OFFERING CIRCULAR

# $125,000,000

# Massachusetts Institute of Technology

## MEDIUM-TERM NOTES
## (Taxable Series A)

*Due 9 Months or More from Date of Issue*

*Massachusetts Institute of Technology (the "Institute") may offer from time to time its Medium-Term Notes (Taxable Series A) (the "Notes"). The aggregate initial public offering price of Notes outstanding may not at any time exceed $125,000,000 or the equivalent thereof in one or more foreign or composite currencies (the "Specified Currency"). The interest rate on each Note will be either a fixed rate established by the Institute at the date of issue of such Note (a "Fixed Rate Note") or a floating rate (a "Floating Rate Note"). A Fixed Rate Note may pay a level amount in respect of both interest and principal amortized over the life of the Note (an "Amortizing Note").*

*The Notes constitute unconditional, direct and general obligations of the Institute, ranking equally with the unsecured and unsubordinated indebtedness of the Institute.*

*The terms of each Note will include the terms described in this Offering Circular and in the applicable Pricing Supplement hereto, provided that terms contained in the applicable Pricing Supplement supersede any inconsistent terms herein. Interest on each Fixed Rate Note is payable each January 1 and July 1 and at maturity. Interest on each Floating Rate Note is payable on the dates set forth herein. Amortizing Notes will pay principal and interest semiannually each January 1 and July 1, or quarterly each January 1, April 1, July 1 and October 1, and at maturity. Each Note will mature on any day nine months or more from the date of issue. See "DESCRIPTION OF THE NOTES." The Notes may be redeemed by the Institute prior to maturity and will be issued in fully registered form in denominations of $1,000 (or the equivalents thereof in the Specified Currency rounded down to the nearest 1,000 units of the Specified Currency) or any amount in excess thereof which is an integral multiple of $1,000 (or 1,000 units of the Specified Currency). Each Note will be represented either by a global Note (a "Global Note") registered in the name of the nominee of The Depository Trust Company, as depositary (the "Depositary") (a "Book-Entry Note"), or by a certificate issued in definitive form (a "Certificated Note"). Beneficial interests in Global Notes representing Book-Entry Notes will be shown on, and transfers thereof will be effected only through, records maintained by the Depositary's participants. Book-Entry Notes will not be issuable as Certificated Notes except under the circumstances described herein under "DESCRIPTION OF THE NOTES—Book-Entry System."*

**THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION.**

| | Price to Public(1) | Agents' Commission(2) | Proceeds to Institute(3) |
|---|---|---|---|
| Per Note | 100.000% | .125% - .750% | 99.875% - 99.250% |
| Total (4) | $125,000,000 | $156,250 - $937,500 | $124,843,750 - $124,062,500 |

(1) Unless otherwise specified in the applicable Pricing Supplement, Notes will be offered at 100% of the principal amount thereof.
(2) The Institute will pay a commission to an Agent on each Note sold through such Agent, ranging from .125% to .750% of the principal amount of the Note (depending upon the Note's maturity), provided that commissions with respect to Notes maturing more than thirty years from date of issue will be negotiated. The Institute may also sell Notes to an Agent, as principal for its own account, at negotiated discounts, and for resale to investors and other purchasers.
(3) The Proceeds to the Institute represent proceeds received by the Institute before deduction of expenses payable by the Institute.
(4) The Totals equal to the U.S. dollar amounts indicated or the equivalent thereof in other currencies, including composite currencies.

*Offers to purchase the Notes are being solicited from time to time by Morgan Stanley & Co. Incorporated and BT Securities Corporation (individually, an "Agent" and collectively the "Agents"), on behalf of the Institute. The Agents have agreed to use their reasonable efforts to solicit purchases of such Notes. The Institute may also sell Notes to an Agent acting as principal for its own account for resale to investors and other purchasers, to be determined by such Agent. No termination date for the Offering of the Notes has been established. The Institute or an Agent may reject any offer in whole or in part. The Notes will not be listed on any securities exchange, and there can be no assurance that the Notes offered hereby will be sold or that there will be a secondary market for the Notes. See "PLAN OF DISTRIBUTION."*

**MORGAN STANLEY & CO.**
*Incorporated*

**BT SECURITIES CORPORATION**

May 8, 1996

No dealer, salesperson or any other person has been authorized to give any information or to make any representations other than those contained in this Offering Circular and any Pricing Supplement in connection with the offer contained in this Offering Circular and any Pricing Supplement and, if given or made, such information or representations must not be relied upon as having been authorized by the Institute or by the Agent. The delivery of this Offering Circular and any Pricing Supplement at any time does not imply that the information herein and in the applicable Pricing Supplement is correct as of any time subsequent to the date hereof and thereof. This Offering Circular and any Pricing Supplement does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to which it is unlawful to make such offer or solicitation.

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**IN CONNECTION WITH THIS OFFERING, THE AGENTS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED MAY BE DISCONTINUED AT ANY TIME.**

**$125,000,000**

**MASSACHUSETTS INSTITUTE OF TECHNOLOGY**

**MEDIUM-TERM NOTES**
**(TAXABLE SERIES A)**

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## INTRODUCTION

This Offering Circular, which includes the front cover and the Appendices hereto, and any Pricing Supplement, provides certain information concerning the offering from time to time by Massachusetts Institute of Technology (the "Institute") of its Medium-Term Notes (Taxable Series A) (the "Notes"). The aggregate initial public offering price of Notes outstanding may not at any time exceed $125,000,000 or the equivalent thereof in one or more foreign or composite currencies (the "Specified Currency"). See "IMPORTANT CURRENCY EXCHANGE INFORMATION." The Notes are to be issued under an Issuing and Paying Agency Agreement (the "IPAA") dated as of May 8, 1996 between the Institute and State Street Bank and Trust Company, as issuing and paying agent (the "Paying Agent"). See "DESCRIPTION OF THE NOTES" herein for a description of certain provisions of the IPAA and the Notes.

## INCORPORATION BY REFERENCE

The Institute periodically prepares its Report of the Treasurer (each such Report hereinafter referred to as a "Treasurer's Report"). Each such Treasurer's Report published subsequent to the date hereof and any amendment or supplement thereto, when made publicly available prior to the termination of the offering of Notes made pursuant to this Offering Circular, shall be deemed to be incorporated by reference in the Offering Circular and any related Offering Circular Supplement and to be a part hereof and thereof from the date made publicly available. Any statement contained in any document so incorporated or deemed to be incorporated by reference shall be deemed to be modified or superseded for purposes of this Offering Circular and any such Offering Circular Supplement to the extent that a statement contained herein or therein or in any subsequently publicly available document which also is so incorporated or deemed to be incorporated by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular or any such Offering Circular Supplement.

The Institute will provide without charge upon written or oral request by any person to whom this Offering Circular is delivered a copy of any or all of the documents described which have been so incorporated or deemed to be incorporated by reference. Requests for the Offering Circular should be directed to Medium-Term Note Trading Desk, Morgan Stanley & Co. Incorporated, 1585 Broadway, 2nd Floor, New York, NY 10036 (212) 761-2000. Requests for any such document may also be directed to: Massachusetts Institute of Technology, c/o Office of the Treasurer, 238 Main Street, Suite 200, Cambridge, Massachusetts 02142.

## THE INSTITUTE

The Institute is a private, nonprofit, coeducational, nonsectarian institution of higher education chartered under the laws of The Commonwealth of Massachusetts. There are approximately 9,960 students attending the Institute of which approximately 5,329 are full-time graduate students. The Institute's faculty numbers approximately 960 members with other academic staff of approximately 2,410. The Institute is located on a 145-acre residential campus fronting the Charles River in Cambridge, Massachusetts, opposite Boston. In addition, the Institute owns property in several suburban communities.

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-officiis, the Chairman, the Treasurer and the Secretary of the Corporation, the President of the Institute, 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. Typical of these matters are the organizational structure of the Institute, faculty and staff appointments and salaries, annual budgets, tuition, scope of educational and research programs, special contract services for the federal government and other organizations, new plant and facilities, and the broad considerations related to providing new funds for Institute purposes. The Executive Committee authorizes officers to borrow money on behalf of the Institute in such amounts as the Committee may determine.

The Executive Committee of the Corporation meets monthly, with the exception of July and August, and at such other times as needed.

Additional information relating to the Institute, including the current members of the Executive Committee, is set forth in Appendix A. More detailed information regarding the Institute is set forth in the Treasurer's Report for the year ended June 30, 1995 set forth in Appendix B hereto.

## USE OF PROCEEDS

Proceeds of the Notes will be used to finance or refinance the acquisition, construction and renovation of certain Institute properties.

## IMPORTANT CURRENCY EXCHANGE INFORMATION

Purchasers are required to pay for the Notes in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts ("U.S. dollars") or, if so provided in the applicable Pricing Supplement (as defined below), the equivalent thereof in one or more foreign currencies or composite currencies (the "Specified Currency"), including the European Currency Unit (the "ECU"), and payments of principal of, and premium, if any, and interest on, the Notes will be made in U.S. dollars, or if so provided in the applicable Pricing Supplement in the Specified Currency. Currently, there are limited facilities in the United States for the conversion of U.S. dollars into foreign currencies and vice versa. In addition, most banks do not currently offer non-U.S. dollar denominated checking or savings account facilities in the United States. Accordingly, unless otherwise specified in the applicable Pricing Supplement or unless alternative arrangements are made, payment of principal of, and premium, if any, and interest on Notes in a Specified Currency will be made to an account at a bank outside the United States. See "DESCRIPTION OF THE NOTES" and "FOREIGN CURRENCY RISKS."

If the applicable Pricing Supplement provides for payments of principal of, and premium, if any, and interest on, a non-U.S. dollar denominated Note to be made in U.S. dollars, the conversion of the Specified Currency into U.S. dollars will be handled by the exchange rate agent identified in the applicable Pricing Supplement (the "Exchange Rate Agent"). The costs of such conversion will be borne by the holder of such a Note through deductions from such payments.

## DESCRIPTION OF THE NOTES

The particular terms of the Notes sold pursuant to any pricing supplement (a "Pricing Supplement") will be described therein. The terms and conditions set forth in "Description of Notes" will apply to each Note unless otherwise specified in the applicable Pricing Supplement and in such Note. The Notes are to be issued under the IPAA.

The Notes have not been registered with the Securities and Exchange Commission and are offered pursuant to an exemption from registration under Section 3(a)(4) of the Securities Act. The IPAA is not required to be and has not been qualified under the Trust Indenture Act of 1939, as amended.

Income on the Notes is not excludable from gross income for federal, state or local income tax purposes.

If any Note is not to be denominated in U.S. dollars, the applicable Pricing Supplement will specify the currency or currencies, including composite currencies such as the ECU, in which the principal, premium, if any, and interest, if any, with respect to such Note are to be paid, along with any other terms relating to the non-U.S. dollar denomination, including exchange rates for the Specified Currency as against the U.S. dollar at selected times during the last five years, and any exchange controls affecting such Specified Currency. See "FOREIGN CURRENCY RISKS."

General

The Notes will rank pari passu with all other unsecured and unsubordinated indebtedness of the Institute. The Notes may be issued from time to time in series, each Note constituting its own series unless otherwise indicated in the applicable Pricing Supplement, provided that the aggregate initial public offering price of Notes outstanding is limited to $125,000,000 or the equivalent thereof in one or more foreign or composite currencies, or such greater principal amount as the Institute may from time to time authorize. The IPAA does not limit the amount of additional indebtedness the Institute may incur or restrict the Institute's ability to secure such indebtedness. For the purpose of this Offering Circular, (i) the principal amount on the date of issue of any Original Issue Discount Note (as defined below) means the Issue Price (as defined below) of such Note and (ii) the principal amount of any Note issued in a foreign currency or composite currency means the U.S. dollar equivalent on the date of issue of the Issue Price of such Note.

The Notes will mature on any day nine months or more from the date of issue, as set forth in the applicable Pricing Supplement. Except as may be provided in the applicable Pricing Supplement, the Notes will be issued only in fully registered form. Unless otherwise provided in the applicable Pricing Supplement, Notes will be denominated in Authorized Denominations (as defined below).

The Notes will be offered on a continuing basis, and each Note will be issued initially as either a Global Note or a Definitive Note. Except as set forth hereinafter under "Book-Entry System," Global Notes will not be issuable as Definitive Notes. The laws of some states may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in Global Securities. See "Book-Entry System" below.

The Notes may be presented for payment of principal and interest, transfer of the Notes will be registrable and the Notes will be exchangeable at the agency in The City of New York, maintained by the Institute for such purpose; provided that Global Notes will be exchangeable only in the manner and to the extent set forth hereinafter under "Book-Entry System." On the date hereof, the agent for the payment, transfer and exchange of the Notes is State Street Bank and Trust Company, acting through its corporate trust office at 61 Broadway, New York, New York 10006.

The applicable Pricing Supplement will specify the price (the "Issue Price") of each Note to be sold pursuant thereto (unless such Note is to be sold at 100% of its principal amount), the interest rate or interest rate formula, maturity, currency or composite currency and principal amount and any other terms on which each Note will be issued.

As used herein, the following terms shall have the meanings set forth below:

"Authorized Denominations" means, unless otherwise provided in the applicable Pricing Supplement, (i) with respect to Notes denominated in U.S. dollars, U.S. $1,000 or any amount in excess thereof which is an integral multiple of U.S. $1,000 and (ii) with respect to Notes denominated in foreign or composite currencies, the equivalent of $1,000 (rounded to an integral multiple of 1,000 units of such

Specified Currency), or any amount in excess thereof which is an integral multiple of 1,000 units of such Specified Currency, as determined by reference to the noon dollar buying rate in New York City for cable transfers of such Specified Currency published by the Federal Reserve Bank of New York (the "Market Exchange Rate") on the Business Day (as defined below) immediately preceding the date of issuance; provided, however, that in the case of ECU's, the Market Exchange Rate shall be the rate of exchange determined by the Commission of the European Communities (or any successor thereto) as published in the Official Journal of the European Communities, or any successor publication, on the Business Day immediately preceding the date of issuance.

"Business Day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York and (i) with respect to LIBOR Notes (as defined below), is also a London Banking Day, (ii) with respect to Notes denominated in a Specified Currency other than U.S. dollars, Australian dollars or ECUs, in the principal financial center of the country of the Specified Currency, (iii) with respect to Notes denominated in Australian dollars, in Sydney and (iv) with respect to Notes denominated in ECUs, that is not a non-ECU clearing day, as determined by the ECU Banking Association in Paris.

An "Interest Payment Date" with respect to any Note shall be a date on which, under the terms of such Note, regularly scheduled interest shall be payable.

"London Banking Day" means any day on which dealings in deposits in the Index Currency are transacted in the London interbank market.

"Original Issue Discount Note" means any Note that provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the IPAA.

The "Record Date" with respect to any Interest Payment Date shall be the date 15 calendar days prior to such Interest Payment Date, whether or not such date shall be a Business Day.

**Payment Currency**

If the applicable Pricing Supplement provides for payments of interest and principal on a non-U.S. dollar denominated Note to be made, at the option of the holder of such Note, in U.S. dollars, conversion of the Specified Currency into U.S. dollars will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 A.M., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers (one of which may be the Exchange Rate Agent) for the purchase by the quoting dealer of the Specified Currency for U.S. dollars for settlement on such payment date in the aggregate amount of the Specified Currency payable to the holders of Notes and at which the applicable dealer commits to execute a contract. If such bid quotations are not available, payments will be made in the Specified Currency. All currency exchange costs will be borne by the holders of Notes by deductions from such payments.

Except as set forth below, if the principal of, premium, if any, or interest on, any Note is payable in a Specified Currency other than U.S. dollars and such Specified Currency is not available to the Institute for making payments thereof due to the imposition of exchange controls or other circumstances beyond the control of the Institute, then the Institute will be entitled to satisfy its obligations to holders of the Notes by making such payments in U.S. dollars on the basis of the Market Exchange Rate on the date of such payment or, if the Market Exchange Rate is not available on such date, as of the most recent practicable date. Any payment made under such circumstances in U.S. dollars where the required payment is in a Specified Currency other than U.S. dollars will not constitute an Event of Default.

Under the treaty establishing the European Community (the "EC"), as amended by the treaty on European Union (the "Treaty"), the ECU may, at or before January 1, 1999, and subject to the fulfillment of certain conditions, become a currency in its own right, replacing some or all of the currencies of the 15 member states of the EC, and named the "Euro". If, pursuant to the Treaty, some or all of the currencies of the 15 member states of the EC are replaced by the Euro, the payment of Notes denominated in such currencies shall be effected in equivalent Euro determined pursuant to implementing legislation. Changes as to the nature or composition of the ECU may be made by the EC in conformity with the Treaty and EC law, in which event references to ECU in the Notes shall thereafter be construed as references to the ECU as so changed. In addition, if the ECU becomes a currency in its own right in accordance with the Treaty, all references to ECU in the Notes shall be construed as references to the Euro.

If the payment on a Note is required to be made in ECU and, on a payment date with respect to such Note, the ECU is used neither as the unit of account of the EC nor as a currency in its own right, then all payments due on such payment date shall be made in equivalent U.S. dollars, determined by the Institute or the Exchange Rate Agent on the following basis. The component currencies of the ECU for this purpose (the "Components") shall be the currency amounts that were components of the ECU as of the last date on which the ECU was used as the unit of account of the EC. The equivalent of the ECU in U.S. dollars shall be calculated by aggregating the U.S. dollar equivalents of the Components. The U.S. dollar equivalent of each of the Components shall be determined by the Institute or the Exchange Rate Agent on the basis of the most recently available Market Exchange Rates for such Components.

All determinations referred to above made by the Institute or its agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on holders of Notes.

**Interest and Principal Payments**

Interest will be payable to the person in whose name the Note is registered at the close of business on the applicable Record Date; provided that the interest payable upon maturity, redemption or repayment (whether or not the date of maturity, redemption or repayment is an Interest Payment Date) will be payable to the person to whom principal is payable. The initial interest payment on a Note will be made on the first Interest Payment Date falling after the date the Note is issued; provided, however, that payments of interest (or, in the case of an Amortizing Note, principal and interest) on a Note issued less than 15 calendar days before an Interest Payment Date will be paid on the next succeeding Interest Payment Date to the holder of record on the Record Date with respect to such succeeding Interest Payment Date, unless otherwise specified in the applicable Pricing Supplement. See "United States Federal Taxation--U.S. Holders--Original Issue Discount" below.

U.S. dollar payments of interest, other than interest payable at maturity (or on the date of redemption or repayment, if a Note is redeemed or repaid by the Institute prior to maturity), will be made by check mailed to the address of the person entitled thereto as shown on the Note register. U.S. dollar payment of principal, premium, if any, and interest upon maturity, redemption or repayment will be made in immediately available funds against presentation and surrender of the Note. Notwithstanding the foregoing, (a) the Depositary, as holder of Global Notes, shall be entitled to receive payments of interest by wire transfer of immediately available funds and (b) a holder of U.S. $10,000,000 (or the equivalent) or more in aggregate principal amount of Definitive Notes having the same Interest Payment Date shall be entitled to receive payments of interest by wire transfer of immediately available funds upon written request to the Paying Agent, provided such request is received not later than 15 calendar days prior to the applicable Interest Payment Date.

Unless otherwise specified in the applicable Pricing Supplement, a beneficial owner of Global Notes denominated in a Specified Currency electing to receive payments of principal or any premium or interest in a currency other than U.S. dollars must notify the participant through which its interest is held on or prior to the applicable Record Date, in the case of a payment of interest, and on or prior to the sixteenth day prior to maturity, in the case of principal or premium of such beneficial owner's election to receive all or a portion of such payment in a Specified Currency. Such participant must notify the Depositary (as defined below) of such election on or prior to the third Business Day after such Record Date. The Depositary will notify the Paying Agent of such election on or prior to the fifth Business Day after such Record Date. If complete instructions are received by the participant and forwarded by the participant to the Depositary, and by the Depositary to the Paying Agent, on or prior to such dates, the beneficial owner will receive payments in the Specified Currency by wire transfer of immediately available funds to an account maintained by the payee with a bank located outside the United States; otherwise the beneficial owner will receive payments in U.S. dollars.

Certain Notes, including Original Issue Discount Notes, may be considered to be issued with original issue discount, which must be included in income for United States federal income tax purposes at a constant rate. See "United States Federal Taxation-U.S. Holders--Original Issue Discount" below. Unless otherwise specified in the applicable Pricing Supplement, if the principal of any Original Issue Discount Note is declared to be due and payable immediately as described under "Events of Default" below, the amount of principal due and payable with respect to such Note shall be limited to the aggregate principal amount of such Note multiplied by the sum of its Issue Price (expressed as a percentage of the aggregate principal amount) plus the original issue discount amortized from the date of issue to the date of declaration, which amortization shall be calculated using the "interest method" (computed in accordance with generally accepted accounting principles in effect on the date of declaration). Special considerations applicable to any such Notes will be set forth in the applicable Pricing Supplement.

### Fixed Rate Notes

Each Fixed Rate Note will bear interest from the date of issuance at the annual rate stated on the face thereof, except as described below under "Extension of Maturity," until the principal thereof is paid or made available for payment. Unless otherwise specified in the applicable Pricing Supplement, such interest will be computed on the basis of a 360-day year of twelve 30-day months. Unless otherwise specified in the applicable Pricing Supplement, payments of interest on Fixed Rate Notes other than Amortizing Notes will be made semi annually on each January 1 and July 1 and at maturity or upon any earlier redemption or repayment. Unless otherwise specified in the applicable Pricing Supplement, payments of principal and interest on Amortizing Notes, which are securities on which payments of principal and interest are made in equal installments over the life of the security, will be made either quarterly on each January 1, April 1, July 1 and October 1 or semiannually on each January 1 and July 1, as set forth in the applicable Pricing Supplement, and at maturity or upon any earlier redemption or repayment. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. A table setting forth repayment information in respect of each Amortizing Note will be provided to the original purchaser and will be available, upon request, to subsequent holders.

If any Interest Payment Date for any Fixed Rate Note falls on a day that is not a Business Day, the interest payment shall be made on the next day that is a Business Day, and no interest on such payment shall accrue for the period from and after the Interest Payment Date. If the maturity (or date of redemption or repayment) of any Fixed Rate Note falls on a day that is not a Business Day, the payment of interest and principal (and premium, if any) will be made on the next succeeding Business Day, and no interest on such payment shall accrue for the period from and after the maturity date (or date of redemption or repayment).

Interest payments for Fixed Rate Notes will include accrued interest from and including the date of issue or from and including the last date in respect of which interest has been paid, as the case may be, to, but excluding, the Interest Payment Date or the date of maturity or earlier redemption or repayment, as the case may be. The interest rates the Institute will agree to pay on newly issued Fixed Rate Notes are subject to change without notice by the Institute from time to time, but no such change will affect any Fixed Rate Notes theretofore issued or that the Institute has agreed to issue.

### Floating Rate Notes

Each Floating Rate Note will bear interest from the date of issuance until the principal thereof is paid or made available for payment at a rate determined by reference to an interest rate basis or formula (the "Base Rate"), which may be adjusted by a Spread and/or Spread Multiplier (each as defined below). The applicable Pricing Supplement will designate one or more of the following Base Rates as applicable to each Floating Rate Note: (a) the CD Rate (a "CD Rate Note"), (b) the Commercial Paper Rate (a "Commercial Paper Rate Note"), (c) the Federal Funds Rate (a "Federal Funds Rate Note"), (d) LIBOR (a "LIBOR Note"), (e) the Prime Rate (a "Prime Rate Note"), (f) the Treasury Rate (a "Treasury Rate Note"), (g) the CMT Rate (a "CMT Rate Note") or (h) such other Base Rate or interest rate formula as is set forth in such Pricing Supplement and in such Floating Rate Note. The "Index Maturity" for any Floating Rate Note is the period of maturity of the instrument or obligation from which the Base Rate is calculated and will be specified in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the interest rate on each Floating Rate Note will be calculated by reference to the specified Base Rate (i) plus or minus the Spread, if any, and/or (ii) multiplied by the Spread Multiplier, if any. The "Spread" is the number of basis points (one-hundredth of a percentage point) specified in the applicable Pricing Supplement to be added to or subtracted from the Base Rate for such Floating Rate Note, and the "Spread Multiplier" is the percentage specified in the applicable Pricing Supplement to be applied to the Base Rate for such Floating Rate Note.

As specified in the applicable Pricing Supplement, a Floating Rate Note may also have either or both of the following: (i) a maximum limitation, or ceiling, on the rate of interest which may accrue during any interest period ("Maximum Interest Rate"); and (ii) a minimum limitation, or floor, on the rate of interest which may accrue during any interest period ("Minimum Interest Rate"). In addition to any Maximum Interest Rate that may be applicable to any Floating Rate Note pursuant to the above provisions, the interest rate on a Floating Rate Note will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application. Under current New York law, the maximum rate of interest, subject to certain exceptions, for any loan in an amount less than $250,000 is 16% and for any loan in the amount of $250,000 or more but less than $2,500,000 is 25% per annum on a simple interest basis. These limits do not apply to loans of $2,500,000 or more.

Unless otherwise specified in the applicable Pricing Supplement, the rate of interest on each Floating Rate Note will be reset daily, weekly, monthly, quarterly, semiannually or annually (such period being the "Interest Reset Period" for such Note, and the first day of each Interest Reset Period being an "Interest Reset Date"), as specified in the applicable Pricing Supplement. Unless otherwise specified in the Pricing Supplement, the Interest Reset Date will be, in the case of Floating Rate Notes which reset daily, each Business Day; in the case of Floating Rate Notes (other than Treasury Rate Notes) which reset weekly, the Wednesday of each week; in the case of Treasury Rate Notes which reset weekly, the Tuesday of each week, except as provided below; in the case of Floating Rate Notes which reset monthly, the third Wednesday of each month; in the case of Floating Rate Notes which reset quarterly, the third Wednesday of January, April, July and October; in the case of Floating Rate Notes which reset semiannually, the third Wednesday of two months of each year, as specified in the applicable Pricing Supplement; and in the case of Floating Rate Notes which reset annually, the third Wednesday of one month of each year, as specified in the applicable Pricing Supplement; provided, however, that (a) the interest rate in effect from the date of issue to the first Interest Reset Date with respect to a Floating Rate Note will be the initial interest rate set forth in the applicable Pricing Supplement (the "Initial Interest Rate") and (b) unless otherwise specified in the applicable Pricing Supplement, the interest rate in effect for the ten calendar days immediately prior to maturity, redemption or repayment will be that in effect on the tenth calendar day preceding such maturity, redemption or repayment date. If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Reset Date shall be postponed to the next succeeding Business Day, except that in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Reset Date shall be the immediately preceding Business Day.

Except as provided below, unless otherwise specified in the applicable Pricing Supplement, interest on Floating Rate Notes will be payable: (i) in the case of Floating Rate Notes with a daily, weekly or monthly Interest Reset Date, on the third Wednesday of each month or on the third Wednesday of January, April, July and October, as specified in the applicable Pricing Supplement; (ii) in the case of Floating Rate Notes with a quarterly Interest Reset Date, on the third Wednesday of January, April, July and October; (iii) in the case of Floating Rate Notes with a semiannual Interest Reset Date, on the third Wednesday of the two months specified in the applicable Pricing Supplement; and (iv) in the case of Floating Rate Notes with an annual Interest Reset Date, on the third Wednesday of the month specified in the applicable Pricing Supplement. If any Interest Payment Date for any Floating Rate Note would fall on a day that is not a Business Day with respect to such Floating Rate Note, such Interest Payment Date will be postponed to the following day that is a Business Day with respect to such Floating Rate Note, except that, in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Payment Date shall be the immediately preceding day that is a Business Day with respect to such LIBOR Note. If the maturity date or any earlier redemption or repayment date of a Floating Rate Note would fall on a day that is not a Business Day, the payment of principal, premium, if any, and interest will be made on the next succeeding Business Day, and no interest on such payment shall accrue for the period from and after such maturity, redemption or repayment date, as the case may be.

Unless otherwise specified in the applicable Pricing Supplement, interest payments for Floating Rate Notes shall be the amount of interest accrued from and including the date of issue or from and including the last date to which interest has been paid to, but excluding, the Interest Payment Date or maturity date or date of redemption or repayment.

With respect to a Floating Rate Note, accrued interest shall be calculated by multiplying the principal amount of such Floating Rate Note by an accrued interest factor. Such accrued interest factor will be computed by adding the interest factors calculated for each day in the period for which interest is being paid. Unless otherwise specified in the applicable Pricing Supplement, the interest factor for each such day is computed by dividing the interest rate applicable to such day by 360, in the case of CD Rate Notes, Commercial Paper Rate Notes, Federal Funds Rate Notes, LIBOR Notes and Prime Rate Notes or by the actual number of days in the year, in the case of Treasury Rate Notes and CMT Rate Notes. All percentages used in or resulting from any calculation of the rate of interest on a Floating Rate Note will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward, and all dollar amounts used in or resulting from such calculation on Floating Rate Notes will be rounded to the nearest cent, with one-half cent rounded upward. The interest rate in effect on any Interest Reset Date will be the applicable rate as reset on such date. The interest rate applicable to any other day is the interest rate from the immediately preceding Interest Reset Date (or, if none, the Initial Interest Rate).

Unless otherwise stated in the applicable Pricing Supplement, the calculation agent (the "Calculation Agent") with respect to any issue of Floating Rate Notes shall be State Street Bank and Trust Company. Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rate that will become effective on the next Interest Reset Date with respect to such Floating Rate Note.

The "Interest Determination Date" pertaining to an Interest Reset Date for CD Rate Notes, Commercial Paper Rate Notes, Federal Funds Rate Notes, CMT Rate Notes and Prime Rate Notes will be the second Business Day next preceding such Interest Reset Date. The Interest Determination Date pertaining to an Interest Reset Date for a LIBOR Note will be the second London Banking Day preceding such Interest Reset Date. The Interest Determination Date pertaining to an Interest Reset Date for a Treasury Rate Note will be the day of the week in which such Interest Reset Date falls on which Treasury bills would normally be auctioned. Treasury bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, but such auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Interest Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week. If an auction falls on a day that is an Interest Reset Date, such Interest Reset Date will be the next following Business Day.

Unless otherwise specified in the applicable Pricing Supplement, the "Calculation Date," where applicable, pertaining to an Interest Determination Date will be the earlier of (i) the tenth calendar day after such Interest Determination Date, or, if such day is not a Business Day, the next succeeding Business Day, or (ii) the Business Day preceding the applicable Interest Payment Date or Maturity Date, as the case may be.

Interest rates will be determined by the Calculation Agent as follows:

*CD Rate Notes*

CD Rate Notes will bear interest at the interest rate (calculated with reference to the CD Rate and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the CD Rate Notes and in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, "CD Rate" means, with respect to any Interest Determination Date, the rate on such date for negotiable certificates of deposit having the Index Maturity designated in the applicable Pricing Supplement as published by the Board of Governors of the Federal Reserve System in "Statistical Release H.15(519), Selected Interest Rates," or any successor publication of the Board of Governors of the Federal Reserve System ("H.15(519)") under the heading "CDs (Secondary Market)," or, if not so published by 9:00 A.M., New York City time, on the Calculation Date pertaining to such Interest Determination

Date, the CD Rate will be the rate on such Interest Determination Date for negotiable certificates of deposit of the Index Maturity designated in the applicable Pricing Supplement as published by the Federal Reserve Bank of New York in its daily statistical release "Composite 3:30 P.M. Quotations for U.S. Government Securities" (the "Composite Quotations") under the heading "Certificates of Deposit." If such rate is not yet published in either H.15(519) or the Composite Quotations by 3:00 P.M., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the CD Rate on such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on such Interest Determination Date for certificates of deposit in an amount that is representative for a single transaction at that time with a remaining maturity closest to the Index Maturity designated in the Pricing Supplement of three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in The City of New York selected by the Calculation Agent for negotiable certificates of deposit of major United States money center banks; provided, however, that if the dealers selected as aforesaid by the Calculation Agent are not quoting as set forth above, the CD Rate in effect for the applicable period will be the same as the CD Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the CD Rate Notes for which such CD Rate is being determined shall be the Initial Interest Rate).

*Commercial Paper Rate Notes*

Commercial Paper Rate Notes will bear interest at the interest rate (calculated with reference to the Commercial Paper Rate and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the Commercial Paper Rate Notes and in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, "Commercial Paper Rate" means, with respect to any Interest Determination Date, the Money Market Yield (as defined below) of the rate on such date for commercial paper having the Index Maturity specified in the applicable Pricing Supplement, as such rate shall be published in H.15(519), under the heading "Commercial Paper." In the event that such rate is not published by 9:00 A.M., New York City time, on the Calculation Date pertaining to such Interest Determination Date, then the Commercial Paper Rate shall be the Money Market Yield of the rate on such Interest Determination Date for commercial paper of the specified Index Maturity as published in Composite Quotations under the heading "Commercial Paper." If by 3:00 P.M., New York City time, on such Calculation Date such Rate is not yet available in either H.15(519) or Composite Quotations, then the Commercial Paper Rate shall be the Money Market Yield of the arithmetic mean of the offered Rates as of 11:00 A.M., New York City time, on such Interest Determination Date of three leading dealers of commercial paper in The City of New York selected by the Calculation Agent for commercial paper of the specified Index Maturity, placed for an industrial issuer whose bond Rating is "AAA," or the equivalent, from a nationally recognized rating agency; provided, however, that if the dealers selected as aforesaid by the Calculation Agent are not quoting offered rates as mentioned in this sentence, the Commercial Paper Rate in effect for the applicable period will be the same as the Commercial Paper Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Commercial Paper Rate Notes for which such Commercial Paper Rate is being determined shall be the Initial Interest Rate).

"Money Market Yield" shall be a yield calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days for which interest is being calculated.

*Federal Funds Rate Notes*

Federal Funds Rate Notes will bear interest at the interest Rate (calculated with reference to the Federal Funds Rate and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the Federal Funds Rate Notes and in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the "Federal Funds Rate" means, with respect to any Interest Determination Date, the rate on such date for Federal funds as published in H.15(519) under the heading "Federal Funds (Effective)," or, if not so published by 9:00 A.M., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the Federal Funds Rate will be the rate on such Interest Determination Date as published in the Composite Quotations under the heading "Federal Funds/Effective Rate." If such rate is not yet published in either H.15(519) or the Composite Quotations by 3:00 P.M., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the Federal Funds Rate for such Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates for the last transaction in overnight Federal funds, as of 9:00 A.M., New York City time, on such Interest Determination Date, arranged by three leading brokers of Federal funds transactions in The City of New York selected by the Calculation Agent; provided, however, that if the brokers selected as aforesaid by the Calculation Agent are not quoting as set forth above, the Federal Funds Rate in effect for the applicable period will be the same as the Federal Funds Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Federal Funds Rate Notes for which such Federal Funds Rate is being determined shall be the Initial Interest Rate).

*LIBOR Notes*

LIBOR Notes will bear interest at the interest rate (calculated with reference to LIBOR and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the LIBOR Notes and in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, "LIBOR" for each Interest Determination Date will be determined by the Calculation Agent as follows:

(i) As of the Interest Determination Date, LIBOR will be either: (a) if "LIBOR Reuters" is specified in the applicable Pricing Supplement, the arithmetic mean of the offered rates (unless the specified Designated LIBOR Page (as defined below) by its terms provides only for a single rate, in which case such single rate shall be used) for deposits in the Index Currency having the Index Maturity designated in the applicable Pricing Supplement, commencing on the second London Banking Day immediately following such Interest Determination Date, that appear on the Designated LIBOR Page as of 11:00 A.M., London time, on that Interest Determination Date, if at least two such offered rates appear (unless, as aforesaid, only a single rate is required) on such Designated LIBOR Page, or (b) if "LIBOR Telerate" is specified in the applicable Pricing Supplement, the rate for deposits in the Index Currency having the Index Maturity designated in the applicable Pricing Supplement, commencing on the second London Banking Day immediately following such Interest Determination Date, that appears on the Designated LIBOR Page as of 11:00 A.M., London time, on that Interest Determination Date. If fewer than two offered rates appear (if "LIBOR Reuters" is specified in the applicable Pricing Supplement) or no rate appears (if "LIBOR Telerate" is specified in the applicable Pricing Supplement), LIBOR in respect of the related Interest Determination Date will be determined as if the parties had specified the rate described in clause (ii) below.

(ii) With respect to an Interest Determination Date on which fewer than two offered rates appear (if "LIBOR Reuters" is specified in the applicable Pricing Supplement) or no rate appears (if "LIBOR Telerate" is specified in the applicable Pricing Supplement), the Calculation Agent will request the principal London offices of each of four major reference banks in the London interbank market, as selected by the Calculation Agent, to provide the Calculation Agent with its offered quotation for deposits in the Index Currency for the period of the Index Maturity designated in the applicable Pricing Supplement, commencing on the second London Banking Day immediately following such Interest Determination Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such Interest Determination Date and in a principal amount of not less than $1,000,000 (or the equivalent in the Index Currency, if the Index Currency is not the U.S. dollar) that is representative of a single transaction in such Index Currency in such market at such time. If at least two such quotations are provided, LIBOR determined on such Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR determined on such Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M. (or such other time specified in the applicable Pricing Supplement), in the applicable principal financial center for the country of the Index

Currency on such Interest Determination Date, by three major banks in such principal financial center selected by the Calculation Agent for loans in the Index Currency to leading European banks, having the Index Maturity designated in the applicable Pricing Supplement and in a principal amount of not less than $1,000,000 commencing on the second London Banking Day immediately following such Interest Determination Date (or the equivalent in the Index Currency, if the Index Currency is not the U.S. dollar) that is representative for a single transaction in such Index Currency in such market at such time; provided, however, that if the banks so selected by the Calculation Agent are not quoting as mentioned in this sentence, LIBOR in effect for the applicable period will be the same as LIBOR for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the LIBOR Notes for which such LIBOR is being determined shall be the Initial Interest Rate).

"Index Currency" means the currency (including composite currencies) specified in the applicable Pricing Supplement as the currency for which LIBOR shall be calculated. If no such currency is specified in the applicable Pricing Supplement, the Index Currency shall be U.S. dollars.

"Designated LIBOR Page" means either (a) if "LIBOR Reuters" is designated in the applicable Pricing Supplement, the display on the Reuters Monitor Money Rates Service for the purpose of displaying the London interbank rates of major banks for the applicable Index Currency, or (b) if "LIBOR Telerate" is designated in the applicable Pricing Supplement, the display on the Dow Jones Telerate Service for the purpose of displaying the London interbank rates of major banks for the applicable Index Currency. If neither LIBOR Reuters nor LIBOR Telerate is specified in the applicable Pricing Supplement, LIBOR for the applicable Index Currency will be determined as if LIBOR Telerate (and, if the U.S. dollar is the Index Currency, Page 3750) had been specified.

*Prime Rate Notes*

Prime Rate Notes will bear interest at the interest rate (calculated with reference to the Prime Rate and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the Prime Rate Notes and in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, "Prime Rate" means, with respect to any Interest Determination Date, the rate set forth in H.15(519) for such date opposite the caption "Bank Prime Loan." If such rate is not yet published by 9:00 A.M., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the Prime Rate for such Interest Determination Date will be the arithmetic mean of the rates of interest publicly announced by each bank named on the Reuters Screen USPRIME 1 (as defined below) as such bank's prime rate or base lending rate as in effect for such Interest Determination Date as quoted on the Reuters Screen USPRIME 1 on such Interest Determination Date, or, if fewer than four such rates appear on the Reuters Screen USPRIME 1 for such Interest Determination Rate, the rate shall be the arithmetic mean of the prime rates quoted on the basis of the actual number of days in the year divided by 360 as of the close of business on such Interest Determination Date by at least two of the three major money center banks in The City of New York selected by the Calculation Agent from which quotations are requested. If fewer than two quotations are provided, the Prime Rate shall be calculated by the Calculation Agent and shall be determined as the arithmetic mean on the basis of the prime rates in The City of New York by the appropriate number of substitute banks or trust companies organized and doing business under the laws of the United States, or any State thereof, in each case having total equity capital of at least U.S. $500 million and being subject to supervision or examination by federal or state authority, selected by the Calculation Agent to quote such rate or rates; provided, however, that if the banks or trust companies selected as aforesaid by the Calculation Agent are not quoting as set forth above, the "Prime Rate" in effect for the applicable period will be the same as the Prime Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Prime Rate Notes for which such Prime Rate is being determined shall be the Initial Interest Rate). "Reuters Screen USPRIME 1" means the display designated as Page "USPRIME 1" on the Reuters Monitor Money Rates Services (or such other page as may replace the USPRIME 1 on that service for the purpose of displaying prime rates or base lending rates of major United States banks).

*Treasury Rate Notes*

Treasury Rate Notes will bear interest at the interest rate (calculated with reference to the Treasury Rate and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the Treasury Rate Notes and in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the "Treasury Rate" means, with respect to any Interest Determination Date, the rate for the auction held on such date of direct obligations of the United States ("Treasury Bills") having the Index Maturity designated in the applicable Pricing Supplement, as published in H.15(519) under the heading "Treasury Bills - auction average (investment)" or, if not so published by 9:00 A.M., New York City time, on the Calculation Date pertaining to such Interest Determination Date, the auction average rate on such Interest Determination Date (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) as otherwise announced by the United States Department of the Treasury. In the event that the results of the auction of Treasury Bills having the Index Maturity designated in the applicable Pricing Supplement are not published or reported as provided above by 3:00 P.M., New York City time, on such Calculation Date or if no such auction is held on such Interest Determination Date, then the Treasury Rate shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) calculated using the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on such Interest Determination Date, of three leading primary United States government securities dealers selected by the Calculation Agent for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity designated in the applicable Pricing Supplement; provided, however, that if the dealers selected as aforesaid by the Calculation Agent are not quoting bid rates as mentioned in this sentence, the Treasury Rate for such Interest Reset Date will be the same as the Treasury Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the Treasury Rate Notes for which the Treasury Rate is being determined shall be the Initial Interest Rate).

*CMT Rate Notes*

CMT Rate Notes will bear interest at the interest rate (calculated with reference to the CMT Rate and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the CMT Rate Notes and in the applicable Pricing Supplement.

Unless otherwise indicated in an applicable Pricing Supplement, "CMT Rate" means, with respect to any Interest Determination Date, the rate displayed on the Designated CMT Telerate Page (as defined below) under the caption "...Treasury Constant Maturities...Federal Reserve Board Release H.15...Mondays Approximately 3:45 P.M.," under the column for the Designated CMT Maturity Index (as defined below) for (i) if the Designated CMT Telerate Page is 7055, the rate on such Interest Determination Date and (ii) if the Designated CMT Telerate Page is 7052, the week or the month, as applicable, ended immediately preceding the week in which the related Interest Determination Date occurs. If such rate is no longer displayed on the relevant page, or if not displayed by 3:00 P.M., New York City time, on the related Calculation Date, then the CMT Rate for such Interest Determination Date will be such Treasury Constant Maturity rate for the Designated CMT Maturity Index as published in the relevant H.15(519). If such rate is no longer published, or, if not published by 3:00 P.M., New York City time, on the related Calculation Date, then the CMT Rate for such Interest Determination Date will be such Treasury Constant Maturity rate for the Designated CMT Maturity Index (or other United States Treasury rate for the Designated CMT Maturity Index) for the Interest Determination Date with respect to such Interest Reset Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate formerly displayed on the Designated CMT Telerate Page and published in the relevant H.15(519). If such information is not provided by 3:00 P.M., New York City time, on the related Calculation Date, then the CMT Rate for the Interest Determination Date will be calculated by the Calculation Agent and will be a yield to maturity, based on the arithmetic mean of the secondary market closing offer side prices as of approximately 3:30 P.M., New York City time on the Interest Determination Date reported, according to their written records, by three leading primary United States government securities dealers (each, a "Reference Dealer") in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent (from five such Reference Dealers selected by the

Calculation Agent, after consultation with the Institute, and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for the most recently issued direct noncallable fixed rate obligations of the Unites States ("Treasury notes") with an original maturity of approximately the Designated CMT Maturity Index and remaining term to maturity of not less than such Designated CMT Maturity Index minus one year. If the Calculation Agent cannot obtain three such Treasury notes quotations, the CMT Rate for such Interest Determination Date will be calculated by the Calculation Agent and will be a yield to maturity based on the arithmetic mean of the secondary market offer side prices as of approximately 3:30 P.M., New York City time, on the Interest Determination Date of three Reference Dealers in The City of New York (from five such Reference Dealers selected by the Calculation Agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for Treasury notes with an original maturity of the number of years that is the next highest to the Designated CMT Maturity Index and a remaining term to maturity closest to the Designated CMT Maturity Index and in an amount of at least $100,000,000. If three or four (and not five) of such Reference Dealers are quoting as described above, then the CMT Rate will be based on the arithmetic mean of the offer prices obtained and neither the highest nor the lowest of such quotes will be eliminated; provided however, that if fewer than three Reference Dealers selected by the Calculation Agent are quoting as described herein, the CMT Rate for such Interest Reset Date will be the same as the CMT Rate for the immediately preceding Interest Reset Period (or, if there was no such Interest Reset Period, the rate of interest payable on the CMT Rate Notes for which the CMT Rate is being determined shall be the Initial Interest Rate). If two Treasury notes with an original maturity as described in the second preceding sentence have remaining terms to maturity equally close to the Designated CMT Maturity Index, the quotes for the Treasury note with the shorter remaining term to maturity will be used.

"Designated CMT Telerate Page" means the display on the Dow Jones Telerate Service on the page designated in an applicable Pricing Supplement (or any other page as may replace such page on that service for the purpose of displaying Treasury Constant Maturities as reported in H.15(519)), for the purpose of displaying Treasury Constant Maturities as reported in H.15(519). If no such page is specified in the applicable Pricing Supplement, the Designated CMT Telerate Page shall be 7052, for the most recent week.

"Designated CMT Maturity Index" shall be the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in an applicable Pricing Supplement with respect to which the CMT Rate will be calculated. If no such maturity is specified in the applicable Pricing Supplement, the Designated CMT Maturity Index shall be two years.

**Renewable Notes**

The Institute may also issue from time to time variable rate renewable notes (the "Renewable Notes") that will bear interest at the interest rate (calculated with reference to a Base Rate and the Spread and/or Spread Multiplier, if any, and subject to the Minimum Interest Rate and the Maximum Interest Rate, if any) specified in the Renewable Notes and in the applicable Pricing Supplement.

The Renewable Notes will mature on an Interest Payment Date as specified in the applicable Pricing Supplement (the "Initial Maturity Date"), unless the maturity of all or any portion of the principal amount thereof is extended in accordance with the procedures described below. On the Interest Payment Dates in January and July in each year (unless different Interest Payment Dates are specified in the applicable Pricing Supplement) (each such Interest Payment Date, an "Election Date"), the maturity of the Renewable Notes will be extended to the Interest Payment Date occurring twelve months after such Election Date, unless the holder thereof elects to terminate the automatic extension of the maturity of the Renewable Notes or of any portion thereof having a principal amount of $1,000 or any multiple of $1,000 in excess thereof by delivering a notice of such effect to the Paying Agent not less than nor more than a number of days to be specified in the applicable Pricing Supplement prior to such Election Date. Such option may be exercised with respect to less than the entire principal amount of the Renewable Notes; provided that the principal amount for which such option is not exercised is at least $1,000 or any larger amount that is an integral multiple of $1,000. Notwithstanding the foregoing, the maturity of the Renewable Notes may not be extended beyond the Final Maturity Date, as specified in the applicable Pricing Supplement (the "Final Maturity Date"). If the holder elects to terminate the automatic extension of the maturity of any portion of the principal amount of the Renewable Notes and such election is not revoked as described below, such portion will become due and payable on the Interest Payment Date falling six months (unless another period is specified in the applicable Pricing Supplement) after the Election Date prior to which the holder made such election.

An election to terminate the automatic extension of maturity may be revoked as to any portion of the Renewable Notes having a principal amount of $1,000 or any multiple of $1,000 in excess thereof by delivering a notice to such effect to the Paying Agent on any day following the effective date of the election to terminate the automatic extension of maturity and prior to the date 15 days before the date on which such portion would otherwise mature. Such a revocation may be made for less than the entire principal amount of the Renewable Notes for which the automatic extension of maturity has been terminated; provided that the principal amount of the Renewable Notes for which the automatic extension of maturity has been terminated and for which such a revocation has not been made is at least $1,000 or any larger amount that is an integral multiple of $1,000. Notwithstanding the foregoing, a revocation may not be made during the period from and including a Record Date to but excluding the immediately succeeding Interest Payment Date.

An election to terminate the automatic extension of the maturity of the Renewable Notes, if not revoked as described above by the holder making the election or any subsequent holder, will be binding upon such subsequent holder.

The Renewable Notes may be redeemed in whole or in part at the option of the Institute on the Interest Payment Dates in each year specified in the applicable Pricing Supplement, commencing with the Interest Payment Date specified in the applicable Pricing Supplement, at a redemption price as stated in the applicable Pricing Supplement, together with accrued and unpaid interest to the date of redemption. Notwithstanding anything to the contrary in this Offering Circular, unless otherwise indicated in the applicable Pricing Supplement, notice of redemption will be provided by mailing a notice of such redemption to each holder by first class mail, postage prepaid, at least 180 days prior to the date fixed for redemption.

Indexed Notes

The Notes may be issued, from time to time, as Notes of which the principal amount payable on a date more than nine months from the date of original issue (the "Stated Maturity") and/or on which the amount of interest payable on an Interest Payment Date will be determined by reference to currencies, currency units, commodity prices, financial or non-financial indices or other factors (the "Indexed Notes"), as indicated in the applicable Pricing Supplement. Holders of Indexed Notes may receive a principal amount at maturity that is greater than or less than the face amount of such Notes depending upon the fluctuation of the relative value, rate or price of the specified index. Specific information pertaining to the method for determining the principal amount payable at maturity, a historical comparison of the relative value, rate or price of the specified index and the face amount of the Indexed Note and certain additional United States federal tax considerations will be described in the applicable Pricing Supplement.

Extension of Maturity

The Pricing Supplement relating to each Note (other than an Amortizing Note) will indicate whether the Institute has the option to extend the maturity of such Note for one or more periods of one or more whole years (each an "Extension Period") up to but not beyond the date (the "Final Maturity Date") set forth in such Pricing Supplement. If the Institute has such option with respect to any such Note (an "Extendible Note"), the following procedures will apply, unless modified as set forth in the applicable Pricing Supplement.

The Institute may exercise such option with respect to an Extendible Note by notifying the Paying Agent of such exercise at least 45 but not more than 60 days prior to the maturity date originally in effect with respect to such Note (the "Original Maturity Date") or, if the maturity date of such Note has already been extended, prior to the maturity date then in effect (an "Extended Maturity Date"). No later than 38 days prior to the Original Maturity Date or an Extended Maturity Date, as the case may be (each, a "Maturity Date"), the Paying Agent will mail to the holder of such Note a notice (the "Extension Notice") relating to such Extension Period, by first class mail, postage prepaid, setting forth (a) the election of the Institute to extend the maturity of such Note; (b) the new Extended Maturity Date; (c) the interest rate applicable to the Extension Period (which, in the case of a Floating Rate Note, will be calculated with reference to a Base Rate and the Spread and/or Spread Multiplier, if any); and

(d) the provisions, if any, for redemption during the Extension Period, including the date or dates on which, the period or periods during which and the price or prices at which such redemption may occur during the Extension Period. Upon the mailing by the Paying Agent of an Extension Notice to the holder of an Extendible Note, the maturity of such Note shall be extended automatically, and, except as modified by the Extension Notice and as described in the next paragraph, such Note will have the same terms it had prior to the mailing of such Extension Notice.

Notwithstanding the foregoing, not later than 10:00 A.M., New York City time, on the twentieth calendar day prior to the Maturity Date then in effect for an Extendible Note (or, if such day is not a Business Day, not later than 10:00 A.M., New York City time, on the immediately succeeding Business Day), the Institute may, at its option, revoke the interest rate provided for in the Extension Notice and establish a higher interest rate (or, in the case of a Floating Rate Note, a higher Spread and/or Spread Multiplier, if any) for the Extension Period by causing the Paying Agent to send notice of such higher interest rate (or, in the case of a Floating Rate Note, a higher Spread and/or Spread Multiplier, if any) to the holder of such Note by first class mail, postage prepaid, or by such other means as shall be agreed between the Institute and the Paying Agent. Such notice shall be irrevocable. All Extendible Notes with respect to which the Maturity Date is extended in accordance with an Extension Notice will bear such higher interest rate (or, in the case of a Floating Rate Note, a higher Spread and/or Spread Multiplier, if any) for the Extension Period, whether or not tendered for repayment.

If the Institute elects to extend the maturity of an Extendible Note, the holder of such Note will have the option to require the Institute to repay such Note on the Maturity Date then in effect at a price equal to the principal amount thereof plus any accrued and unpaid interest to such date. In order for an Extendible Note to be repaid on such Maturity Date, the holder thereof must follow the procedures set forth below under "Repayment at the Noteholders' Option; Repurchase" for optional repayment, except that the period for delivery of such Note or notification to the Paying Agent shall be at least 25 but not more than 35 days prior to the Maturity Date then in effect and except that a holder who has tendered an Extendible Note for repayment pursuant to an Extension Notice may, by written notice to the Paying Agent, revoke any such tender for repayment until 3:00 P.M., New York City time, on the twentieth calendar day prior to the Maturity Date then in effect (or, if such day is not a Business Day, until 3:00 P.M., New York City time, on the immediately succeeding Business Day).

**Book-Entry System**

Upon issuance, all Fixed Rate Global Notes having the same Issue Date, interest rate, if any, amortization schedule, if any, maturity date and other terms, if any, will be represented by one or more Global Securities, and all Floating Rate Global Notes having the same Issue Date, Initial Interest Rate, Base Rate, Interest Reset Period, Interest Payment Dates, Index Maturity, Spread and/or Spread Multiplier, if any, Minimum Interest Rate, if any, Maximum Interest Rate, if any, maturity date and other terms, if any, will be represented by one or more Global Securities. All Notes will be registered in the name of a nominee of The Depository Trust Company, as depositary (the "Depositary") (a "Book-Entry Note"), or, to the extent indicated in the applicable Pricing Supplement, definitive, certificated Notes ("Certificated Notes"). Unless and until a Global Note is exchanged in whole for Certificated Notes, a Global Note may not be transferred except as a whole by the Depositary for such Global Note to a nominee of such Depositary or by a nominee of such Depositary to such Depositary or another nominee of such Depositary or by such Depositary or any such nominee to a successor of such Depositary or a nominee of such successor. Certificated Notes will not be exchangeable for Book-Entry Notes and, except under the circumstances described below, Book-Entry Notes will not be exchangeable for Certificated Notes and will not otherwise be issuable as Certificated Notes.

The Depositary is a limited-purpose trust company organized under 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 provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Depositary holds securities of its participants and facilitates the clearance and settlement of securities transactions among such participants in such securities through electronic book-entry changes in accounts of such participants thereby eliminating the need for physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations some of whom (and/or their representatives) own the Depositary. Access to the

Depositary system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Upon issuance of a Global Note, the Depositary for such Global Note will credit, on its book-entry registration and transfer system, the respective principal amounts of the Notes represented by such Global Note to the accounts of persons that have accounts with such Depositary ("participants"). The accounts to be credited shall be designated by any underwriters or agents participating in the distribution of such Notes. Ownership of beneficial interests in a Global Note will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in such Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depositary for such Global Note (with respect to interests of participants) or by participants or persons that hold through participants (with respect to interests of persons other than participants).

So long as the Depositary for a Global Note, or its nominee, is the registered owner of such Global Note, such Depositary or such nominee, as the case may be, will be considered the sole owner or holders of the Notes represented by such Global Note for all purposes under the IPAA. Except as set forth below, owners of beneficial interests in a Global Note will not be entitled to have the Notes represented by such Global Note registered in their names, will not receive or be entitled to receive physical delivery of such Notes in definitive form and will not be considered the owners or holders thereof under the Notes.

Principal of, and premium, if any, and interest payments on Notes represented by a Global Note registered in the name of a Depositary or its nominee will be made to such Depositary or its nominee, as the case may be, as the registered owner of such Global Note. Neither the Institute nor the Paying Agent will have any responsibility or liability to participants, to indirect participants or to any beneficial owner with respect to (i) the accuracy of any records maintained by the Depositary, any participant, or any indirect participant; (ii) the payment by the Depositary or any participant or indirect participant of any amount with respect to the principal or purchase to participants, indirect participants or beneficial owners; or (iii) any consent given or other action taken by the Depositary or its nominee as noteholder.

The Institute expects that the Depositary for any Notes represented by a Global Note, upon receipt of any payment of principal, premium, if any, or interest, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of such Depositary. The Institute also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "street names" and will be the responsibility of such participants.

If (i) the Depositary is at any time unwilling or unable to continue as Depositary or the Depositary ceases to be a clearing agency registered under the Exchange Act and a successor Depositary is not appointed by the Institute within 90 days, (ii) the Institute executes and delivers to the Paying Agent an order to the effect that the Global Notes shall be transferable and exchangeable for Certificated Notes or (iii) an Event of Default has occurred and is continuing with respect to the Notes, the Global Notes will be transferable or exchangeable for Notes in definitive form of like tenor and of an equal aggregate principal amount in authorized denominations. Such Notes in definitive form shall be registered in such name or names as the Depositary shall instruct the Paying Agent. It is expected that such instructions may be based upon directions received by the Depositary from persons that have accounts with the Depositary with respect to ownership of beneficial interests in such Global Notes.

Unless otherwise noted, the information contained in the preceding paragraphs of this subsection "Book-Entry System" has been extracted from a report prepared by the Depositary. The Institute and the Paying Agent make no representations as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

## Optional Redemption

The Pricing Supplement will indicate that the Notes cannot be redeemed prior to maturity or will indicate the terms on which the Notes will be redeemable at the option of the Institute. Notice of redemption will be provided by mailing a notice of such redemption to each holder by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to the respective address of each holder as that address appears upon the books maintained by the Paying Agent. Unless otherwise provided in the applicable Pricing Supplement, the Notes, except for Amortizing Notes, will not be subject to any sinking fund.

## Repayment at the Noteholders' Option; Repurchase

If applicable, the Pricing Supplement relating to each Note will indicate that the Note will be repayable at the option of the holder on a date or dates specified prior to its maturity date and, unless otherwise specified in such Pricing Supplement, at a price equal to 100% of the principal amount thereof, together with accrued interest to the date of repayment, unless such Note was issued with original issue discount, in which case the Pricing Supplement will specify the amount payable upon such repayment.

In order for such a Note to be repaid, the Paying Agent must receive at least 30 days but not more than 60 days prior to the repayment date (i) the Note with the form entitled "Option to Elect Repayment" on the reverse of the Note duly completed or (ii) a telegram, telex, facsimile transmission or a letter from a member of a national securities exchange, or the National Association of Securities Dealers, Inc. (the "NASD") or a commercial bank or trust company in the United States setting forth the name of the holder of the Note, the principal amount of the Note, the principal amount of the Note to be repaid, the certificate number or a description of the tenor and terms of the Note, a statement that the option to elect repayment is being exercised thereby and a guarantee that the Note to be repaid, together with the duly completed form entitled "Option to Elect Repayment" on the reverse of the Note, will be received by the Paying Agent not later than the fifth Business Day after the date of such telegram, telex, facsimile transmission or letter, provided, however, that such telegram, telex, facsimile transmission or letter shall only be effective if such Note and form duly completed are received by the Paying Agent by such fifth Business Day. Except in the case of Renewable Notes or Extendible Notes, and unless otherwise specified in the applicable Pricing Supplement, exercise of the repayment option by the holder of a Note will be irrevocable. The repayment option may be exercised by the holder of a Note for less than the entire principal amount of the Note but, in that event, the principal amount of the Note remaining outstanding after repayment must be an Authorized Denomination.

If a Note is represented by a Global Security, the Depositary's nominee will be the holder of such Note and therefore will be the only entity that can exercise a right to repayment. In order to ensure that the Depositary's nominee will timely exercise a right to repayment with respect to a particular Note, the beneficial owner of such Note must instruct the broker or other direct or indirect participant through which it holds an interest in such Note to notify the Depositary of its desire to exercise a right to repayment. Different firms have different deadlines for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a Note in order to ascertain the deadline by which such an instruction must be given in order for timely notice to be delivered to the Depositary.

The Institute may purchase Notes at any price in the open market or otherwise. Notes so purchased by the Institute may, at the discretion of the Institute, be held or resold or surrendered to the Paying Agent for cancellation.

## Repayment of Monies

Any monies held by the Paying Agent in trust for the payment of principal, premium, if any, or interest in respect of Notes after the expiration of one year following the date on which such principal, premium, if any, or interest has become due and payable shall be returned to the Institute and any holder of such Notes shall thereafter look, as an unsecured general creditor, only to the Institute for the payment thereof and all liability of the Paying Agent with respect to such trust monies shall thereafter cease.

## Certain Covenants

The Institute represents in the IPAA that it is an organization: (i) organized and operated exclusively for educational or charitable purposes and not for pecuniary profit and (ii) no part of the net earnings of which inures to the benefit of any person, private stockholder or individual, all within the meaning of the Securities Act of 1933, as amended, and agrees that it will not perform any act or enter into any agreement which will adversely affect such status.

The Institute also represents in the IPAA that: (i) it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") or corresponding provisions of prior law; (ii) it has received a letter or other notification from the Internal Revenue Service to that effect; (iii) such letter or other notification has not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The Institute agrees that it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in a manner which will conform to the standards necessary to qualify the Institute as an educational organization within the meaning of Section 501(c)(3) of the Code or any successor provision of federal income tax law.

The Institute covenants pursuant to the IPAA that it will maintain its corporate existence, will continue to operate as an institution for higher education and research, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Institute as an institution for higher education providing such programs of instruction as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it, except that the Institute may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c)(3) of the Code or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however that (a) the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of any state of the United States, is qualified under Section 501(c)(3) of the Code or any successor provision of federal income tax law and assumes in writing all of the obligations of and restrictions on the Institute under the IPAA and the Notes and (b) after giving effect to such sale, transfer, consolidation or merger, no Event of Default (as defined below) shall have occurred and be continuing.

## Events of Default

Under the IPAA, the following will be Events of Default with respect to any series of the Notes: (a) the Institute shall default in the timely payment of any principal due on any Note of such series, either at maturity, upon any redemption, by declaration or otherwise; (b) the Institute shall default for thirty days in the payment of any interest due on any Note of such series; (c) the Institute shall default in the due and punctual performance of any other covenant contained in the IPAA or the Notes of such series and such default continues for sixty days after written notice requiring the same to be remedied shall have been given to the Institute by the holder of any Note of such series; (d) the Institute shall default with respect to any obligations (other than non-recourse obligations or the Notes of such series) of, or guaranteed or assumed by, the Institute for borrowed money or evidenced by bonds, debentures, notes or other similar instruments ("Indebtedness") which default results in the acceleration of Indebtedness in an amount in excess of $25,000,000 without such Indebtedness having been discharged or such acceleration having been cured, waived, rescinded or annulled for a period of thirty days after written notice thereof to the Institute by the holder of any Note of such series; provided, however, that if such failure, default or acceleration shall be cured, waived, rescinded or annulled, then the Event of Default by reason thereof shall be deemed likewise to have been thereupon cured; (e) a court or governmental authority of competent jurisdiction shall enter an order appointing a custodian, receiver, trustee or other officer with similar powers with respect to the Institute or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency laws of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Institute, or any petition for any such relief shall be filed against the Institute and such petition shall not be dismissed within ninety days; (f) the charter of the Institute shall be suspended or revoked; (g) a petition or order shall be filed by any governmental authority having jurisdiction over the Institute to dissolve the Institute; (h) a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institute which petition shall remain undismissed or unstayed for an aggregate of ninety days, or (i) an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the Institute, which order shall remain undismissed or unstayed for an aggregate of thirty days.

In case an Event of Default with respect to the Notes of any series shall have occurred and be continuing, the holder of any Note of such series then outstanding, by notice in writing to the Institute, may declare the principal amount (or the applicable amount specified in any Original Issue Discount Note) of such Note and the interest accrued thereon to be due and payable immediately and the Paying Agent or the holders of not less than 25% in aggregate principal amount (or the applicable amount specified in any Original Issue Discount Note) of Notes of such series then outstanding may declare the principal amount (or the applicable amount specified in any Original Issue Discount Note) of all Notes of such series and the interest accrued thereon to be due and payable immediately. The Paying Agent will notify holders of Notes of any series of any continuing Event of Default known to it within 90 days after the occurrence thereof.

At any time after an acceleration of a Note, but before a judgment or decree for payment of money due has been obtained, the holder of such Note may rescind any acceleration and its consequences, if all payments due on such Note (other than those due as a result of acceleration) have been made, or an amount sufficient to make all such payments has been deposited with the Paying Agent and all Events of Default have been remedied or waived by such holder. Any Event of Default with respect to a Note may be waived by the holder of such Note. At any time after acceleration of all Notes of any series, but before a judgment or decree for payment of money due has been obtained, the holders of a majority in aggregate principal amount (or the applicable amount specified in any Original Issue Discount Note) of the then outstanding Notes of such series may rescind any acceleration and its consequences, if all payments due on the Notes of such series (other than those due as a result of acceleration) have been made, or an amount sufficient to make such payments has been deposited with the Paying Agent and all Events of Default have been remedied or waived by such holders.

Defeasance

The Institute may discharge certain obligations to holders of Notes issued under the IPAA which have not already been delivered to the Paying Agent for cancellation and which have either become due and payable or are by their terms due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the Paying Agent cash, or, in the case of Notes payable only in U.S. dollars, U.S. Government Obligations (as defined in the IPAA) or a combination thereof as trust funds in an amount certified to be sufficient to pay at maturity or upon redemption the principal of, premium, if any, and interest on such Notes.

The Institute may also discharge any and all of its obligations to holders of outstanding Notes issued under the IPAA at any time by irrevocably depositing with the Paying Agent cash, or, in the case of Notes payable only in U.S. dollars, U.S. Government Obligations or a combination thereof as trust funds in an amount certified to be sufficient to pay at maturity or upon redemption the principal of, premium, if any, and interest on all outstanding Notes issued under the IPAA, but may not thereby avoid its duty to register the transfer or exchange of such Notes, to replace any temporary, mutilated, destroyed, lost, or stolen Note, or to maintain an office or agency in respect of such Notes. A trust to effect defeasance under this paragraph may be established only if, among other things, the Institute delivers to the Paying Agent an opinion of counsel to the effect that the holders of such Notes will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and that defeasance will not otherwise alter such holders' federal income tax treatment of principal and interest payments on such Notes; such opinion could not be delivered under current law and, therefore, must be based on a ruling of the Internal Revenue Service or a change in federal income tax law occurring after the date of the IPAA.

The Institute may be released with respect to then outstanding Notes issued under the IPAA from certain covenants described above regarding the Securities Act and tax status of the Institute and maintenance of corporate existence of the Institute, without creating an Event of Default by depositing irrevocably with the Paying Agent cash, or, in the case of Notes payable only in U.S. dollars, U.S. Government Obligations or a combination thereof as trust funds in an amount certified to be sufficient to pay at maturity or upon redemption the principal of, premium, if any, and interest on all outstanding Notes issued under the IPAA ("Covenant Defeasance"). A trust to effect Covenant Defeasance may be established only if, among other thing, the Institute delivers to the Paying Agent an opinion of counsel to the effect that the holders of such Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and that such Covenant Defeasance will not otherwise alter such holders' federal income tax treatment of principal and interest payments on such Notes.

Modification of IPAA and Notes

Modification and amendments of the IPAA and the Notes may be made by the Institute and the Paying Agent without the consent of holders of the Notes for the purposes set forth in the IPAA, including (i) to evidence the succession of a corporation to the Institute in accordance with the terms of the IPAA, (ii) to add to the covenants of the Institute for the benefit of the holders of the Notes or surrender rights or powers of the Institute thereunder, (iii) to evidence and provide for the acceptance of appointment under the IPAA and the Notes by a successor Paying Agent, or (iv) to cure any ambiguity, to correct or supplement any provision in the IPAA or the Notes which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the IPAA or the Notes, provided such action shall not adversely affect the interests of the holders of the Notes in any material respect.

With the consent of the holders of not less than a majority in aggregate principal amount (or the applicable amount specified in any Original Issue Discount Note) of the Notes then outstanding and affected thereby (voting as one class), the Institute and the Paying Agent may change in any manner the provisions of the IPAA or the Notes; or modify in any manner the rights of the holders of the Notes; provided that no such change shall, without the consent of the holder of each outstanding Note affected thereby, (i) change the stated maturity of the principal of or interest on any Note, reduce the principal amount (or the applicable amount specified in any Original Issue Discount Note) thereof or interest or premium payable thereon, (ii) change any place of payment where, or the coin or currency in which, any Note or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment, (iii) reduce the percentage in principal amount (or the applicable amount specified in any Original Issue Discount Note) of the outstanding Notes the consent of whose holders is required for any such change or the consent of whose holders is required for any waiver of compliance with certain provisions of, or certain defaults and their consequences provided for in, the IPAA, or (iv) modify the provisions of the IPAA or the Notes relating to such changes or waiver of past defaults, except to increase any such percentage or to provide that certain other provisions of the IPAA cannot be modified or waived without the consent of the holder of each Note affected thereby.

Paying Agent

Under the IPAA, the Paying Agent will act solely as the agent of the Institute and will not assume any relationship of trust with the holders of the Notes except with respect to funds held by it for the payment of principal of and interest on the Notes.

## FOREIGN CURRENCY RISKS

### Exchange Rates and Exchange Controls

An investment in Notes that are denominated in a Specified Currency entails significant risks that are not associated with a similar investment in a security denominated in U.S. dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the U.S. dollar and the Specified Currency and the possibility of the imposition or modification of exchange controls by either the U.S. or foreign governments. Such risks generally depend on economic and political events over which the Institute has no control. In recent years, rates of exchange between U.S. dollars and certain foreign currencies have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in such rate that may occur during the term of any Note. Depreciation against the U.S. dollar of the Specified Currency in which a Note is payable would result in a decrease in the effective yield of such Note below its coupon rate and, in certain circumstances, could result in a loss to the investor on a U.S. dollar basis.

THIS OFFERING CIRCULAR DOES NOT DESCRIBE ALL THE RISKS OF AN INVESTMENT IN NOTES DENOMINATED IN A FOREIGN CURRENCY, OR A COMPOSITE CURRENCY, AND THE INSTITUTE DISCLAIMS ANY RESPONSIBILITY TO ADVISE PROSPECTIVE PURCHASERS OF SUCH RISKS AS THEY EXIST AT THE DATE OF THIS OFFERING CIRCULAR OR AS SUCH RISKS MAY CHANGE FROM TIME TO TIME. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISORS AS TO THE RISKS ENTAILED BY AN INVESTMENT IN NOTES DENOMINATED IN SPECIFIED CURRENCIES OTHER THAN U.S. DOLLARS. SUCH NOTES ARE NOT AN APPROPRIATE INVESTMENT FOR INVESTORS WHO ARE UNSOPHISTICATED WITH RESPECT TO FOREIGN CURRENCY TRANSACTIONS.

The information set forth in this Offering Circular is directed to prospective purchasers who are United States residents, and the Institute disclaims any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase, holding or receipt of payment of principal of, premium, if any, and interest on the Notes. Such persons should consult their own counsel with regard to such matters.

Governments have imposed from time to time, and may in the future impose, exchange controls which could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal of, premium, if any, or interest on a Note. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note would not be available when payments on such Note are due. In that event, the Institute would make required payments in U.S. dollars on the basis of the Market Exchange Rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the Market Exchange Rate as of the most recent Record Date. See "DESCRIPTION OF THE NOTES-Payment Currency."

With respect to any Note denominated in a foreign currency or composite currency, the applicable Pricing Supplement will include information with respect to applicable currency exchange controls, if any, and historic exchange rate information on the Specified Currency. The information contained therein shall constitute a part of this Offering Circular and is furnished as a matter of information only and should not be regarded as indicative of the range of or trends in fluctuations in currency exchange rates that may occur in the future.

### Governing Law and Judgments

The Notes will be governed by and construed in accordance with the laws of the State of New York. In the event an action based on Notes denominated in a Specified Currency other than U.S. dollars were commenced in a court in the United States, it is likely that such court would grant judgment relating to the Notes only in U.S. dollars.

In the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., special counsel to the Institute, the following summary accurately describes certain Federal income tax consequences relating to the purchase, ownership and disposition of Fixed Rate Notes, Floating Rate Notes and Indexed Notes denominated and payable in U.S. dollars and Foreign Currency Notes, as defined below. This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing and proposed Treasury regulations, revenue rulings and court decisions now in effect. This summary assumes that the Notes will be held as "capital assets" within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to a holder in light of his particular circumstances or to holders subject to special rules, such as persons other than United States Holders, as defined below, life insurance companies, dealers in securities or foreign currencies, persons holding the Notes as a hedge against currency risks, persons who have hedged the interest rate risks of ownership of a Note, or United States Holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar. It also does not discuss certain of the tax consequences that may be relevant to Notes which are denominated in a currency, or the payment of the principal of, premium, if any, or interest on which are to be made in one or more currencies, other than the U.S. dollar (the "Foreign Currency Notes"). If the Institute proceeds with the issuance of Foreign Currency Notes, additional discussion of the principal United States Federal income tax consequences of their purchase, ownership and disposition will be provided in the accompanying Pricing Supplement. Persons considering the purchase of the Notes should consult with their own tax advisors with regard to the application of the Federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for United States Federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate or trust the income of which is subject to United States Federal income taxation regardless of its source or (iv) any other person whose income or gain in respect of a Note is effectively connected with the conduct of a United States trade or business. The term also includes certain former citizens of the United States. As used herein, the term "non-U.S. Holder" means a beneficial owner of a Note that is not a U.S. Holder.

U.S. Holders

*Payments of Interest*

Payments of interest on a Note generally will be taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting).

*Original Issue Discount*

The following summary is a general discussion of the United States Federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Notes issued with original issue discount ("Discount Notes"). The following summary is based upon final Treasury regulations (the "OID Regulations") issued by the Internal Revenue Service ("IRS") on January 27, 1994 under the original issue discount provisions of the Code.

For United States Federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a Note over its issue price, if such excess equals or exceeds a de minimis amount (generally ¼ of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a Note providing for the payment of any amount other than qualified stated interest (as hereinafter defined) prior to maturity, multiplied by the weighted average maturity of such Note). The issue price of each Note in an issue of Notes equals the first price at which a substantial amount of such Notes has been sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers). The stated redemption price at maturity of a Note is the sum of all payments provided by the Note other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of the Note at a single fixed rate. In addition, under the OID Regulations, if a Note bears interest for one or more accrual periods at a rate below the rate applicable for the remaining term of such Note (e.g., Notes with teaser rates or interest holidays), and if the greater of either the resulting foregone interest on such Note or any "true" discount on such Note (i.e., the excess of the Note's stated principal amount over its issue price) equals or exceeds a specified de minimis amount, then the stated interest on the Note would be treated as original issue discount rather than qualified stated interest.

Payments of qualified stated interest on a Note are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting). A U.S. Holder of a Discount Note must include original issue discount in income as ordinary interest for United States Federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of a Discount Note is the sum of the daily portions of original issue discount with respect to such Discount Note for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Discount Note. The "daily portion" of original issue discount on any Discount Note is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length over the term of the Discount Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the Discount Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the sum of the issue price of the Discount Note plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Note that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Under the OID Regulations, Floating Rate Notes and Indexed Notes (hereinafter collectively referred to as the "Variable Notes") are subject to special rules whereby a Variable Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total noncontingent principal payments due under the Variable Note by more than a specified de minimis amount and (b) it provides for stated interest, paid or compounded at least annually, at current values of (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A "qualified floating rate" is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Note is denominated. Although a multiple of a qualified floating rate will generally not itself constitute a qualified floating rate, a variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than zero but not more than 1.35 will constitute a qualified floating rate. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than zero but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, under the OID Regulations, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Note (e.g., two or more qualified floating rates within 25 basis points of each other as determined on the Variable Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate under the OID Regulations unless such cap or floor is fixed throughout the term of the Note. An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based upon (i) one or more qualified floating rates, (ii) one or more rates where each rate would be a qualified floating rate for a debt instrument denominated in a currency other than the currency in which the Variable Note is denominated, (iii) either the yield or changes in the price of one or more items of actively traded personal property (other than stock or debt of the issuer or a related party) or (iv) a combination of objective rates. The OID

Regulations also provide that other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Note will not constitute an objective rate if it is reasonably expected that the average value of such rate during the first half of the Variable Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Note's term. A "qualified inverse floating rate" is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds. The OID Regulations also provide that if a Variable Note provides for stated interest at a fixed rate for an initial period of less than one year followed by a variable rate that is either a qualified floating rate or an objective rate and if the variable rate on the Variable Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

If a Variable Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument" under the OID Regulations, then any stated interest on such Note which is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" under the OID Regulations will generally not be treated as having been issued with original issue discount unless the Variable Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified de minimis amount. Original issue discount on such a Variable Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Note.

In general, any other Variable Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of original issue discount and qualified stated interest on the Variable Note. The OID Regulations generally require that such a Variable Note be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Note. In the case of a Variable Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Note provides for a qualified inverse floating rate). Under such circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Note as of the Variable Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Note is then converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of original issue discount and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general original issue discount rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Note will account for such original issue discount and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. For each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or original issue discount assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that such amounts differ from the actual amount of interest accrued or paid on the Variable Note during the accrual period.

If a Variable Note does not qualify as a "variable rate debt instrument" under the OID Regulations, then the Variable Note would be treated as a contingent payment debt obligation. It is not entirely clear under current law how a Variable Note would be taxed if such Note were treated as a contingent payment debt obligation. The proper United States Federal income tax treatment of Variable Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Pricing Supplement.

U.S. Holders should be aware that on December 16, 1994, the IRS released proposed amendments to the OID Regulations which would address the accrual of original issue discount on, and the character of gain realized on the sale, exchange or retirement of, debt instruments providing for contingent payments. If ultimately adopted, these amendments to the OID Regulations would be effective for debt instruments issued 60 days or more after the date on which such proposed amendments are finalized. Certain of the Notes (i) may be redeemable at the option of the Institute prior to their stated maturity (a "call option") and/or (ii) may be repayable at the option of the holder prior to their stated maturity (a "put option"). Notes containing such features may be subject to rules that differ from the general rules discussed above. Investors intending to purchase Notes with such features should consult their own tax advisors, since the original issue discount consequences will depend, in part, on the particular terms and features of the purchased Notes.

U.S. Holders may generally, upon election, include in income all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

*Short Term Notes*

Notes that have a fixed maturity of one year or less ("Short-Term Notes") will be treated as having been issued with original issue discount. In general, an individual or other cash method U.S. Holder is not required to accrue such original issue discount unless the U.S. Holder elects to do so. If such an election is not made, any gain recognized by the U.S. Holder on the sale, exchange or maturity of the Short-Term Note will be ordinary income to the extent of the original issue discount accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of sale, exchange or maturity, and a portion of the deductions otherwise allowable to the U.S. Holder for interest on borrowings allocable to the Short-Term Note will be deferred until a corresponding amount of income is realized. U.S. Holders who report income for United States Federal income tax purposes under the accrual method, cash method holders who so elect, and certain other holders including banks and dealers in securities, are required to accrue original issue discount on a Short-Term Note on a straight-line basis unless an election is made to accrue the original issue discount under a constant yield method (based on daily compounding).

*Market Discount*

If a U.S. Holder purchases a Note, other than a Discount Note, for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or, in the case of a Discount Note, for an amount that is less than its adjusted issue price as of the purchase date, such U.S. Holder will be treated as having purchased such Note at a "market discount," unless such market discount is less than a specified de minimis amount.

Under the market discount rules, a U.S. Holder will be required to treat any partial principal payment (or, in the case of a Discount Note, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount which has not previously been included in income and is treated as having accrued on such Note at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless the U.S. Holder elects to accrue market discount on the basis of compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Note with market discount until the maturity of the Note or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the Note and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest for United States Federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the taxable year to which such election applies and may be revoked only with the consent of the IRS.

*Premium*

If a U.S. Holder purchases a Note for an amount that is greater than the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased the Note with "amortizable bond premium" equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the Note and may offset interest otherwise required to be included in respect of the Note during any taxable year by the amortized amount of such excess for the taxable year. However, if the Note may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules would apply which could result in a deferral of the amortization of some bond premium until later in the term of the Note. Any election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the IRS.

*Disposition of a Note*

Except as discussed above, upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in the Note increased by any original issue discount included in income (and accrued market discount, if any, if the U.S. Holder has included such market discount in income) and decreased by the amount of any payments, other than qualified stated interest payments, received and bond premium amortized with respect to such Note. Such gain or loss generally will be long-term capital gain or loss if the Note were held for more than one year.

**Notes Denominated or on which Interest is Payable in a Foreign Currency**

As used herein, "Foreign Currency" means a currency or currency unit other than U.S. dollars.

*Payments of Interest in a Foreign Currency*

*Cash Method.* A U.S. Holder who uses the cash method of accounting for United States Federal income tax purposes and who receives a payment of interest on a Note (other than original issue discount or market discount) will be required to include in income the U.S. dollar value of the Foreign Currency payment (determined on the date such payment is received) regardless of whether the payment is in fact converted to U.S. dollars at that time, and such U.S. dollar value will be the U.S. Holder's tax basis in such Foreign Currency.

*Accrual Method.* A U.S. Holder who uses the accrual method of accounting for United States Federal income tax purposes, or who otherwise is required to accrue interest prior to receipt, will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount or market discount and reduced by amortizable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Note during an accrual period. The U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect, however, to translate such accrued interest income using the rate of exchange on the last day of the accrual period or, with respect to a partial accrual period, using the rate of exchange on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest using the rate of exchange on the date of receipt. The above election will apply to other debt obligations held by the U.S. Holder and may not be changed without the consent of the IRS. A U.S. Holder should consult a tax advisor before making the above election. A U.S. Holder will recognize exchange gain or loss (which will be treated as ordinary income or loss) with respect to accrued interest income on the date such income is received. The amount of ordinary income or loss recognized will equal the difference, if any, between the U.S. dollar value of the Foreign Currency payment received (determined on the date such payment is received) in respect of such accrual period and the U.S. dollar value of interest income that has accrued during such accrual period (as determined above).

*Purchase, Sale and Retirement of Notes.* A U.S. Holder who purchases a Note with previously owned Foreign Currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the Foreign Currency and the U.S. dollar fair market value of the Foreign Currency used to purchase the Note, determined on the date of purchase.

Except as discussed above with respect to Short-Term Notes, upon the sale, exchange or retirement of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and such U.S. Holder's adjusted tax basis in the Note. Such gain or loss generally will be capital gain or loss (except to the extent of any accrued market discount not previously included in the U.S. Holder's income) and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held by such U.S. Holder for more than one year. To the extent the amount realized represents accrued but unpaid interest, however, such amounts must be taken into account as interest income, with exchange gain or loss computed as described in "Payments of Interest in a Foreign Currency" above. If a U.S. Holder receives Foreign Currency on such a sale, exchange or retirement the amount realized will be based on the U.S. dollar value of the Foreign Currency on the date the payment is received or the Note is disposed of (or deemed disposed of in the case of a taxable exchange of the Note for a new Note.) In the case of a Note that is denominated in Foreign Currency and is traded on an established securities market, a cash basis U.S. Holder (or, upon election, an accrual basis U.S. Holder) will determine the U.S. dollar value of the amount realized by translating the Foreign Currency payment at the spot rate of exchange on the settlement date of the sale. A U.S. Holder's adjusted tax basis in a Note will equal the cost of the Note to such holder, increased by the amounts of any market discount or original issue discount previously included in income by the holder with respect to such Note and reduced by any amortized acquisition or other premium and any principal payments received by the holder. A U.S. Holder's tax basis in a Note, and the amount of any subsequent adjustments to such holder's tax basis, will be the U.S. dollar value of the Foreign Currency amount paid for such Note, or of the Foreign Currency amount of the adjustment, determined on the date of such purchase or adjustment.

Gain or loss realized upon the sale, exchange or retirement of a Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between the U.S. dollar value of the Foreign Currency principal amount of the Note, determined on the date such payment is received or the Note is disposed of, and the U.S. dollar value of the Foreign Currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Such Foreign Currency gain or loss will be recognized only to the extent of the total gain or loss realized by the U.S. Holder on the sale, exchange or retirement of the Note.

*Original Issue Discount.* In the case of a Discount Note or Short-Term Note, (i) original issue discount is determined in units of the Foreign Currency, (ii) accrued original issue discount is translated into U.S. dollars as described in "Payments of Interest in a Foreign Currency - Accrual Method" above and (iii) the amount of Foreign Currency gain or loss on the accrued original issue discount is determined by comparing the amount of income received attributable to the discount (either upon payment, maturity or an earlier disposition), as translated into U.S. dollars at the rate of exchange on the date of such receipt, with the amount of original issue discount accrued, as translated above.

*Premium and Market Discount.* In the case of a Note with market discount, (i) market discount is determined in units of the Foreign Currency, (ii) accrued market discount taken into account upon the receipt of any partial principal payment or upon the sale, exchange, retirement or other disposition of the Note (other than accrued market discount required to be taken into account currently) is translated into U.S. dollars at the exchange rate on such disposition date (and no part of such accrued market discount is treated as exchange gain or loss) and (iii) accrued market discount currently includable in income by a U.S. Holder for any accrual period is translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period, and the exchange gain or loss is determined upon the receipt of any partial principal payment or upon the sale, exchange, retirement or other disposition of the Note in the manner described in a "Payment of Interest in a Foreign Currency - Accrual Method" above with respect to computation of exchange gain or loss on accrued interest.

With respect to a Note issued with amortizable bond premium, such premium is determined in the relevant Foreign Currency and reduces interest income in units of the Foreign Currency. Although not entirely clear, a U.S. Holder should recognize exchange gain or loss equal to the difference between the U.S. dollar value of the bond premium amortized with respect to a period, determined on the date the interest attributable to such period is received, and the U.S. dollar value of the bond premium determined on the date of the acquisition of the Note.

*Exchange of Foreign Currencies*. A U.S. Holder will have a tax basis in any Foreign Currency received as interest or on the sale, exchange or retirement of a Note equal to the U.S. dollar value of such Foreign Currency, determined at the time the interest is received or at the time of the sale, exchange or retirement. Any gain or loss realized by a U.S. Holder on a sale or other disposition of Foreign Currency (including its exchange for U.S. dollars or its use to purchase Notes) will be ordinary income or loss.

## Non-U.S. Holders

In general, a non-U.S. Holder will not be subject to United States Federal income taxes on payments of principal, premium (if any) or interest (including original issue discount, if any) on a Note. To qualify for the exemption from taxation, the last United States payor in the chain of payment prior to payment to a non-U.S. Holder (the "Withholding Agent") must have received in the year in which a payment of interest or principal occurs, or in either of the two preceding calendar years, a statement that (i) is signed by the beneficial owner of the Note under penalties of perjury, (ii) certifies that such owner is not a U.S. Holder and (iii) provides the name and address of the beneficial owner. The statement may be made on an IRS Form W-8 or a substantially similar form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Note is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of the IRS Form W-8 or the substitute form provided by the beneficial owner to the organization or institution.

Generally, a non-U.S. Holder will not be subject to United States Federal income taxes on any amount which constitutes capital gain upon retirement or disposition of a Note, provided the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S. Holder. Certain other exceptions may be applicable, and a non-U.S. Holder should consult its tax advisor in this regard.

The Notes will not be includable in the estate of a non-U.S. Holder unless at the time of such individual's death, payments in respect of the Notes would have been effectively connected with the conduct by such individual of a trade or business in the United States.

## Backup Withholding

Backup withholding of United States Federal income tax at a rate of 31% may apply to payments made in respect of the Notes to registered owners who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Notes to a U.S. Holder must be reported to the IRS unless the U.S. Holder is an exempt recipient or establishes an exemption. Compliance with the identification procedures described in the preceding section would establish an exemption from backup withholding for those non-U.S. Holders who are not exempt recipients.

In addition, upon the sale of a Note to (or through) a broker, the broker must withhold 31% of the entire purchase price, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information or, in the case of a non-U.S. Holder, certifies that such seller is a non-U.S. Holder (and certain other conditions are met). Such a sale must also be reported by the broker to the IRS, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the registered owner's non-U.S. status would be made normally on an IRS Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the IRS.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE, DEPENDING ON THE NOTE HOLDER'S PARTICULAR SITUATION. UNITED STATES HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

## PLAN OF DISTRIBUTION

The Notes are being offered on a continuing basis by the Institute through the Agents, which have agreed to use their reasonable efforts to solicit purchasers of the Notes. The Institute will have the sole right to accept offers to purchase Notes and may reject any proposed purchase of Notes in whole or in part. An Agent will have the right, in its discretion, to reject any proposed purchase of Notes through it in whole or in part. The Institute will pay the Agents a commission ranging from .125% to .750% of the principal amount of Notes to be sold at par, provided that commissions with respect to Notes maturing more than 30 years from date of issue will be negotiated.

The Institute may also sell Notes to an Agent as principal for its own account at discounts to be agreed upon at the time of sale. Such Notes may be resold to investors and other purchasers at prevailing market prices, or prices related thereto at the time of such resale, as determined by such Agent or, if so agreed, at a fixed public offering price. In addition, an Agent may offer any Notes that it has purchased as principal to other dealers. An Agent may sell Notes to any dealer at a discount and, unless otherwise specified in the applicable Pricing Supplement, such discount allowed to any dealer will not be in excess of the discount to be received by such Agent from the Issuer. After the initial public offering of Notes to be resold to investors and other purchasers, the public offering price (in the case of Notes to be resold at a fixed public offering price) concession and discount may be changed.

The Institute may accept (but not solicit) offers to purchase Notes through additional agents and may appoint additional agents for the purpose of soliciting offers to purchase Notes, in either case on terms substantially identical to the terms contained in the Distribution Agreement. Such other agents, if any, will be named in the applicable Pricing Supplement. No commission will be payable by the Institute to the Agents on account of sales of Notes made directly by the Institute.

The Agents may be deemed to be "underwriters" within the meaning of the Securities Act of 1933 (the "Securities Act"). The Institute and the Agents have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act, or to contribute to payments made in respect thereof. The Institute has also agreed to reimburse the Agents for certain expenses.

The Institute does not intend to apply for the listing of the Notes on a national securities exchange. The Institute has been advised by the Agents that the Agents intend to make a market in the Notes, as permitted by applicable laws and regulations. The Agents are not obligated to do so, however, and the Agents may discontinue making a market at any time without notice. No assurance can be given as to the liquidity of any trading market for the Notes.

Concurrently with the offering of Notes through the Agents as described herein, the Institute may issue other Debt Securities pursuant to the IPAA referred to herein.

The Agents and/or certain of their affiliates may engage in transactions with and perform services for the Institute and certain of its affiliates in the ordinary course of business.

## INDEPENDENT ACCOUNTANTS

The Statement of Financial Position of the Institute as of June 30, 1995, and the related Statements of Activities, Operations and Other Changes in Unrestricted Net Assets and Cash Flows for the year then ended, included in the Treasurer's Report appended hereto as Appendix B have been audited by Coopers & Lybrand, L.L.P., independent public accountants, as set forth in their report dated September 27, 1995, which report is also included in Appendix B.

## VALIDITY OF NOTES

The validity of the Notes will be passed upon for the Institute by its special counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts, and for the Agents by Davis Polk & Wardwell, 450 Lexington Avenue, New York, New York.

# APPENDIX A

# MASSACHUSETTS INSTITUTE OF TECHNOLOGY

## 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 9,960 students attending the Institute of which 5,329 are full-time graduate students. The Institute's faculty numbers approximately 960 members with other academic staff of approximately 2,410. The Institute is located on a 145-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 148 buildings, with a total building area of approximately 9.5 million gross square feet. In addition to academic departments, these buildings include 27 major school laboratories which provide a focus for interdisciplinary research that crosses classical departmental disciplines. The Laboratory for Computer Science, the Artificial Intelligence Laboratory, The Center for Cancer Research, the Center for Space Research, the Laboratory for Nuclear Science and the Media Laboratory are examples of these major school laboratories. There are also 14 interdepartmental laboratories such as 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-officiis, the Chairman, the Treasurer, the Secretary of the Corporation, the President 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:

| Executive Committee Members | Principal Affiliation |
|---|---|
| Charles M. Vest, ex-officio *(Chairman)* | President of the Massachusetts Institute of Technology |
| Paul E. Gray, ex-officio | Chairman of the Corporation of the Massachusetts Institute of Technology |
| Glenn P. Strehle, ex-officio | Vice President for Finance and Treasurer of the Massachusetts Institute of Technology |
| W. Gerald Austen | Surgeon-in-Chief, Massachusetts General Hospital, Boston |
| Samuel W. Bodman | Chairman and CEO, Cabot Corporation, Boston |
| Edward E. David, Jr. | Retired President, Exxon Research and Engineering Company, Clinton, New Jersey, and President, EED, Inc., Bedminster, New Jersey |
| Judy C. Lewent | Senior Vice President and Chief Financial Officer, Merck and Co., Inc. Whitehouse Station, New Jersey |
| Robert M. Metcalf | Vice President, Technology, International Data Group, Inc., Boston, 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. Paul E. Gray, 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

Mr. James J. Culliton, Vice President for Administration

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

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

Ms. Joan Rice, Vice President for Human Resources

Ms. Barbara Stowe, Vice President for Resource Development

## Faculty and Staff

The Institute has 938 full-time and 22 part-time faculty as well as approximately 2,410 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 960 faculty and 2,410 other academic staff, there are 5,550 research, administrative and support staff employees and 1,360 service staff employees for a total of 10,280 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 |
| 1991-92 | 4,303 | 22 | 4,967 | 249 | 9,541 |
| 1992-93 | 4,493 | 27 | 5,019 | 259 | 9,798 |
| 1993-94 | 4,489 | 20 | 5,024 | 257 | 9,790 |
| 1994-95 | 4,458 | 14 | 5,090 | 212 | 9,774 |
| 1995-96 | 4,481 | 14 | 5,329 | 136 | 9,960 |

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 1995-1996 freshman class from 49 states and 44 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 |
|---|---|---|---|---|---|
| 1991-92 | 6,481 | 2,012 | 31% | 1,053 | 52% |
| 1992-93 | 6,662 | 2,219 | 33% | 1,147 | 52% |
| 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% |

| Academic Year | Freshmen Ranking in the top 10% of their High School Class | Average SAT Scores |
|---|---|---|
| 1991-92 | 94% | 1360 |
| 1992-93 | 95 | 1359 |
| 1993-94 | 97 | 1370 |
| 1994-95 | 94 | 1373 |
| 1995-96 | 97 | 1380 |

APPENDIX A

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 |
|---|---|---|---|---|---|
| 1991-92 | 9,994 | 2,329 | 23% | 1,272 | 54% |
| 1992-93 | 10,685 | 2,381 | 22 | 1,165 | 49 |
| 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 |

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* |
|---|---|---|
| 1991 | $597,082,000 | $597,082,000 |
| 1992 | 573,639,000 | 555,983,026 |
| 1993 | 591,787,000 | 559,857,352 |
| 1994 | 584,849,000 | 542,864,652 |
| 1995 | 595,507,000 | 541,572,083 |

* GDP deflator 1991 = 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 1991 through 1995:

| | Fiscal Year Ended June 30, 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| RESEARCH AT THE MIT CAMBRIDGE CAMPUS | | | | | |
| Federal Government Sponsored Research: | | | | | |
| Health and Human Services | $59,025 | $60,177 | $64,882 | $60,192 | $61,066 |
| Department of Energy | 60,625 | 57,355 | 57,325 | 63,180 | 67,114 |
| Department of Defense | 49,104 | 48,539 | 66,769 | 61,601 | 55,866 |
| National Science Foundation | 37,953 | 36,574 | 38,008 | 39,574 | 38,564 |
| National Aeronautics and Space Administration | 22,755 | 25,889 | 32,324 | 37,449 | 41,292 |
| Other Federal | 8,647 | 9,773 | 8,898 | 8,722 | 9,641 |
| Total Federal | 238,109 | 238,307 | 268,206 | 270,718 | 273,543 |
| Non-Federal Sponsored Research: | | | | | |
| Industry | 48,360 | 53,578 | 62,068 | 59,117 | 56,120 |
| Foundations and Other Non-profits | 23,751 | 24,920 | 25,593 | 23,666 | 26,430 |
| Other | 5,599 | 5,461 | 5,487 | [illegible]73 | 5,597 |
| Total Non-Federal | 77,710 | 83,960 | 93,148 | 88,956 | 88,146 |
| TOTAL CAMBRIDGE RESEARCH | 315,819 | 322,267 | 361,354 | 359,674 | 361,689 |
| RESEARCH AT THE MIT LINCOLN LABORATORY | 389,453 | 364,212 | 355,198 | 341,929 | 344,657 |
| TOTAL RESEARCH | $705,272 | $686,479 | $716,552 | $701,603 | $706,346 |

## 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 1994 and 1995, Schedule C in the Report of the Treasurer, Appendix B of the Offering Circular:

| | Fiscal Year Ended June 30, | |
|---|---|---|
| | 1994 | 1995 |
| | (in thousands) | |
| Total Unrestricted Revenues | $1,186,244 | $1,230,846 |
| Operating Unit Expenses | (1,070,546) | (1,117,182) |
| Other Charges to Operations | (59,968) | ( 64,982) |
| Change in Unrestricted Net Assets | $55,730 | $48,682 |

The increase in unrestricted net assets for fiscal year 1995 of $48.7 million reflects a use of these assets for 1995 operations of $9.2 million (shown in Schedule C in the Report of the Treasurer in Appendix B of the Offering Circular). That is, expenses and other charges to operations exceeded unrestricted operating revenues by $9.2 million. This use of additional net assets represents less than 1% of the market value of unrestricted net assets. At June 30, 1995 the market value of unrestricted net assets approached $1.275 billion, an increase of $125 million from the June 30, 1994 level of approximately $1.150 billion.

In fiscal year 1996 operating unit expenses and other charges to operations will approach $1.2 billion. We expect that these expenses and other charges will exceed unrestricted operating revenues by about $3 million.

The underlying financial strength of the Institute can also be demonstrated in 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) |
|---|---|
| 1991 | $1,777,629 |
| 1992 | $1,947,982 |
| 1993 | $2,133,234 |
| 1994 | $2,170,157 |
| 1995 | $2,501,184 |

## Tuition and Fees

Tuition for full-time undergraduate and graduate students for the 1995-1996 academic year is $21,000, except for students in the Sloan Master's Program for whom the tuition is $22,700. For the 1995 summer session, the tuition for all full-time graduate students was $7,000.

Residence fees for on-campus housing vary according to accommodations. For the 1995-96 academic year, room charges for the various undergraduate residences range from $1,396 to $1,707 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 |
|---|---|---|---|
| 1991-92 | $16,900 | $5,330 | $22,230 |
| 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 | 28,350 |

* The Executive Committee approved the 1996-1997 charges at their March 1, 1996 meeting.

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, 1995, 2,697 MIT undergraduate students (59% of the enrollment) received some form of Institute-administered student aid. The average award for the 1994-1995 academic year was $19,636.

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

| | Fiscal Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| | | | (in thousands) | | |
| Undergraduate Grants | $20,927 | $23,103 | $25,984 | $26,311 | $27,892 |
| Loans Made to Students | 8,124 | 8,969 | 8,215 | 6,734 | 8,402 |
| Total Undergraduate Grants and Loans Made to Students | 29,051 | 32,072 | 34,199 | 33,045 | 36,294 |
| Student Employment | 68,395 | 74,099 | 79,639 | 90,518 | 96,763 |
| Total Financial Assistance | $97,446 | $106,171 | $113,838 | $123,563 | $133,057 |

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, 1995 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 1,400 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 all five bargaining units have contracts in place.

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 $462,715,000 as of June 30, 1995 up from $431,083,000 as of June 30, 1994. This change includes $70,455,000 of net additions to the educational plant offset by $38,823,000 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, | | | | |
|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| | | | (in thousands) | | |
| Land, buildings and equipment at cost | $493,066 | $521,909 | $541,630 | $651,328 | $688,612 |
| Less: accumulated depreciation | (173,048) | (195,601) | (213,704) | (248,605) | (287,450) |
| Construction in progress | 7,573 | 23,215 | 56,042 | 28,360 | 61,553 |
| Subtotal | 327,591 | 349,523 | 383,968 | 431,083 | 462,715 |
| Temporary investments(1) | 2,581 | 23,523 | 26,950 | 8,857 | (5,825) |
| Total Educational Plant Assets | $330,172 | $373,046 | $410,918 | $439,940 | $456,890 |

(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 of the Offering Circular.

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

| Property | Fiscal Year | Description | Approximate Cost |
|---|---|---|---|
| Biology Building | 1994 | New Construction | $74 million |
| Cogeneration Plant | 1996 | New Construction | $51 million |
| Jack C. Tang Center for Management Education | 1996 | New Construction | $14 million |
| Pappalardo Engineering Teaching Laboratory | 1995 | Renovation | $2 million |
| McCormick Hall Annex | 1995 | Renovation | $2 million |

## 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 coming years, including the renovation of the Whitaker and Dorrance buildings, the renovation of the Senior House undergraduate dormitory, and a series of renovation projects to provide new facilities for the professional programs in the School of Architecture.

## 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 Issuing and Paying Agency 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 1994 fiscal year. The audit for fiscal year 1995 is in progress, with no major audit issues anticipated.

The Internal Revenue Service (IRS) has made certain claims against the Institute regarding Federal Income and Social Security taxes related to awards to teaching and research assistants. The claims total approximately $19 million, down from an original total of $30 million. The Institute has filed a protest with the IRS that contests all of the remaining claims. The Institute believes that it has meritorious defenses and that the ultimate resolution of this matter will not have a material effect on the Institute's financial position.

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

APPENDIX B

Massachusetts Institute of Technology

# Report of the Treasurer

For the Year Ended
June 30, 1995

# THE CORPORATION
# 1994-95

*Honorary Chairman:* David S. Saxon (until March 3, 1995)
*Chairman:* Paul E. Gray
*President:* Charles M. Vest
*Treasurer:* Glenn P. Strehle
*Secretary:* Kathryn A. Willmore

*Life Members*

Paul M. Cook, Breene M. Kerr, Louis W. Cabot, Kenneth H. Olsen, W. Gerald Austen, Howard W. Johnson, Edward O. Vetter, Edward E. David, Jr., John S. Reed, Joseph G. Gavin, Jr., Mary Frances Wagley, T. A. Wilson, Emily V. Wade, Charles H. Spaulding, Shirley A. Jackson (on leave), Frank Press, Angus N. MacDonald, Herbert H. Dow, 2nd, Raymond S. Stata, Alexander V. d'Arbeloff

*Members*

Samuel W. Bodman, Denis A. Bovin, Jerome H. Grossman, John M. Hennessy, George M. Keller, James A. Levitan, Edward H. Linde, Bernard Loyd, Harris Weinstein, William R. Brody, Alexander W. Dreyfoos, Jr., Michael M. Koerner, Claudine B. Malone, Christian J. Matthew, DuWayne J. Peterson, Jr., Morris Tanenbaum, Reginald D. Tucker, William J. Weisz, 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

*President of the Association of Alumni and Alumnae*

R. Gary Schweikhardt

*Representatives of the Commonwealth*

Governor: His Excellency, William F. Weld
Chief Justice of the Supreme Judicial Court: The Honorable Paul J. Liacos
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, Jerry McAfee, David S. Saxon, Colby H. Chandler, Mitchell W. Spellman

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# Report of the Treasurer

*To Members of the Corporation*

**Introduction**

MIT has implemented two new accounting standards in reporting its results for 1994-95. These two standards represent the most significant changes in Generally Accepted Accounting Principles (GAAP) for not-for-profit organizations in over 20 years. As a result, the financial statements have a new look as well as additional accounting requirements. Some new information is presented and prior information is in a different format.

The two new Statements of Financial Accounting Standards (FAS) issued by the Financial Accounting Standards Board (FASB) have a required implementation date in the 1995-96 year and the Institute has elected to implement one year early. The financial statements for June 30, 1994 have been restated to the new standards for comparison purposes. This restatement of prior year balances is described in Note J.

The standards introduce several new reporting requirements, but each has one major focus. FAS No. 116, Accounting for Contributions Received and Contributions Made, requires specifically verifiable pledges from donors to be recorded as revenues in the year pledged and the unpaid amount to be recorded in accounts receivable. FAS No. 117, Financial Statements of Not-for-Profit Organizations, establishes standards for the display of financial statements that are more similar to those of for-profit corporations.

In prior Treasurer Reports, we have placed primary emphasis on the Revenues and Funds Used to Meet the Expenses of Current Operations. FAS No.117 puts more emphasis on the changes in the balance sheet items and the cash flow statement. The Institute has retained much of the prior information about operations through the new Schedule C-Statement of Operations and Other Changes in Unrestricted Net Assets. Information in past reports that we believe is significant, but is not included in the new statements, is provided either in the text or in the Notes to the Financial Statements.

**Schedule A - Statement of Financial Position**

The Statement of Financial Position is the balance sheet of the Institute at June 30, 1995. The assets are reported at book value, based on amortized cost, and do not reflect market value which is reported in the text and in other schedules. The reporting of separate fund groups is not required by FAS No. 117, but has been retained for purposes of comparison. The Assets less the Liabilities results in Net Assets which is roughly comparable to Stockholders' Equity in a for-profit corporation.

The FASB requirement of the three different categories of net assets recognizes that in one very significant way universities are different from a profit-making concern — MIT receives contributions 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.

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 an 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. This definition of unrestricted net assets is considerably broader than the definition of such assets in prior years. An example of the broader unrestricted net asset definition also relates to Endowment and Similar Funds. Endowment and Similar Funds categorized as unrestricted includes all those gifts received over the years which the Institute defined as funds functioning as endowment and invested with the endowment funds. Such gifts often came in the form of large unrestricted bequests and the Institute has sought to capitalize these gifts to produce income for the benefit of both present and future generations of faculty and students.

In all cases "net assets" means the assets remaining after all liabilities have been deducted. Note A provides a description of the classification of the three categories of net assets. Note K provides the detail by fund group of each class of net assets. The year-to-year change in the three categories of net assets and the composition of each category is explained in Schedule B - Statement of Activities.

In addition to the requirement for the classification of net assets FAS No. 117 also required certain other reclassifications:

Federal student loan funds, previously reported as fund balances, are now reclassified as liabilities in the amounts of $26,596,000 and $25,619,000 at June 30, 1995 and 1994 respectively.

An actuarial adjustment is required to reduce the portion of Life Income Funds by the present value of the expected income stream to be provided to the income beneficiary(ies) for life or over a designated period. This amount is recorded as a liability. In prior years when gifts to such funds were received, the entire fair value of the assets at the date of gift was recorded as a gift and a fund balance. The difference between the fair value of the assets and the actuarial liability to the beneficiaries equals the present value amount of the gift. $1,373,000 of the liability amount of $29,116,000 in the Life Income Funds column represents Agency Funds and the remaining $27,743,000 is for Life Income Annuity commitments which are now required to be displayed as liabilities.

Pledges receivable have been recorded as an asset as required by FAS No. 116 with the corresponding addition to Temporarily or Permanently Restricted Net Assets. Pledges have been reduced to present value as detailed in Note A.

The Institute continues to record and display its books on an amortized cost or book value basis; thus the total investments of $1,942,311,000 represents book value. Market value at June 30, 1995 was $2,501,184,000 as presented in Table 4.

**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.

FAS No. 117 addressed the basic reporting requirements considered necessary for adequate financial disclosure. These include revenues and other additions to assets, expenses and other deductions, and the net increases in each category of net assets. Beyond that, the FASB said not-for-profit organizations could choose to report details they considered necessary to provide the financial information they believed the readers of their statements needed. The Institute has retained columns for fund groups as reported in past years. The Statement of Activities is very similar, with the addition of the three categories of Net Assets, to the Statement of Changes in Financial Position reported in the past (Schedule D in prior year reports).

The increase in Unrestricted Net Assets of $48,682,000 results primarily from an increase in Current Funds of $8,856,000 and an increase in Institute-designated Endowment and Similar Funds of $37,594,000. The increase in Current Funds results primarily from continued accumulation of expendable funds in accounts held for academic departments and other purposes. The gifts, investment income and other revenues received into these expendable accounts exceeded the expenses charged to such accounts and is one measure of the financial strength of the Institute. The increase in Endowment and Similar Funds for unrestricted purposes results in part from Net Realized Gains on Investments which were reduced by the portion of such gains that were distributed for spending.

The increase in Temporarily Restricted Net Assets was caused almost entirely by the Net Realized Gains on Investments. The gains on investments resulting from endowment funds listed as Permanently Restricted 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. The Institute's internal records distribute income for spending based upon the full market value for each restricted fund including its share of capital gains and appreciation.

The increase in Permanently Restricted Net Assets results largely from gifts to endowment funds which the donor has specified to be permanently retained. These gifts and bequests received totaled $21,184,000, an increase of $6,160,000 from the prior year.

Pledges of gifts to be received in future years are recorded as permanently restricted if the gift is to be for a restricted endowment purpose. If, however, the pledge is defined as either expendable gifts for a restricted purpose or unrestricted gifts, 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 unrestricted.

**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 function. In this schedule, we have sought to retain much of the financial information reported in prior years as the Statement of Revenues and Funds Used to Meet Expenses of Current Operations (Schedule A in prior years). It is consistent with past presentations other than the reclassification of certain capital items reported in prior years as operating expense. This statement is directly comparable to the unrestricted net asset section of Schedule B-Statement of Activities.

Total unrestricted revenues in 1995 were $1,230,846,000. Of these revenues $1,127,259,000 were used for operations, while $103,587,000 were initially added to unrestricted net assets. $1,117,182,000 of the operating revenues were used to support the 1995 operating expenses, leaving $10,077,000 of 1995 operating revenues before other charges to operations. Of the total $64,982,000 expended for scholarships and fellowships, $19,248,000 was charged to 1995 operations and $45,734,000 was charged to unrestricted net assets. The result was total operating expenses and scholarships exceeded operating revenues by $9,171,000. This necessitated the use of unrestricted net assets leaving a final net increase in unrestricted net assets of $48,682,000 in 1995.

Total unrestricted revenues used in operations in 1994-95 were $1,127,259,000. Total expenses were $1,136,430,000 including Operating Unit Expenses of $1,117,182,000 and other charges to operations of $19,248,000. Total 1995 operating expenses and other charges exceeded unrestricted revenues by $9,171,000. This amount was funded by current gifts, grants, and bequests of $5,138,000 and other fund balances of $4,033,000.

Under the reporting method of prior years, operating expenses and other charges would have exceeded unrestricted revenues by $15,237,000 in 1994-95. The difference of $6,066,000, nearly all applied or set aside to finance facilities, is no longer reported as an operating expense.

The research volume of Departmental and Interdepartmental Laboratories was $371,990,000 in 1994-95 compared to $355,024,000 in 1993-94, an increase of $16,966,000, or 4.8 percent. The largest increase among the major sponsors of campus research was the National Aeronautics and Space Administration, with an increase of 10.4 percent. The second largest increase in funding was the Department of Energy with an increase of 6.2 percent. The funding of projects by the Department of Defense declined by 9.3 percent and Industrial Sponsor program funding declined by 5.1 percent. Lincoln Laboratory research volume was $340,711,000 in 1994-95 compared to $336,934,000 in 1993-94, an increase of $3,777,000, or, 1.1 percent.

The Institute also continued its planned program of renovations and upgrading of existing academic and research facilities. In 1994-95, $19,210,000 was charged to operating units for renovations compared to $19,781,000 in 1993-94.

In 1994-95, scholarships and fellowships were $64,982,000, an increase of 8.4 percent from the 1993-94 total of $59,968,000. Total undergraduate scholarships in 1994-95 were $35,896,000, an increase of 7.0 percent over the 1993-94 total of $33,560,000 while graduate fellowships in 1994-95 were $29,086,000, an increase of 10.1 percent from the 1993-94 total of $26,408,000. The unrestricted funds to support these scholarships and fellowships in 1994-95 were $19,248,000 ($16,165,000 for undergraduates and $3,083,000 for graduate students), an increase of 2.4 percent from the 1993-94 total of $18,789,000 ($15,534,000 for undergraduates and $3,255,000 for graduate students).

The Institute continues to contest certain claims against the Institute by the Internal Revenue Service regarding payments to graduate assistants in earlier years and strongly believes these claims are without merit.

The 1995 Operations column includes those revenues from tuition and sponsored research used to support related expenses, primarily instruction and unsponsored research, sponsored research and expenses jointly applicable to both activities. The unrestricted funds resources used to fund the cost of Scholarships and Fellowships is shown under Operations while the gifts and investment income designated for such student aid is listed in the Changes in Unrestricted Net Assets.

The column Changes in Unrestricted Net Assets lists by source those revenues and funds which are unrestricted. The Institute allocated $173,187,000 of these resources to meet Operating Unit Expenses, and $45,734,000 to scholarships and fellowships. Of the remaining $57,853,000, an amount of $9,171,000 was used to meet the cost of operations not covered by other revenues. The increase of $48,682,000 almost all resulted from net realized gains on investments, primarily related to funds functioning as endowment.

It is important to note that the Institute reports its investments on a book value basis and as a consequence the Net Realized gains recorded during 1995 (or any future accounting period) can be misleading. The increase in Unrestricted Net Assets includes realized gains for the securities traded during the reporting period; many of which may have been held for several accounting periods and thus the gain is a reflection of a longer holding period. Thus, realized gains are recognized in the accounting period in which they are sold if on a book value basis (or as market changes occur if on a market value basis). Thus, a more accurate reflection of current period results would be a review of the net increase or decrease in the total book value of Institute funds excluding net gains on investments realized during the current period. The following table displays the net increase in fund balances in this fashion.

| | *(in thousands of dollars)* | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Increase in Net Asset Balances - Sch B . . . . . . . . | $ 48,682 | $35,894 | $ 38,146 | $122,722 |
| Deduct: | | | | |
| Realized Gains - Sch B . . . . . . . . . . . . . . . | (69,077) | (39,532) | (1,340) | (109,949) |
| Net Increase (Decrease) in Book Value of Net Assets . . . . . . . . . . . . . . . . . | $(20,395) | $ (3,638) | $36,806 | $ 12,773 |

**Schedule D-Statement of Cash Flows**

This statement is a new requirement under FAS No. 117. It 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. An increase in accounts receivable during the year reflects the net increase in revenues that were recognized, but had not yet been received. In a similar manner, an increase in accounts payable reflects a net increase in expenses that were incurred and had not yet been paid.

The three categories show how cash was used by or provided to the Institute. The change in net assets of $122,722,000 is from Schedule B-Statement of Activities.

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

This unaudited schedule (on page B-13) is comparable to Schedule B in prior years. It 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

The reporting of gifts, grants and bequests by the Institute under FAS No. 116 is not comparable to the manner in which these items were reported in prior years. Gifts are reported as either "Gifts and bequests" or "Pledges" in Schedule B in conformance with FAS No. 116. Gifts and bequests excludes payments on pledges made in earlier years. Gifts are divided into the three categories of changes in net assets and it is noted that all pledges to unrestricted net assets are shown as temporarily restricted. The total of such gifts received and pledges in 1994-95 was $97,548,000 as compared to $67,187,000 in 1993-94, an increase of 45.2%. This increase reflects a strong increase in pledges and new gifts following a period of reduced new commitments that followed the end of the *Campaign for the future* in 1992.

In conforming to the new accounting standard, the Institute added $14,003,000 in market value of irrevocable charitable trusts without life contingencies (perpetual trusts) for the benefit of MIT, but held outside MIT, to the assets on June 30, 1994 and pledges receivable with a present value of $90,127,000. These pledges receivable include the actuarial present value of irrevocable life income trusts held outside MIT. Income and pledge payments in 1994-95 and future years from these assets are not reported as gifts in Schedule B. These amounts are also described in Footnote J.

Although the Institute will no longer record payments on pledges as gifts for financial statement purposes, donors will continue to deduct such gifts for charitable tax purposes in the year that the pledge payment is made to MIT, not the year that the pledge is made.

For comparison purposes, the table of gifts, grants and bequests that was presented in prior years is included below. The results for 1993-94 are the same as shown a year ago except that gifts to life income plans are shown for both years at their actuarial present value to the Institute after deducting the expected present value of payments to life income beneficiaries. This table includes both new gifts and gifts received as pledge payments. The total for 1994-95 of $104,162,000 is an increase of 18.5 percent above the prior year. Excluding gifts of equipment, the total was second only to the total of cash, securities and real estate received in 1989-90 at the peak of the Campaign.

**Table 1**
**Gifts, Grants, and Bequests**

| | 1994-95 | 1993-94 |
|---|---|---|
| Gifts: | | |
| for endowment | $ 33,482,000 | $24,668,000 |
| for buildings | 2,790,000 | 3,649,000 |
| for life income plans | 2,376,000 | 3,549,000 |
| for student loans | 81,000 | 15,000 |
| for current funds-restricted | 43,038,000 | 39,295,000 |
| for current funds-unrestricted | 12,963,000 | 6,246,000 |
| of equipment | 5,596,000 | 6,089,000 |
| **Total gifts to funds** | **$100,326,000** | **$83,511,000** |
| Grants-in-aid | 3,836,000 | 4,426,000 |
| **Total** | **$104,162,000** | **$87,937,000** |

In addition, there are $87,350,000 in pledges outstanding at June 30, 1995.

The percentage increase in gifts using FAS No. 116 reporting was significantly higher than the comparable increase in Table 1 primarily because the amount of pledge payments in 1994-95 was almost fully offset by new pledge commitments. In the prior year there was a decline in outstanding pledges as pledge payments significantly exceeded new pledge commitments.

The gifts reported by the Alumni/ae Fund were $21,308,000, a decrease of 7.3 percent as compared to the record results of the previous year. Gifts to the Fund are recorded 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 $2,093,216,000 at year-end as compared to $1,777,777,000 at the previous year-end, an increase of 17.7 percent. The market value at June 30,1995 includes $2,037,948,000 held in Pool A of the General Investments and $55,268,000 held in Separately Invested Funds. These values include both the value of the investments at market and the other assets and liabilities related to these funds as shown on Schedule A.

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 seeks to match the growth rate of inflation over time. A continuous inflow of gifts to endowment funds is needed to increase the growth of income above inflation and help offset the slow growth of revenues from other sources.

The Institute's decision to hold a relatively high percentage of the endowment in common stocks and other equities has created over time an expansion of the gap between the market value of the endowment funds and the value of these gifts when received. This significant difference can be summarized as follows:

**Table 2**
**Analysis of Market Value of Endowment Funds**

| | June 30, 1995 |
|---|---|
| Book value of endowment funds for restricted and unrestricted purposes | $ 802,441,000 |
| Accumulated net realized gains from investments | 739,990,000 |
| Investment income held for distribution to funds | 25,751,000 |
| **Total endowment funds (at book value)** | **$1,568,182,000** |
| Unrealized appreciation | 525,034,000 |
| **Total endowment funds (at market value)** | **$2,093,216,000** |

The book value of the endowment funds by purpose totaling $802,441,000 is primarily the value of gifts to endowment funds at the time received. It is moderately higher than the actual value of such gifts received during the 134 years of the Institute's history. This occurred because some gifts accumulated capital gains, unexpended income, and unrealized appreciation prior to being transferred to endowment from other funds. Such transfers take place at market value, which becomes the new book value of the funds.

In reading the table, it should be noted that the book value of the endowment funds has increased by $201,699,000 or 33.6 percent in just the past four years. These new gifts and transfers to endowment funds have not had a long period of time to experience the high level of appreciation of the older funds.

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**

| | June 30, 1995 | |
|---|---|---|
| | **Book Value** | **Market Value** |
| Unrestricted purposes (general) | $ 135,738,000 | $ 497,427,000 |
| Departments and research | 150,678,000 | 314,675,000 |
| Library | 2,218,000 | 6,915,000 |
| Salaries (professorships, etc.) | 285,564,000 | 633,097,000 |
| Graduate fellowships-general | 9,011,000 | 27,769,000 |
| Graduate fellowships-departmental | 41,833,000 | 70,022,000 |
| Undergraduate scholarships | 108,977,000 | 267,808,000 |
| Prizes | 3,332,000 | 6,471,000 |
| Miscellaneous | 65,090,000 | 187,265,000 |
| **Subtotal** | **$ 802,441,000** | **$2,011,449,000** |
| Investment income held for distribution to funds | 25,751,000 | 81,767,000 |
| Accumulated net realized gains from investments | 739,990,000 | - |
| **Total** | **$1,568,182,000** | **$2,093,216,000** |

**Table 4**
**Investments**[1]

| | June 30, 1995 | | June 30, 1994 | |
|---|---|---|---|---|
| | **Book** | **Market** | **Book** | **Market** |
| General Investments | | | | |
| Cash equivalents | $ 118,803,000 | $ 118,636,000 | $ 36,560,000 | $ 36,714,000 |
| Fixed income | 389,536,000 | 401,189,000 | 423,022,000 | 416,798,000 |
| Equities | 1,193,827,000 | 1,705,435,000 | 1,137,403,000 | 1,470,781,000 |
| Real estate: | | | | |
| Held for present or future academic use | 40,336,000 | 40,364,000 | 32,234,000 | 32,234,000 |
| Held for investment or other purposes | 73,976,000 | 86,369,000[2] | 72,498,000 | 81,383,000[2] |
| **Total general investments** | **$1,816,478,000** | **$2,351,993,000** | **$1,701,717,000** | **$2,037,910,000** |
| Separately invested | 60,028,000 | 70,152,000 | 55,239,000 | 60,836,000 |
| Life income funds | 59,549,000 | 72,783,000 | 59,828,000 | 67,359,000 |
| Receivable/payables arising from securities transactions | 6,256,000 | 6,256,000 | 4,052,000 | 4,052,000 |
| **Total investments** | **$1,942,311,000**[3] | **$2,501,184,000** | **$1,820,836,000**[3] | **$2,170,157,000** |

**Investments**

Total investments at market value were $2,501,184,000, an increase of $331,027,000 or 15.3 percent from last year. This increase compares with an increase of $26,045,000 in the previous year and represents the seventh consecutive year in which the market value of total investments has increased. Total invested assets at market value have now increased approximately $780 million over the last five years. Gifts received from the *Campaign for the future* and market appreciation have generated substantial increases in the endowment and other funds over this period.

The General Investments at market value were $2,351,993,000, an increase of $314,083,000 or 15.4 percent from last year. This increase compares with an increase of $17,249,000 in the previous year. General Investments at market value have now

[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.
[3] See Schedule A, Statement of Financial Position, "Investments, at cost."

increased approximately $730 million over the last five years. This increase in the General Investments resulted substantially from gifts to the Campaign for the future, market appreciation, and from an increase of current funds relating to the growth of the Institute's operations during this period. There were net borrowings in fiscal year 1995 of $15,903,000, primarily for construction financing of a cogeneration facility, as further detailed in Schedule D.

The balance between fixed income and equity investments changed slightly during the year. Equity investments, at market, were 72.5 percent of the General Investments at year end, an increase from 72.2 percent at the prior year end. Realized gains in the General Investments included $106,783,000 from equities and $1,459,000 from fixed income securities during the year. The $234,654,000 increase in market value of equities and the $66,313,000 increase in market value of fixed income securities and cash equivalents in the General Investments primarily resulted from market results which were positive for both equities and fixed income securities.

The increase of $8,130,000 in real estate held for possible future academic use was due to the funding of new acquisitions ($7,986,000), capital improvements ($116,000) and gifts ($28,000). The increase in book value of $1,478,000 in real estate held for investment or other purposes was primarily due to major capital improvements. The market value of real estate held for investment or other purposes increased $4,986,000, or 6.1 percent, and resulted primarily from the changes in appraised values. The income from real estate increased more than 20 percent from the previous year. This increase primarily resulted from the more stable market environment for Cambridge-area commercial properties.

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. The investment policy for the General Investments 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. In 1995, the amount distributed from the General Investments Endowment Funds for spending totaled $89,145,000, an increase of 6.5 percent from the $83,683,000 distributed in 1994. The 1995 amount distributed to General Investments Endowment Funds included $41,505,000 from realized gains, or 46.6 percent of the total distributed to those funds. In 1994, the comparable amount distributed to General Investments Endowment Funds included $36,231,000 from realized gains or 42.7 percent of the total. The 1995 amount available for total endowment spending (Pool A and Separately Invested Endowment Funds) was $90,394,000, a 6.4 percent increase over the $84,932,000 available in 1994. This is detailed in the schedule of Distribution of Investment Income to Funds on page 15.

The investments held by the Separately Invested Funds increased by $9,316,000 to a market value of $70,152,000. This increase resulted from current year gifts transfers to General Investments and market appreciation.

The investments held by the Life Income Funds increased $5,424,000 to a market value of $72,783,000. Amounts received from donors were partially offset by the amount transferred for Institute use of $2,012,000. The increase in market value, net of gifts and transfers, was due to market appreciation.

Investment income in the form of dividends, interest and rents (after administrative expenses), was $67,616,000 as shown in the schedule of Distribution of Investment Income to Funds. This compares to $63,675,000 of investment income in the previous year. This was an increase of 6.2 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 represented more than 87 percent of the amount distributed to those funds. The balance was drawn from accumulated realized gains.

Undistributed realized gains from General Investments at the end of Fiscal 1995 totaled $747,888,000 as shown in Note K of the Financial Statements . The comparable balance at the end of Fiscal 1994 was $702,178,000. The increase of $45,710,000 was due to gains realized during 1995 less amounts distributed for spending.

The reserve of investment income held for distribution which is invested with the General Investments Funds was not availed of for distribution to endowment funds. This reserve has a book value of $25,751,000 and a market value of $81,767,000 on June 30, 1995.

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 extended an investment program directed towards domestic public-equity investments in smaller capitalization companies by adding a fourth investment management firm in this area. The Institute also continued its program of diversifying its assets with alternative investments in both the domestic and international markets. These alternative investments are typically managed by several independent organizations through pooled investment funds. Alternative investments include venture capital and other investments that are generally not publicly traded.

Charles H. Spaulding completed his term as a member of the Committee, having contributed to the governance of the Institute's investment program. The advice and comment provided by Mr. Spaulding, especially in the area of real estate matters, is deeply appreciated.

**Plant**

The book value of the educational plant assets was $462,715,000 at June 30, 1995 up from $431,083,000 at June 30, 1994. This change includes $70,455,000 of net additions to educational plant offset by $38,823,000 of net depreciation charges.

Major projects completed during the year include the renovation of 311-312 Memorial Drive as an annex to McCormick Hall, the Institute's all-female dormitory, to house approximately 25 women; the renovation and upgrade of three undergraduate teaching laboratories and the student projects workshop for the Department of Mechanical Engineering, renamed The Pappalardo Engineering Projects Laboratory; and the renovation of 40 Massachusetts Avenue to accommodate the MIT religious counselors, the Kosher Kitchen, and other student religious activities. The construction of the Cogeneration Plant on Vassar Street, including the upgrade of the electrical distribution and control systems in the existing plant, continued during the year. Construction of the addition to 70 Memorial Drive, which will be called the Jack C. Tang Center for Management Education and used by the Sloan School of Management, is ongoing. The schematic design for the renovation and upgrade of the Dorrance and Uncas A. Whitaker Buildings was substantially completed during the year, and construction will begin in the Fall of 1995.

Total indebtedness for educational plant at June 30, 1995 was $179,601,000 of which $123,838,000 is tax-exempt debt financed through the Massachusetts Health and Educational Facilities Authority.

**General**

The implementation of FAS No. 116 and FAS No. 117 occurs at the same time that the operations of the Institute are changing. The outlook for either minimum growth or a decline in sponsored research on the campus has caused a reappraisal of many of our activities. The need for a downsizing of our activities that provide administrative and service support is obvious. We also need to assure that all essential support activities are continued and that the needs of students and faculty are fully met.

The new accounting standards provide a view of the Institute's operations in its entirety with less emphasis on the specific sources of funding for each activity. Because of the financial constraints ahead, the Institute's leadership has also been looking at its operations in their totality. The effort to reengineer administrative processes is already achieving success in reducing costs and much greater improvements are ahead.

During this period, there is a continuing need to maintain a strong inflow of gifts and other resources from non-government sources to offset the Federal budget cutbacks. The Institute also has to offset the decline in government funding for indirect costs because of the renegotiation of long-standing relationships. The effect of these renegotiations is to shift some costs to Institute funds that, in the past, were appropriately paid by government and other research sponsors.

It is fortunate that these revenue and cost pressures occur at the same time that there is recognition by the public and the press of the continued very high quality of our education and research programs. Despite the problems, the financial strength of the Institute has been maintained. The future will greatly benefit by the quality of what takes place here and those who study here. It is our objective to assure that the Institute will continue its mission with vigor and optimism in the years ahead.

I want to express my continued gratitude for the support of James Culliton who joined me in preparing this report for more than a decade until his responsibilities changed last year; to Allan Bufferd who continues as Deputy Treasurer and Director of Investments; to Philip Keohan, Comptroller, who has had major responsibility for the preparation of this report over more than twenty years; and to John Currie, Director of Finance, who has provided wise counsel to us.

During the year both Joseph Snyder, Treasurer for 25 years, and Stuart Cowen, Vice President for Financial Operations for a decade, passed away. Their high standards of quality and performance enriched the Institute.

Respectfully submitted,

Glenn P. Strehle
Vice President for Finance and Treasurer

September 27, 1995

## MASSACHUSETTS INSTITUTE OF TECHNOLOGY
## DISTRIBUTION OF INVESTMENT INCOME TO FUNDS

**for the year ended June 30, 1995**
**with comparative totals for 1994**
***(in thousands of dollars)***
(unaudited)

| | Total 1994 | Total 1995 | General Investments | | Separately Invested Funds | |
|---|---|---|---|---|---|---|
| Investment income before distribution: | | | | | | |
| Investment income held for distribution to funds, balance beginning of year | $ 25,751 | **$ 25,751** | $25,751 | | | |
| Investment income, current year | 63,675 | **67,616 ‡** | 64,966 | | $ 2,650 | |
| Total before distribution | $ 89,426 | **$ 93,367** | | $ 90,717 | | $ 2,650 |
| Distribution: | | | | | | |
| Income distributed: | | | | | | |
| From current year's earnings | (63,675) | **(67,616)** | (64,966) | | (2,650) | |
| From prior year's earnings | - | - | - | | - | |
| From accumulated realized gains on investments | (36,231) | **(44,329)** | (44,329) | | - | |
| *Total distribution to funds | (99,906) | **(111,945)** | | (109,295) | | (2,650) |
| Less: reduction in accumulated gains on investments | 36,231 | **44,329** | 44,329 | | - | |
| | | | | 44,329 | | - |
| Total distributed from investment income | (63,675) | **(67,616)** | | (64,966) | | (2,650) |
| Investment income held for distribution to funds, balance end of year | $ 25,751 | **$ 25,751** | | $ 25,751 | | $ - |
| Balances include: | | | | | | |
| Funds functioning as endowment | $ 25,751 | **$ 25,751** | | $ 25,751 | | $ - |
| Current invested funds | - | - | | - | | - |
| Total | $ 25,751 | **$ 25,751** | | $ 25,751 | | $ - |
| *Total distributinn to funds: | | | | | | |
| Endowment funds: | | | | | | |
| Used for operations | $ 43,368 | **$ 51,351** | $51,058 | | $ 293 | |
| Used for scholarships and fellowships | 12,706 | **14,235** | 13,947 | | 288 | |
| Used for other charges | 2,313 | **508** | 508 | | - | |
| Added to principal | 3,749 | **5,163** | 4,322 | | 841 | |
| Added to (distributed from) unexpended balances of endowment income | 7,499 | **(1,393)** | (1,514) | | 121 | |
| Transferred to other funds | 15,297 | **20,530** | 20,824 | | (294) | |
| | $ 84,932 | **$ 90,394** | | $ 89,145 | | $ 1,249 |
| Other funds: | | | | | | |
| Life income funds | 4 | **5** | 5 | | - | |
| Student loan funds | 60 | - | - | | - | |
| Building funds | 5,283 | **3,583** | 3,276 | | 307 | |
| Other expendable funds | 9,627 | **17,963** | 16,869 | | 1,094 | |
| | 14,974 | **21,551** | | 20,150 | | 1,401 |
| Total distribution to funds | $ 99,906 | **$111,945** | | $109,295 | | $ 2,650 |

‡ Includes agency funds which are not reported on Schedule B.

**Figure 1**
**Compound Growth Rates of Selected MIT Data**
**Versus the GDP Deflator**
**1985–1995**

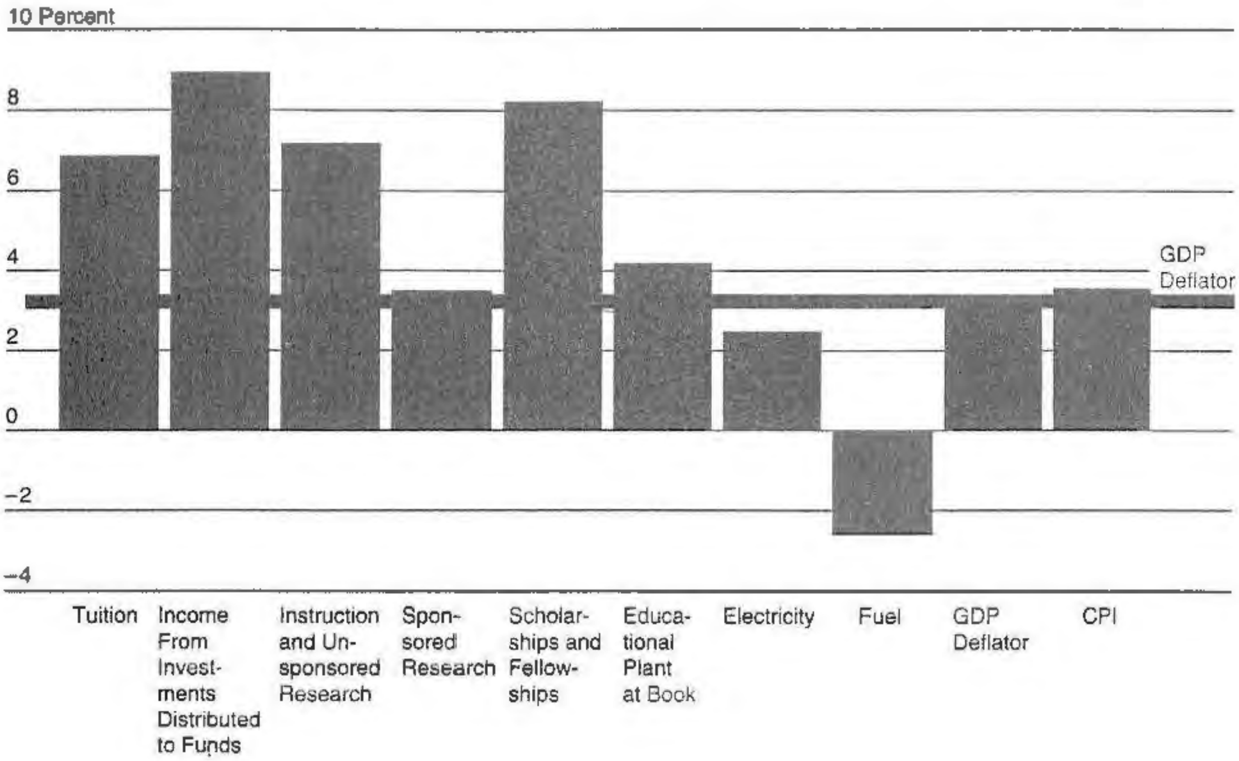



**Figure 2**
**Income from Investments Distributed to Funds**
**(GDP Deflator 1986 = 100)**

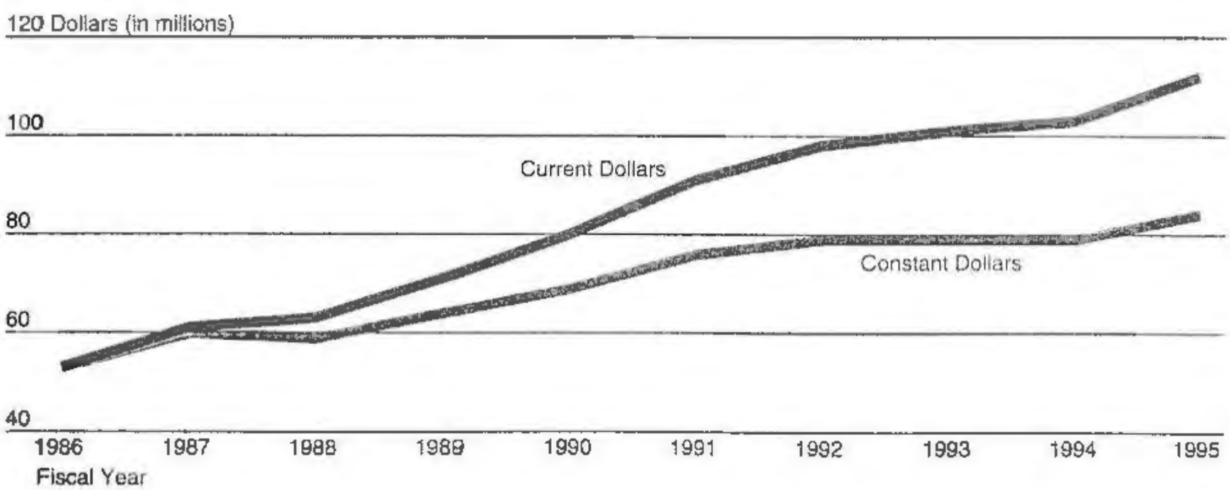


**Figure 3**
**Instruction and Unsponsored Research**
**(GDP Deflator 1986 = 100)**

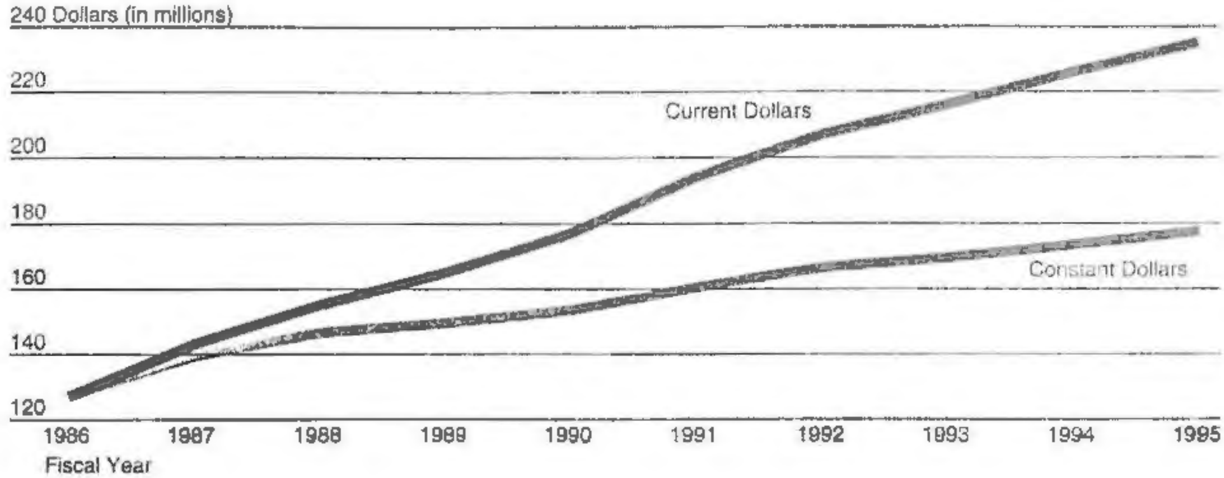
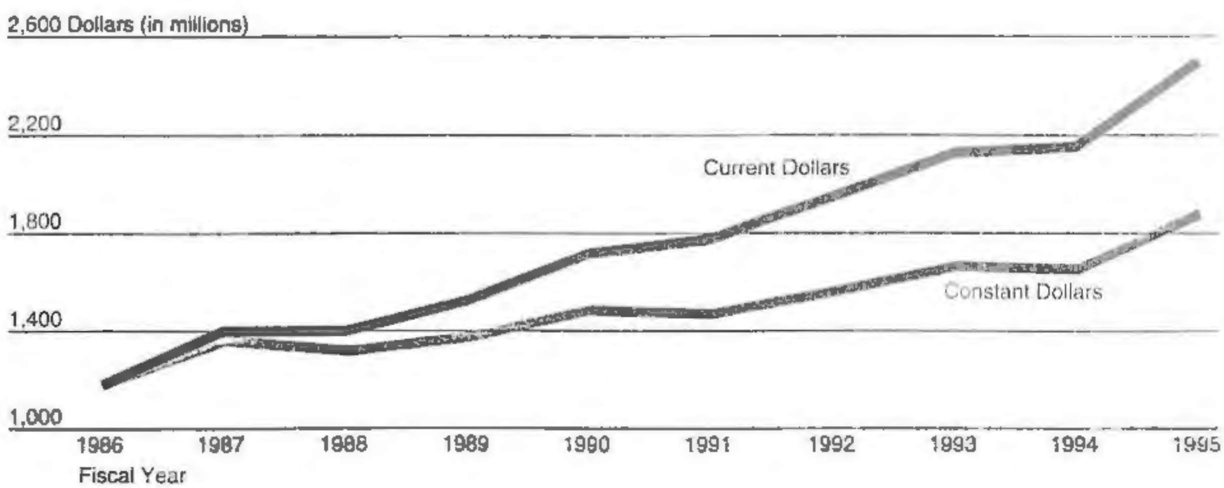



**Figure 4**
**Endowment and Other Investments at Market**
**(GDP Deflator 1986 = 100)**



# Financial Statements and Additional Information

**Financial Statements**

The financial statements summarize the finances of the Institute during the fiscal year 1994-95 and at the close of the year on June 30, 1995 with comparative totals for 1994.

**MASSACHUSETTS INSTITUTE OF TECHNOLOGY**
**STATEMENT OF FINANCIAL POSITION**
**at June 30, 1995**
**with comparative totals at June 30, 1994**
***(in thousands of dollars)***

**Schedule A**

| | Total 1994 | Total 1995 | Current Funds | Endowment and Similar Funds | Student Loan Funds | Educational Plant Funds | Life Income Funds |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | $ 12,089 | $ 13,921 | $ 6,771 | $ 4,888 | $ - | $ - | $ 2,262 |
| Interfund receivable (payable) | - | - | 53,114 | 380 | 2,377 | (55,871) | - |
| Accounts receivable, net | 27,358 | 29,176 | 24,761 | - | 4,415 | - | - |
| Pledges receivable, net | 90,127 | 87,350 | 32,269 | 36,025 | - | - | 19,056 |
| Contracts in progress, principally U.S. Government | 31,827 | 29,330 | 29,330 | - | - | - | - |
| Deferred charges and other assets | 46,189 | 46,169 | 46,169 | - | - | - | - |
| Students' notes receivable, net | 53,450 | 55,284 | - | - | 55,284 | - | - |
| Investments, at cost | 1,820,836 | 1,942,311 | 268,238 | 1,563,059 | - | 50,046 | 60,968 |
| Land, buildings, and equipment at cost net of accumulated depreciation | 431,083 | 462,715 | - | - | - | 462,715 | - |
| Total assets | $2,512,959 | $2,666,256 | $460,652 | $1,604,352 | $62,076 | $456,890 | $82,286 |
| **LIABILITIES AND NET ASSETS** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable,accruals and other liabilities | $ 146,876 | $ 159,903 | $130,787 | $ - | $ - | $ - | $29,116 |
| Withholdings, deposits and other credits | 34,121 | 36,419 | 36,419 | - | - | - | - |
| Advance payments, primarily U.S. Government, industrials and foundations | 11,707 | 10,077 | 10,077 | - | - | - | - |
| Borrowings - bonds and notes payable | 184,071 | 199,974 | 1,110 | 163 | 19,100 | 179,601 | - |
| Government advances for student loans | 25,619 | 26,596 | - | - | 26,596 | - | - |
| Total liabilities | 402,394 | 432,969 | 178,393 | 163 | 45,696 | 179,601 | 29,116 |
| Net Assets | | | | | | | |
| Unrestricted (Note K) | 998,179 | 1,046,861 | 249,990 | 523,077 | 3,794 | 267,135 | 2,865 |
| Temporarily restricted (Note K) | 518,754 | 554,648 | 32,269 | 479,989 | - | 10,154 | 32,236 |
| Permanently restricted (Note K) | 593,632 | 631,778 | - | 601,123 | 12,586 | - | 18,069 |
| Total net assets | 2,110,565 | 2,233,287 | 282,259 | 1,604,189 | 16,380 | 277,289 | 53,170 |
| Total liabilities and net assets | $2,512,959 | $2,666,256 | $460,652 | $1,604,352 | $62,076 | $456,890 | $82,286 |

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

**MASSACHUSETTS INSTITUTE OF TECHNOLOGY**
**STATEMENT OF ACTIVITIES**
**for the year ended June 30, 1995**
**with comparative totals for 1994**
***(in thousands of dollars)***

**Schedule B**

| | Total 1994 | Total 1995 | Current Funds | Endowment and Similar Funds | Student Loan Funds | Educational Plant Funds | Life Income Funds |
|---|---|---|---|---|---|---|---|
| CHANGES IN UNRESTRICTED NET ASSETS: | | | | | | | |
| Revenues and other additions: | | | | | | | |
| Tuition and other income | $ 194,864 | $ 205,193 | $ 205,193 | $ - | $ - | $ - | $ - |
| Research revenues | 691,958 | 712,701 | 712,701 | - | - | - | - |
| Gifts and bequests | 28,452 | 44,367 | 35,494 | 2,682 | - | 5,805 | 386 |
| Investment income | 60,278 | 65,464 | 2,440 | - | - | 3,021 | 3 |
| Net realized gains (losses) on investments | 91,156 | 69,077 | (71) | 68,706 | - | (5) | 447 |
| Fees, services, and miscellaneous receipts | 67,064 | 73,253 | 68,200 | (110) | 619 | 3,355 | 1,189 |
| Auxiliary activities | 35,861 | 36,178 | 36,178 | - | - | - | - |
| Present value actuarial adjustment | 168 | (478) | - | - | - | - | (478) |
| Transfers and other appropriations | - | - | 35,452 | (33,684) | (1,194) | 197 | (771) |
| Net assets reclassifications | 16,443 | 25,091 | 20,510 | - | - | 4,536 | 45 |
| Total revenues and other additions | 1,186,244 | 1,230,846 | 1,176,097 | 37,594 | (575) | 16,909 | 821 |
| Expenses and other deductions: | | | | | | | |
| Operating expenses | 1,070,546 | 1,117,182 | 1,102,259 | - | - | 14,923 | - |
| Scholarships and fellowships | 59,968 | 64,982 | 64,982 | - | - | - | - |
| Total expenses | 1,130,514 | 1,182,164 | 1,167,241 | - | - | 14,923 | - |
| Increase (decrease) in unrestricted net assets | $ 55,730 | $ 48,682 | $ 8,856 | $ 37,594 | $ (575) | $ 1,986 | $ 821 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | | | | | | |
| Gifts and bequests | $ 2,284 | $ 2,586 | $ - | $ - | $ - | $ 2,581 | $ 5 |
| Pledges | 15,281 | 17,063 | 14,762 | - | - | - | 2,301 |
| Investment income | 718 | 561 | - | - | - | 561 | - |
| Net realized gains (losses) on investments | 86,612 | 39,532 | - | 38,871 | - | - | 661 |
| Present value actuarial adjustment | 754 | 1,243 | - | - | - | - | 1,243 |
| Net assets reclassifications | (16,443) | (25,091) | (20,510) | - | - | (4,536) | (45) |
| Increase (decrease) in temporarily restricted net assets | $ 89,206 | $ 35,894 | $ (5,748) | $ 38,871 | $ - | $ (1,394) | $ 4,165 |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS: | | | | | | | |
| Gifts and bequests | $ 15,024 | $ 21,184 | $ - | $ 19,769 | $ - | $ 80 | $ 1,335 |
| Pledges | 6,146 | 12,348 | - | 12,126 | - | - | 222 |
| Net realized gains (losses) on investments | 1,904 | 1,340 | - | 1,340 | - | - | - |
| Interest income | 490 | 1,708 | - | - | 1,706 | - | 2 |
| Present value actuarial adjustment | 602 | 82 | - | - | - | - | 82 |
| Investment income added to principal | 1,077 | 1,484 | - | 1,484 | - | - | - |
| Transfers and other appropriations | - | - | - | 886 | - | - | (886) |
| Increase (decrease) in permanently restricted net assets | $ 25,243 | $ 38,146 | $ - | $ 35,605 | $ 1,706 | $ 80 | $ 755 |
| Increase (decrease) in net assets | $ 170,179 | $ 122,722 | $ 3,108 | $ 112,070 | $ 1,131 | $ 672 | $ 5,741 |
| Net assets at beginning of year | $1,940,386 | $2,110,565 | $279,151 | $1,492,119 | $15,249 | $276,617 | $47,429 |
| Net assets at end of year | $2,110,565 | $2,233,287 | $282,259 | $1,604,189 | $16,380 | $277,289 | $53,170 |

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, 1995**
**with comparative totals for 1994**
***(in thousands of dollars)***

**Schedule C**

| | Total 1994 | Total 1995 | 1995 Operations | Changes in Unrestricted Net Assets |
|---|---|---|---|---|
| UNRESTRICTED REVENUES: | | | | |
| Tuition and other income | $ 194,864 | **$ 205,193** | $ 205,193 | $ - |
| Research revenues: | | | | |
| Campus | 355,024 | **371,990** | 371,990 | - |
| Lincoln Laboratory | 336,934 | **340,711** | 340,711 | - |
| Gifts and bequests | 28,452 | **44,367** | - | 44,367 |
| Investment income | 60,278 | **65,464** | - | 65,464 |
| Net realized gains on investments | 91,156 | **69,077** | - | 69,077 |
| Fees, services, and miscellaneous receipts | 67,064 | **73,253** | - | 73,253 |
| Auxiliary enterprises | 35,861 | **36,178** | 36,178 | - |
| Present value of actuarial adjustment | 168 | **(478)** | - | (478) |
| Asset reclassifications | 16,443 | **25,091** | - | 25,091 |
| Funds used for operating unit expenses | - | **-** | 173,187 | (173,187) |
| Total unrestricted revenues | $1,186,244 | **$1,230,846** | $1,127,259 | $ 103,587 |
| OPERATING UNIT EXPENSES: | | | | |
| Instruction and unsponsored research | $ 226,084 | **$ 235,365** | $ 235,365 | $ - |
| Sponsored research | 584,849 | **595,507** | 595,507 | - |
| Expenses jointly applicable to instruction and research | 199,974 | **224,741** | 224,741 | - |
| Auxiliary activities | 35,861 | **36,178** | 36,178 | - |
| Operation of Alumni Association | 6,801 | **7,006** | 7,006 | - |
| Other expenses | 2,108 | **3,462** | 3,462 | - |
| Depreciation (net) | 14,869 | **14,923** | 14,923 | - |
| Total operating expenses | $1,070,546 | **$1,117,182** | $1,117,182 | $ - |
| Increase (decrease) prior to other charges | $ 115,698 | **$ 113,664** | $ 10,077 | $103,587 |
| OTHER CHARGES TO OPERATIONS: | | | | |
| Scholarships and fellowships | $ 59,968 | **$ 64,982** | $ 19,248 | $ 45,734 |
| Change in unrestricted net assets from operations | 55,730 | **48,682** | (9,171) | 57,853 |
| Current gifts, grants, and bequests, and other fund balances used to meet operations | - | **-** | 9,171 | (9,171) |
| Net change in unrestricted net assets | $ 55,730 | **$ 48,682** | $ - | $ 48,682 |

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

**MASSACHUSETTS INSTITUTE OF TECHNOLOGY**
**STATEMENT OF CASH FLOWS**
**Year ended June 30, 1995**
**with comparative totals for 1994**
***(in thousands of dollars)***

**Schedule D**

| | 1994 | 1995 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase(decrease) in net assets | $170,179 | $122,722 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 35,795 | 38,823 |
| Student loan cancellations, change in reserve and Government reclassification | 55 | 436 |
| Gifts of equipment and securities | (6,089) | (5,596) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | 16,324 | 2,777 |
| Accounts receivable | 2,026 | (1,818) |
| Contracts in progress | 4,880 | 2,497 |
| Deferred charges, inventories and other assets | (3,544) | 20 |
| Restricted cash | 12,561 | - |
| Accounts payable | 6,831 | 13,027 |
| Withholdings, deposits and other credits | 1,479 | 2,298 |
| Advances and unexpended grants | 2,968 | (1,630) |
| Reclassify investment income | (3,554) | (3,753) |
| Reclassify contributions restricted for long-term investment | (29,321) | (23,770) |
| Net cash received from (used by) operating activities | 210,590 | 146,033 |
| Cash flows from investing activities: | | |
| Purchase of land, buildings and equipment | (76,821) | (64,859) |
| Purchases of investments | (3,208,901) | (2,912,424) |
| Proceeds from sale of investments | 3,026,935 | 2,790,949 |
| Student notes issued | (8,421) | (9,551) |
| Proceeds from student notes | 7,518 | 7,281 |
| Net cash received from (used by) investing activities | (259,690) | (188,604) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for: | | |
| Investment in endowment | 23,879 | 19,769 |
| Investment in plant | 3,414 | 2,661 |
| Investment in other | 2,028 | 1,340 |
| | 29,321 | 23,770 |
| Increase in investment income for restricted purposes | 3,554 | 3,753 |
| Proceeds from borrowings, bonds and notes payable | 28,500 | 25,100 |
| Repayment of borrowings, bonds and note payable | (9,195) | (9,197) |
| Increase in Government advance for student loans | 873 | 977 |
| Net cash received from (used by) financing activities | 53,053 | 44,403 |
| Net increase (decrease) in cash | 3,953 | 1,832 |
| Cash at beginning of year | 8,136 | 12,089 |
| Cash at end of year | $ 12,089 | $ 13,921 |

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 on the accrual basis. In fiscal 1995, MIT adopted Financial Accounting Standards Board Statements (FAS), No. 116, "Accounting for Contributions Received and Made" and No. 117, "Financial Statements of Not-for-Profit Organizations." FAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues within the appropriate net asset category. FAS No. 117 establishes standards for general-purpose external financial statements of not-for-profit organizations, including a statement of financial position, a statement of activities and a statement of cash flows. FAS No. 117 requires classification of net assets and its revenues, expenses, gains and losses into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted and unrestricted net assets.

Permanently restricted net assets include only the historical dollar 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 B-22 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.

See Note K for further information on the composition of the net assets in these three categories.

The Institute has implemented these two standards retroactively and accordingly financial statements of prior years have been restated to reflect these changes. Note J describes the effects of the changes on net assets (which were reported as "fund balances") as previously reported. Purpose or time restrictions which management believes have been met in prior periods have been given effect in the restated financial statements.

As permitted by FAS No.117, 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 has not altered the way in which it administers its various funds, including endowments, funds functioning as endowment, school or departmental funds and related accumulated gains and will continue to maintain its accounts 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 provided 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 activity revenues and approved funds availed of to meet operating unit expenses. The shortfalls of $9,171,000 in 1995 and $4,727,000 in 1994 were met by current gifts, grants, and bequests and other fund balances used to meet operations.

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 is reported in the scholarships and fellowships -1995 operations column.

## CASH

Current banking arrangements do not require outstanding checks to be funded until actually presented for payment. Outstanding checks in the amount of $21,485,000 and $12,653,000 in 1995 and 1994, 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 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.

## 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 $297,000 and $895,000 during 1995 and 1994, respectively. In addition, depreciation relating to various service facilities and equipment are charged directly to the appropriate operating unit expenses. The depreciation expense related to these direct charges totaled $6,333,000 and $5,802,000 for 1995 and 1994, respectively. Land, buildings and equipment are as follows at June 30:

| | 1995 | 1994 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Land | $ 28,328 | $ 28,320 |
| Educational buildings | 254,707 | 230,563 |
| Dormitories | 82,412 | 82,455 |
| Medical, athletic and recreational buildings | 72,292 | 72,292 |
| Other | 30,830 | 33,052 |
| Equipment | 220,043 | 204,646 |
| **Total** | 688,612 | 651,328 |
| Less: accumulated depreciation | (287,450) | (248,605) |
| Construction in progress | 61,553 | 28,360 |
| **Land, buildings and equipment** | $462,715 | $431,083 |

Depreciation expense, presented net, comprises:

| | 1995 | 1994 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Total depreciation expense | $38,823 | $35,795 |
| Less: Depreciation charged directly to operating units | (6,333) | ( 5,802) |
| Capitalized equipment charged directly to operating units | (17,567) | (15,124) |
| **Net depreciation** | $14,923 | $14,869 |

## 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 1995 and 1994 totaling $5,596,000 and $6,089,000, 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 $87,350,000 and $90,127,000 are recorded as receivables with the revenue assigned to the appropriate category of restriction for 1995 and 1994 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 are expected to be realized in the following time frame:

| | |
|---|---|
| In one year or less . . . . . . . . . . . . . . . . . . . | $33,108,000 |
| Between one year and five years . . . . . . . . . . . | 34,130,000 |
| More than five years . . . . . . . . . . . . . . . . . | 22,112,000 |
| Less allowance for unfulfilled pledges . . . . . . . . | (2,000,000) |
| **Pledges receivable, net of discount . . . . . . . . .** | **$87,350,000** |

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.

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.

**INTERFUND BORROWINGS**

The Current Funds borrow monies from the Student Loan Funds ($2,377,000 at June 30, 1995). The Plant Funds borrow monies from the Current Funds for the temporary financing of certain capital projects ($55,871,000 at June 30, 1995) and currently pay interest at 7.5 percent except for those items of deferred charges which are included in the total. Plant Funds borrowings from current funds are expected to be repaid from operations, or gifts to or borrowings by the Plant Funds. The following schedule sets forth the composition of the interfund borrowings (in thousands of dollars):

| | Total 1995 | Current Funds | Endowment and Similar Funds | Student Loan Funds | Educational Plant Funds |
|---|---|---|---|---|---|
| Interfund receivables (payables): | | | | | |
| Current funds borrowing from student loan funds . . . . . . . . . . . . . . . . . . . . . . . . | $ - | $ (2,377) | $ - | $2,377 | $ - |
| Plant funds borrowing from current funds . . . . . | - | 55,871 | - | - | (55,871) |
| Current funds borrowing from endowment and similar funds . . . . . . . . . . | - | (380) | 380 | - | - |
| | $ - | $53,114 | $380 | $2,377 | $(55,871) |

## B. INVESTMENTS

Total market value of investments approximated $2,501,184,000 and $2,156,154,000 at June 30, 1995 and 1994, respectively. Such amounts 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**

| | June 30, 1995 | | June 30, 1994 | |
|---|---|---|---|---|
| | **Book** | **Market** | **Book** | **Market** |
| General Investments | | | | |
| Cash Equivalents . . . . . . . . . . . . . . . . . . . | $ 118,803,000 | $ 118,636,000 | $ 36,560,000 | $ 36,714,000 |
| Fixed income . . . . . . . . . . . . . . . . . . . . | 389,536,000 | 401,189,000 | 423,022,000 | 416,798,000 |
| Equities . . . . . . . . . . . . . . . . . . . . . . . . | 1,193,827,000 | 1,705,435,000 | 1,137,403,000 | 1,470,781,000 |
| Real estate | | | | |
| Held for possible future academic use . . . . . . . | 40,336,000 | 40,364,000 | 32,234,000 | 32,234,000 |
| Held for investment or other purposes . . . . . . . | 73,976,000 | 86,369,000 | 72,498,000 | 81,383,000 |
| **Total general investments . . . . . . . . . . . . . . .** | **$1,816,478,000** | **$2,351,993,000** | **$1,701,717,000** | **$2,037,910,000** |
| Separately invested . . . . . . . . . . . . . . . . . . . | 60,028,000 | 70,152,000 | 55,239,000 | 60,836,000 |
| Life income funds . . . . . . . . . . . . . . . . . . . | 59,549,000 | 72,783,000 | 59,828,000 | 67,359,000 |
| Receivables/payables arising from securities transactions | 6,256,000 | 6,256,000 | 4,052,000 | 4,052,000 |
| **Total investments . . . . . . . . . . . . . . . . . . .** | **$1,942,311,000** | **$2,501,184,000** | **$1,820,836,000** | **$2,170,157,000** |

The Institute pools a substantial portion of its investments into two major investment pools, Pool A principally for endowment and funds functioniog as endowmeot 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 $2,038,000 and $1,744,000 at June 30, 1995 and 1994 respectively. The unit market values at June 30, 1995 and 1994 respectively were $343.5059 and $301.5030. On a unit basis, the ownership assigned to each net asset classification at June 30, 1995 and 1994 was as follows:

| | 1995 | 1994 |
|---|---|---|
| Unrestricted | 1,352,735 | 1,342,112 |
| Temporarily Restricted | 693,279 | 668,657 |
| Permanently Restricted | 3,886,774 | 3,773,368 |
| **Total units** | **5,932,788** | **5,784,137** |

Investments in Pool C are at the dollar amount "deposited", like a bank, and earn income at rates as determined by the Investment Committee, with reference to short-term money market rates.

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 investment 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 March for the upcoming new fiscal year. Pertinent information is as follows:

| | 1995 | 1994 |
|---|---|---|
| Pool A - Distribution per unit | $15.15 | $14.40 |
| Pool C - Declared rate before other distributions | 4.5% | 7.5% |

The total distribution to funds was $111,945,000 in 1995 and $99,906,000 in 1994 and included accumulated investment gains of $44,329,000 and $36,231,000, respectively.

The Institute in conformity with FAS No. 116 has recorded perpetual trusts held by outside trustees 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. Realized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or the law. Realized 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.

At June 30, 1995 and 1994, the Institute had accumulated $25,751,000 of income in excess of amounts distributed to funds in prior years. The total income earned has been reported as revenue in prior years. The accumulated amounts are held for distribution to the participating funds in accordance with established methods.

## 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, 1995 the Institute had contracts maturing in fiscal year 1996 to deliver in various foreign currencies the equivalent of $72,585,000 at the fixed exchange rates. Net unrealized depreciation related to these contracts was $2,085,000.

## D. STUDENT LOAN FUNDS

Perkins/National Direct Student Loan Funds of $26,567,000 and $25,590,000 at June 30, 1995 and 1994, respectively, are ultimately refundable to the United States Government, are classified as liabilities. The allowance for doubtful notes receivable was $1,117,000 and $1,117,000 in 1995 and 1994, respectively. 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, 1995 and 1994:

| | 1995 | 1994 |
|---|---|---|
| EDUCATIONAL PLANT | | |
| Massachusetts Health and Educational Facilities Authority (MHEFA) | | |
| Series A, lease purchase obligations (Note F) | $ 2,439,000 * | $ 2,697,000 * |
| Series B, 5%, due 1995-2003 | 4,620,000 *** | 5,065,000 *** |
| Series C, 5-6.2%, due 1995-2006 | 3,610,000 *** | 3,840,000 *** |
| Series E, 8 %, due 1995-2000 | 1,890,000 | 2,268,000 |
| Series F, 7.8-8%, due 1995-1997 | 5,450,000 | 7,245,000 |
| Series G, variable, due 2021 | 25,000,000 | 25,000,000 |
| Series H, 3-5%, due 1995-2023 | 80,829,000 | 83,030,000 |
| **Total MHEFA** | **$123,838,000 **** | **$129,145,000** |
| Notes payable Student Loan Marketing Association (SLMA), variable percent, due 1995-2000 | 55,763,000 | 34,178,000 |
| **Total Educational Plant** | **$179,601,000** | **$163,323,000** |
| INVESTMENT REAL ESTATE | | |
| Notes payable, 10%, due 1995-1996 | $ 133,000 *** | $ 267,000 *** |
| Notes payable, 7%, due 1995-1997 | 30,000 | 49,000 |
| **Total Investment Real Estate** | **$ 163,000** | **$ 316,000** |
| STUDENT LOANS | | |
| Notes payable SLMA, variable percent, due 1995 | $ 16,000,000 ** | $ 16,000,000 |
| Notes payable to bank, variable percent, due 1995 | 3,100,000 | 3,100,000 |
| **Total Student Loans** | **$ 19,100,000** | **$ 19,100,000** |
| OTHER | | |
| Massachusetts Health and Educational Facilities Authority Series E, 8%, due 1995-2000 | $ 1,110,000 | $ 1,332,000 |
| **Total Borrowings-Bonds and Notes Payable** | **$199,974,000** | **$184,071,000** |

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

| | |
|---|---|
| 1996 | $52,700,000 |
| 1997 | 10,400,000 |
| 1998 | 6,800,000 |
| 1999 | 6,400,000 |
| 2000 | 7,500,000 |

$43,700,000 of the long-term debt payment required in 1996 relates to a construction loan for the cogeneration facility. It is anticipated that permanent long-term financing will be arranged for this loan during fiscal year 1996.

Interest cost incurred on long-term debt in 1995 and 1994 was $10,333,000 and $7,636,000, respectively. In connection with the SLMA Educational Plant loans, the Institute maintains certain net asset, operating results and debt service ratios. The interest rates for the SLMA notes payable were 6.31% to 6.46% at June 30, 1995.

In 1995 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, 1995 was 3.4%.

In connection with student loans notes payable to bank, MIT maintains unused lines of credit totaling $13,400,000 at June 30, 1995. Interest rates at June 30,1995 approximate 6.5% and are based on the bank's prime lending rate. The lines are scheduled to become due in fiscal 1996. The Institute intends to renew these lines.

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.

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

**At June 30, 1995 the Institute had pledged securities with a market value of $74,229,419, annual unrestricted operating revenue of $14,462,320, 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 and the Investment Real Estate notes payable.

## 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 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 1992 fiscal year. The Institute and Government have reached substantial agreement on all outstanding audit issues for the 1993 and 1994 fiscal years and final fixed rate agreements for those years are anticipated. The Institute's 1995 research revenues of $712,701,000 include reimbursement of indirect costs of $123,297,000 which includes the adjustment of the variance between the indirect cost income generated from the predetermined rates and rates based on actual 1995 costs.

2. The Internal Revenue Service (IRS) has made certain claims totaling approximately $30,000,000 against the Institute regarding Federal income and social security taxes related to wages and tuition awards granted to research assistants and teaching assistants during 1985 and 1986. Certain issues claimed by the IRS are applicable to succeeding years. The Institute has filed a formal protest and believes that it has meritorious defenses and that the ultimate resolution of this matter will not have a material effect on the Institute's financial position.

3. 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.

4. The Institute is committed under real estate leases. Rent expense was $14,166,000 and $4,876,000 in 1995 and 1994, respectively. Certain leases expiring in 1996 are subject to renewal or may be renewed. Future minimum payments under operating leases are as follows:

   | | |
   |---|---|
   | F/Y1996 | 17,400,000 |
   | F/Y1997 | 17,600,000 |
   | F/Y1998 | 17,900,000 |
   | F/Y1999 | 18,100,000 |
   | F/Y2000 | 18,400,000 |

   Commencing in fiscal year 1995 lease payments increased as a result of a lease commitment related to a building at Lincoln Laboratory. $12,800,000 per year is recoverable under U.S. Government contracts including contract termination provisions through the life of the lease.

5. The Institute is committed to invest approximately $163,331,000 in private equity and real estate investments to be funded over the next five years.

6. The Institute is committed for Educational Plant in the amount of $9,059,000 at June 30, 1995. 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 characteristics of both a defined benefit plan (the "Core 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 Core Plan amounts which are actuarially determined to provide the Plan with sufficient assets to meet future benefit requirements. The net pension expense for the Core Plan during 1995 and 1994 included the following components:

| | 1995 | 1994 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Current service cost | $ 26,230 | $ 25,935 |
| Interest on projected benefit obligations | 59,871 | 53,394 |
| Actual return on assets | (128,814) | (24,422) |
| Net amortization and deferral | 47,833 | (50,572) |
| **Net pension cost** | **$ 5,120** | **$ 4,335** |

The following table summarizes the funded status of the Institute's "Core Plan" and the related amounts recognized in the Institute's Balance Sheets as of June 30:

| | 1995 | 1994 |
|---|---|---|
| | *(In thousands of dollars)* | |
| Vested benefit obligation | $736,184 | $662,785 |
| Accumulated benefit obligation | $784,317 | $709,198 |
| Projected benefit obligation | 796,173 | 720,738 |
| Fair value of plan assets | 895,711 | 777,510 |
| Plan assets in excess of the projected benefit obligation | 99,538 | 56,772 |
| Unrecognized net transition asset | (55,121) | (61,246) |
| Unrecognized prior service costs | 418 | - |
| Unrecognized net (gain)/loss | (44,723) | 4,586 |
| **Prepaid pension cost** | $ 112 | $ 112 |

The discount rate and the average rate of increase in future compensation used to determine the projected benefit obligation as of June 30, 1995 were 8.0 percent and 6.0 percent, respectively, as compared with 8.0 and 6.3 as of June 30, 1994. The expected return on plan assets was 9.25 percent in 1995 and 8.85 percent in 1994.

The amount of costs recognized during 1995 and 1994 related to the defined contribution components of the Retirement Plan were $16,835,000 and $16,609,000, 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. In 1994, the Institute adopted Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other than Pensions," which requires recognition of an accumulated postretirement benefit obligation for retiree costs existing at the time of implementation, as well as incremental expense recognition for changes in the obligation attributable to each successive fiscal year. The Institute elected to amortize the past service amount 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 following reconciles the amounts recognized in the Institute's balance sheets as of June 30, 1995 and 1994:

| | 1995 | 1994 |
|---|---|---|
| | (in thousands of dollars) | |
| Accumulated Postretirement Benefit Obligation | | |
| Retirees | $ (80,042) | $ (67,221) |
| Active employees eligible for benefits | (50,188) | (47,842) |
| Active employees not yet eligible for benefits | (20,384) | (19,671) |
| Total obligation | (150,614 | (134,734) |
| Plan assets at fair value | 60,201 | 41,849 |
| Total obligation (in excess of) plan assets | (90,413) | (92,885) |
| Unrecognized net (gain)loss | 4,478 | 2,150 |
| Unrecognized net obligation at transition | 85,961 | 90,736 |
| **Prepaid postretirement benefit** | $ 26 | $ 1 |

The net postretirement benefit cost for 1995 and 1994 included the following components:

| | 1995 | 1994 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Service cost—benefits earned during the period | $3,219 | $4,209 |
| Interest cost on accumulated postretirement benefit obligation | 11,440 | 11,657 |
| Actual (gain) on assets | (10,149) | (929) |
| Net amortization and deferral | 10,705 | 3,657 |
| Net postretirement benefit cost | $15,215 | $18,594 |

The discount rate used to determine the accumulated postretirement benefit obligation was 8.0%. The expected long-term rate of return on trust assets is assumed to be 9.25%. Medical health trend rates prior to age 65 were assumed to be 10.0% in 1995, gradually declining to 5.5% in 1999 and thereafter. Medical health trend rates age 65 and after were assumed to be 9.0% in 1994, 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 1995 postretirement benefit expense by $1,329,000 and the 1995 postretirement benefit obligation by $13,061,000.

The Institute adopted Statement of Financial Accounting Standards No. 112 (FAS 112), Employers' Accounting for Postemployment Benefits, in 1995. FAS 112 requires that benefits to be paid for former or inactive employees after employment but prior to retirement must be accrued if certain criteria are met. The impact of adoption was not material to the financial statements.

## I. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

The Institute's liabilities consisted of the following at June 30 (in thousands of dollars):

| | 1995 | 1994 |
|---|---|---|
| Accounts payable and accruals | $ 95,707 | $ 76,218 |
| Accrued vacations | 14,495 | 14,227 |
| Accounts payable U.S. Government | 20,585 | 26,915 |
| Life interest and agency funds | 29,116 | 29,516 |
| **Total** | **$159,903** | **$146,876** |

The Institute is currently self-insured for Long Term Disability and unemployment compensation and provides reserves totaling $5,657,000 to cover claims.

## J. RECONCILIATION OF FUNDS

Fund balances reported on June 30, 1994 have been restated to reflect the adoption of FAS No. 116 and No. 117 (in thousands of dollars).

| | |
|---|---|
| Total Institute fund balances, as previously reported at June 30, 1994 | $2,056,339 |
| Add perpetual trusts for the benefit of MIT held by outside trustees not previously included in Institute assets | 14,003 |
| Add pledges receivable not previously included in Institute assets | 90,127 |
| Reduction for student loans provided by and ultimately refundable to the U.S. Government and therefore reclassified to liabilities | (25,619) |
| Reduction to recognize as a liability the actuarial present value of the estimated income stream payable to life income beneficiaries | (22,900) |
| Reclassify agency funds to liabilities | (1,385) |
| June 30, 1994 restated net assets | $2,110,565 |

## K. COMPONENTS OF NET ASSETS

The following table presents the three categories of net assets by purpose as of June 30, 1995 (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.

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment Funds Principal: | | | | |
| General purposes | $ 78,648 | $ - | $ 57,090 | $ 135,738 |
| Departments and research | 48,220 | - | 102,458 | 150,678 |
| Library | 517 | - | 1,701 | 2,218 |
| Salaries and wages | 38,935 | - | 246,629 | 285,564 |
| Graduate general | 375 | - | 8,636 | 9,011 |
| Graduate departmental | 3,368 | - | 38,465 | 41,833 |
| Undergraduate | 12,192 | - | 96,785 | 108,977 |
| Prizes | 867 | - | 2,465 | 3,332 |
| Pledges | - | - | 36,025 | 36,025 |
| Miscellaneous | 54,222 | - | 10,869 | 65,091 |
| Investment income held for distribution to funds | 25,751 | - | - | 25,751 |
| Total endowment principal | $ 263,095 | $ - | $601,123 | $ 864,218 |
| Other Invested Funds: | | | | |
| Student loan funds | $ 3,794 | $ - | $ 12,586 | $ 16,380 |
| Building funds | 48,857 | 10,154 | - | 59,011 |
| Designated purposes: | | | | |
| Departments and research | 97,715 | - | - | 97,715 |
| Other purposes | 24,254 | - | - | 24,254 |
| Reserve funds | 30,204 | - | - | 30,204 |
| Life income funds | 2,865 | 13,180 | 18,069 | 34,114 |
| Pledges | - | 51,325 | - | 51,325 |
| Accumulated net realized gains/losses on investments | 267,899 | 479,989 | - | 747,888 |
| Total other invested | $ 475,588 | $554,648 | $ 30,655 | $1,060,891 |
| Funds available for current expenses | $ 89,905 | $ - | $ - | $ 89,905 |
| Total funds | $ 828,588 | $554,648 | $631,778 | $2,015,014 |
| Funds expended for educational plant | 218,273 | - | - | 218,273 |
| | $1,046,861 | $554,648 | $631,778 | $2,233,287 |

# 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, 1995, with comparative totals at 1994.

Schedule B – Statement of Activities for the year ended June 30, 1995, with comparative totals for 1994.

Schedule C – Statement of Operations and Other Changes in Unrestricted Net Assets for the year ended June 30, 1995, with comparative totals for June 30, 1994.

Schedule D – Statement of Cash Flows for the year ended June 30, 1995, with comparative totals for 1994.

We previously audited and reported upon the financial statements of the Institute for the year ended June 30, 1994, based upon which condensed statements are presented for comparative purposes only. 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, 1995, 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 Notes A and J to the financial statements, during 1995 the Institute changed its method of accounting for contributions received and adopted newly established financial reporting standards for not-for-profit organizations. These standards were adopted retroactively and the summarized comparative financial information presented for the year ended June 30, 1994 has been restated.

Coopers & Lybrand, L.L.P.

Boston, Massachusetts
September 27, 1995

# 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 a premium over the value at maturity 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.

**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.

**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 occurance, 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. Unrestricted Net Assets in audited schedules include expendable donor-restricted gifts as defined in Note A.

# UNIVERSITY FUND ACCOUNTING

The financial reports of a university are presented using the principles of net asset classifications and fund accounting. A fund is an accounting entity with a self-balancing set of accounts. While a business corporation will usually report its balance sheet as a single entity, the balance sheet of MIT is also divided into several balance sheets, which are defined as fund groups. The purpose of having such fund groups, and the individual funds that comprise them, results from the many purposes for which gifts and other revenues are received.

**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. For reporting purposes in the Statement of Financial Position, these are divided into five major fund groups: Current Funds, Endowment and Similar Funds, Student Loan Funds, Educational Plant Funds, and Life Income Funds. Each separate fund group has net assets that are equal to the difference between assets and liabilities. For reporting purposes, the fund balances are shown at book value, which is the value of the gift or other fund revenue when received. Endowment and similar funds often have market values of the related invested assets that significantly exceed the value of the gift when received.

**Restricted and Unrestricted Net Assets**

The net assets are divided into permanently restricted, temporarily restricted, or unrestricted. These restrictions are determined by the donor or by the source of the revenues. Those net assets available for unrestricted purposes can be allocated as to purpose by the President and Executive Committee of the Corporation. It should be noted that most of the direct and indirect expenses of instruction and unsponsored research and a significant portion of scholarships and fellowships depend upon unrestricted revenues. As a result, the resources actually available for allocation without either donor restriction or prior commitment are very small relative to the size of MIT.

**Reporting on the Use of Funds**

The "availed of" method of accounting is used to report the revenues and expenses relating to each fund. This method of accounting makes a distinction between the recording of gifts and investment income at the time it is added to funds and the subsequent use of these funds to meet expenditures. The result is that gifts and investment income are shown in the Statement of Operations and Other Changes in Unrestricted Net Assets only when they are availed of to meet expenditures. For example, a gift that can be expended for a specific educational purpose may be received in one year and expended in the next. At the end of the year received, this gift would be reported with Current Funds in the Statement of Financial Position. In the next year, it would appear in the Statement of Operations and Other Changes in Unrestricted Net Assets as Gifts and bequests. The appropriate operating expenses would appear in Instruction and Unsponsored Research. If the gift had not been fully availed of in the next year, only the amount so availed of and the related expenditure would appear in the Statement of Operations and Other Changes in Unrestricted Net Assets. The remainder of the fund would be included in the Statement of Financial Position each year until expended.

Fund accounting is also used to report the income distributed for spending to both endowment and expendable funds. Endowment income, which is unexpended at the end of a fiscal year, is listed with Unrestricted net assets in the Statement of Financial Position. Endowment funds that are restricted as to purpose may, from time to time, have two fund balances at year-end, the first relating to the endowment fund resulting from gifts and the second, usually much smaller, relating to any unexpended income. This income is availed of in future years to meet related expenses. For expendable funds, any unexpended investment income is not separately reported, but may be added to the balance of the fund at each year-end.

**Scholarships and Fellowships**

The reporting of revenues and funds used to meet the cost of scholarships and fellowships requires detailed explanation. Universities report both tuition and dining and housing revenues at the gross amount received, including those amounts that are actually met by the university. By contrast, corporate accounting would usually report fee income on a net basis after deducting any price reductions given to users. University accounting provides full disclosure of the MIT expenses related to providing such scholarships and fellowships and the flow of such student support from outside sources. These latter amounts are included in revenues and other additions and are reported in gifts and bequests, investment income, or fees, services and other receipts The operating expenses reported in the Statement of Operations and Other Changes in Unrestricted Net Assets include all the direct and indirect expenses related to the instruction, housing, and dining of students as well as the charge for scholarships and fellowships. It should be noted that the gifts, investment income, and miscellaneous receipts for scholarships and fellowships is less than the total amount of expenditures by MIT and outside sources for this student support. This difference is reported in the scholarships and fellowships -1995 operation column. Other unrestricted revenues and funds must be expended each year to meet this need.

This method of accounting provides full disclosure of the flow of funds relating to scholarships and fellowships, although it does record both the payment of tuition and the source of that payment in revenues and funds used. As a result, MIT reports higher revenues, and equally higher expenses, if an undergraduate receives an MIT or outside scholarship grant for part of tuition than if the student paid the entire amount.