MITR Requalification Program
as currently approved and in effect

M:TR Requalification Program as submitted on July 8, 1999
is
SAR Section 12.10

APPENDIX 13.C

REQUALIFICATION PROGRAM FOR LICENSED PERSONNEL

13.C.1 General

The requalification program for licensed personnel shall consist of on-the-job training, annual examination, review board evaluations, and where deficiencies have been exhibited, pre-planned lectures. The requalification program shall be conducted for a continuous period of two years, and upon conclusion shall be promptly followed by successive requalification programs.

13.C.2 On-The-Job Training

a) Each licensed operator must manipulate the reactor controls and each licensed senior operator either must manipulate the controls or direct the activities of individuals during reactor control manipulation during the term of his license. The manipulations shall consist of at least 10 reactivity control manipulations in any combination of reactor startups, reactor shutdowns, reshimming or power changes of 10% or greater, over a two year period. They shall take place at intervals not to exceed 4 months.

b) The evaluation of the annual radiation emergency plan drill shall be reviewed and initialled by all licensed personnel.

c) All licensed personnel shall review the contents of the abnormal and emergency procedures at least once during each requalification program.

d) All licensed personnel shall receive a copy of all significant changes to the facility license and design, to standard, emergency and abnormal operating procedures, and to administrative procedures.

e) A systematic observation and evaluation of each licensed operator's or senior operator's (except for the Senior Review Board) performance during actual or simulated emergency or abnormal situations must be conducted on an annual basis.

13.C.3 Annual Examination

Written examinations shall be administered annually to all licensed operators and senior operators with the exception of those members of the Senior Review Board (see Section 13.C.4) who prepare, administer and grade the examinations and thus shall be considered to have completed the examination requirements. In no case shall the number of persons exempt from taking the written exam exceed three (3). The examination will include questions taken from the following general areas:

A. Principles of Reactor Operation

B. Features of Facility Design

C. General Operating Characteristics

D. Instruments and Controls

E. Safety and Emergency Systems

F. Standard and Emergency Operating Procedures

G. Radiation Control and Safety

H. Reactor Theory

I. Radioactive Materials Handling, Disposal and Hazards

J. Specific Operating Characteristics

K. Fuel Handling and Core Parameters

L. Administrative Procedures, Conditions and Limitations

The examination which is prepared for administration to Reactor Operator Licensees will be structured from questions on topics A through G. The examination, which is formulated for administration to Senior Reactor Operator Licensees, will consist of questions taken from topics H through L. The questions formulated for this examination will be of a complexity at least equal to questions given at this specific facility during NRC administered license examinations.

The Senior Review Board shall annually review the results of all written examinations together with individual operator and senior operator evaluations (see Section 13.C.4) to assess the Requalification Program and to determine if additional retraining is required to upgrade licensed operator and senior operator knowledge.

The Senior Review Board shall structure an appropriate series of:

1. Lectures and/or
2. Self-Study of reference materials and/or
3. Tutoring sessions

as may be indicated, to correct any deficiencies noted during the review process.

13.C.4 Review Board Evaluation

Holders of operator licenses or senior operator licenses shall be evaluated at least two months, but not more than four months, before the expiration date of the operator license (OL) or senior operator license (SOL), and at such other times as a special evaluation may appear warranted.

Operator Review Boards for holders of operator licenses shall consist of at least two Senior Reactor Operators, the most senior to be chairman of the board.

The Senior Review Board for holders of senior operator licenses will consist of the following:

-Director of Reactor Operations

-Reactor Superintendent

-A licensed Senior Operator appointed by the Director of Operations

The most senior member will be chairman of the board. Two board members shall constitute a quorum. No person shall sit on his own Review Board.

The Board shall review the licensee's knowledge of the plant and his performance of the job (safety functions only) as it relates to safe operation of the plant. The assesment procedure shall include:

a) Review annual examinations taken since the last review.

b) Review of on-the-job training records.

c) Consideration of other occupational activities related to the reactor.

d) Interviews with immediate supervisors as required.

e) Interview with the licensee.

The Board shall report in writing their assessment of the licensee to the Director of Reactor Operations (with a copy to the licensee) together with recommendations. In the case of the Director of Reactor Operations, a copy of the assessment and recommendations will be sent to the Director of the Nuclear Reactor Laboratory. The Board may recommend:

a) Continued reactor operation by the licensee

b) Additional training in areas where deficiencies have been exhibited.

c) Suspension from duties for which an OL or SOL is required.

The Director of Reactor Operations will act on the recommendation of the Board. In the event of disagreement between the recommendations of the Board and the action contemplated by the Director of Operations, the course determined by the Director of Operations to be more conservative will be followed. A record of the disagreement will be sent to the Director, Nuclear Reactor Laboratory and to the Chairman of the MITR Safeguards Committee for review and possible reconsideration.

An accelerated training program will be provided for Reactor Operators and Senior Reactor Operators who score less than 70% overall on the annual examination. The individual will be removed from his licensed duties and enrolled in an accelerated program. The course content and duration of the program will depend on the individual's deficiencies. Upon completion of the program the person must demonstrate adequate proficiency by either a written or documented oral exam in the deficient categories. In addition, any licensed

Person who scores less than 70% in any category on the annual exam shall be retrained as specified by the Senior Review Board.

13.C.5 Records and Record Retention

The following records will be retained for at least as long as an individual is licensed:

1. Records of reactor control manipulations or supervision of manipulations.

2. Annual examination questions and answers.

3. Review Board evaluations.

4. Documentation of additional training and testing required for Reactor Operators and Senior Reactor Operators exhibiting deficiencies.

5. Review of the contents of the abnormal and emergency procedures.

6. To document significant changes to the facility and procedures, approved safety reviews will be reviewed and initialled by all licensed operators and senior operators.

Report of the Treasurer

For the year ended
June 30, 1998

MIT
Massachusetts
Institute
of Technology

THE CORPORATION
1997-98

Chairman: Alexander V. d'Arbeloff
President: Charles M. Vest
Treasurer: Glenn P. Strehle
Secretary: Kathryn A. Willmore

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Members

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President of the Association of Alumni and Alumnae

Robert M. Metcalfe

Representatives of the Commonwealth

Acting Governor: The Honorable, Argeo Paul Cellucci
Chief Justice of the Supreme Judicial Court: The Honorable Herbert P. Wilkins

Life Members Emeriti

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TABLE OF CONTENTS

List of Tables

List of Figures

Report of the Treasurer

To Members of the Corporation

Introduction

Despite only modest growth in tuition and sponsored research revenues, the overall financial results of the Institute were favorable last year as measured by the increase in the market value of invested assets. The operating results produced an additional need for general funds of $4.2 million, a decrease from the $4.9 million in the prior year. The Generally Accepted Accounting Principles (GAAP) definition of unrestricted results includes market gains in unrestricted net assets and does not include as an expense the amounts set aside for facilities and certain reserve strengthening. Accordingly, under GAAP, there was an increase in unrestricted net assets of $256.4 million. The value of all net assets increased by $781.8 million to a new high of $4,676.0 million. Our financial strength ranks with a small number of very successful corporations and institutions. The Institute's publicly held debt continues to be rated triple A by both Moody's and Standard and Poor's.

Schedule A - Statements of Financial Position

The Statement of Financial Position is the balance sheet of the Institute at June 30, 1998. The investment assets are reported at market value while other assets are valued based on amortized cost. The assets less the liabilities result in net assets which is comparable to stockholders' equity in a for-profit corporation. During the past year, the net assets increased by 20.1 percent.

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

Permanently restricted net assets are those gifts for which the original principal can never be spent. They comprise gifts and pledges to true endowment together with assets held in trust, such as life income plans, which, when paid or matured, will go to the endowment. The increase of $57.1 million to a total of $839.7 million primarily reflects the inflow of gifts and pledges to restricted endowment funds and the gain on investments.

Temporarily restricted net assets are those gifts which ultimately can become available to meet the expenses of operations or capital expenditures. They require an event or lapse of time to take place before they are available for spending. Over ninety percent of the assets in this category result from the accumulated market gains held in permanently restricted endowment funds. It also includes pledges, except those to permanently restricted endowment funds, gifts for construction projects which have not been completed, and life income funds which, upon maturity, will be available for spending. The increase of $468.4 million to a total of $1,831.8 million primarily results from the increase in the market value of securities held in restricted funds.

Unrestricted net assets comprise all the remaining economic resources available to the Institute. This definition of unrestricted net assets is quite broad and covers assets which need to be maintained to generate future investment income. It includes current funds received from donors for restricted purposes which, under the accounting rules, are categorized as unrestricted if the Institute spends equivalent unrestricted funds for the same purpose. Endowment and Similar Funds categorized as unrestricted in Note I include all those gifts received since our founding which the Institute defined as funds functioning as endowment. Unrestricted net assets total $2,004.5 million and are 42.9 percent of total net assets.

Pledges receivable of $112.8 million have been recorded as an asset as required by GAAP with the corresponding addition to temporarily or permanently restricted net assets. The increase during 1998 of $22.9 million was due to several large new pledges. Pledges have been discounted to present value as detailed in Note A.

Schedule B - Statements of Activities

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

The increase in unrestricted net assets of $256.4 million was caused entirely by $268.2 million in net investment gains.

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

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

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

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

This statement details the Institute's operating revenues by source and the operating expenses by major functional classification. Total operating revenues were $1,219.3 million, and $1,175.0 million in 1998 and 1997, respectively.

Scholarship and fellowship grants are accounted for as a reduction in tuition revenue as required by the Audit Guide rather than as an expense. Scholarships and fellowships were $60.1 million, a decrease of $2.6 million or 4.1 percent. Total undergraduate scholarships were $31.6 million, a decrease of $ .4 million or 1.3 percent. Graduate fellowships were $28.5 million, a decrease of $2.1 million or 6.9 percent. The unrestricted operating funds to support these scholarships and fellowships in 1997-98 were $14.9 million ($12.3 million for undergraduates and $2.6 million for graduate students), a decrease of 6.3 percent from the previous year total of $15.9 million ($12.9 million for undergraduates and $3.0 million for graduate students). The decline in need for unrestricted operating funds was caused by a reduction in the calculation of need for undergraduates and increases in other funding sources for graduate students. Tuition and other income, net of scholarship and fellowship grants, was $170.3 million in 1998, an increase of $10.1 million or 6.3 percent.

The research revenues of Departmental and Interdepartmental Laboratories, almost all on campus, were $384.1 million in 1997-98 as compared to $387.9 million in the prior year, a decrease of 1.0 percent. Industry is MIT's leading sponsor of research on campus with a volume of $74.0 million, a decrease of 1.6 percent after two years of large increases. The second largest source of research revenue is the Department of Energy with $70.3 million, which is a small decrease from 1997's volume. The Department of Defense is the third largest source with total research volume of $64.8 million, a decrease of 4.6 percent. Total research from all non-Federal sources increased by 4.6 percent to $111.9 million.

The research revenues at the Lincoln Laboratory increased to $364.8 million in 1998 from $352.6 million in 1997, an increase of 3.5 percent.

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

Revenues also include the net funding of current operations from non-operating sources such as expendable gifts, investment income and gains on investments. The net funding of current operations increased by $20.6 million or 15.1 percent in 1998.

Operating expenses increased 3.7 percent or $43.7 million in 1998. This increase was due to compensation and employee benefits and the increased cost of maintaining MIT's Physical Plant.

Investment income, defined as dividends, interest and rents, increased by 15.6 percent to $86.5 million in 1998 because of an increase in interest income from fixed income securities and rental income from real estate.

The increase in net assets includes both realized and unrealized gains on investments. A different view of current period results would be a review of the net increase or decrease in the net asset value of Institute funds excluding net investments gains during 1998. This measure shows what the change in net assets would have been without the increased value of the capital market. The following table displays the net increase in fund balances in this fashion:

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Increase in Net Assets	$256,372	$468,361	$57,064	$781,797
Deduct:				
Net Investment Gains	268,186	407,126	20,238	695,550
Increase in Net Assets Excluding Net Investment Gains	**$(11,814)**	**$61,235**	**$36,826**	**$86,247**

Results of Operations

The Institute does not use the GAAP accounting model for internal management reporting. The difference between the $256.4 million net change in unrestricted net assets reported for financial statement purposes in Schedule C and the results of operations of $(4.2) million deserves explanation. The largest difference is the net investment gains of $268.2 million, of which $223.5 million was reinvested and $44.7 million was distributed to funds. The future cost of facilities and renovations plus the reserve strengthening increased general funds by $18.9 million. Also, departmental controlled funds increased by $38.2 million from unrestricted activity.

Schedule D - Statements of Cash Flows

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

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

This schedule, not subject to audit, describes the distribution of investment income in the general investments and separately invested funds and the sources of earnings distributed. It also describes the purposes to which such income was distributed and used. The investment income reported before distribution includes all dividends, interest and rents earned and the market appreciation relates only to that earned on this income reserve during the year. The market appreciation on all funds distributed for spending includes $44.7 million from the accumulated realized gains, almost identical to the prior year.

Gifts

Gifts to the Institute set new records in 1997-98 by every measure. Gifts are reported as either "Gifts and bequests" or "Pledges" in Schedule B. The total amounts of gifts for all classes of net assets were $158.5 million and $128.8 million for 1998 and 1997 respectively. Gifts and bequests by this measure excludes payments on pledges made in earlier years and records life income gifts only at their actuarial present value for Institute purposes. Gifts are divided into the three categories of net assets. It is noted that all pledges to unrestricted net assets are shown as temporarily restricted, since the funds are not yet available for spending.

The traditional method of reporting total gifts of cash, securities, real estate and equipment set a new record of $137.9 million, as compared to the previous year's total of $130.3 million. This method records gifts only when received and paid rather than recognizing the present value of certain gifts when they are pledged. For comparison purposes, Table 2 of Gifts, Grants and Bequests that was presented prior to the implementation three years ago of FAS No. 116 is included below with the gifts to life income plans shown at their actuarial present value to the Institute. This table includes both new gifts and gifts received as payments on pledges made in prior years.

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

	1998	1997
Gifts:		
for endowment	$ 31,1[illegible]	$ 43,459
for buildings	31,014	3,572
for life income plans	5,444	6,527
for student loans	10	23
for current funds-restricted	52,712	57,208
for current funds-unrestricted	7,810	6,262
Of equipment	7,541	10,788
Total gifts to funds	**135,708**	**127,839**
Grants-in-aid	2,238	2,483
Total	**$137,946**	**$130,322**

In addition, there is $112.8 million in pledges outstanding, net of a present value discount of $11.0 million, at June 30, 1998.

The gifts reported by the Alumni/ae Fund totaled $28.7 million, a new record and an increase of 7.9 percent above the prior year. These gifts are recorded on the Institute's records when assets are transferred by donors to the Institute.

Endowment and Similar Funds

The market value of all the endowment and similar funds totaled $3,678.1 million at year end as compared to $3,023.6 million in the prior year, an increase of $654.5 million or 21.6 percent on a restated basis. The market value at June 30, 1998 includes $3,566.9 million, held in Pool A of the general investments and $111.2 million held in separately invested funds. This measure of endowment is identical to that in Note 1 except that the present value of pledges to endowment funds is excluded as the payments have not yet been received.

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

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

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

	June 30, 1998 Market Value
Unrestricted purposes (general)	$ 782,147
Departments and research	548,274
Library	11,878
Salaries (professorships, etc.)	1,181,775
Graduate fellowships-general	48,511
Graduate fellowships-departmental	125,036
Undergraduate scholarships	491,990
Prizes	11,421
Miscellaneous	339,919
Subtotal	**3,540,951**
Investment income held for distribution to funds	137,176
Total	**$3,678,127**

Investments

Total investments at market value were $4,370.3 million, an increase of $733.5 million or 20.2 percent from last year. This increase compares with an increase of $719.7 million in the previous year and represents the eighth consecutive year in which the market value of total investments has increased. Total invested assets at market value have now increased approximately $2.2 billion over the last five years as a result of gifts and market appreciation.

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

	June 30, 1998		June 30, 1997	
	Book	Market	Book	Market
General Investments				
Cash equivalents	$ 104,600	$ 104,600	$ 72,177	$ 72,338
Fixed income	699,613	715,966	667,288	671,791
Equities	1,716,914	3,002,215	1,518,016	2,443,875
Real Estate:				
Held for present or future academic use	38,492	38,485	42,485	42,542
Held for investment or other purposes[2]	107,020	162,742	104,070	139,048
Total general investments	**2,666,639**	**4,024,008**	**2,404,036**	**3,369,584**
Separately invested	149,656	166,034	119,411	136,120
Life income funds	110,342	151,762	92,306	124,368
Receivables/payables arising from securities Transactions	28,521	28,521	6,710	6,710
Total investments	**$2,955,158**	**$4,370,325**	**$2,622,463**	**$3,636,782**

[1] This table excludes students' notes receivable, amounts due from educational plant funds, cash, receivables and payables, and other liabilities.

[2] At values determined by professional appraisers.

The general investments at market value were $4,024.0 million, an increase of $654.4 million or 19.4 percent from last year. This increase compares with an increase of $639.4 million in the previous year. General investments at market value have now increased approximately $2 billion over the last five years. This increase in the general investments resulted substantially from gifts and market appreciation. There was a net reduction in borrowings of $16.9 million, as further detailed in Schedule D.

The balance between fixed income and equity investments changed slightly during the year. Equity investments, at market value, were 74.6 percent of the general investments at year-end, an increase from 72.5 percent at the prior year-end. Realized gains in the general investments during the year included $270.4 million from equities and $7.4 million from fixed income securities. The $558.3 million increase in market value of equities in the general investments resulted primarily from market action. The $76.4 million increase in market value of fixed income securities and cash equivalents resulted primarily from a net investment of cash.

The decrease of $4.0 million in the book value of real estate held for possible future academic use was due primarily to a reclassification of the book value of real estate held for investment or other purposes. The increase in book value of $3.0 million in real estate held for investment or other purposes was primarily due to the noted reclassification and modest capital improvements less depreciation. The market value of real estate held for investment or other purposes increased $23.7 million, or 17 percent, and resulted from the noted reclassification and increases in the appraised value of these properties, reflecting full occupancy and lease turnover at higher market rates. The income from real estate held for investment or other purposes increased by $2.0 million to $11.7 million, or 20.6 percent from the previous year, due primarily to lease turnovers at higher market rates and new lease revenue from the further development of University Park at MIT.

The Investment and Executive Committees of the Corporation have continued the practice whereby spending by funds in the general investments may come from both investment income and realized market gains, and in the separately invested funds only from investment income. This distribution for spending policy is consistent with the investment policy for the general investments which focuses on total investment return, a combination of both capital appreciation and investment income from interest, dividends, and rents. In 1998, the amount distributed for spending from the general investment endowment funds totaled $108.5 million, an increase of 7.3 percent from the $101.1 million distributed in 1997. The 1998 amount distributed for spending from the general investment endowment funds included $44.7 million from realized gains, or 41.2 percent of the total distributed to those funds. In 1997, the comparable amount distributed to general investment endowment funds included $44.6 million from investment gains, or 44.1 percent of the total distributed to those funds. The

1998 amount available for total endowment spending (Pool A and Separately Invested Endowment Funds) was $110.4 million, a 6.9 percent increase over the $103.3 million made available in 1997. This is detailed in the schedule of Distribution of Investment Income to Funds on page 12.

The investments held by the separately invested funds increased by $29.9 million to a market value of $166.0 million. This increase resulted from a combination of additions to perpetual trusts held outside MIT of $15.1 million, net additions to other funds, and market appreciation.

The investments held by the life income funds increased $27.4 million to a market value of $151.8 million. The increase resulted from $11.9 million of current year gifts, before actuarial adjustment, transfers to the general investments of $1.3 million, and market appreciation.

Investment income in the form of dividends, interest, and rents (after administrative expenses) was $92.0 million as shown in the schedule of Distribution of Investment Income to Funds on page 12. This compares to $80.0 million of investment income in the previous year and represented an increase of 15.0 percent. This measure of investment income does not include any investment gains. The amount distributed for spending to endowment funds included investment gains. The investment income earned by the current invested funds was fully distributed.

The reserve of investment income held for distribution, which is invested with the general investment funds, was not availed of for distribution to endowment funds. This reserve had a book value of $25.8 million and a market value of $137.2 million on June 30, 1998.

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

Plant

The book value of the educational plant assets was $572.3 million at June 30, 1998 up from $536.0 million at June 30, 1997. This change includes $88.3 million of net additions to educational plant offset by $52.0 million of net depreciation charges.

Major projects completed during the year included the reconstruction of the Dorrance Building and the Information Systems Building on Massachusetts Avenue. The renovation of the first floor of the former Heinz Building for R.O.T.C. , the second and the third floor of Building 2 for the Chemistry Department, and the first floor of the Homberg Building for Student Services were also completed. The construction of the Central Utility Chiller was also completed. Renovations of the Kresge Auditorium, M.I.T. Chapel, and Baker House are all under way.

Total indebtedness for educational plant at June 30, 1998 was $273.7 million of which $142.0 million is tax-exempt debt financed through the Massachusetts Health and Educational Facilities Authority. Such indebtedness decreased by $19.6 million during the year.

General

The strong growth in net assets during the past year and over longer time periods has added greatly to the financial strength of the Institute. Until recently, the rate of tuition increases has been greater than the overall rate of salary increases. In addition, we have benefited over the past decade from large increases in both gifts and in research support from non-Federal sources relative to the very modest growth from Federal sponsors. As a result, the proportion of the Institute's campus operating budget supported by Federal sponsored research has declined and was approximately 49.8 percent last year. This is expected to decline further in the new year. It is particularly adverse as the Institute can no longer include the tuition for research and teaching assistants in the benefits rate applied to all salaries, including those charged to sponsored research costs.

The greater dependence on private resources will continue and the economic factors that affect such support will have a larger influence on our revenues. Investment income available for spending and new gifts are particularly influenced by longer term trends in securities markets. This increased dependence occurs at the same time as the Institute faces large budget increases to support new buildings and the costs of renovating and maintaining our existing facilities. We also continue to absorb the adverse impact of very slow growth in sponsored research revenues and continued Federal efforts to reduce the portion of Facilities and Administrative costs paid by research sponsors. Our ability to attract outstanding faculty, students and staff is affected by competitive pressures caused by new initiatives and rising resources at other institutions combined with a relatively tight employment market in many professions.

An intense planning process over the past six months led by the President with senior officers and a subgroup of the Executive Committee has looked closely at these issues. This has enabled a much fuller understanding of both the challenges and the resources available to meet our objectives. Favorable investment returns together with rising distributions for spending and strong fundraising results are necessary for success.

The outcome will depend on the continued wise leadership of our administration and faculty. The full support and involvement of the Corporation members will greatly help to achieve our goals.

Allan Bufferd, Deputy Treasurer and Director of Investments, continues to head our investment activities and provided the narrative in the Investments section of this report. James Morgan, Controller, and Stefano Falconi, Director of Finance, with their staffs provided the support necessary for the preparation of this report. E. Jane Griffin, the Executive Assistant in my office, has been of invaluable help to both me and my predecessor in its preparation over the past forty years.

This is the twenty-third consecutive Treasurer's Report I have presented to the members of the Corporation at the Annual Meeting. I leave to my successors both the responsibility and the pleasure of reporting to you at future meetings. Thank you for your strong support and thoughtful guidance.

Respectfully submitted,

Glenn P. Strehle

Glenn P. Strehle
Vice President for Finance and Treasurer

September 4, 1998

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
DISTRIBUTION OF INVESTMENT INCOME TO FUNDS
for the years ended June 30, 1998 and 1997
(in thousands of dollars)
(unaudited)

	1997		1998		General Investments	Separately Invested Funds
Investment income before distribution:						
balance beginning of year, at market	$ 96,829		$ 114,367		$ 114,367	$ -
current year investment income	79,977	(a)	91,972	(a)	86,698	5,274
market appreciation	17,762		22,809		22,809	-
Total before distribution	194,568		229,148		223,874	5,274
Distribution:						
Income distributed:						
From current year's earnings	(79,977)		(91,972)		(86,698)	(5,274)
From prior year's earnings	(224)		-		-	-
From accumulated realized gains on investments - regular distribution	(44,582)		(44,682)		(44,682)	-
Total distribution to funds before special distribution	(124,783)		(136,654)		(131,380)	(5,274)
Special distribution	(20,000)		(10,000)		(10,000)	-
*Total distribution to funds	(144,783)		(146,654)		(141,380)	(5,274)
Less: reduction in accumulated gains on investments	64,582		54,682		54,682	-
Total distributed from investment income	(80,201)		(91,972)		(86,698)	(5,274)
Investment income held for distribution to funds, balance end of year	$ 114,367		$ 137,176		$ 137,176	$ -
Balances include:						
Funds functioning as endowment	$ 114,367		$ 137,176		$ 137,176	$ -
Current invested funds	-		-		-	-
Total	$ 114,367		$ 137,176		$ 137,176	$ -
*Total distribution to funds:						
Endowment funds:						
Used for operations	$ 72,746		$ 75,950		$ 75,347	$ 603
Used for scholarships and fellowships	17,341		17,623		17,500	123
Used for other charges	693		821		821	-
Added to principal	2,633		5,982		5,543	439
Added to unexpended balances of endowment income	11,009		2,595		2,351	244
Transferred to other funds	(1,095)		7,449		6,909	540
	103,327		110,420		108,471	1,949
Other funds:						
Life income funds	3		3		3	-
Building funds	2,981		4,228		3,950	278
Other expendable funds	38,472		32,003		28,956	3,047
	41,456		36,234		32,909	3,325
Total distribution to funds	$ 144,783		$ 146,654		$ 141,380	$ 5,274

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

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

FIVE YEAR TREND ANALYSIS

FINANCIAL HIGHLIGHTS (dollars in thousands)

	1998	1997	1996	1995	1994
Financial Position:					
Investments, at Market	$4,370,325	$3,636,782	$2,917,103	$2,501,184	$2,152,102
Land, Building, and Equipment:					
at cost less accumulated depreciation	572,290	535,980	491,443	462,715	431,083
Borrowings	297,170	314,027	202,610	199,974	184,071
Student Notes	66,247	63,644	59,371	55,284	53,450
Total Assets (1)	5,367,444	4,557,408	3,734,803	3,225,129	2,758,150
Total Liabilities	691,411	663,172	466,701	432,969	352,490
Unrestricted Net Assets, at market (2)	2,004,514	1,748,142	1,487,816	1,307,117	998,179
Market Value of Endowment Funds	3,678,127	3,023,[illegible]88	2,493,627	2,093,216	1,777,777
Principal Sources of Revenue:					
Tuition and Other Income	230,449	222,932	214,152	205,193	194,864
Research Revenue:					
Campus	384,146	387,880	377,702	371,990	354,236
Lincoln Laboratory	364,783	352,592	343,243	340,711	336,934
Gifts and Bequests (3)	158,538	128,831	115,112	97,548	92,850
Net realized gains on Investments	301,027	280,146	276,464	109,949	179 036
Investment Income Distributed	146,654	144,783	118,390	111,945	103,348
Principal Purposes of Expenditures:					
Total Operating Expenditures	1,223,500	1,179,848	1,182,801	[illegible],182	1,137,474
Instruction and Unsponsored Research	285,005	255,000	242,552	235,365	226,084
Direct Cost of Sponsored Research -Current Dollars	624,439	620,871	600,605	595,507	578,872
Direct Cost of Sponsored Research -Constant Dollars (1994=100)	564,495	571,278	568,403	578,909	578,872
General and Administrative	261,712	253,715	291,388	224,741	205,029
Scholarships and Fellowships (4)	60,109	62,665	60,598	64,982	59,968
Students:					
Undergraduate					
Full Time	4,326	4,376	4,443	4,443	4,481
Part Time	55	53	52	29	28

	1998	1997	1996	1995	1994
Undergraduate Applications					
Applicants	7,836	8,022	7,958	7,139	6,410
Accepted	1,938	1,947	2,113	2,158	2,140
Acceptance Rate	25%	24%	27%	30%	33%
Enrolled	1,067	1,071	1,122	1,104	1,080
Yield	55%	55%	53%	51%	50%
Freshmen Ranking in the top 10% of their Class	93%	94%	97%	94%	97%
Average SAT Scores	1447	1448	1380	1373	1370
Graduate					
Full Time	5,331	5,389	5,323	5,022	4,997
Part Time	168	129	142	280	284
Graduate Applications					
Applicants	12,785	12,148	11,207	10,739	10,081
Accepted	2,548	2,445	2,490	2,140	2,140
Acceptance Rate	20%	20%	22%	22%	21%
Enrolled	1,304	1,353	1,251	1,100	1,116
Yield	51%	55%	50%	47%	52%
Student Financial Aid:					
Undergraduate Grants	$ 31,641	$ 32,053	$ 31,188	$ 35,896	$ 33,560
Graduate Fellowships	28,468	30,612	29,410	29,086	26,408
Student Loans	12,055	12,073	11,671	9,551	8,421
Student Employment	50,075	47,990	44,618	44,683	44,462
Total Financial Assistance	**$122,239**	**$122,728**	**$116,887**	**$119,216**	**$112,851**
Tuition: ***(in dollars)***					
Tuition and Fees	$23,100	$ 22,000	$ 21,000	$ 20,100	$ 19,000
Average Room and Board	6,495	6,300	6,150	5,975	5,800
Faculty and Staff:					
Faculty	896	960	954	966	950
Employees	7,850	8,100	8,350	8,350	8,300

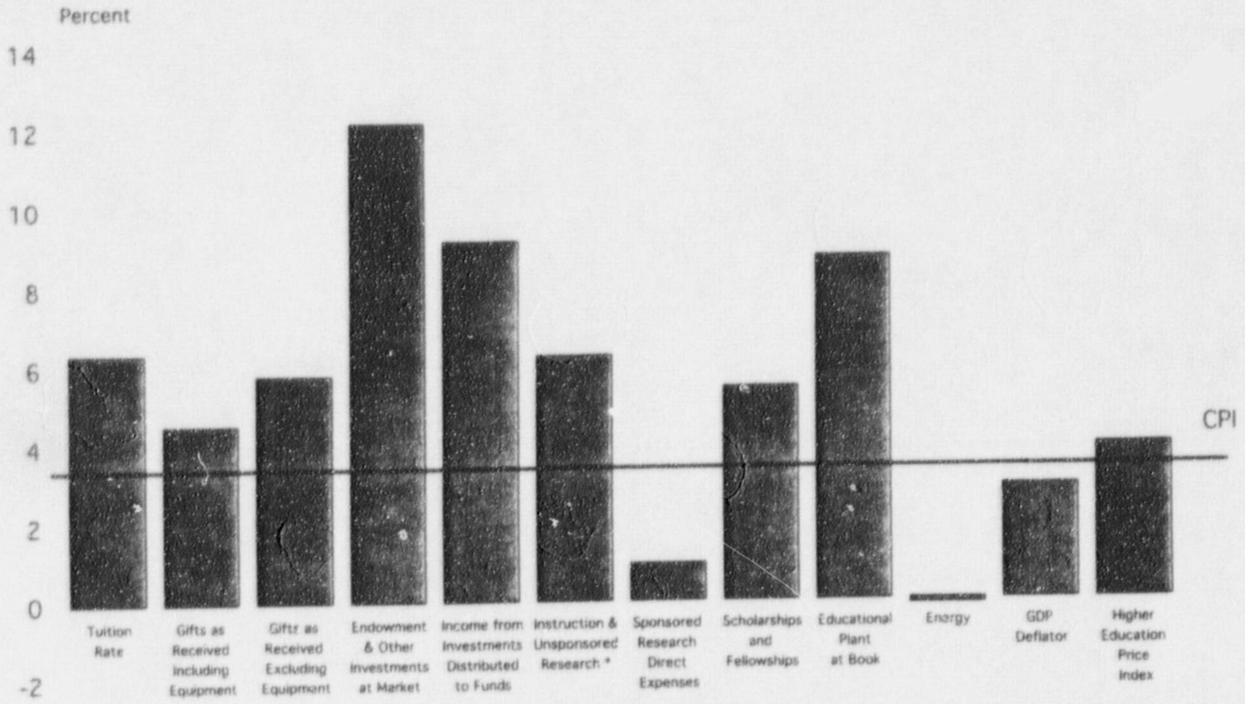
(1) Includes investments at market, reported for FY98, FY97, and FY96 other years as adjusted.

(2) Reported beginning in FY94 in accordance with FAS 117; In addition reported at market beginning in FY95.

(3) As defined by FAS 116 & 117 beginning in FY94.

(4) Represents amount paid by MIT.

Figure 1
Compound Growth Rates of Selected MIT Data
Versus the Consumer Price Index (CPI)
1988 - 1998



* Excluding the functional allocation of depreciation and other expenses

Figure 2
Income From Investments Distributed to Funds
(Consumer Price Index 1989=100)

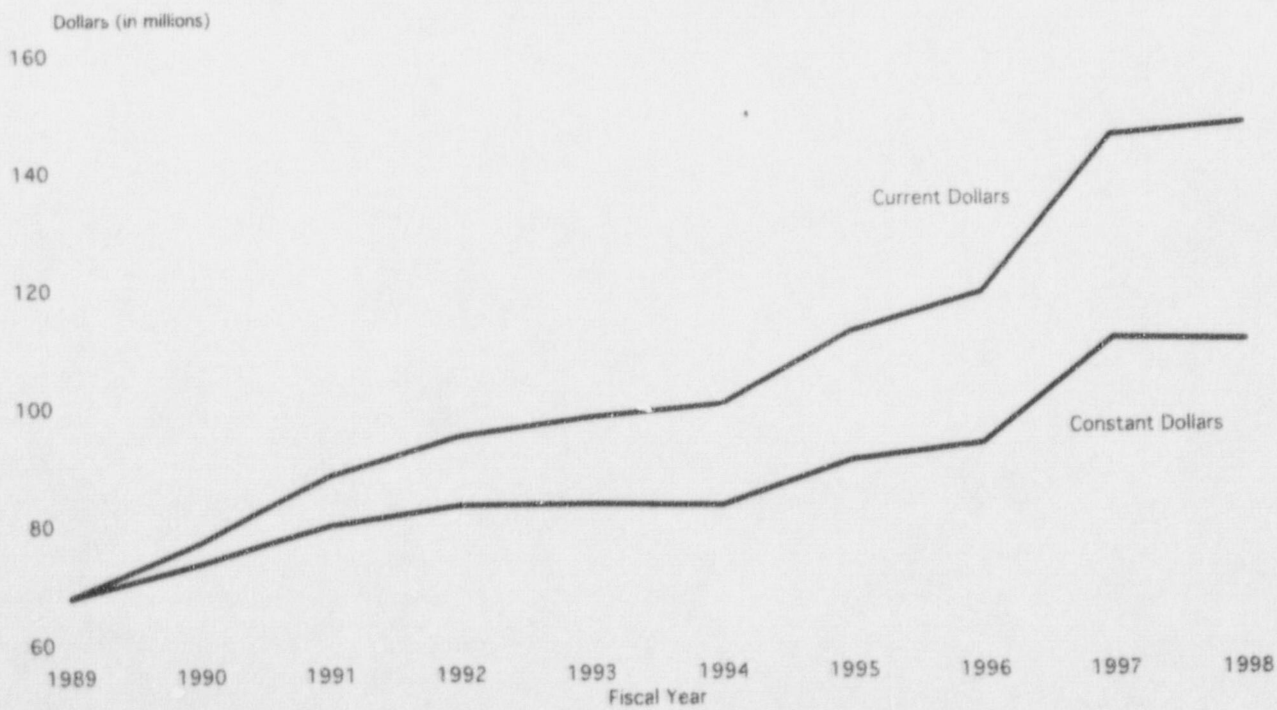
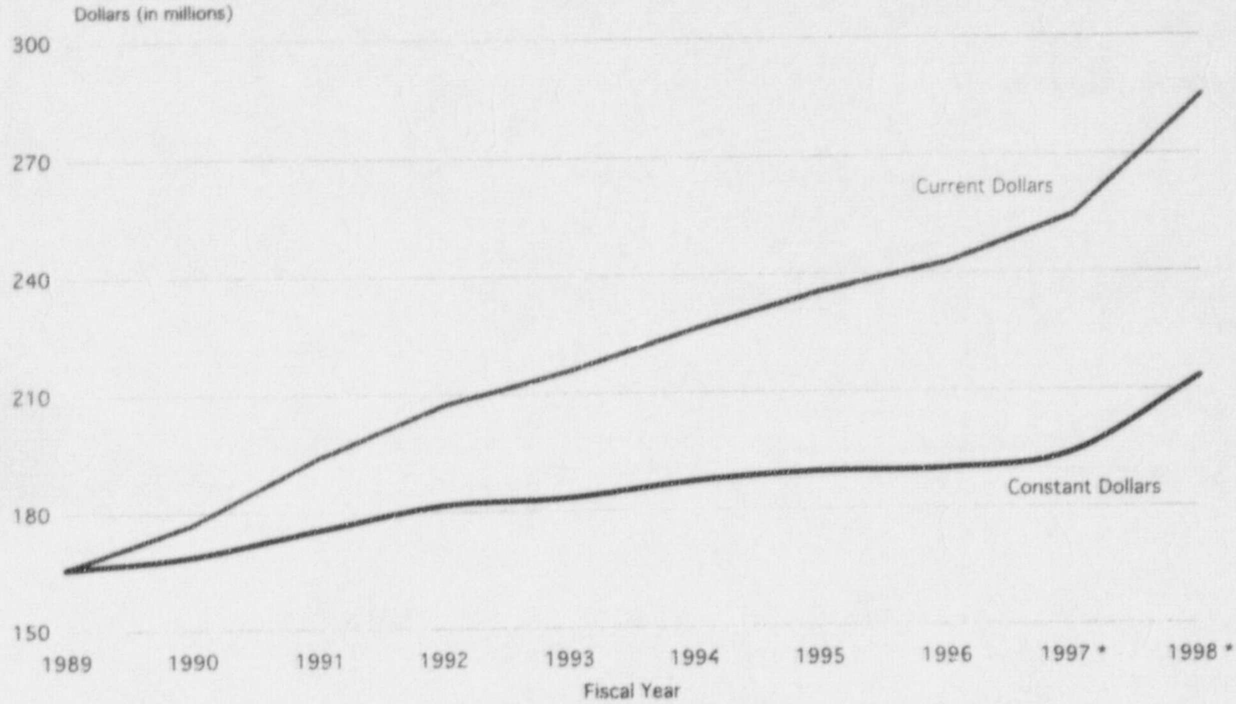
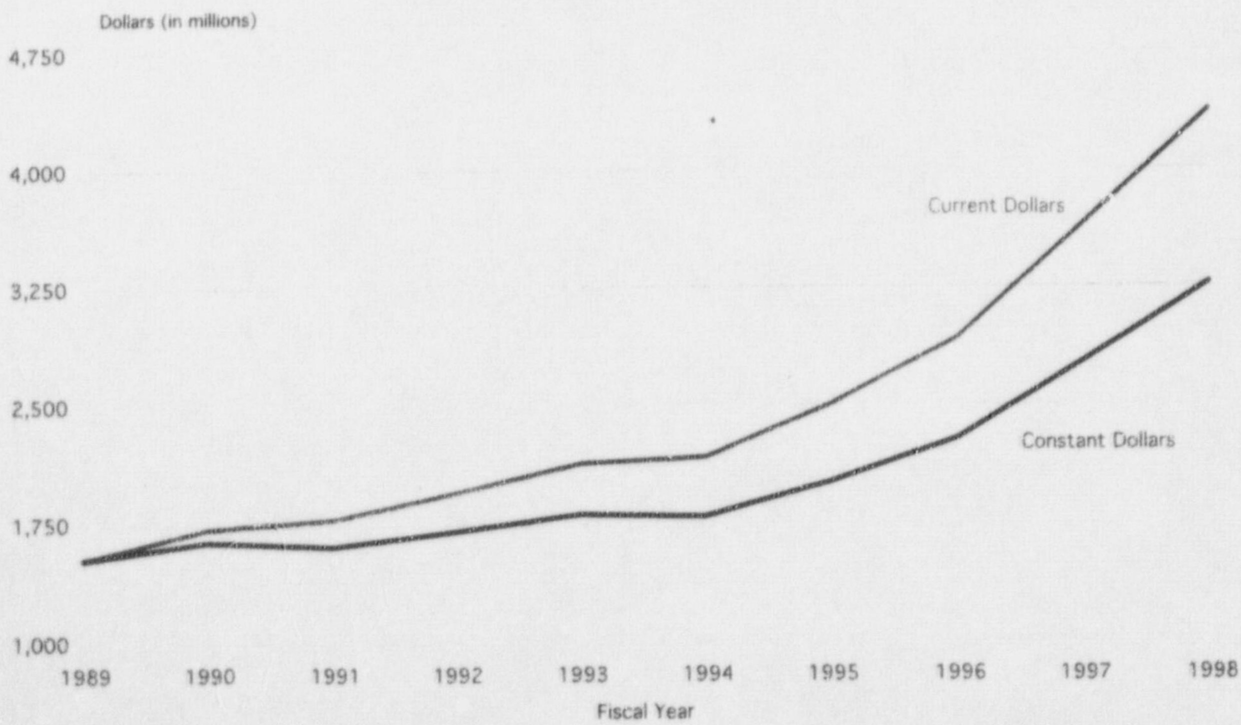


Figure 3
Instruction and Unsponsored Research
(Consumer Price Index 1989=100)



* Exclu· ng the functional allocation of depreciation and other expenses

Figure 4
Endowment and Other Investments at Market
(Consumer Price Index 1989=100)



FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

FINANCIAL STATEMENTS

The financial statements summarize the finances of the Institute during the fiscal years 1997-98.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENTS OF FINANCIAL POSITION
at June 30, 1998 and 1997
(in thousands of dollars)

Schedule A

	1998	1997
ASSETS		
Cash	$ 57,398	$ 25,942
Accounts receivable, net	118,963	127,285
Pledges receivable, net	112,841	89,989
Contracts in progress, principally U.S. Government	29,494	29,787
Deferred charges, inventories and other assets	39,886	47,999
Students' notes receivable, net	66,247	63,644
Investments, at fair value	4,370,325	3,636,782
Land, buildings, and equipment, at cost, net of accumulated depreciation	572,290	535,980
Total assets	$ 5,367,444	$ 4,557,408
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accruals and other liabilities	$ 228,433	$ 204,663
Withholdings, deposits and other credits	51,193	50,757
Advance payments, primarily US Government, industrials and foundations	86,038	66,017
Borrowings - bonds and notes payable	297,170	314,027
Government advances for student loans	28,577	27,708
Total liabilities	691,411	663,172
Net Assets (Note I):		
Unrestricted	2,004,514	1,748,142
Temporarily restricted	1,831,841	1,363,480
Permanently restricted	839,678	782,614
Total net assets	4,676,033	3,894,236
Total liabilities and net assets	$ 5,367,444	$ 4,557,408

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

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENTS OF ACTIVITIES
for the years ended June 30, 1998 and 1997
(in thousands of dollars)

Schedule B

	1998	1997
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and other additions:		
Tuition and other income, net of discount of $60,109 in 1998 and $62,665 in 1997	$ 170,340	$ 160,267
Research revenues	748,929	740,472
Gifts and bequests	56,892	69,925
Investment income	86,513	74,853
Net gains on investments	268,186	254,825
Fees, services, and miscellaneous receipts	90,461	85,228
Auxiliary activities	41,872	42,833
Net change in life income funds	524	(1,456)
Net asset reclassifications	16,155	13,227
Total revenues and other additions	1,479,872	1,440,174
Expenses and other deductions:		
Operating expenses	1,223,500	1,179,848
Increase in unrestricted net assets	256,372	260,326
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Gifts and bequests	32,453	4,727
Pledges	41,292	4,917
Investment income	1,853	538
Fees, services, and miscellaneous receipts	692	151
Net gains on investments	407,126	286,487
Net change in life income funds	191	(4,262)
Net asset reclassifications	(15,246)	(13,564)
Increase in temporarily restricted net assets	468,361	278,994
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Gifts and bequests	22,400	27,255
Pledges	5,501	22,007
Net gains on investments	20,238	5,231
Fees, services, and miscellaneous receipts	-	22,835
Net change in life income funds	6,576	6,532
Investment income	3,258	2,616
Net asset reclassifications	(909)	337
Increase in permanently restricted net assets	57,064	86,813
Increase in net assets	781,797	626,133
Net assets at the beginning of the year	3,894,236	3,268,103
Net assets at the end of the year	$ 4,676,033	$ 3,894,236

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

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENTS OF OPERATIONS AND OTHER CHANGES
IN UNRESTRICTED NET ASSETS
for the years ended June 30, 1998 and 1997
(in thousands of dollars)

Schedule C

	1998	1997
RESULTS OF OPERATIONS:		
OPERATING REVENUES:		
Tuition and other income, net of discount of $60,109 in 1998 and $62,665 in 1997	$ 170,340	$ 160,267
Research revenues:		
Campus	384,146	387,880
Lincoln Laboratory	364,783	352,592
Gifts and bequests used in operations	7,994	7,700
Fees, services, and misc. receipts	90,461	85,228
Auxiliary enterprises	41,872	42,833
Net asset reclassification	2,796	2,155
Net funding of current operations	156,948	136,327
Total	1,219,340	1,174,982
OPERATING EXPENSES:		
Instruction and unsponsored research	285,005	255,000
Sponsored research	624,439	620,871
General and administrative	261,712	253,715
Auxiliary enterprises	44,430	42,833
Operation of alumni association	7,914	7,429
Total	1,223,500	1,179,848
Results of operations	(4,160)	(4,866)
NON-OPERATING ACTIVITIES:		
Net gains on investments	268,186	254,825
Gifts and bequests received added to fund balances	48,898	62,225
Investment income	86,513	74,853
Net change in life income funds	524	(1,456)
Net asset reclassifications	13,359	11,072
Transfer to fund current operations	(156,948)	(136,327)
Total non-operating activities	260,532	265,192
Net change in unrestricted net assets	$ 256,372	$ 260,326

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

MASSACHUSETTS INSTITUTE OF TECHNOLOGY
STATEMENTS OF CASH FLOWS
for the years ended June 30, 1998 and 1997
(in thousands of dollars)

Schedule D

	1998	1997
CASH FLOW FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 781,797	$ 626,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net gains	(695,550)	(546,543)
Depreciation	51,983	46,627
Student loan cancellations	287	377
Gifts of equipment and securities	(7,541)	(10,788)
Net gains on life income funds	(17,893)	(18,026)
Change in operating assets and liabilities:		
Pledges receivable	(22,852)	(959)
Accounts receivable	8,322	(10,481)
Contracts in progress	293	20,673
Deferred charges, inventories, and other assets	8,113	8,935
Accounts payable, accruals, and other liablilites	23,770	11,771
Withholdings, deposits, and other credits	436	7,052
Advances and unexpended grants	20,021	(3,293)
Reclassify investment income	(3,258)	(6,805)
Reclassify contributions restricted for long-term investment	(54,853)	(31,981)
Net cash received from operating activities	93,075	92,692
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of land, buildings, and equipment	(80,752)	(80,376)
Purchase of investments	(3,394,238)	(2,414,155)
Proceeds from sale of investments	3,374,138	2,259,047
Student notes issued	(12,055)	(12,073)
Collections from student notes	9,165	7,423
Net cash used in investing activities	(103,742)	(240,134)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in endowment	19,950	23,264
Investment in plant	29,449	2,305
Investment in other	5,454	6,412
Total proceeds from contributions	54,853	31,981
Increase in investment income for restricted purposes	3,258	6,805
Proceeds from borrowings, bonds, and notes payable	96,205	133,563
Repayment of borrowings, bonds, and notes payable	(113,062)	(22,146)
Increase in Government advance for student loans	869	597
Net cash received from financing activities	42,123	150,800
Net increase in cash	31,456	3,358
Cash at the beginning of the year	25,942	22,584
Cash at the end of the year	$ 57,398	$ 25,942

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

NOTES TO FINANCIAL STATEMENTS

A. ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP).

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

Permanently restricted net assets include gifts, pledges, trusts and remainder interests, income and gains which are required by donors to be permanently retained. Pledges, trusts and remainder interests are reported at their estimated fair market values. See note on gifts and pledges on page 24.

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.

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

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

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

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

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

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

CASH

Current banking arrangements do not require outstanding checks to be funded until actually presented for payment. Outstanding checks in the amount of $35.2 million and $36.2 million in 1998 and 1997, respectively, are, therefore, recorded in accounts payable until such time as the banks present them for payment.

SPONSORED RESEARCH

Revenue associated with contracts and grants is recognized as related costs are incurred. The capital costs of buildings and equipment are depreciated over their life cycle and the sponsored research recovery allowance for depreciation is treated as unrestricted income. The Institute has recorded reimbursement of indirect costs relating to sponsored research at predetermined fixed billing rates. The booked income generated by the predetermined rates is adjusted at the close of each fiscal year to reflect any variance between the predetermined rates and rates based on actual cost. The actual cost rate is audited by the Defense Contract Audit Agency (DCAA) and a final fixed rate agreement is signed by the

Government and the Institute. The variance between the predetermined fixed rate and the final audited rate results in a carryforward (over or under recovery). The carryforward will be included in the calculation of predetermined fixed billing rates in future years. Any adjustment in the rate is charged/(credited) to unrestricted net assets.

LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are shown at cost or fair value as of the date of a gift, net of accumulated depreciation. When expended, costs associated with the construction of new facilities are shown as construction in progress until such projects are completed. Depreciation is computed on a straight-line basis over the estimated useful lives of 25 to 50 years for buildings and 3 to 25 years for equipment. Fully depreciated buildings and equipment are removed from the financial statements. These amounts totaled $26.5 million and $36.3 million during 1998 and 1997, respectively. In addition, depreciation relating to various service facilities and equipment are charged directly to the appropriate operating unit expenses. Land, buildings and equipment are as follows at June 30:

	1998	1997
	(in thousands of dollars)	
Land	$ 30,967	$ 30,967
Educational buildings	454,066	387,773
Dormitories	80,381	80,839
Medical, athletic, and recreational buildings	70,832	70,832
Other	22,770	22,688
Equipment	259,551	257,393
Total	**918,567**	**850,492**
Less: accumulated depreciation	(365,050)	(339,566)
Construction in progress	18,773	25,054
Land, buildings, and equipment	**$572,290**	**$535,980**

Depreciation expense, presented net, comprises:

	1998	1997
	(in thousands of dollars)	
Total depreciation expense	$ 51,983	$ 46,627
Less: Depreciation charged directly to operating units	(9,992)	(9,336)
Capitalized equipment charged directly to operating units	(14,055)	(14,807)
Net depreciation	**$ 27,936**	**$ 22,484**

GIFTS AND PLEDGES

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 1998 and 1997 totaling $7.5 million and $10.8 million respectively, from manufacturers and other donors were put into use and recorded by the Institute during the respective fiscal years. Pledges in the amount of $112.8 million and $90.0 million are recorded as receivables with the revenue assigned to the appropriate category of restriction for 1998 and 1997 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 receivable at June 30, 1998 are expected to be realized in the following time frame:

	(in thousands of dollars)
In one year or less	$ 45,254
Between one year and five years	33,075
More than five years	40,512
Less allowance for unfulfilled pledges	(6,000)
Pledges receivable, net of discount	**$112,841**

A review of pledges has been made with regard to individual collectibility. As a result, some pledges have either been canceled or are no longer recorded in the statements. There were no conditional promises received. In addition, the pledge receivable is discounted in the amount of $11.0 million which is determined using a discount rate based on the seasoned U.S. Treasury rate.

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

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain June 30, 1997 balances previously reported have been reclassified to conform with June 30, 1998 presentation.

B. INVESTMENTS

Total market value of investments approximated $4.4 billion and $3.6 billion at June 30, 1998 and 1997, respectively. The market values of investments are generally determined based upon quoted market prices or estimated fair values provided by external investment managers. Such amounts also include market values of certain real estate, which was determined by professional appraisers, and cash equivalents invested in money market funds, commercial paper, banker acceptances and negotiable certificates of deposit, maturing within 30 days.

Investments

(in thousands of dollars)

	June 30, 1998		June 30, 1997	
	Book	**Market**	**Book**	**Market**
General Investments				
Cash equivalents	$ 104,600	$ 104,600	$ 72,177	$ 72,328
Fixed income	699,613	715,966	667,288	671,791
Equities	1,716,914	3,002,215	1,518,016	2,443,875
Real Estate:				
Held for present or future academic use	38,492	38,485	42,485	42,542
Held for investment or other purposes	107,020	162,742	[illegible]04,070	139,048
Total general investments	**2,666,639**	**4,024,008**	**2,[illegible]4,036**	**3,369,584**
Separately invested	149,656	166,034	119,411	136,120
Life income funds	110,342	151,762	92,306	124,368
Receivables/payables arising from securities transactions	28,521	28,521	6,710	6,710
Total investments	**$2,955,158**	**$4,370,325**	**$2,622,463**	**$3,636,782**

The Institute pools a substantial portion of its investments into two major investment pools, Pool A principally for endowment and funds functioning as endowment and Pool C, principally for investment of current funds of the schools and departments and Institute temporary funds. Shares in Pool A, like a mutual fund, are purchased and redeemed at the fair value of the share units as determined each month end. The total market value of Pool A approximated $3.7 billion and $2.9 billion at June 30, 1998 and 1997 respectively. The unit market values at June 30, 1998 and 1997 respectively were $576.2822 and $480.4594. On a unit basis, the ownership assigned to each net asset classification at June 30, 1998 and 1997 was as follows:

	1998	**1997**
Unrestricted	2,047,097	2,014,970
Temporarily restricted	-	-
Permanently restricted	4,142,496	4,092,495
Total units	**6,189,593**	**6,107,465**

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

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

(in thousands of dollars)

1998	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Realized Gains	$132,337	$149,212	$19,478	$301,027
Increase in Net Unrealized Gains	135,849	257,914	760	394,523
Total	**$268,186**	**$407,126**	**$20,238**	**$695,550**

1997	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Realized Gains	$137,179	$140,480	$2,487	$280,146
Increase in Net Unrealized Gains	117,646	146,007	2,744	266,397
Total	**$254,825**	**$286,487**	**$5,231**	**$546,543**

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

	1998	1997
Pool A – Distribution per unit	$17.55	$16.70
Pool C – Declared rate before other distributions	4.0%	4.0%

The total distribution to funds was $146.7 million in 1998 and $144.8 million in 1997 and included accumulated investment gains of $44.7 million and $44.6 million, respectively. Investment income is reported net of related expenses of $8.2 million and $5.7 million in 1998 and 1997, respectively.

The Institute has recorded perpetual trusts held by outside trustees of $53.2 million for 1998 and $38.2 million for 1997. The perpetual trusts are included in investments reported above.

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

C. DERIVATIVE INSTRUMENTS

As of June 30, 1998 the Institute held covered call options of $.3 million that had a market value of $.9 million. Covered call options are sold as part of the Institute's investment strategy to obtain the best return on assets.

From time to time the Institute will enter into various forward currency exchange contracts solely as partial offset of exchange note 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. The Institute did not have any forward currency exchange contracts outstanding at June 30, 1998.

D. STUDENT LOAN FUNDS

Perkins National Direct Student Loan Funds of $28.6 million and $27.7 million at June 30, 1998 and 1997, respectively, are ultimately refundable to the United States Government, and are classified as liabilities. The allowance for doubtful notes receivable was $.9 million and $1.1 million in 1998 and 1997, 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

Bonds and Notes Payable consist of the following at June 30, 1998 and 1997:

	(in thousands of dollars) **1998**	**1997**
EDUCATIONAL PLANT		
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Series A, lease purchase obligations (Note F)	$ 1,600*	$ 2,000*
Series B, 5%, due 1998-2003	3,125***	3,650***
Series C, 5-6.2%, due 1998-2006	2,850***	3,120***
Series E, 8%, due 1998-2000	756	1,134
Series G, variable, due 2021	-	25,000
Series H, 3.25 - 5%, due 1998-2023	73,732	76,232
Series I, 4.83-4.97%, due 2028	59,949	-
Total MHEFA	**142,012****	**111,136****
Medium Term Notes Series A, 7.125% due 2026	39,164	49,670
Medium Term Notes Series A, 7.25% due 2096	72,006	74,692
Notes payable to bank, variable percent, due 1999	13,256	47,250
Notes payable Student Loan Marketing Association (SLMA), variable percent, due 1998-2000	7,288	10,612
Total Educational Plant	**273,726**	**293,360**
STUDENT LOANS		
Notes payable SLMA, variable percent, due 1997	-	20,000
Notes payable to bank, variable percent, due 1998	23,000	-
Total Student Loans	**23,000**	**20,000**
OTHER		
Massachusetts Health and Educational Facilities Authority Series E, 8%, due 1998-2000	444	667
Total Bonds and Notes Payable	**$297,170**	**$314,027**

* The Institute receives interest supplements from the Department of Housing and Urban Development with respect to this issue.
** At June 30, 1998 the Institute had pledged securities with a market value of $50.5 million, annual unrestricted operating revenue of $8.1 million, and certain other project revenue to comply with the terms of the bond indentures.
***Certain land and buildings are pledged as collateral for MHEFA Series B and C bonds.

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

	(in thousands of dollars)
1999	$43,563
2000	8,388
2001	6,718
2002	5,285
2003	5,110

Cash paid for interest on long-term debt in 1998 and 1997 was $13.2 million and $14.6 million respectively. Variable interest rates were as follows at June 30, 1998:

Notes payable to bank (Educational Plant)	5.84%
Notes payable to SLMA	5.94%
Notes payable to bank (Student Loan)	5.84%

MIT maintained unused line of credit totaling $58.0 million at June 30, 1998 and 1997.

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

F. COMMITMENTS AND CONTINGENCIES

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

The DCAA is responsible for auditing both direct and indirect charges to grants and contracts in support of ONR's negotiating responsibility. The Institute has final audited rates through the 1997 fiscal year. The Institute's 1998 research revenues of $748.9 million include reimbursement of indirect costs of $132.1 million which includes the adjustment of the variance between the indirect cost income generated from the predetermined rates and rates based on actual 1998 costs.

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

3. The Institute is committed under real estate leases. Rent expense was $19.1 million and $17.8 million in 1998 and 1997, respectively. Certain leases expiring in 1998 are subject to renewal or may be renewed. Future minimum payments under operating leases are as follows:

(in thousands of dollars)	
1999	$19,832
2000	20,140
2001	20,464
2002	20,804
2003	21,161

4. The Institute is committed to invest approximately $530.8 million in private equity and other alternative investments over the next five years.

5. The Institute is committed for Educational Plant in the amount of $32.0 million at June 30, 1998. 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 Institute offers retirement and post retirement benefits to its employees. The Massachusetts Institute of Technology Retirement Plan (the "Retirement Plan") has two components: a defined benefit plan and a defined contribution plan. The Retirement Plan covers substantially all employees of the Institute. The Institute contributes to the defined benefit plan amounts which are actuarially determined to provide the Retirement Plan with sufficient assets to meet future benefit requirements.

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

The following provides detail changes in benefits obligations, component of benefit costs and weighted-average assumptions.

(*In thousands of dollars*)

	Pension Benefits 1998	Pension Benefits 1997	Other Benefits 1998	Other Benefits 1997
Change in Benefit Obligation				
Benefit obligation at beginning of year	$1,134,913	$ 962,651	$158,845	$149,670
Service cost	29,589	24,075	2,978	2,819
Interest cost	89,418	77,737	12,133	11,394
Retiree contributions	-	-	1,157	1,209
Net benefit payment and transfers	(68,118)	8,275	(13,972)	(12,531)
Assumption changes and actuarial net gains	73,590	62,175	8,293	6,284
Benefit obligation at end of year	**$1,259,392**	**$1,134,913**	**$169,434**	**$158,845**
Change in plan assets				
Fair value of plan assets at beginning of year	$1,378,906	$1,095,828	$97,941	$79,254
Actual return on plan assets	307,181	272,403	20,182	17,358
Employer contributions	-	2,400	12,189	12,651
Retiree contributions	-	-	1,157	1,209
Net benefit payments and transfers	(68,118)	8,275	(13,972)	(12,531)
Fair value of plan assets at end of year	**$1,617,969**	**$1,378,906**	**$117,497**	**$97,941**
Funded status	$358,577	$243,993	$(51,937)	$(60,904)
Unrecognized net transition liability/(asset)	(36,748)	(42,873)	71,633	76,409
Unrecognized prior service costs	3,593	3,961	6,289	8,425
Unrecognized net (gain) loss	(326,955)	(204,858)	(25,959)	(23,904)
(Accrued)/prepaid benefit cost	**$ (1,533)**	**$ 223**	**$ 26**	**$ 26**
Component of net periodic benefit cost				
Service cost	$29,589	$24,075	$2,978	$2,819
Interest cost	89,418	77,737	12,133	11,394
Expected return on plan assets	(109,889)	(93,151)	(9,118)	(7,439)
Amortization of transition amount	(6,125)	(6,125)	4,776	4,776
Amortization of unrecognized net (gain)	(1,604)	(1,059)	(716)	(1,035)
Amortization of prior service cost	367	368	2,136	2,136
Net benefit cost	**$ 1,756**	**$ 1,845**	**$12,189**	**$12,651**
Weighted-average assumptions as of June 30				
Discount rate	7.25%	7.75%	7.25%	7.75%
Expected return on plan assets	9.25%	9.25%	9.25%	9.25%
Average compensation increase	6.00%	6.00%		

For measurement purposes a 6.0 percent annual rate of increase in per capita cost of covered health care benefits was assumed for 1999 which declines to 5.5 percent for 2000 and beyond for prior to age 65. The annual rate of increase for age 65 and older was assumed at 5.5 percent for 1999 and beyond. Assumed health care cost trend rates have a significant effect on the amount reported for health care plans. A one-percentage point change in the assumed health care trend rate would have the following effect:

Effect of 1% change in assumed health care trend on:	**1% increase**	**1% decrease**
Service cost plus interest cost	$ 1,315	$ (1,222)
Accumulated postretirement benefit obligation	16,276	(15,081)

The costs recognized during 1998 and 1997 related to the defined contribution components of the Retirement Plan were $21.2 million and $19.6 million respectively.

H. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

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

	1998	1997
	(in thousands of dollars)	
Accounts payable and accruals	$111,375	$103,610
Accrued vacations	27,922	25,948
Accounts payable U.S. Government	15,684	13,709
Life interest funds	73,452	61,396
Total	**$228,433**	**$204,663**

The Institute is currently self-insured for Long Term Disability and unemployment compensation and provides reserves totaling $7.4 million and $6.4 million for 1998 and 1997, respectively, to cover claims.

I. COMPONENTS OF NET ASSETS

The following table presents the three categories of net assets by purpose as of June 30, 1998 (in thousands of dollars). The amounts listed in the unrestricted column labeled Endowment Funds Principal are those gifts received over the years which the Institute designated as funds functioning as endowment and invested with the endowment funds. The larger components of temporarily restricted net assets are (1) pledges, which will be reclassified to unrestricted net assets when cash is received and (2) accumulated net gains on investments of gifts which the donor required to be permanently retained; such gains will be reclassified to unrestricted net assets when appropriated for spending in accordance with the Institute's spending policy and the Massachusetts Management of Institutional Funds Act and guidance from the Massachusetts Attorney General.

Fund Category	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Fund
Endowment Fund Principle				
General Purpose	$ 392,523	$ 324,777	$ 64,847	$ 782,147
Departments and Research	203,800	223,244	121,230	548,274
Library	4,199	5,884	1,795	11,878
Salaries and Wages	185,095	668,772	327,908	1,181,775
Graduate General	3,199	31,835	13,477	48,511
Graduate Departments	21,431	57,458	46,147	125,036
Undergraduate	77,076	286,828	128,086	491,990
Prizes	3,455	5,240	2,726	11,421
Pledges	-	-	35,639	35,639
Miscellaneous	246,316	70,138	23,465	339,919
Investment income held for distribution	137,176	-	-	137,176
Total Endowment Funds	**1,274,270**	**1,674,176**	**765,320**	**3,713,766**
Other Invested Funds				
Student Loan Funds	2,192	-	17,206	19,398
Building Funds	55,189	47,533	-	102,722
Designated Purposes:				
Departments and Research	148,087	-	-	148,087
Other Purposes	38,367	-	-	38,367
Reserve Funds	33,174	-	-	33,174
Life Income Funds	5,207	34,539	38,564	78,310
Pledges	-	58,614	18,588	77,202
Accumulated net gains	99,141	16,979	-	116,120
Total Other Invested	**381,357**	**157,665**	**74,358**	**613,380**
Funds available for current expenses	119,477	-	-	119,477
Total Funds	**1,775,104**	**1,831,841**	**839,678**	**4,446,623**
Funds expended for Educational Plant	229,410	-	-	229,410
Total Net Assets at Market	**$2,004,514**	**$1,831,841**	**$839,678**	**$4,676,033**

REPORT OF INDEPENDENT ACCOUNTANTS

To the Auditing Committee of Massachusetts Institute of Technology:

In our opinion, the accompanying statements of financial position and the related statements of activities, operations and other changes in unrestricted net assets, and cash flows present fairly, in all material respects, the financial position of Massachusetts Institute of Technology at June 30, 1998 and 1997, and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles. 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 audits. We conducted our audits of these statements in accordance with generally auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
September 1, 1998

GLOSSARY FOR FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Permanent Funds—funds designated by the donor as unexpendable.

Plant Funds—see Educational Plant Funds.

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

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

Separately Invested Funds—funds held by or for 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.