution components of the Retirement Plan were $19.6 million and $19.4 million respectively.

H. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the Institute provides certain health care and life insurance benefits for retired employees. Substantially all of the Institute's employees may become eligible for those benefits if they reach a qualifying retirement age while working for the Institute. Retiree health plans are paid for in part by employee contributions, which are adjusted annually. Benefits are provided through various insurance companies whose charges are based either on the benefits paid during the year or annual premiums. Health benefits are provided to retirees, their covered dependents, and beneficiaries. Substantially all retiree life insurance plans are non-contributory and cover the retiree only. The Institute amortizes the past service amount relating to the accumulated postretirement benefit obligation for retiree costs and transition over the allowable 20 year period. The Institute maintains a trust to which it has contributed the postretirement health care and life insurance costs on the accrual basis.

The net postretirement benefit cost for 1997 and 1996 included the following components:

	1997	1996
	(in thousands of dollars)	
Service cost--benefits earned during the period	$ 2,819	$ 2,958
Interest cost on accumulated postretirement benefit obligation	11,394	11,421
Actual (gain) on assets	(17,358)	(12,357)
Net amortization and deferral	15,796	13,305
Net postretirement benefit cost	**$ 12,651**	**$ 15,327**

The following reconciles the amounts recognized in the Institute's balance sheets as of June 30, 1997 and 1996:

	1997	1996
	(in thousands of dollars)	
Accumulated Postretirement Benefit Obligation		
Retirees	$(113,428)	$(91,407)
Active employees eligible for benefits	(23,108)	(43,280)
Active employees not yet eligible for benefits	(14,665)	(15,256)
Total obligations	**(151,201)**	**(149,943)**
Plan assets at fair value	97,941	79,254
Total obligation (in excess of) plan assets	(53,260)	(70,689)
Unrecognized net (gain) loss	(23,123)	(10,471)
Unrecognized net obligations at transition	76,409	81,186
Prepaid postretirement benefit	**$ 26**	**$ 26**

The discount rate used to determine the accumulated postretirement benefit obligation was 7.8% in 1997 and 8.0% in 1996. The expected long-term rate of return on trust assets is assumed to be 9.25% in 1997 and 1996. Medical health trend rates prior to age 65 were assumed to be 7.0% in 1997 and 8.0% in 1996, gradually declining to 5.5% in 1999 and thereafter. Medical health trend rates age 65 and after were assumed to be 6.0% in 1997 and 7.0% in 1996, gradually declining to 5.5% by 1998 and thereafter. A one percentage point increase in the assumed health care cost trend rate would have increased the 1997 and 1996 postretirement benefit expense by $1.2 million and $1.4 million and the 1997 and 1996 postretirement benefit obligation by $14.5 million and $13.7 million.

I. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

The Institute's accounts payable, accruals and other liabilities consisted of the following at June 30:

	1997	1996
	(in thousands of dollars)	
Accounts payable and accruals	$106,110	$121,125
Accrued vacations	25,948	22,606
Accounts payable U.S. Government	11,209	8,920
Life interest and agency funds	61,396	40,241
Total	**$204,663**	**$192,892**

The Institute is currently self-insured for Long Term Disability and unemployment compensation and provides reserves totaling $6.4 million and $6.3 million for 1997 and 1996 respectively to cover claims.

J. COMPONENTS OF NET ASSETS

The following table presents the three categories of net assets by purpose as of June 30, 1997 (in thousands of dollars). The amounts listed in the unrestricted column labeled Endowment Funds Principal are those gifts received over the years which the Institute designated as funds functioning as endowment and invested with the endowment funds. The larger components of temporarily restricted net assets are (1) pledges, which will be reclassified to unrestricted net assets when cash is received and (2) accumulated net gains on investments of gifts which the donor required to be permanently retained; such gains will be reclassified to unrestricted net assets when appropriated for spending in accordance with the Institute's spending policy and the Massachusetts Management of Institutional Funds Act and guidance from the Massachusetts Attorney General.

(in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Fund
Endowment Funds Principal:				
General purpose	$ 332,641	$ 263,378	$ 61,437	$ 657,456
Departments and research	184,567	155,537	118,667	458,771
Library	3,462	4,612	1,751	9,825
Salaries and wages	150,718	505,598	303,101	959,417
Graduate general	2,665	25,365	12,520	40,550
Graduate departments	12,659	45,921	41,609	100,189
Undergraduate	65,083	222,050	113,931	401,064
Prizes	2,816	3,938	2,613	9,367
Pledges	-	-	40,848	40,848
Miscellaneous	198,901	53,014	20,668	272,583
Investment income held for distribution	114,367	-	-	114,367
Total endowment funds	**1,067,879**	**1,279,413**	**717,145**	**3,064,437**
Other Invested Funds:				
Student loan funds	610	-	17,567	18,177
Building funds	55,993	15,940	-	71,933
Designated purposes:				
Departments and research	119,219	-	-	119,219
Other purposes	34,398	-	-	34,398
Reserve funds	51,265	-	-	51,265
Life income funds	4,683	31,924	30,390	66,997
Pledges	-	31,628	17,512	49,140
Accumulated net gains	75,554	4,575	-	80,128
Total other invested	**341,722**	**84,067**	**65,469**	**491,259**
Funds available for current expenses	110,822	-	-	110,822
Total funds	**1,520,423**	**1,363,480**	**782,614**	**3,666,517**
Funds expended for educational plant	227,719	-	-	227,719
Total Net Assets at Market	**$1,748,142**	**$1,363,480**	**$782,614**	**$3,894,236**

K. RECONCILIATION OF FUNDS

The adoption of FAS No. 124 required that the 1996 Financial Statements be restated to be comparable to the 1997 Financial Statements. The restatement resulted in an increase in Net Assets of $558.9 million which is outlined below:

(in thousands of dollars)

	1995
Net Assets as reported, June 30, 1995	$2,233,287
Increase due to recording invested assets at market value	558,872
Net Assets as restated, June 30, 1995	**$2,792,159**

REPORT OF INDEPENDENT ACCOUNTANTS

To the Auditing Committee of Massachusetts Institute of Technology:

We have audited the following financial statements of Massachusetts Institute of Technology:

Schedule A – Statement of Financial Position at June 30, 1997 and 1996.

Schedule B – Statement of Activities for the years ended June 30, 1997 and 1996.

Schedule C – Statement of Operations and Other Changes in Unrestricted Net Assets for the years ended June 30, 1997 and 1996.

Schedule D – Statement of Cash Flows for the years ended June 30, 1997 and 1996.

These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Institute of Technology as of June 30, 1997 and 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note A to the financial statements, during 1997 the Institute adopted Statement of Financial Accounting Standards No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." This standard was adopted retroactively.

Coopers + Lybrand L.L.P.

Boston, Massachusetts
September 5, 1997

GLOSSARY FOR FINANCIAL STATEMENTS

Agency Funds—Amounts held as custodian or fiscal agent for affiliates such as alumni and student organizations.

Appropriations Among Funds—authorized transfer of resources between fund groups.

Auxiliary Activities—refers to the operations of Dining and Housing and MIT Press.

Book Value—the cost of investment. Bonds purchased at other than maturity value have a book value of amortized cost. The cost of real estate investments includes both the original cost and the capitalized cost of any improvements. The book value of gifts and other receipts is the cash or fair market value at the time of receipt.

Borrowings—represent mortgage bonds and notes payable to external agencies, institutions, and others.

Current Funds—expendable resources held for meeting current restricted or unrestricted expenses.

Endowment and Similar Funds—encompasses both endowment funds and funds functioning as endowment. **Endowment funds** are gifts and bequests where the donor has stipulated, as a condition of the gift, that the principal is to remain inviolate in perpetuity and is to be invested for the purpose of producing present and future income. **Funds functioning as endowment** are gifts, bequests, and other receipts that had no restrictions as to the expenditure of principal, which the Institute designated as additions to endowment for the present. See Net Assets.

Educational Plant Funds—funds invested and those available for investment in educational plant, as well as applicable mortgage bonds and notes payable.

Expendable Donor-Restricted Gifts—Donor restricted gifts which are received and either spent or deemed spent within the same year.

Fair Market Value—The amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the fair market value to be used is the product of the number of trading units of the instrument times the market price per unit.

Fund—an entity consisting of assets, liabilities, and fund balance. The assets and income must be invested or spent in accordance with the designated purpose of the fund.

Fund Accounting by MIT—The accounting for each fund includes both the balance sheet and the statement of income and expenses. The use of individual fund accounting assures the donors and others who provide these financial resources that the stated purposes of the fund are being met. MIT has thousands of individual funds that have been established, including many during the past year.

General Investments—assets of funds that have been pooled for investment purposes. These pools are Pool A (endowment and similar funds) and Pool C (current invested and operating funds).

Life Income Funds—gifts for investment with income payable to one or more beneficiaries during their lives. Upon the termination of life interests, the principal becomes available for Institute purposes, which may be designated by the donor.

Market Value—the fair market value on the statement date. Real estate held for investment is carried at appraised value, and certain assets are carried at book value or nominal value when value cannot readily be determined.

Net Assets—the assets remaining after all liabilities have been deducted. Net assets are categorized into three groups according to the nature of the restrictions placed on the gifts by donors. **Permanently Restricted Net Assets** are those gifts for which the original principal can never be spent. They comprise gifts to true endowment, outstanding pledges and assets held in trust which, when paid or matured, will go to the endowment, and gifts which are required to be used for student loans. **Temporarily Restricted Net Assets** are those gifts which will ultimately become available for operations or capital expenditures. They require some event or lapse of time to take place before they are available for spending. They include pledges, gifts of real estate not yet sold, gifts for construction projects which have not been completed and certain life income funds which, upon maturity, will be available for spending. **Unrestricted Net Assets** comprise all of the remaining economic resources available to the Institute.

Permanent Funds—funds designated by the donor as unexpendable.

Plant Funds—see Educational Plant Funds.

Pledge—a written or oral agreement to contribute cash or other assets to the Institute. A pledge may be either conditional or unconditional. **Conditional Pledge** specifies a future and uncertain event whose occurrence, or failure to occur, releases the promisor from its obligation. **Unconditional Pledge** is a promise to give that depends only on the passage of time or a demand by the promisee for performance.

Restricted—resources, the use of which has been designated by a donor.

Separately Invested Funds—funds held by the Institute and maintained in separate portfolios for investment purposes.

Student Loan Funds—resources loaned to students or available for such loans.

Unrestricted—resources that are available for the general purposes of the Institute, and are not restricted by donors as to use.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Loan and Trust Agreement and used in this Official Statement:

"Act" means Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time;

"Agreement" means the Loan and Trust Agreement executed by and among the Authority, the Institution, and the Trustee, dated as of January 13, 1998 as it may be further amended or supplemented as provided therein;

"Authority" means the Massachusetts Health and Educational Facilities Authority, a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts;

"Authorized Officer" means: (i) in the case of the Authority, the Chairman, Vice Chairman, Secretary, Executive Director, Director of Financing Programs, Director of Administration and Finance or General Counsel and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; and (ii) in the case of the Institution, the President, Vice President for Finance and Treasurer or Deputy Treasurer and Director of Investments, and when used with reference to an act or document of the Institution, also means any other person or persons authorized to perform the act or execute the document;

"Bonds" means the Series I-1 Bonds and the Series I-2 Bonds;

"Bondowners" means the registered owners of the Bonds from time to time as shown in the books kept by the Paying Agent as bond registrar and transfer agent;

"Business Day" means a day on which banks in each of the cities in which the principal offices of the Trustee and the Paying Agent are located, are not required or authorized to remain closed and on which the New York Stock Exchange is not closed;

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the Institution and the Trustee dated the date of issuance and delivery of the Bonds as originally executed and as it may be amended from time to time in accordance with the terms thereof;

"Debt Service Fund" means the fund established and so designated the Agreement;

"Government or Equivalent Obligations" means (i) obligations issued or guaranteed by the United States; (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian; (iii) prerefunded tax-exempt obligations of any state or instrumentality, agency, or political subdivision thereof which are secured by Government or Equivalent obligations described in clause (i) or (ii) of the definitions thereof and are rated "Aaa" by Moody's Investors Service or Standard & Poor's Ratings Services, a division of McGraw-Hill Companies and (iv) any open end or close end management type investment company or trust registered under 15 U.S.C. §80(a)-1, et. seq. provided that the portfolio of such investment company or trust is limited to obligations described in clause (i) and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Authority;

"Institution" means the nonprofit institution for higher education, duly incorporated and existing under the laws of The Commonwealth of Massachusetts, located in the City of Cambridge, Massachusetts, the corporate name of which is Massachusetts Institute of Technology and sometimes in this Official Statement called the "Institute" or "MIT";

"IRC" means the Internal Revenue Code of 1986, as it may be amended from time to time;

"Outstanding" when used to modify Bonds, refers to Bonds issued under the Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment, (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent Obligations described in clause (i), (ii) or (iii) of the definition thereof, bearing interest at such rates and with such maturities as will provide sufficient funds, without reinvestment, to pay or redeem them provided, however, that if any such Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee;

"Paying Agent" means, State Street Bank and Trust Company, or any other Paying Agent designated from time to time pursuant to the Agreement;

"Project" means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furnishings and equipment, or any combination of the foregoing, in connection with the following: (i) the refinancing of the projects financed by the Series G Bonds and defined as the "Project" in the Loan and Trust Agreement among the Institution, the First National Bank of Boston as Trustee and the Authority dated as of April 6, 1991 and (ii) refinancing renovations to the Uncas A. Whitaker Building (Building 56), a 127,000 gross square foot building located on the Institution's campus which has street access at 21 Ames Street. The renovations included building-wide systems upgrades and renovations to bring the building into compliance with the building code and to meet the requirements of the building's new occupants, including the Division of Toxicology, and the Departments of Chemistry and Chemical Engineering. The renovated building includes classrooms, academic and research laboratories, offices and common meeting spaces;

"Project Costs" means the costs of issuing the Bonds and carrying out the Project, including repayment of external loans and internal advances for the same, but excluding general administrative expenses, overhead of the Institution and interest on internal advances;

"Revenues" means all rates, payments, rents, fees, charges, and other income and receipts, payable to the Authority or the Trustee under the Agreement, excluding administrative fees of the Authority, fees of the Trustee, reimbursements to the Authority or the Trustee for expenses incurred by the Authority or the Trustee, and indemnification of the Authority and the Trustee;

"Series G Bonds" means the Authority's Revenue Bonds, Massachusetts Institute of Technology Issue, Series G dated August 27, 1991 and currently outstanding in the principal amount of $25,000,000;

"Series I-1 Bonds" means the $30,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Massachusetts Institute of Technology Issue, Series I-1, dated January 15, 1998, and any Bond or Bonds duly issued in exchange or replacement therefor;

"Series I-2 Bonds" means the $29,200,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Massachusetts Institute of Technology Issue, Series I-2, dated January 15, 1998, and any Bond or Bonds duly issued in exchange or replacement therefor;

"Trustee" means State Street Bank and Trust Company, or any other bank, trust company or national banking association appointed by or pursuant to the Agreement to act as Trustee.

SUMMARY OF THE LOAN AND TRUST AGREEMENT

The following is a brief summary, prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Loan and Trust Agreement dated as of January 13, 1998 (the "Agreement") pertaining to the Bonds. This summary does not purport to be complete, and reference is made to the Agreement for full and complete statements of such and all provisions.

The Agreement is entered into pursuant to a resolution adopted by the Authority on January 13, 1998 which authorizes the issuance of the Bonds.

Upon the receipt of the proceeds of the Bonds, including accrued interest, if any, the Authority shall make payments from such proceeds as follows: (a) a sum equal to the accrued interest on the Bonds shall be deposited in the Debt Service Fund; (b) an amount necessary (together with any funds provided by the Institution) to pay the redemption price of the Series G Bonds shall be deposited with the Trustee to be applied to the redemption of the Series G Bonds; (c) amounts equal to the outstanding loans and advances being refinanced with Bond proceeds, including interest due on such loans, as certified by an Authorized Officer of the Institution and approved by the Authority's bond counsel as eligible for financing hereunder, shall be used to pay off all or part of such loans and advances; and (d) the amount, together with funds provided by the Institution, estimated to be needed to pay the costs of issuing the Bonds shall be deposited in the Expense Fund.(Section 302)

Establishment of Funds

The following funds shall be established and maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Agreement:

Bond Payment Fund;
Debt Service Fund; and
Redemption Fund

The Expense Fund shall be established with the Authority to be held by the Authority in trust for the account of the Institution and applied subject to the provisions of the Agreement.

Expense Fund

The moneys and investments held in the Expense Fund shall be applied by the Authority, except as otherwise provided, solely to the payment or reimbursement of the costs of issuing the Bonds. The Authority shall pay from the Expense Fund the costs of issuing the Bonds, including the Authority's initial administrative fee, the reasonable fees and expenses of financial consultants, bond counsel and counsel to the Institution, any recording or similar fees and any expenses of the Institution in connection with the issuance of the Bonds which are approved by the Authority. Earnings on the Expense Fund shall not be applied to pay costs of issuance of the Bonds, but shall be transferred to the Debt Service Fund. After all costs of issuing the Bonds have been paid any amounts remaining in the Expense Fund shall be transferred to the Debt

Service Fund. To the extent the Expense Fund is insufficient to pay any of the above costs, the Institution shall be liable for the deficiency and shall pay such deficiency as directed by the Authority. (Section 307)

Bond Payment Fund

The moneys in the Bond Payment Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied solely to the payment or redemption of the Series G Bonds. Moneys in the Bond Payment Fund may be invested in Permitted Investments. (Section 303).

Debt Service Fund

The moneys and investments held in the Debt Service Fund shall be applied, except as otherwise provided, to the payment of the principal, redemption premiums, if any, and interest on the Bonds. The Trustee shall transfer moneys from the Debt Service Fund to the Paying Agent for the payment of Bonds. (Section 304)

Redemption Fund

The moneys and investments held in the Redemption Fund shall be applied, except as otherwise provided, to the redemption of Bonds. The Trustee may, and upon written direction of the Institution for specific purchases shall, apply moneys in the Redemption Fund to the purchase of Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within the forty-five (45) days preceding a redemption date. Accrued interest on the purchase of Bonds shall be paid by the Institution. Moneys in the Redemption Fund to be applied to the redemption of Bonds shall be transferred by the Trustee to the Paying Agent for payment.

If on any date the amount in the Debt Service Fund is less than the amount then required to be transferred to the Paying Agent to pay the principal and interest then due on the Bonds the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) to the Debt Service Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied. (Section 305)

Rebate

The Institution covenants to pay when due any rebate due to the United States. (Section 306)

Application of Moneys

If available moneys in the Debt Service Fund after any required transfers from the Redemption Fund are not sufficient on any day to pay all principal, redemption price and interest on the Outstanding Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) shall, after payment of all charges and disbursements of the Trustee in accordance with the Agreement, be applied first to the payment of interest, including interest on overdue principal, and second to the payment of principal and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due). Whenever moneys are to be applied pursuant to this paragraph, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Bond, the Trustee may require presentation of the Bond for endorsement of the payment. (Section 308)

Investment of Moneys

Pending their use under the Agreement, moneys in the Debt Service Fund and Redemption Fund may be invested by the Trustee in Permitted Investments (described below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee. Moneys in the Expense Fund shall be invested in Permitted Investments maturing or redeemable at the option of the holder no later than when such moneys are expected to be needed. Any investments pursuant to this paragraph shall be held by the Trustee or the Authority, as the case may be, as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-504(3) of the Uniform Commercial Code to the extent applicable.

Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund with respect to which they were earned and any loss shall be charged thereto. Earnings on the Expense Fund shall be transferred to the Debt Service Fund not less often than quarterly and credited against payments otherwise required to be made. Earnings on the Redemption Fund shall be transferred to the Debt Service Fund and credited against the payments otherwise required to be made thereto.

The term "Permitted Investments" means (i) Government or Equivalent Obligations and (ii) tax-exempt bonds as defined in IRC §105(a)(6) (other than specified private activity bonds as defined in IRC §57(a)(5)(c) if the moneys invested in such bonds are required to be yield-restricted), rated at least AA or Aa by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies ("S&P") or Moody's Investors Service, Inc. ("Moody's"), respectively, or the equivalent by any other nationally recognized rating agency at the time of acquisition thereof or shares of a so-called money market or mutual fund that do not constitute "investment property" within the meaning of IRC §148(b)(2) provided either that the fund has all of its assets invested in such obligations of such rating quality, or, if such obligations are not so rated, the fund has comparable credit worthiness through insurance or otherwise and which fund is rated Aam or Aam-G if rated by S&P; (iii) shares of money market funds rated AAAm-G, AAAm or AAm by S&P; (iv) certificates of deposit of, banker's acceptances drawn on and accepted by, and interest bearing deposit accounts of, a bank or trust company which has a capital and surplus of not less than $50,000,000; (v) bonds, debentures, notes or other evidences of indebtedness issued by any agency or instrumentality of the United States of America; (vi) commercial paper rated in one of the two highest rating categories by Moody's and S&P; (vi) long-term or medium-term (maturity date greater than one year from date of purchase) corporate debt issued or guaranteed by any corporation that is rated by Moody's and S&P in their two highest rating categories; (viii) investment agreements or contracts representing the unconditional obligations of entities (a) the secured long-term debt obligations of which are rated in either of the two highest rating categories by Moody's or S&P or (b) the short-term debt obligations of which are rated in the highest category of either of such rating agencies; and (ix) Repurchase Agreements. The term "Repurchase Agreement" shall mean a written agreement under which a bank or trust company which has a capital and surplus of not less than $50,000,000, or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York sells to, and agrees to repurchase from, the Authority or the Trustee obligations issued or guaranteed by the United States; provided that the market value of such obligations is, at the time of entering into the agreement, at least 103% of the repurchase price specified in the agreement and that such obligations are segregated from the unencumbered assets of such bank or trust company or government bond dealer; and provided further that unless the agreement is with a bank or trust company, such agreement shall require the repurchase to occur on demand or on a date certain which is not later than one (1) year after such agreement is entered into and shall expressly authorize the Trustee or the Authority, as the case may be, to liquidate the purchased obligations in the event of the insolvency of the party required to repurchase such obligations or the commencement against such party of a case under the federal Bankruptcy Code or the appointment of or taking possession by a trustee or custodian in a case against such party under the Bankruptcy Code. Any such investments may be purchased from or through the Trustee. (Section 312)

Payments by the Institution

Not later than 10:00 A.M., New York, New York time on the date on which a payment of principal or interest is due, the Institution shall pay in immediately available funds to the Trustee for deposit in the Debt Service Fund an amount equal to such payment less the amount, if any, in the Debt Service Fund and available therefor.

The payments to be made under the foregoing paragraph shall be appropriately adjusted to reflect the date of issue of Bonds, accrued interest deposited in the Debt Service Fund, if any, and any purchase or redemption of Bonds so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay the interest and principal coming due on the Bonds and so that accrued interest will be applied to the installments of interest to which it is applicable.

At any time when any principal of the Bonds is overdue, the Institution shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the installment payments required as described above shall not otherwise bear interest. Redemption premiums shall not bear interest.

Payments by the Institution to the Trustee for deposit in the Debt Service Fund under the Agreement shall discharge the obligation of the Institution to the extent of such payments; provided, that if any moneys are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay principal and interest on the Bonds when due, the Institution shall supply the deficiency.

The Institution shall pay the Authority's annual administrative fee. Within thirty (30) days after notice, the Institution shall also pay all expenditures (except general administrative expenses or overhead) reasonably incurred by the Authority by reason of the Agreement and the reasonable fees and expenses of the Trustee and the Paying Agent. (Section 309)

Default

"Event of Default" means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice.

(i) Debt Service. The Institution shall fail to make any debt service payment when the same becomes due as provided in the Agreement.

(ii) Other Obligations. The Institution shall fail to make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice; or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement and such failure is not remedied within sixty (60) days after written notice.

(iii) Warranties. There shall be a material breach of warranty made in the Agreement by the Institution and the breach is not cured within sixty (60) days after written notice.

(iv) Voluntary Bankruptcy. The Institution shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by a trustee, a receiver, a custodian or similar official or agent for itself or any substantial part of its property.

(v) Appointment of Receiver. A trustee, a custodian, a receiver or similar official or agent shall be appointed for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days.

(vi) Involuntary Bankruptcy. The Institution shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it or a petition seeking reorganization, readjustment, arrangement, composition or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

(vii) Breach of Other Agreements. A breach shall occur (and continue beyond any applicable grace period) with respect to a payment by the Institution of other indebtedness of the Institution for borrowed money with respect to loans exceeding $5,000,000, or with respect to the performance of any agreement securing such other indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this paragraph so that a holder or holders of such indebtedness or a trustee or trustees under any such agreement accelerates or is empowered to accelerate any such indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under the provisions of the Agreement summarized in this paragraph if (a) the Institution is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, (b) the power of acceleration is not exercised and it ceases to be in effect, or (c) such breach or event is remedied and the acceleration, if any, is wholly annulled. Immediately upon becoming aware of such breach or event, the Institution will notify the Trustee and the Authority.

If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, including any acceleration, with the written consent of the Authority, by written notice to the Institution and shall do so, with the written consent of the Authority, upon written instruction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. (Section 501)

Remedies for Events of Default

If an Event of Default occurs and is continuing, the Trustee may by written notice to the Institution and the Authority declare immediately due and payable the principal of the Outstanding Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing.

The Trustee may exercise all of the rights and remedies of a secured party under the Massachusetts Uniform Commercial Code (the "UCC") with respect to securities in the Debt Service Fund, the Bond Payment Fund and the Redemption Fund, including the right to sell or redeem such securities and the right to retain such securities in satisfaction of the obligations of the Institution hereunder. (Section 502)

Remedies Cumulative

The rights and remedies under the Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. (Section 506)

Limitations on Bondowners' Remedies

Upon a failure of the Institution to make a required debt service or purchase price payment when the same becomes due and payable, the Trustee shall give written notice of such default to the Authority and the Institution. The Trustee shall not be required to take notice of any other breach or default by the Institution or the Authority, and the Authority shall not be required to take notice of a breach or default by the Institution, in each case unless given written notice thereof by the owners of at least ten percent (10%) in principal amount of the Outstanding Bonds. The Trustee shall give default notices and accelerate payments, and the Authority shall give default notices, in each case when so instructed in writing by the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. The Trustee shall institute legal proceedings to enforce the obligations of the Authority and the Authority shall institute legal proceedings to enforce the obligations of the Institution under the Agreement, in each case in accordance with the written directions of the owners of a majority in principal amount of the Outstanding Bonds. Neither the Trustee nor the Authority shall be required to take remedial action (other than acceleration, in the case of the Trustee, or the giving of notice), unless reasonable indemnity is furnished for any expense or liability to be incurred therein.

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Agreement or any applicable remedy under the Agreement unless the Authority and the Trustee have failed or refused to take action as required by the Agreement. (Sections 502, 602, 702 and 802)

Tax Status of the Bonds

The Institution represents and warrants that (i) it is an organization described in Section 501(c)(3) of the IRC (or corresponding provisions of prior law) and it is not a "private foundation" as defined in Section 509 of the IRC; (ii) it has received letters from the Internal Revenue Service to that effect; (iii) such letters have not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letters; (v) the facts and circumstances which form the basis of such letters continue substantially to exist as represented to the Internal Revenue Service; and (vi) it is exempt from federal income taxes under Section 501(a) of the IRC. To the extent consistent with its status as a nonprofit educational institution, the Institution agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Institution.

The Institution shall not take or permit any action which would cause the Bonds to be "arbitrage bonds" under Section 148 of the IRC or cause the Bonds to cease to be "qualified 501(c)(3) bonds" under Section 145 of the IRC. (Section 902)

Maintenance of Corporate Existence

The Institution shall maintain its existence as a nonprofit corporation qualified to do business in Massachusetts and shall not dissolve or dispose of or spin-off all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except upon satisfaction of the conditions set forth in the Agreement which include (a) that each of the surviving, resulting or transferee entity or entities meet certain requirements set forth in the Agreement as to its nonprofit, tax-exempt status, (b) that the transaction not result in a conflict, breach or default as referred to in the Agreement, and (c) that the surviving, resulting or transferee entity or entities each assumes by written agreement with the Authority and the Trustee all the obligations of the Institution under the Agreement. (Section 905)

Insurance

The Institution shall maintain insurance with insurance companies authorized to transact business in The Commonwealth of Massachusetts or otherwise satisfactory to the Authority on such of its properties, in such amounts and against such risks as is customarily maintained by similar institutions of higher education operating in the area and promptly file with the Authority upon request, from time to time, certificates of all such insurance. (Section 403)

Amendments

The Agreement may be amended by the parties without Bondowner consent for any of the following purposes: (a) to subject additional property to the lien of this Agreement, (b) to provide for the establishment of a book entry system of registration for the Bonds through a securities depository, (c) to add to the covenants and agreements of the Institution or to surrender or limit any right or power of the Institution, or (d) to cure any ambiguity or defect, or to add provisions which are not inconsistent with this Agreement and which do not impair the security for the Bonds.

Except as provided in the foregoing paragraph, the Agreement may be amended only with the written consent of the owners of at least two-thirds (2/3) in principal amount of the Outstanding Bonds; provided, however, that no amendment of this Agreement may be made without the unanimous written consent of the affected Bondowners for any of the following purposes: (i) to extend the maturity of any Bond, (ii) to reduce the principal amount or interest rate of any Bond, (iii) to make any Bond redeemable other than in accordance with its terms, (iv) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) to reduce the percentage of the Bonds required to be represented by the Bondowners giving their consent to any amendment. When the Trustee determines that the requisite number of consents have been obtained for an amendment which requires Bondowner consents, it shall, within ninety (90) days, file a certificate to that effect in its records and mail notice to the Bondowners. (Section 1001)

Defeasance

When there are in the Debt Service Fund and the Redemption Fund sufficient funds, or Government or Equivalent Obligations described in clause (i), (ii) or (iii) of the definition thereof in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Bonds in full, and when all the rights of the Authority and Trustee have been provided for, upon written notice from the Institution to the Authority and Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Agreement, the security interests created by the Agreement (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Agreement; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon defeasance of the Agreement, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose subject to the requirements of the Agreement, and moneys held for defeasance shall be invested only as provided above in this paragraph. Any funds or property held by the Trustee and not required for payment or redemption of the Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee, be distributed to the Institution upon such indemnification, if any, as the Authority or the Trustee may reasonably require. (Section 203)

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PALMER & DODGE LLP
ONE BEACON STREET, BOSTON, MA 02108-3190

PROPOSED FORM OF LEGAL OPINION

(Closing Date)

Massachusetts Health and Educational
Facilities Authority
99 Summer Street, Suite 1000
Boston, Massachusetts 02110

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the "Authority") in connection with the issuance by the Authority of the following bonds (the "Bonds"):

$59,200,000
Revenue Bonds, Massachusetts Institute of Technology Issue,
Series I, dated January 15, 1998

We have examined the law and such certified proceedings and other papers as deemed necessary to render this opinion, including the Loan and Trust Agreement (the "Agreement") dated as of January 13, 1998, among the Authority, Massachusetts Institute of Technology (the "Institution") and State Street Bank and Trust Company (the "Trustee").

As to questions of fact material to our opinion we have relied upon representations and covenants of the Authority and the Institution contained in the Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications by officials of the Institution and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement. Under the Agreement the Institution has agreed to make payments sufficient to pay when due the principal of, and premium (if any) and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Authority under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues.

Reference is made to an opinion of even date of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., special counsel to the Institution, with respect to, among other matters, the corporate existence of the Institution, the power of the Institution to enter into and perform the Agreement, the authorization, execution and delivery of the Agreement by the Institution and the extent to which the Agreement is binding and enforceable upon the Institution.

We express no opinion with respect to compliance by the Institution with applicable legal requirements in connection with the operation of the Project (as defined in the Agreement).

Based on our examination, we are of opinion, as of the date hereof and under existing law, as follows:

1. The Authority is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreement and to issue the Bonds.

2. The Agreement has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable upon the Authority. As provided in Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, the Agreement creates a valid lien on the Revenues and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under the Agreement (except certain rights to indemnification, reimbursements and fees) on a parity with other bonds (if any) issued or to be issued under the Agreement.

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the Revenues.

4. Under existing law, interest on the Bonds (including any original issue discount properly allocable to the owners thereof) is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986 (the "IRC") on individuals and corporations. However, we call your attention to the fact that interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). We also call your attention to the fact that failure by the Authority or the Institution to comply subsequent to the issuance of the Bonds with certain requirements of the IRC may cause interest on the Bonds to become includable in the gross income of the owners of the Bonds for federal income tax purposes retroactive to the date of issuance of the Bonds. The Institution and, to the extent necessary, the Authority have covenanted in the Agreement to take all lawful action necessary under the IRC to ensure that interest on the Bonds will remain excluded from the gross income of the owners of the Bonds for federal income tax purposes and to refrain from taking any action which would cause interest on the Bonds to become included in such gross income. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Under existing law, interest on the Bonds (including any original issue discount properly allocable to the owners thereof) and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds and the Agreement are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by Massachusetts Institute of Technology (the "Institution") and State Street Bank and Trust Company (the "Trustee") in connection with the issuance of $59,200,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Massachusetts Institute of Technology Issue, Series I (the "Bonds"). The Bonds are being issued pursuant to a Loan and Trust Agreement dated as of January 13, 1998 among the Massachusetts Health and Educational Facilities Authority (the "Authority"), the Trustee and the Institution (the "Agreement"), and the proceeds of the Bonds are being loaned by the Authority to the Institution pursuant to the Agreement. The Institution and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Institution and the Trustee for the benefit of the Bondowners and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Institution and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures. The Trustee, except as provided in Section 3(c), has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures except for its negligent failure to comply with its obligations under Section 3(c).

SECTION 2. Definitions. In addition to the definitions set forth in the Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Institution pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Bondowner" shall mean the registered owner of a Bond and any beneficial owner thereof, as established to the reasonable satisfaction of the Trustee or Institution.

"Dissemination Agent" shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the Institution and which has filed with the Institution, the Trustee and the Authority a written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. The initial Dissemination Agent shall be the Institution. In the absence of a third-party Dissemination Agent, the Institution shall serve as the Dissemination Agent.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories as of the date of execution of this Disclosure Agreement are listed in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by The Commonwealth of Massachusetts as a state repository for the purpose of the Rule.

SECTION 3. Provision of Annual Reports.

(a) Commencing in 1998, the Dissemination Agent, not later than 180 days after the end of each fiscal year (the "Filing Deadline"), shall provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Institution (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Institution may be submitted separately from, and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Dissemination Agent submits the audited financial statements of the Institution at a later date, it shall provide unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available. The Institution shall submit the audited financial statements to the Dissemination Agent and the Trustee as soon as practicable after they become available and the Dissemination Agent shall submit the audited financial statements to each Repository as soon as practicable thereafter. The Institution shall provide a copy of the Annual Report to the Authority and the Trustee.

(b) The Dissemination Agent shall:

(i) determine each year within five (5) Business Days of the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any (insofar as determinations regarding National Repositories are concerned, the Dissemination Agent or the Institution, as applicable, may rely conclusively on the list of

National Repositories maintained by the United States Securities and Exchange Commission); and

(ii) file a report with the Institution, the Authority and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided (the "Compliance Certificate"); such report shall include a certification from the Institution that the Annual Report complies with the requirements of this Disclosure Agreement.

(c) If the Trustee has not received a Compliance Certificate by the Filing Deadline, the Trustee shall send, and the Institution hereby authorizes and directs the Trustee to submit on its behalf, a notice to each Repository in substantially the form attached as Exhibit A.

(d) If the Dissemination Agent has not provided the Annual Report to the Repositories by the Filing Deadline, the Institution shall send, or cause the Dissemination Agent to send, a notice substantially in the form of Exhibit A irrespective of whether the Trustee submits such notice.

SECTION 4. Content of Annual Reports. The Institution's Annual Report shall contain or incorporate by reference the following:

The audited financial statements of the Institution.

The financial statements provided pursuant to Sections 3 and 4 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Institution is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Institution shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

7. Modifications to rights of the Owners of the Bonds.

8. Bond calls.

9. Defeasance of the Bonds or any portion thereof.

10. Release, substitution or sale of property securing repayment of the Bonds.

11. Rating changes.

(b) Whenever the Institution obtains knowledge of the occurrence of a Listed Event, if such Listed Event is material, the Institution shall, in a timely manner, direct the Dissemination Agent to file a notice of such occurrence with the Repositories. The Institution shall provide a copy of each such notice to the Authority and the Trustee. The Dissemination Agent, if other than the Institution, shall have no duty to file a notice of an event described hereunder unless it is directed in writing to do so by the Institution, and shall have no responsibility for verifying any of the information in any such notice or determining the materiality of the event described in such notice.

SECTION 6. Termination of Reporting Obligation. The Institution's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by the Institution and acceptable to the Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule. If the Institution's obligations under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Institution and the original Institution shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Institution may, from time to time with notice to the Trustee and the Authority appoint or engage a third-party Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may, with notice to the Trustee and the Authority, discharge any such third-party Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the Institution) may resign upon 30 days' written notice to the Institution, the Trustee and the Authority.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Institution and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Institution) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Institution and the Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule. Without limiting the foregoing, the Institution and the Trustee may amend this Disclosure Agreement if (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Institution or of the type of business conducted by the Institution, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) (i) the Trustee determines, or the Trustee receives an opinion of counsel expert in federal securities laws and acceptable to the Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the Agreement pursuant to Section 1001 of the Agreement. The annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. Neither the Trustee nor the Dissemination Agent shall be required to accept or acknowledge any amendment of this Disclosure Agreement if the amendment adversely affects its respective rights or immunities or increases its respective duties hereunder.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Institution from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Institution chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Institution shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Institution or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of Bondowners representing at least 25% in aggregate principal amount of Outstanding Bond, shall), take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. Without regard to the foregoing, any Bondowner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Institution or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. As to the Trustee, Article VI of the Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Agreement. The Dissemination Agent (if other than the Institution) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Institution agrees to indemnify and save the Dissemination Agent (if other than the Institution), its officers, director, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the

Dissemination Agent's negligence or willful misconduct. The obligations of the Institution under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Institution covenants that whenever it is serving as Dissemination Agent, it shall take any action required of the Dissemination Agent under this Disclosure Agreement.

The Trustee shall have no obligation under this Disclosure Agreement to report any information to any Repository or any Bondowner. If an officer of the Trustee obtains actual knowledge of the occurrence of an event described in Section 5 hereunder, whether or not such event is material, the Trustee shall timely notify the Institution of such occurrence, provided, however, that any failure by the Trustee to give such notice to the Institution shall not affect the Institution's obligations under this Disclosure Agreement or give rise to any liability by the Trustee for such failure.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Institution, the Trustee, the Dissemination Agent, the Participating Underwriters and the Bondowners, and shall create no rights in any other person or entity.

SECTION 13. Disclaimer. No Annual Report or notice of a Listed Event filed by or on behalf of the Institution under this Disclosure Agreement shall obligate the Institution to file any information regarding matters other than those specifically described in Section 4 and Section 5 hereof, nor shall any such filing constitute a representation by the Institution or raise any inference that no other material events have occurred with respect to the Institution or the Bonds or that all material information regarding the Institution or the Bonds has been disclosed. The Institution shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

Date: ________________

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

By ____________________________________
Vice President for Finance and Treasurer

STATE STREET BANK AND TRUST COMPANY,
as Trustee

By ________________________________
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Massachusetts Health and Educational Facilities Authority

Name of Bond Issue: Revenue Bonds, Massachusetts Institute of Technology Issue, Series I

Name of Obligated Person: Massachusetts Institute of Technology

Date of Issuance: January 29, 1998

NOTICE IS HEREBY GIVEN that the Massachusetts Institute of Technology (the "Institution") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated ____________________ between the Institution and State Street Bank and Trust Company.

Dated: __________________

[TRUSTEE/DISSEMINATION AGENT on behalf of] INSTITUTION

[cc: Institution]

EXHIBIT B

NATIONAL REPOSITORIES

Bloomberg Financial Markets Municipal Repository
P.O. Box 840
Princeton, New Jersey 08542-0840
PH: (609) 279-3200
FAX: (609) 279-5962
Internet: MUNIS@bloomberg.com

The Bond Buyer
Attn: Municipal Disclosure
395 Hudson Street, Third Floor
New York, New York 10014
PH: (800) 689-8466
PH: (212) 807-5001
FAX: (212) 989-2078
Internet: Disclosure@muller.com

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
PH: (201) 346-0701
FAX: (201) 947-0107
Internet: nrmsir@dpcdata.com

J. J. Kenny
Attn: Repository
65 Broadway, 16th Floor
New York, New York 10006
PH: (212) 770-4586
FAX: (212) 770-0222
FAX: (212) 770-0223

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