MASSACHUSETTS INSTITUTE OF TECHNOLOGY

RESEARCH REACTOR

LICENSE NO. R-37

DOCKET NO. 50-20

REQUEST AND APPLICATION;

SELF GUARANTEE DECOMMISSIONING EXPENSES

DATED DECEMBER 22, 2009

REDACTED VERSION*

IN ACCORDANCE WITH

10 CFR 2.390(a)(6)

*Redacted text and figures blacked out or denoted by brackets

Massachusetts Institute of Technology

Regina Dugan
Associate Counsel/Insurance Manager

Office of the General Counsel
Building 12-090

77 Massachusetts Avenue
Cambridge, Massachusetts
02139–4307

Phone 617–253-2823
Fax 617–258-0267
Email dugan@mit.edu

Via Federal Express Mail

December 22, 2009

U.S. Nuclear Regulatory Commission
Office of Nuclear Material Safety and Safeguards
One White Flint North
11555 Rockville Pike
Rockville, MD 20852
Attn.: O-12D3

Re: Request and Application, Self Guarantee, Decommissioning Expenses – License No. SNM-986, License No. R-37

To Whom It May Concern:

In October 2009, Massachusetts Institute of Technology ("MIT") submitted a request to self-guarantee the estimated decommissioning expenses associated with MIT's above-referenced licensed activities, along with the supporting executed agreement and other required documentation. At the NRC's request, MIT has revised its Self Guarantee Agreement and supplemented its original application for approval by providing the additional documentation requested.

MIT requests the NRC's approval to self guarantee the required decommissioning assurance for these licensed activities. The following documents are enclosed for the reconsideration of MIT's application as guarantor of financial assurance for its estimated decommissioning expenses of the NRC licenses:

1. Copy of the Letter from MIT's Chief Financial Officer in Support of Self Guarantee (Original provided to the NRC with the October request.).
2. Copy of the Report of MIT's Auditor, PricewaterhouseCoopers (Original provided to the NRC with the October request.).
3. Schedule Reconciling Chief Financial Officer's Letter.
4. Original Executed Revised Self Guarantee Agreement, dated December 17, 2009.
5. Organizational Chart reflecting MIT Corporation and Institutional Officers.
6. Names and Addresses of MIT Institutional Officers.

NMSS01

7. MIT Executive Committee vote, reflecting signing authority for Theresa M. Stone, as Executive Vice President and Treasurer.
8. MIT's Bond Rating information.
9. MIT's most recent audited financials, *Report of the Treasurer for the year ended June 30, 2009.*

Please contact me should any additional information be required to complete this process. Thank you for your assistance with this request.

Very truly yours,

Regina Dugan

Regina Dugan

Enclosures

cc: Alexander Adams, Jr., U.S. Nuclear Regulatory Commission

Office of the Vice President for Finance

Massachusetts Institute of Technology
77 Massachusetts Avenue, Building NE49-3000
Cambridge, Massachusetts 02139-4307

October 15, 2009

U.S. Nuclear Regulatory Commission
Washington, D.C. 20555-0001

I am the Chief Financial Officer of the Massachusetts Institute of Technology ("MIT"), a nonprofit university. This letter is in support of MIT's use of the self-guarantee financial test to demonstrate financial assurance, as specified in 10 CFR Part 30. MIT has no parent company holding majority control of its voting stock.

MIT guarantees, through the self-guarantee submitted to demonstrate compliance under 10 CFR Part 30, the decommissioning of the following facilities owned or operated by MIT. The current cost estimates or certified amounts for decommissioning, so guaranteed, are shown for each facility:

Name of Facility	License Number	Location of Facility	Certified Amounts or Current Cost Estimates
MIT Research Reactor	SNM-986	77 Massachusetts Av Cambridge, MA 02139	$1,125,000.00
MIT Research Reactor	R-37	138 Albany St. Cambridge, MA 02139	$30,000,000.00

I hereby certify that MIT is currently a going concern and that it possesses positive tangible net worth in the amount of $12,949.6 million*.

This fiscal year of this firm ends on June 30. The figures for the above item marked with an asterisk are derived from MIT's independently audited, year-end financial statements and footnotes for the latest completed fiscal year, ended June 30, 2009.

MIT is not required to file a Form 10-K with the U.S. Securities and Exchange Commission for the latest fiscal year.

This firm satisfies the following self-guarantee test:

1. Current bond rating of most recent uninsured, uncollateralized, and unencumbered issuance of this institution:

   Rating: Aaa

   Name of rating service: Moody's Investors Service

2. Date of issuance of bonds: January 8, 2009

3. Description & date of maturity of bonds:

Amount	Interest rate	Maturity Date	Description
$10,000,000	4.00%	July 1, 2016	MHEFA Series O 57586ECG4
$78,000,000	5.00%	July 1, 2016	MHEFA Series O 57586ECH2
$23,485,000	5.00%	July 1, 2026	MHEFA Series O 57586ECJ8
$47,975,000	5.75%	July 1, 2026	MHEFA Series O 57586ECK5
$42,000,000	5.50%	July 1, 2036	MHEFA Series O 57586ECL3
$65,000,000	6.00%	July 1, 2036	MHEFA Series O 57586ECM1

4. Is the rating specified on line 1 "A" or better? Yes

I hereby certify that the content of this letter is true and correct to the best of my knowledge.

Signature Theresa M Stone

Name: Terry Stone THERESA M STONE

Title: Chief Financial Officer

Date: October 15, 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High St.
Boston MA. 02110
www.pwc.com

Report of Independent Accountants

To the Board of Trustees of
Massachusetts Institute of Technology:

We have performed the procedures enumerated below, which were agreed to by Massachusetts Institute of Technology ("the Institute"), NRC MIT licenses SNM-986 and R-37, solely to assist you in complying with the Nuclear Regulatory Commission's financial assurance regulations, 10 CFR Part 30. Management is responsible for the Institute's compliance with those regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. Confirmed that the net worth in the "Per Financial Statements" column of the accompanying schedule agrees with total net assets contained in the Institute's financial statements for the year ended June 30, 2009, which we have audited in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated September 16, 2009;

2. Confirmed that the tangible net worth in the "Per CFO's Letter" column of the accompanying schedule agrees with tangible net worth in the CFO's letter dated October 15, 2009;

3. Inquired of management as to the existence of any reconciling items between the CFO's Letter and the audited financial statements noting that there are none; and

4. Mathematically check the totals in the accompanying schedule, including the current cost estimates of decommissioning for each facility listed per the CFO's letter.

No exceptions were noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the regulations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the Board of Trustees of Massachusetts Institute of Technology and the Nuclear Regulatory Commission, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 16, 2009

PRICEWATERHOUSECOOPERS

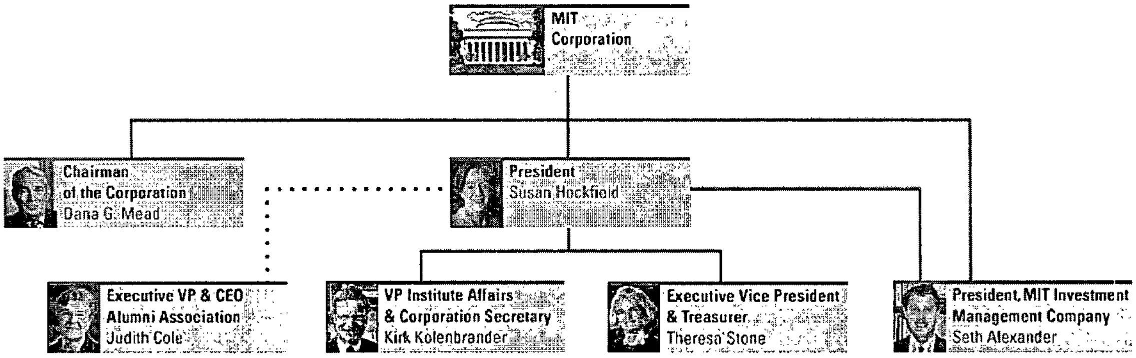
Schedule Reconciling Amounts Contained in Chief Executive Officer's or Chief Financial Officer's Letter with Amounts in Financial Statements

MIT
YEAR ENDED JUNE 30, 2009
(000,000)

	Per Financial Statements	Reconciling Items	CFO's Letter
Net worth	**$12,949.6**	0	**$12,949.6**
Less: Cost in excess of value of tangible assets acquired	0	0	0
Net worth after cost in excess of value of tangible assets acquired	**$12,949.6**	0	**$12,949.6**
Accrued decommissioning costs included in current liabilities	0	0	0
Tangible net worth (plus decommissioning costs)	**$12,949.6**	0	**$12,949.6**

Organization Chart

Corporation and Institutional Officers



Notes on the reporting relationships

The Chairman, President, Executive Vice President and Treasurer, and Vice President for Institute Affairs and Secretary of the Corporation are officers of the MIT Corporation.

The Alumni Association reports to the Alumni Association Board, and its Executive Vice President reports informally to the President.

The MIT Investment Management Company reports to the IMC Board, which is appointed by the Executive Committee of the MIT Corporation. The IMC President also reports to the President of MIT.

Updated: August 3, 2009

Massachusetts Institute of Technology
77 Massachusetts Avenue
Cambridge, MA 02139-4307

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Kirk D. Kolenbrander
Vice President for Institute Affairs and Secretary of the Corporation

Office of the President
77 Massachusetts Avenue, Building 3-207
Cambridge, MA 02139-4307
Phone 617-253-3365

7 September 2007

Ms. Theresa M. Stone
Room 3-221
MIT

Dear Terry

I am writing to confirm for your records that at its meeting on September 5, the Executive Committee

VOTED: That, effective on and after September 6, 2007, the individuals from time to time holding the following positions at the Institute are, and each of them acting singly is, hereby authorized to sign in the name and on behalf of the Institute any and all contracts, bonds, and other agreements and documents which any such person acting in such position deems advisable and in the interests of the Institute:

- Chair of the Corporation
- President
- Executive Vice President and Treasurer
- Vice President and General Counsel
- Vice President for Finance
- Director, Office of Sponsored Programs;

that any action taken on or after September 6, 2007 within the scope of the authority granted by this vote by any person holding any of the above-listed positions is hereby ratified as authorized; and that the signing and delivery of any such document in the name and on behalf of the Institute by any person holding any of the above-listed positions in order to carry out the purposes of this vote shall be conclusive as to the authority of the person so acting.

If you have any questions, please give me a call.

Sincerely,

KL

Kirk D. Kolenbrander

KDK/acb
Enclosures
cc: Mr. James L Morgan
Mr. R. Gregory Morgan
Ms. Elizabeth M. Ogar
Mr. Israel Ruiz
Ms. Kathy D. Vitale

SELF-GUARANTEE AGREEMENT

Guarantee made this 17 day of December, 2009, by Massachusetts Institute of Technology ("MIT"), a "non-profit university," organized under the laws of the Commonwealth of Massachusetts, with principal place of administration at 77 Massachusetts Avenue, Cambridge, Massachusetts, herein referred to as "guarantor," to the U.S. Nuclear Regulatory Commission (NRC), beneficiary, on behalf of itself as licensee.

Recitals

1. The guarantor has full authority and capacity to enter into this self-guarantee under its bylaws, articles of incorporation, and the laws of the Commonwealth of Massachusetts.

2. This self-guarantee is being issued to comply with regulations issued by the NRC, an agency of the U.S. Government, pursuant to the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974. NRC has promulgated regulations in Title 10, Chapter I of the *Code of Federal Regulations*, Part 70, and Title 10, Chapter I of the *Code of Federal Regulations*, Part 72, which require that a holder of, or an applicant for, a materials license issued pursuant to 10 CFR Part 50 and 10 CFR Part 70, provide assurance that funds will be available when needed for required decommissioning activities.

3. The self-guarantee is issued to provide financial assurance for decommissioning activities for the licenses and facilities set forth in the following schedule and as required by 10 CFR Part 50 and 10 CFR Part 70 and Appendix E to 10 CFR Part 30 :

License No.	License Location and Description	Estimate based on year 2001 dollars	Certified Amounts or 2009 Cost Estimates
R-37	MIT Research Reactor, 138 Albany St., Cambridge MA 02139; education and research activities	**$23,000,000**, including a 10% contingency.	**$30,000,000**. Due to the contingency applied in 2001 and low to negative inflation factors in 2001-2007, no changes were made until 2008. The estimate was then

			adjusted based on separate inflation factors applied against the labor (representing 11% of the total) costs. Using the NUREG-1307, Rev. 12, Page D.1, Example 2 (Northeast Region), the respective inflation factors used for the '08 estimate were 1.28 (labor) and 1.42 (burial), to arrive at the estimate of $29,793,000 for 2008, which was rounded up to $30 million for 2009.. (See calculation below).
SNM-986	MIT Research Reactor and 77 Massachusetts Ave., Cambridge MA 02139; storage of Special Nuclear Materials	$1,125,000, statutory – in accordance with 10 C.F.R. 70.25(d), based on the applicable quantities of SNM stored at this facility.	$1,125,000.
	Total Estimated Costs		**$31,125,000.**

Decommissioning Estimate Adjustment Calculation:

Duke Study	23,000,000.00	%Total	NUREG Inflation Model	Inflator	29,793,000.00
Labor Portion	20,470,000.00	89%	Labor	1.28	26,200,000.00
Burial Portion	2,530,000.00	11%	Burial	1.42	3,593,000.00

Inflation figures for 2008, were calculated based upon NUREG-1307, for the years 2002 (year closest to when the Duke study was completed, 11/01) @ 1.862, and 2006 @ 2.21.The calculation for 2008 assumes linear cost increases through 2008:

Cost inflator for 2008 = 1.862+ {(2.21-1.862)/(2006-2002) x(2008-2002)} = 2.384. The factor for the labor portion of the cost to be applied in 2008 = 2.384/1.862= 1.28. The same method was used to develop the burial factor of 1.42.

In order to comply with the guarantor's longstanding commitment to being environmentally responsible, the reactor facility will be decontaminated, and spent nuclear materials will be properly transported by a licensed carrier to a licensed disposal facility only, to meet the requirements of 10 CFR 20.1402 radiological criteria for unrestricted use. Guarantor may not demolish the building, but the building and subsurface will be analyzed and characterized so that the site meets this criterion and is approved for release for unrestricted use. At the time decommissioning begins, guarantor shall determine the best computer codes and instrumentation for the specific decommissioning activities.

4. The guarantor meets or exceeds the following financial test criteria, as a nonprofit university that issues bonds, and agrees to comply with all notification requirements as specified in 10 CFR Part 50 and 10 CFR Part 70 and Appendix E to 10 CFR Part 30.

   The guarantor meets the following self-guarantee test:

   (a) A current rating for its most recent uninsured, uncollateralized, and unencumbered bond issuance of AAA, AA, or A as issued by Standard & Poor's, or Aaa, Aa, or A as issued by Moody's.

   Specifically, the current rating for guarantor's most recent uninsured, uncollateralized and unencumbered bond issuance is Aaa by Moody's Investors Service.

5. The guarantor does not have a parent company holding majority control of its voting stock.

6. Decommissioning activities as used below refer to the activities required by 10 CFR Part 50 and 10 CFR Part 70, for decommissioning of the facilities identified above.

7. Pursuant to the guarantor's authority to enter into this guarantee, the guarantor guarantees to NRC that the guarantor shall:

   (a) carry out the required decommissioning activities, as required by License No. SNM-986 and License No. R-37 or

   (b) set up a trust fund in favor of the above identified beneficiary in the amount of the current cost estimates for these activities.

8. The guarantor agrees to submit revised financial statements, financial test data, evidence of MIT's bond rating, and reconciling schedule annually within 90 days of the completion of its fiscal year-end audit.

9. The guarantor agrees that if, at the end of any fiscal year before termination of this self-guarantee, it fails to meet the self-guarantee financial test criteria, it shall send within 90 days of the end of the fiscal year, by certified mail, notice to NRC that it intends to provide alternative financial assurance as specified in 10 CFR Part 50 and 10 CFR Part 70. Within 120 days after the end of the fiscal year, the guarantor shall establish such financial assurance.

10. The guarantor also agrees to notify the beneficiary promptly if the ownership of the licensed activity is transferred, and to maintain this guarantee until the new licensee provides alternative financial assurance acceptable to the beneficiary.

11. The guarantor agrees that if it determines, at any time other than as described in Recital 9, that it no longer meets the self-guarantee financial test criteria or it is disallowed from continuing as a self-guarantor, it shall establish alternative financial assurance as specified in 10 CFR Part 50 and 10 CFR Part 70, as applicable, within 30 days.

12. The guarantor, as well as its successors and assigns, agrees to remain bound jointly and severally under this guarantee notwithstanding any or all of the following: amendment or modification of the license or NRC-approved decommissioning funding plan for that facility, the extension or reduction of the time of performance of required activities, or any other modification or alteration of an obligation of the licensee pursuant to 10 CFR Part 50 and 10 CFR Part 70.

13. The guarantor agrees that it shall be liable for all reasonable litigation costs incurred by the beneficiary, NRC, in any successful effort to enforce the agreement against the guarantor.

14. The guarantor agrees to remain bound under this self-guarantee for as long as it, as licensee, must comply with the applicable financial assurance requirements of 10 CFR Part 50 and 10 CFR Part 70, for the previously listed facilities, except that the guarantor may cancel this self-guarantee by sending notice by certified mail to NRC, such cancellation to become effective not before an alternative financial assurance mechanism has been put in place by the guarantor.

15. The guarantor agrees that if it, as licensee, fails to provide alternative financial assurance as specified in 10 CFR Part 50 and 10 CFR Part 70, as applicable, and obtain written approval of such assurance from NRC within 90 days after a notice of cancellation by the guarantor is received by NRC from the guarantor, the guarantor shall make full payment under the self-guarantee. Such payment shall be held in escrow, by NRC, for the estimated decommissioning activities for the previously listed facilities, and shall satisfy guarantor's financial assurance required under 10 CFR Part 50 and 10 CFR Part 70, as may be subject to adjustment to keep such estimate current, until guarantor furnishes evidence of alternative financial assurance in compliance with 10 CFR Part 50 and 10 CFR Part 70. Upon the approval by NRC of such alternative financial assurance, NRC shall return the payment made by guarantor in full.

16. The guarantor waives notice of acceptance of this self-guarantee by NRC. The guarantor expressly waives notice of amendments or modifications of the decommissioning requirements.

17. If the guarantor files financial reports with the U.S. Securities and Exchange Commission, then it shall promptly submit them to its independent auditor and to NRC during each year in which this self-guarantee is in effect.

18. The guarantor agrees that if, at any time before termination of this self-guarantee, its most recent bond issuance ceases to be rated in the category of "A" or above by either Standard & Poor's or Moody's, it shall provide notice in writing of such fact to NRC within 20 days after publication of the change by the rating service.

I hereby certify, under the penalty of perjury, that this self-guarantee is true and correct to the best of my knowledge.

Effective date: 12/17/09

SELF-GUARANTOR:

Massachusetts Institute of Technology

By: [signature]
Theresa M. Stone
Executive Vice President and Treasurer

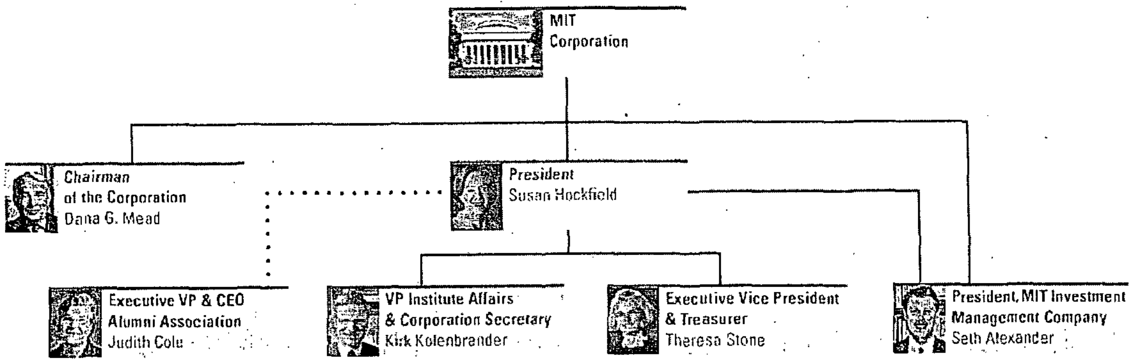
Signature of witness or notary:

[signature]

SHARON PINKSTEN
Notary Public
COMMONWEALTH OF MASSACHUSETTS
My Commission Expires
January 31, 2014

Organization Chart

Corporation and Institutional Officers



Notes on the reporting relationships

The Chairman, President, Executive Vice President and Treasurer, and Vice President for Institute Affairs and Secretary of the Corporation are officers of the MIT Corporation.

The Alumni Association reports to the Alumni Association Board, and its Executive Vice President reports informally to the President.

The MIT Investment Management Company reports to the IMC Board, which is appointed by the Executive Committee of the MIT Corporation. The IMC President also reports to the President of MIT.

Updated: August 3, 2009

Massachusetts Institute of Technology
77 Massachusetts Avenue
Cambridge, MA 02139-4307

~~*CONFIDENTIAL*~~
MIT Institutional Officers
(as of December 21,2009)

Name: Dana G. Mead
Address: [redacted]
Citizenship: USA
Office Held: Chairman of the Corporation

Name: Susan Hockfield
Address: [redacted]
Citizenship: USA
Office Held: President

Name: Theresa M. Stone
Address: [redacted]
Citizenship: USA
Office Held: Executive Vice President and Treasurer

Name: Judith M. Cole
Address: [redacted]
Citizenship: USA
Office Held: Executive Vice President and CEO, Alumni Association

Name: Kirk D. Kolenbrander
Address: [redacted]
Citizenship: USA
Office Held: Vice President for Institute Affairs and Secretary of the Corporation

Name: Seth Alexander
Address: [redacted]
Citizenship: USA
Office Held: President, MIT Investment Management Company

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Kirk D. Kolenbrander
Vice President for Institute Affairs and Secretary of the Corporation

Office of the President
77 Massachusetts Avenue, Building 3-207
Cambridge, MA 02139-4307
Phone 617-253-3365

7 September 2007

Ms. Theresa M. Stone
Room 3-221
MIT

Dear Terry

I am writing to confirm for your records that at its meeting on September 5, the Executive Committee

VOTED: That, effective on and after September 6, 2007, the individuals from time to time holding the following positions at the Institute are, and each of them acting singly is, hereby authorized to sign in the name and on behalf of the Institute any and all contracts, bonds, and other agreements and documents which any such person acting in such position deems advisable and in the interests of the Institute:

- Chair of the Corporation
- President
- Executive Vice President and Treasurer
- Vice President and General Counsel
- Vice President for Finance
- Director, Office of Sponsored Programs;

that any action taken on or after September 6, 2007 within the scope of the authority granted by this vote by any person holding any of the above-listed positions is hereby ratified as authorized; and that the signing and delivery of any such document in the name and on behalf of the Institute by any person holding any of the above-listed positions in order to carry out the purposes of this vote shall be conclusive as to the authority of the person so acting.

If you have any questions, please give me a call.

Sincerely,

Kirk D. Kolenbrander

KDK/acb
Enclosures
cc: Mr. James L Morgan
Mr. R. Gregory Morgan
Ms. Elizabeth M. Ogar
Mr. Israel Ruiz
Ms. Kathy D. Vitale

NEW ISSUE - BOOK ENTRY ONLY

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds and any profit on the sale of the Bonds are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

$266,460,000
MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
REVENUE BONDS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY ISSUE, SERIES O (2008)

Dated: Date of delivery **Due: July 1, as shown below**

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

Principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., New York, New York, as Trustee. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein. Interest on the Bonds will be payable on July 1, 2009, and semiannually thereafter on January 1 and July 1 of each year to the Bondowners of record as of the close of business on the fifteenth day of the month preceding such interest payment date.

The Bonds are subject to redemption prior to maturity as more fully described herein.

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

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

$10,000,000 4.00% Bonds due July 1, 2016 — Yield 3.60% CUSIP No. 57586ECG4
$78,000,000 5.00% Bonds due July 1, 2016 — Yield 3.60% CUSIP No. 57586ECH2
$23,485,000 5.00% Bonds due July 1, 2026 — Yield 5.28% CUSIP No. 57586ECJ8
$47,975,000 5.75% Bonds due July 1, 2026 — Yield 5.28*% CUSIP No. 57586ECK5
$42,000,000 5.50% Bonds due July 1, 2036 — Yield 5.70% CUSIP No. 57586ECL3
$65,000,000 6.00% Bonds due July 1, 2036 — Yield 5.70*% CUSIP No. 57586ECM1

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Institute by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about January 8, 2009.

BARCLAYS CAPITAL

Morgan Stanley

Dated: December 10, 2008

*Yield to the July 1, 2018 optional redemption date.

CONTINUING DISCLOSURE

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

The Institute has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the Institute (the "Annual Report") by not later than 180 days after the end of each fiscal year, commencing with the report for the 2009 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the Institute or a dissemination agent with each Nationally Recognized Municipal Securities Information Repository and with the State Repository, if any. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

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

The Institute has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events, except that the filing with respect to fiscal year 2006 was not made in a timely manner.

COMMONWEALTH NOT LIABLE ON THE BONDS

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

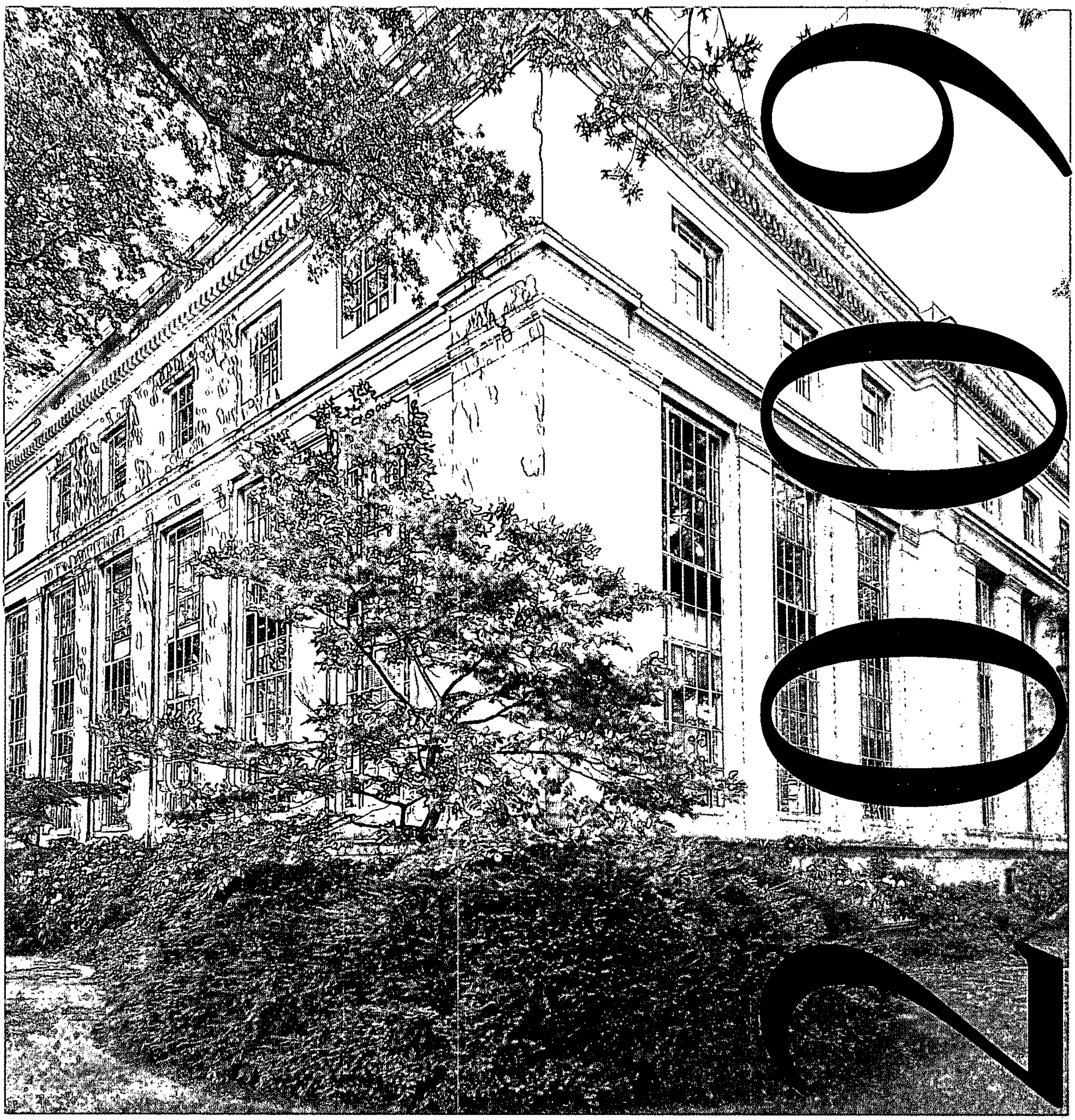
RATINGS

Moody's Investors Service, Inc. and Standard & Poor's, a Division of the McGraw-Hill Companies, Inc. have assigned ratings of "Aaa" and "AAA" respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; and Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

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

UNDERWRITING

The Bonds are being purchased for reoffering by Barclays Capital Inc., as representative of the Underwriters. The Underwriters have agreed to purchase the Bonds at an aggregate discount of $1,218,273.77 from the public offering prices or yields set forth on the cover page hereof and will be reimbursed for certain



Report of the Treasurer

for the year ended
June 30, 2009

Massachusetts
Institute of
Technology

Report of the Treasurer

for the year ended June 30, 2009

Massachusetts
Institute of
Technology

The Corporation

2008–2009

as of June 30, 2009

Chairman: Dana G. Mead*
President: Susan Hockfield*
Executive Vice President and Treasurer: Theresa M. Stone*
Vice President for Institute Affairs and Secretary: Kirk D. Kolenbrander*

Life Members

John S. Reed; Shirley A. Jackson; Raymond S. Stata*; David H. Koch; Patrick J. McGovern; Robert A. Muh; Denis A. Bovin*; James A. Champy*; Judy C. Lewent; A. Neil Pappalardo*; Arthur Gelb; Edie N. Goldenberg; Robert M. Metcalfe; Kenan E. Sahin; John K. Castle; Susan E. Whitehead; Charles M. Vest; Brian G. R. Hughes; Norman E. Gaut; L. Robert Johnson; Arthur J. Samberg*.

Members

Barrie R. Zesiger*; Gordon M. Binder; Gururaj Deshpande; Linda C. Sharpe; John A. Thain; Thomas P. Gerrity; Mark P. Gorenberg; Scott P. Marks, Jr.; Marjorie M.T. Yang; James H. Simons; Alan G. Spoon; Lawrence K. Fish; David D. Ho; Abigail P. Johnson; Robert B. Millard*; Carly S. Fiorina; Anita K. Jones*; Paula J. Olsiewski; Sanjay K. Rao; Milton H. Roye, Jr.; Martin Y. Tang; Robert L. Blumberg; R. Erich Caulfield; Raymond C. Kurzweil; Kenneth Wang; David A. Berry; James A. Lash; Paul F. Levy; Megan J. Smith; Henri A. Termeer; Chiquita V. White*; O. Reid Ashe, Jr.; John W. Jarve; Frederick A. Middleton, Jr.; Barun Singh; Diana C. Walsh; Ursula M. Burns; Diane B. Greene; Helen Greiner; Harbo P. Jensen; Marta M. Luczynska; Victor J. Menezes; Peter L. Slavin; Laura D. Tyson; Tony Keng Yam Tan.

President of the Association of Alumni and Alumnae

Antonia D. Schuman

Representatives of the Commonwealth

Governor: Deval L. Patrick
Chief Justice of the Supreme Judicial Court: Margaret H. Marshall
Secretary of Education: S. Paul Reville

Life Members Emeriti

Irénée duPont, Jr.; John C. Haas; Norman B. Leventhal; George P. Gardner; Mitchell W. Spellman; D. Reid Weedon, Jr.; Colby H. Chandler; Carl M. Mueller; Joseph G. Gavin, Jr.; Louis W. Cabot; Christian J. Matthew; Howard W. Johnson; Paul M. Cook; William S. Edgerly; Frank Press; Edward E. David, Jr.; Emily V. Wade; Angus N. MacDonald; Kenneth H. Olsen; George N. Hatsopoulos; Charles H. Spaulding; Mary Frances Wagley; Michael M. Koerner; Morris Tanenbaum; Breene M. Kerr; W. Gerald Austen; Richard P. Simmons; Morris Chang; Paul E. Gray; Alexander W. Dreyfoos, Jr.; Ronald A. Kurtz; DuWayne J. Peterson, Jr.

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

**member of the Executive Committee*

Table of Contents

Report of the Treasurer

To Members of the Corporation

General

Fiscal 2009 was a notable year for MIT from a financial perspective. Guided by the comprehensive financial planning work conducted in 2008, we entered 2009 with a balanced budget for the first time in many years. As the worldwide economic crisis unfolded in the fall, we recognized likely effects on our future support from endowment, as well as possible pressures on gifts and grants to MIT, net tuition (after needed financial aid), and research funding. By carefully managing liquidity and expenses, MIT concluded 2009 with the general Institute budget and consolidated operating results in line with our plan. MIT was also able to secure $610.0 million of tax-exempt financing despite market turbulence and, as a result, will complete construction of three major new buildings, the Koch Institute for Integrative Cancer Research, the Sloan School of Management, and the Media Lab and School of Architecture and Planning, over the next eighteen months.

Starting in the fall and through early spring, administrative units and academic departments, labs, and centers focused on strategies to operate with reduced budgets. Projections were developed that indicated a potential need to reduce expenditures by ten to fifteen percent within two to three years. Initial savings have been achieved in 2009. With additional 2010 budgeted savings of at least five percent, about half of the needed reductions will have been achieved. The majority of units are planning to reach ultimate required reductions in the 2011 budget cycle. In addition to these unit-based efforts, the Institute-wide Planning Task Force, through nine separate working groups, developed recommendations for improvements to MIT's academic, research, and administrative activities aimed at strengthening our ability to fulfill MIT's mission while reducing required funding. The work of this task force, which included close to 200 faculty, staff, and students working in cross-organizational groups, has been an impressive demonstration of MIT's culture of tackling problems and of our community's commitment to the Institute's mission.

As we plan for future years, the level of endowment support is an important factor. Our endowment investment returns for 2009 were down 17.1 percent. When adjusted for planned support to MIT during 2009, endowment funds before pledges at June 30, 2009 were $7,982.0 million, down 20.7 percent from June 30, 2008 levels of $10,068.8 million. Consolidated net assets at year end were $9,946.4 million as of June 30, 2009, down $2,823.6 million from net assets of $12,770.0 million in 2008. The decrease in net assets reflects the effect of the economy's impact on investment performance across all invested assets including endowment, working capital, and retirement assets.

We are appreciative of the MIT community – our alumni, donors, board members, research partners, faculty and staff, colleagues, and students – for their financial support, advice, and collaboration that were most generously offered as we navigated this challenging year for MIT. We are optimistic that, with their continued involvement, MIT will emerge from this global economic contraction stronger, more flexible, and better equipped to fulfill the Institute's mission for the nation and the world.

Following are additional details on MIT's financial position, operating activities, gifts and pledges, investments, endowments, fixed assets, and borrowings.

Financial Position

Net assets are presented in three categories to recognize the significant ways in which universities are different from profit-making organizations. These categories reflect the nature of the restrictions placed on gifts by donors.

Permanently restricted net assets represent those gifts for which the original principal is to be preserved. This category includes gifts and pledges to true endowment together with assets held in trust, such as life income funds, which, when received or matured, will be added to the endowment. The increase in permanently restricted net assets of $67.0 million, or 3.5 percent, to a total of $1,985.4 million, primarily reflects new gifts and pledges made to restricted endowment funds.

Temporarily restricted net assets represent those gifts that ultimately can be used to fund operating or capital expenditures. They require an event or lapse of time to occur before they are available for spending. Over 90 percent of the assets in this category are accumulated market gains on permanently restricted endowment funds.

This category also includes pledges not permanently restricted, gifts for construction projects that have not been completed and put into use, and life income funds, which, upon maturity, will be available for spending. The decrease in temporarily restricted net assets of $1,364.3 million, or 23.7 percent, to a total of $4,401.0 million, primarily results from the decrease in the market value of assets held in permanently restricted funds. The Commonwealth of Massachusetts requires that all universities located within the Commonwealth report accumulated market gains on both permanently and temporarily restricted net assets as temporarily restricted net assets until appropriated for use.

Unrestricted net assets comprise all the remaining economic resources available to MIT. This category includes MIT's working capital and those assets designated by MIT as "funds functioning as endowment," to be invested over the long term to generate support for MIT's operations and capital projects. Also included in this category are current funds received from donors for restricted purposes that, under the accounting rules, are categorized as unrestricted if MIT spends an equivalent amount of unrestricted funds for the same purpose. Unrestricted net assets decreased $1,526.3 million, or 30.0 percent, to a total of $3,559.9 million. The decrease in unrestricted net assets is due to two major factors: first, the decrease in endowment value and second, the net decrease in the overfunded status of retirement plan assets resulting from decreased fair value of plan assets and increased benefit obligations. During 2009 and 2008, unrestricted net assets were reduced by $24.0 million and $0.3 million respectively, to offset investment losses on permanently restricted net assets where market value dropped below book value. This amount will be restored to unrestricted net assets in-line with subsequent market value increases.

Operations

MIT's operations include tuition, research revenues, unrestricted gifts and bequests for current use, fees and services, other programs, investment income, the portion of net investment gains distributed to funds under MIT's spending policy, auxiliary revenues, payments on pledges for unrestricted gifts, and operating expenditures. The Statements of Activities, on pages 10 and 11, show that operating revenues exceeded operating expenses by $182.7 million in 2009, due primarily to unspent distributions from the endowment. In 2008, operating revenues exceeded operating expenses by $114.2 million.

Operating revenues increased $235.5 million, or 9.8 percent, to $2,644.0 million due primarily to increases in distributed net gains on investments and research revenues and offset by a decrease in investment income. Operating expenses increased $167.0 million, or 7.3 percent, to a total of $2,461.3 million driven primarily by increases in salaries and wages and supplies and services.

Net tuition revenue decreased $11.7 million, or 5.1 percent, to $217.4 million. Reflecting MIT's commitment to increasing the affordability of undergraduate education, financial support for undergraduate students from MIT sources grew 12.5 percent.

In 2009, MIT experienced a 10.4 percent increase in research revenues, from $1,245.2 million to $1,375.1 million. On-campus research programs are carried out at departments, labs, and centers where research revenue totaled $690.8 million in 2009, an 11.1 percent increase over 2008. Included in the campus figure are Broad Institute research revenues of $166.3 million, which grew 17.0 percent over 2008. At Lincoln Laboratory, research revenue totaled $669.8 million in 2009, an increase of 8.1 percent. Research at the Lincoln Laboratory is funded primarily under a contract with the Department of Defense (Air Force). At the Singapore-MIT Alliance for Research and Technology (SMART), $14.5 million of research revenue was generated during 2009, its second year of operation, for research activities taking place in Singapore.

On MIT's campus, the Department of Health and Human Services (primarily through the National Institutes of Health) was the largest research sponsor, growing $29.6 million, or 13.1 percent over 2008, and providing 37.0 percent of MIT's campus research revenue in 2009. Overall, federal sponsorship of campus research grew 8.0 percent. Federal sponsorship from the Department of Defense grew by $10.2 million, or 11.6 percent. National Aeronautics and Space Administration revenue increased $1.9 million, or 7.4 percent, while revenue from the National Science Foundation decreased $3.6 million, or 5.5 percent, over last year. Revenue from Department of Energy and other federal agencies remained close to 2008 levels. Nonfederal funding for campus research increased by $38.5 million, or 25.9 percent, in 2009 with the greatest increases coming from nonprofit foundations and foreign governments.

Research revenues include reimbursement from sponsors for both direct and indirect (facilities and administration) costs. MIT's modified total direct research expenditures (MTDC or "base"), that form the basis for recovery of indirect costs, increased by $57.8 million, or 8.6 percent. Of this increase, $24.5 million is campus research; $33.3 million is Lincoln Laboratory and SMART research.

Revenue from fees and services decreased $5.9 million, or 3.6 percent, to $157.1 million. This was due primarily to decreased revenues from technology licensing, for which 2008 revenue included amounts related to a non-recurring legal settlement. Investment income, defined as dividends, interest, and rents, decreased $83.5 million, or 45.3 percent, to $100.6 million, due primarily to declining interest rates and economic conditions. Net asset reclassifications to operations of $57.8 million primarily reflect payments on unrestricted pledges received and released to operations in 2009.

Operating expenses increased $167.0 million, or 7.3 percent, to a total of $2,461.3 million in 2009. The largest component of the increase was sponsored research expense, which grew $112.6 million, or 10.7 percent. A significant contributor to this expense growth was The Broad Institute, where direct spending for sponsored research grew $23.0 million to a total of $121.3 million. Instruction and unsponsored research increased $39.6 million, or 6.2

percent. General and administrative expenses increased $10.6 million, or 2.2 percent. Employee benefits expenses increased $3.4 million, or 2.0 percent, due primarily to an increase in costs for employee and retiree medical benefits, employment tax, and disability benefits, offset by pension credits resulting from the overfunded status of MIT's defined benefit plan in prior years.

Gifts and Pledges

With the successful public launch of the Campaign for Students on October 3, 2008, the Campaign now stands at a total of $351.3 million, with 70.3 percent of the $500 million goal raised. Gifts support scholarships, fellowships, educational programming, and student life activities. The MIT Energy Initiative (MITEI) now has 1,154 donors, and has raised $54.1 million as of June 2009.

Gifts and pledges for 2009 totaled $303.9 million, a decrease of 21.3 percent from the 2008 total of $386.0 million. Gifts from individuals represented 35.6 percent of new gifts and pledges, down from 50.9 percent in the previous year. Gifts from foundations represented 40.9 percent of new gifts and pledges in 2009, up from 35.2 percent in the previous year. Gifts from corporations and other sources represented 23.5 percent, up from 13.9 percent in 2008. New gifts and payments on pledges for unrestricted purposes were 7.7 percent of the total, compared with 3.9 percent in 2008. The largest category of gifts for 2009 was Research and Education, which accounted for 62.0 percent of the total.

Investments

Investments at fair value were $9,519.4 million, a decrease of $1,789.0 million, or 15.8 percent, from the $11,308.4 million of the previous year. Over the past five years, total invested assets have increased from $7,250.5 million to $9,519.4 million while distributions for expenditures have totaled $2,063.4 million. More specific information is included in Note B to the Financial Statements.

The financial statements include both realized and unrealized gains and losses on investments. Realized and unrealized gains and losses, including those related to the disposition of fixed assets, decreased from a gain of $154.8 million in 2008 to a loss of $1,854.4 million in 2009.

The asset allocation among fixed income, equity, marketable alternatives, and real estate investments remained similiar to 2008 during 2009. Equity, marketable alternatives, and real estate investments at market value were 84.5 percent of the investments as of June 30, 2009, as compared to 88.5 percent at June 30, 2008.

The Board of Directors of the MIT Investment Management Company (MITIMCo) held four regularly scheduled meetings during the fiscal year. During 2009, MITIMCo, in conjunction with MIT's senior administration, acted defensively to manage liquidity in the turbulent markets while still capturing investment opportunities in the equity and marketable alternative arenas consistent with its investment policies and asset allocation targets. Equities include investments in venture capital and private equity. Marketable alternatives include investments in event arbitrage, distressed debt and hedge funds. The alternative investments are managed by more than one hundred independent organizations primarily through pooled investment partnerships.

Endowment and Similar Funds

The market value of investments in the endowment and similar funds totaled $7,982.0 million as of June 30, 2009. The endowment assets are managed to maximize total investment return relative to appropriate risk. Investment income and a portion of gains are distributed for spending in a manner that, over the long term, retains for reinvestment an amount at least equal to the anticipated rate of inflation. Endowment funds invested in Pool A, MIT's primary investment pool, receive distributions based on the number of units held. Units are valued monthly and new gifts or other funds transferred to Pool A are credited with Pool A units based on the previous month's market value of the units in Pool A.

Land, Buildings, and Equipment

Fixed assets had a net book value of $2,120.6 million as of June 30, 2009, an increase of 9.4 percent from $1,938.9 million as of June 30, 2008. The most significant area of increase this past fiscal year was in the area of educational buildings.

Major ongoing construction projects include a new 163,000-square-foot building for the Media Lab and School of Architecture and Planning to be completed in October 2009, a new 217,000-square-foot building for the Sloan School of Management with a three-level, 430-car garage located directly under the new building and scheduled for occupancy in 2010, a new 367,000-square-foot laboratory research building for the Koch Institute for Integrative Cancer Research to be completed by December 2010, significant improvements to Vassar Street west of Massachusetts Avenue, various utility and infrastructure improvements, and exterior rehabilitation of the undergraduate dormitory at 305 Memorial Drive. More extensive renovations related to 305 Memorial Drive have been deferred as part of a portfolio of measures designed to preserve financial flexibility. These projects are part of a new construction initiative that adds state-of-the-art facilities for emerging areas of research, increases educational infrastructure that supports residential and community life, and revitalizes the physical campus. The major project completed during 2009 was the new 540-bed graduate residence at 235 Albany Street.

Borrowings

Total borrowings outstanding increased from $1,335.4 million as of June 30, 2008, to $1,735.8 million as of June 30, 2009, primarily due to the issuance of $610.0 million in new, tax-exempt debt to finance major construction projects currently underway and to replace $203.0 million in line of credit financing. MIT's publicly held debt continues to be rated AAA by both Moody's and Standard & Poor's. More specific information is included in Note G to the Financial Statements.

Summary

MIT's full financial statements and footnotes follow, more fully describing our financial position and activities through June 30, 2009. In closing, we again thank the MIT community for its generous financial support, advice, and collaboration throughout the year and reaffirm our optimism for the future.

Respectfully submitted,

Theresa M. Stone

Theresa M. Stone
Executive Vice President and Treasurer

September 16, 2009

Massachusetts Institute of Technology

Statements of Financial Position

at June 30, 2009 and 2008

(in thousands of dollars)

	2009	2008
Assets		
Cash	$ 77,387	$ 81,106
Accounts receivable, net	241,024	223,790
Pledges receivable, net, at fair value	464,736	443,303
Contracts in progress, principally U.S. Government	85,821	67,938
Deferred charges, inventories and other assets	57,457	62,316
Student notes receivable, net	48,953	47,327
Investments, at fair value	9,519,413	11,308,429
Collateral for securities lending and minority interest	168,306	363,516
Retirement plan asset-overfunded status	165,842	922,338
Land, buildings & equipment, (at cost $2,994,190 for June 2009; $2,728,805 for June 2008), net of accumulated depreciation	2,120,613	1,938,919
Total assets	$ 12,949,552	$ 15,458,982
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accruals and other liabilities	$ 299,565	$ 267,837
Liabilities due under life income fund agreements	72,606	78,372
Collateral for securities lending and minority interest	168,306	363,516
Deferred revenue and other credits	175,070	164,470
Advance payments	343,296	315,202
Borrowings	1,735,843	1,335,393
Government advances for student loans	33,341	33,057
Accrued benefit liabilities	175,137	131,161
Total liabilities	3,003,164	2,689,008
Net Assets:		
Unrestricted	3,559,925	5,086,270
Temporarily restricted	4,401,015	5,765,302
Permanently restricted	1,985,448	1,918,402
Total net assets	9,946,388	12,769,974
Total liabilities and net assets	$ 12,949,552	$15,458,982

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

Massachusetts Institute of Technology

Statements of Activities

for the years ended June 30, 2009 and 2008

(in thousands of dollars)

	Unrestricted		Temporarily Restricted	
	2009	2008	2009	2008
Operating Activities				
Operating Revenues:				
Tuition and similar revenues, net of discount of $214,383 in 2009 and $192,131 in 2008	$ 217,389	$ 229,099	$ –	$ –
Research revenues:				
Direct	1,153,620	1,038,998	–	–
Indirect	221,452	206,172	–	–
Total research revenues	1,375,072	1,245,170	–	–
Gifts and bequests for current use	100,072	122,091	–	–
Fees and services	157,110	162,994	–	–
Other programs	86,133	93,268	–	–
Investment income	100,624	184,119	–	–
Net gains on investments, distributed	455,680	228,403	–	–
Auxiliary enterprises	94,041	91,190	–	–
Net asset reclassification and transfers	57,837	52,094	–	–
Total operating revenue	2,643,958	2,408,428	–	–
Operating Expenses:				
Salaries and wages	967,383	896,145	–	–
Employee benefits	173,616	170,266	–	–
Supplies and services	872,725	822,953	–	–
Subrecipient agreements	85,550	68,944	–	–
Utilities, rent, and repairs	181,264	177,308	–	–
Depreciation	125,018	111,611	–	–
Interest expense	55,730	47,020	–	–
Total operating expenses	2,461,286	2,294,247	–	–
Results of operations	182,672	114,181	–	–
Non-Operating Revenues, Gains and Losses				
Pledges	–	–	92,836	146,116
Gifts and bequests	–	–	2,730	9,967
Investment Income	–	–	5,084	6,384
Net (loss) gain on investments and other assets	(686,881)	65,515	(1,143,063)	81,041
Distribution of accumulated investment gains	(151,590)	(78,579)	(304,090)	(151,306)
Net change in life income funds	1,775	(1,053)	(4,669)	396
Pension-related charges other than net periodic pension (cost)	(825,440)	(188,325)	–	–
Net asset reclassifications and transfers	(46,881)	(42,313)	(13,115)	(11,302)
Total non-operating activities	(1,709,017)	(244,755)	(1,364,287)	81,296
(Decrease) Increase in net assets	(1,526,345)	(130,574)	(1,364,287)	81,296
Net assets at the beginning of the year	5,086,270	5,216,844	5,765,302	5,684,006
Net assets at the end of the year	$ 3,559,925	$ 5,086,270	$ 4,401,015	$ 5,765,302

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

Massachusetts Institute of Technology

Statements of Activities

for the years ended June 30, 2009 and 2008

(in thousands of dollars)

	Permanently Restricted		Total	
	2009	2008	2009	2008
Operating Activities				
Operating Revenues:				
Tuition and similar revenues, net of discount of $214,383 in 2009 and $192,131 in 2008	$ –	$ –	$ 217,389	$ 229,099
Research revenues:				
Direct	–	–	1,153,620	1,038,998
Indirect	–	–	221,452	206,172
Total research revenues	–	–	1,375,072	1,245,170
Gifts and bequests for current use	–	–	100,072	122,091
Fees and services	–	–	157,110	162,994
Other programs	–	–	86,133	93,268
Investment income	–	–	100,624	184,119
Net gains on investments, distributed	–	–	455,680	228,403
Auxiliary enterprises	–	–	94,041	91,190
Net asset reclassifications and transfers	–	–	57,837	52,094
Total operating revenues	–	–	2,643,958	2,408,428
Operating Expenses:				
Salaries and wages	–	–	967,383	896,145
Employee benefits	–	–	173,616	170,266
Supplies and services	–	–	872,725	822,953
Subrecipient agreements	–	–	85,550	68,944
Utilities, rent, and repairs	–	–	181,264	177,308
Depreciation	–	–	125,018	111,611
Interest expense	–	–	55,730	47,020
Total operating expenses	–	–	2,461,286	2,294,247
Results of operations	–	–	182,672	114,181
Non-Operating Revenues, Gains and Losses				
Pledges	35,028	59,856	127,864	205,972
Gifts and bequests	73,224	47,922	75,954	57,889
Investment income	4,046	3,551	9,130	9,935
Net (loss) gain on investments and other assets	(24,436)	8,209	(1,854,380)	154,765
Distribution of accumulated investment gains	–	1,482	(455,680)	(228,403)
Net change in life income funds	(22,975)	1,407	(25,869)	750
Pension-related charges other than net periodic pension income (cost)	–	–	(825,440)	(188,325)
Net asset reclassifications and transfers	2,159	1,521	(57,837)	(52,094)
Total non-operating activities	67,046	123,948	(3,006,258)	(39,511)
(Decrease) Increase in net assets	67,046	123,948	(2,823,586)	74,670
Net assets at the beginning of the year	1,918,402	1,794,454	12,769,974	12,695,304
Net assets at the end of the year	$ 1,985,448	$ 1,918,402	$ 9,946,388	$ 12,769,974

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, 2009 and 2008

(in thousands of dollars)

	2009	2008
Cash Flow from Operating Activities:		
(Decrease) increase in net assets	$ (2,823,586)	$ 74,670
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net loss (gain) on investments	1,854,380	(154,765)
Change in retirement plan asset, net of change in accrued benefit liability	800,472	179,589
Depreciation	125,018	111,611
Gifts of securities	(1,894)	(5,554)
Net loss on life income funds	38,230	12,174
Amortization of bond premiums and discounts and other adjustments	(2,838)	(2,039)
Change in operating assets and liabilities:		
Pledges receivable	(21,433)	(111,860)
Accounts receivable	(17,234)	(16,455)
Contracts in progress	(17,883)	(14,793)
Deferred charges, inventories and other assets	4,859	(1,536)
Accounts payable, accruals and other liabilities, excluding building and equipment accruals	22,928	(830)
Liabilities due under life income fund agreements	(5,766)	3,711
Deferred revenue and other credits	10,600	2,050
Advance payments	28,094	36,452
Reclassify investment income	(9,130)	(9,935)
Reclassify contributed securities received as payment on pledges	(22,479)	(34,535)
Reclassify contributions restricted for long-term investment	(75,954)	(57,889)
Net cash (used in) provided by operating activities	(113,616)	10,066
Cash Flow from Investing Activities:		
Purchase of land, buildings and equipment	(299,049)	(285,877)
Purchases of investments	(21,221,423)	(65,738,595)
Proceeds from sale of investments, including contributed securities	21,105,189	65,687,444
Student notes issued	(16,016)	(15,673)
Collections from student notes	14,019	17,599
Net cash used in investing activities	(417,280)	(335,102)
Cash Flow from Financing Activities:		
Proceeds from contributions restricted for:		
Investment in endowment	73,224	47,922
Investment in plant and other	2,730	9,967
Less: contributed securities, gifts for endowment, plant and other	(2,145)	(13,457)
Total proceeds from contributions	73,809	44,432
Increase in investment income for restricted purposes	9,130	9,935
Proceeds from borrowings and re-marketing of swap related to borrowings	649,150	261,815
Repayment of borrowings	(205,196)	(2,085)
Increase in government advances for student loans	284	301
Net cash provided by financing activities	527,177	314,398
Net decrease in cash	(3,719)	(10,638)
Cash at the beginning of the year	81,106	91,744
Cash at the end of the year	$ 77,387	$ 81,106

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

Notes to Financial Statements

A. Accounting Policies

Basis of Presentation

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

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.

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

Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds) or by interpretations of law (net gains on permanently restricted gifts, which have not been appropriated for spending). Net unrealized losses on permanently restricted endowment funds for which the book value exceeds market value are recorded as a reduction to unrestricted net assets.

Unrestricted net assets are all the remaining net assets of MIT. Donor-restricted gifts and unexpended restricted endowment income that are received and either spent, or the restriction is otherwise met 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 temporarily restricted net assets until the monies are expended and the buildings are put into use, at which point they are reclassified to unrestricted net assets.

Net asset reclassifications and transfers consist primarily of payments on unrestricted pledges and use of building funds in accordance with donor restrictions. Expirations of temporary restrictions on net assets and the release of permanent restrictions by a donor are also reported as reclassifications of net assets from temporarily or permanently restricted net assets to unrestricted net assets.

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

MIT's operations include tuition, research revenues, unrestricted gifts and bequests for current use, fees and services, other programs, investment income, the portion of net investment gains distributed to funds under MIT's spending policy, auxiliary revenues, payments on pledges for unrestricted gifts, and operating expenditures. Results of operations are displayed in the Statements of Activities.

MIT is a nonprofit organization that is tax exempt under Section 501(c)(3) of the Internal Revenue Code, originally recognized in October 1926, with the most recent affirmation letter dated July 2001.

Cash

Current banking arrangements do not require outstanding checks and wires to be funded until actually presented for payment. Outstanding checks and wires in the amount of $22.6 million and $21.4 million in 2009 and 2008, respectively, are recorded in accounts payable until they are presented to our banks for payment. Certain cash balances, totaling $42.1 million and $41.0 million in 2009 and 2008, respectively, are restricted for use in connection with government research.

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 estimated life cycle and the sponsored research recovery allowance for depreciation is treated as indirect research revenue. MIT has recorded reimbursement of indirect costs relating to sponsored research at negotiated fixed billing rates. The income generated by the negotiated rates is adjusted each fiscal year to reflect any variance between the negotiated fixed rates and rates based on actual cost. The actual cost rate is audited by the Defense Contract Audit Agency (DCAA) and a final fixed-rate agreement is signed by the

A. Accounting Policies (continued)

U.S. Government and MIT. The variance between the negotiated fixed rate and the final audited rate results in a carry-forward (over or under recovery). The carry-forward will be included in the calculation of negotiated fixed billing rates in future years. Any adjustment in the rate is charged or credited to unrestricted net assets.

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, 3 to 25 years for equipment, and 4 to 6 years for software. Fully depreciated assets were removed from the financial statements in the amount of \$42.5 million and \$52.3 million during 2009 and 2008, respectively. Land, buildings and equipment at June 30, 2009 are shown in Table 1 below.

Table 1. Land, Buildings and Equipment

(in thousands of dollars)	2009	2008
Land	$ 51,944	$ 51,944
Educational buildings	2,372,275	2,181,649
Equipment	220,709	187,670
Software	33,084	43,273
Total	**2,678,012**	**2,464,536**
Less: accumulated depreciation	(873,577)	(789,886)
Construction in progress	309,468	260,991
Software projects in progress	6,710	3,278
Land, buildings and equipment	**$2,120,613**	**$1,938,919**

Depreciation expense was \$125.0 million in 2009 and \$111.6 million in 2008. Net interest expense of \$10.5 million and \$4.8 million was capitalized during 2009 and 2008, respectively, in relation to MIT's construction projects.

Tuition and Financial Aid

Tuition and similar revenues, shown in Table 2 below, include tuition and fees in degree programs as well as tuition and fees for executive and continuing education programs at MIT.

Table 2. Tuition and Similar Revenues

(in thousands of dollars)	2009	2008
Tuition revenue	$ 409,195	$ 387,803
Executive and continuing education revenues	22,577	33,427
Total	**431,772**	**421,230**
Less: tuition discount	(214,383)	(192,131)
Net tuition	**$ 217,389**	**$ 229,099**

Tuition support is awarded to undergraduate students by MIT based on need. Graduate students are provided with tuition support in connection with research assistance, teaching assistance and fellowship appointments. Total financial aid granted to students was \$376.1 million and \$349.5 million in 2009 and 2008, respectively. Of that amount, \$118.7 million in 2009 and \$117.6 million in 2008, was aid from sponsors. Tuition support from MIT sources is displayed as tuition discount. Components of financial aid are detailed in Table 3.

Table 3. Financial Aid

(in thousands of dollars)	2009			2008		
	Institute Sources	External Sponsors	Total Financial Aid	Institute Sources	External Sponsors	Total Financial Aid
Tuition support	$ 214,383	$ 51,883	$ 266,266	$ 192,131	$ 52,873	$ 245,004
Stipends	15,566	11,943	27,509	13,418	12,229	25,647
Student salaries	27,374	54,913	82,287	26,421	52,471	78,892
Total	**$ 257,323**	**$ 118,739**	**$ 376,062**	**$ 231,970**	**$ 117,573**	**$ 349,543**

A. Accounting Policies (continued)

Gifts and Pledges

Gifts and pledges are recognized when received. Gifts of securities are recorded at their fair value at the date of contribution. Gifts of equipment received from manufacturers and other donors during 2009 and 2008 were put into use and recorded by MIT at fair value. Gifts of equipment totaled $2.0 million and $0.6 million in 2009 and 2008, respectively. Pledges in the amount of $464.7 million and $443.3 million are recorded as receivables with the revenue assigned to the appropriate classification of restriction for 2009 and 2008, respectively. Pledges consist of unconditional written promises to contribute to MIT in the future and are recorded after discounting the future cash flows to the present value.

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

Advance Payments

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

Life Income Funds

MIT's life income fund agreements with donors consist primarily of irrevocable charitable gift annuities, pooled income funds, and charitable remainder trusts for which MIT serves as trustee. Assets are invested and payments are made to donors and other beneficiaries in accordance with the respective agreements. MIT records the assets that are associated with each life income fund at fair value and records as liabilities the present value of the estimated future payments at current interest rates to be made to the donors and beneficiaries under these agreements. Life income fund liabilities are classified as Level 3 under the valuation hierarchy disclosed in Note B.

Recently Adopted Accounting Pronouncements

SFAS No. 157

MIT adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157), as of July 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements that are already required or permitted by other accounting standards and does not require any new fair value measurements. The statement defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

MIT adopted FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3), as of July 1, 2008. FSP 157-3 amends SFAS No. 157 to clarify the application of fair value in inactive markets and allows for the use of management's internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. The objective of SFAS No.157 has not changed and continues to be the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. The adoption of FSP 157-3 did not have a material effect on MIT's results of operations, financial position or liquidity.

MIT adopted the provisions of FASB Staff Position 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), as of July 1, 2008, and applied them prospectively in 2009. FSP 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased and re-emphasizes that regardless of market conditions the fair value measurement is an exit price concept as defined in SFAS No. 157. The scope of this FSP does not include assets and liabilities measured under Level 1 inputs (quoted prices in active markets for identical assets).

SFAS No. 159

In conjunction with SFAS No. 157, FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 allows an entity the irrevocable option to elect fair value to measure certain financial assets and liabilities under an instrument-by-instrument election, and establishes additional disclosure requirements. MIT elected the fair value option under the provisions of SFAS No. 159 in accounting for pledges receivable and life income fund liabilities as of July 1, 2008. The adoption of SFAS No. 159 did not have a material impact on MIT's financial statements.

A. Accounting Policies (continued)

UPMIFA and FSP 117-1

In July 2009, the Commonwealth of Massachusetts enacted a version of the *Uniform Prudent Management of Institutional Funds Act of 2006* (UPMIFA), which replaced Chapter 180A, Massachusetts Attorney General's June 1995 statement of position, the *Uniform Management Institutional Funds Act* (UMIFA). The new law, which has an effective date of June 30, 2009, eliminates the historical dollar threshold and establishes prudent spending guidelines that consider both the duration and preservation of the fund. As a result of this enactment, subject to the donor's intent as expressed in a gift agreement or similar document, a Massachusetts charitable organization may now spend the amount of the principal and income of an endowment fund, even from an underwater fund, after considering the factors listed in the Act.

MIT adopted FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1), as of July 1, 2008. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. The adoption of FSP 117-1 had no impact on the way that MIT classifies donor-restricted endowment funds, but does require additional financial statement disclosures about MIT's endowment funds. The additional disclosures are included in Note K.

SFAS No. 165

MIT adopted FASB Statement of Financial Accounting Standards No. 165, *Subsequent Events* (SFAS No. 165), as of June 30, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of SFAS No.165 did not have a material impact on MIT's financial statements. MIT has evaluated subsequent events through September 16, 2009, the date of financial statement issuance.

Non-Cash Items

Non-cash transactions excluded from the Statements of Cash Flows include the (decrease) increase in collateral for securities lending and minority interest of ($195.2) million and $35.5 million, as well as $30.3 million and $21.5 million of accrued liabilities related to plant and equipment purchases, for 2009 and 2008, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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, 2008 balances previously reported have been reclassified to conform to the June 30, 2009 presentation.

B. Investments

Investment transactions are accounted for on the trade date. Realized gains and losses are recorded by MIT using the average cost basis. Premiums and discounts on securities purchased and securities sold short are amortized using the effective yield method over the life of the respective security when cash collection is expected and included in interest income (long investments) or interest expense (short investments). Dividend income is recorded on the ex-dividend date.

Cash equivalents include money market funds, commercial paper, banker acceptances and negotiable certificates of deposit.

MIT may utilize various derivative instruments, such as forwards, futures, interest rate, total return or currency swaps or forward contracts to increase or decrease its exposure to changes in the level of interest rates, underlying asset values or to partially offset exchange rate movements. Derivative instruments are recorded at fair value. As of June 30, 2009, MIT had entered into several interest rate swap contracts. Certain of the contracts were executed to manage the interest rate risk associated with its Massachusetts Health and Educational Facilities Authority (MHEFA) variable rate debt portfolios; others were to manage overall interest rate risk of the portfolio. The interest-rate swap agreements were recorded at an estimated market value

B. Investments (continued)

of ($9.8) million and ($25.0) million at June 30, 2009 and 2008, respectively, and the change in market value of ($6.9) million and ($10.6) million for 2009 and 2008 was included in non-operating net gain or loss on investments and other assets. Pending spot and forward currency contracts totaled $0.6 million at June 30, 2009 and $1.8 million at June 30, 2008.

As discussed in Note A, as of July 1, 2008, MIT adopted SFAS No. 157 and has valued its investments in accordance with the principles of this standard.

SFAS No. 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS No. 157 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from relevant exchange or dealer markets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Table 4 below presents MIT's investments at fair value as of June 30, 2009, grouped by the SFAS No. 157 valuation hierarchy as defined above.

Table 4. Investments

	2009				2008
(in thousands of dollars)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total fair value	Total fair value
Cash equivalents	$ 741,008	$ 10,915	–	$ 751,923	$ 433,989
Fixed income	13,954	602,656	65,524	682,134	828,555
Equities	607,585	3	4,445,655	5,053,243	6,305,729
Marketable Alternatives	–	–	2,203,965	2,203,965	2,898,174
Real estate	–	–	790,348	790,348	800,054
Perpetual trusts	–	–	47,618	47,618	66,912
Interest rate swaps	–	(9,818)	–	(9,818)	(24,984)
Total investments	**$ 1,362,547**	**$ 603,756**	**$ 7,553,110**	**$ 9,519,413**	**$ 11,308,429**

B. Investments (continued)

Investments included in Level 3 primarily consist of MIT's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds). Securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. MIT has performed due diligence around its alternative investments to ensure they are recorded at fair value as of June 30, 2009 and 2008.

Interest rate swaps are valued using observable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and therefore are generally classified within Level 2.

Perpetual trusts held by third parties are valued at the present value of the future distributions expected to be received over the term of the agreement.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while MIT believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Table 5 below is a rollforward of the investments classified by MIT within Level 3 of the fair value hierarchy defined on page 17.

Table 5. Rollforward of Level 3 Investments

(in thousands of dollars)	Fixed income	Equities	Marketable alternatives	Real estate	Perpetual trusts	Total investments
Fair value, July 1, 2008	$ 57,679	$ 4,915,258	$ 2,898,174	$ 800,055	$ 66,912	$ 8,738,078
Realized gains (losses)	–	(62,307)	(45,793)	91	–	(108,009)
Unrealized losses	–	(972,258)	(522,800)	(184,807)	(19,850)	(1,699,715)
Net purchases, sales, and settlements	7,845	564,962	(125,616)	175,009	556	622,756
Fair Value, June 30, 2009	**$ 65,524**	**$ 4,445,655**	**$ 2,203,965**	**$ 790,348**	**$ 47,618**	**$ 7,553,110**

All net realized and unrealized gains and losses relating to financial instruments held by MIT shown in Table 5 are reflected in the Statements of Activities. Unrealized gains related to Level 3 investments totaled $582.6 million at June 30, 2009 and $2,262.5 million at June 30, 2008.

C. Collateral for Securities Lending and Other Assets

MIT has an agreement with a major financial institution to lend its securities in exchange for a fixed annual fee less a contractual rebate on the cash collateral received. All securities are returnable on demand and are collateralized by daily cash deposits based on the market value of the securities loaned. MIT manages the investment process for all cash collateral received and is indemnified against borrower default by the financial institution. MIT did not have any investment securities on loan as of June 30, 2009 and had $162.9 million on loan at June 30, 2008. Cash collateral under management related to the securities lending program was $164.9 million at June 30, 2008. As of June 30, 2009 and 2008, MIT also recorded $168.3 million and $198.6 million, respectively, of minority interest in privately held investments. The cash collateral received under the securities lending program and minority interest are shown as assets and liabilities in the Statements of Financial Position.

D. Pledges Receivable

Table 6 below shows the time periods in which pledges receivable at June 30, 2009 are expected to be realized.

Table 6. Pledges Receivable

(in thousands of dollars)	2009	2008
In one year or less	$ 152,686	$ 117,979
Between one year and five years	195,033	200,849
More than five years	168,897	173,175
Less: allowance for unfulfilled pledges	(51,880)	(48,700)
Pledges receivable, net	**$ 464,736**	**$ 443,303**

A review of pledges is periodically made with regard to collectability. As a result, the allowance for pledges that may not be fulfilled is adjusted, and some pledges have been canceled and are no longer recorded in the financial statements. In addition, pledges are discounted in the amount of $89.5 million and $95.0 million in 2009 and 2008, respectively. MIT has gross conditional pledges, not recorded, for the promotion of education and research in the amount of $114.0 million and $150.2 million as of June 30, 2009 and 2008, respectively.

As discussed in Note A, MIT adopted SFAS No. 159 in accounting for pledges receivable. Pledges receivable are classified as Level 3 under the valuation hierarchy as defined by SFAS No. 157 and disclosed in Note B. Table 7 below is a rollforward of the pledges receivable for 2009.

Table 7. Rollforward of Pledges Receivable

(in thousands of dollars)	
Pledges receivable, June 30, 2008	$ 443,303
New pledges	125,502
Pledge payments received	(106,431)
Decrease in pledge discount	5,542
Increase in reserve for unfulfilled pledges	(3,180)
Pledges receivable, June 30, 2009	**$ 464,736**

E. Student Notes Receivable

Table 8 below details the components of student notes receivable at June 30, 2009 and 2008.

Perkins student notes receivable are funded by the U.S. Government and by MIT to the extent required by the Perkins National Direct Student Loan Program. Funds advanced by the U.S. Government for this program, $33.3 million and $33.1 million at June 30, 2009 and 2008, respectively, are ultimately refundable to the U.S. Government and are classified as liabilities. Due to the nature and terms of the student loans, which are subject to significant restrictions, it is not feasible to determine the fair value of such loans.

Table 8. Student Notes Receivable

(in thousands of dollars)	2009	2008
Institute-funded student notes receivable	$ 18,188	$ 19,974
Perkins student notes receivable	33,765	30,353
Total student notes receivable	**51,953**	**50,327**
Less: allowance for doubtful accounts	(3,000)	(3,000)
Student notes receivable, net	**$ 48,953**	**$ 47,327**

F. Accounts Payable, Accruals and Other Liabilities

MIT's accounts payable, accruals and other liabilities at June 30, 2009 are shown in Table 9 below.

Table 9. Accounts Payable, Accruals and Other Liabilities

(in thousands of dollars)	2009	2008
Accounts payable and accruals	$ 249,445	$ 220,107
Accrued vacation	50,120	47,730
Total	**$ 299,565**	**$ 267,837**

G. Borrowings

Table 10. Borrowings

(in thousands of dollars / due dates are calendar based)	2009	2008
EDUCATIONAL PLANT		
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Series I, 4.75%–5.20%, due 2028, par value $59,200	$ 59,663	$ 59,688
Series J-1, variable rate, due 2031	125,000	125,000
Series J-2, variable rate, due 2031	125,000	125,000
Series K, 5.25%–5.50%, due 2012–2032, par value $230,000	243,804	244,624
Series L, 3.0%–5.25%, due 2004–2033, par value $184,860	188,616	191,804
Series M, 5.25%, due 2014–2030, par value $131,110	145,998	146,981
Series N, 3.5%–5.0%, due 2014–2038, par value $325,195	333,991	–
Series O, 4.0%–6.0%, due 2016–2036, par value $266,460	274,475	–
Total MHEFA	**1,496,547**	**893,097**
Medium Term Notes Series A, 7.125%, due 2026	17,347	17,343
Medium Term Notes Series A, 7.25%, due 2096	45,440	45,438
Notes payable to bank, variable rate, due 2011	48,033	251,039
Total educational plant	**1,607,367**	**1,206,917**
STUDENT LOANS		
Notes payable to bank, variable rate, due 2011	5,000	5,000
OTHER		
Notes payable to bank, variable rate, due 2011	123,476	123,476
Total Borrowings	**$ 1,735,843**	**$ 1,335,393**

The aggregate amount of debt payments and sinking fund requirements for each of the next five fiscal years is shown in Table 11 below.

Table 11. Debt Obligations

(in thousands of dollars)	
2010	$ 2,260
2011	178,879
2012	2,490
2013	26,500
2014	26,000

Cash paid for interest on long-term debt in 2009 and 2008 was $47.4 million and $46.7 million, respectively.

In 2009, fair value of the outstanding debt is approximately 3 percent greater than the carrying value. In 2008, the carrying value of the outstanding debt approximates fair value. Carrying value is based on estimates using current interest rates available for similarly rated debt of the same remaining maturities. MIT maintains a line of credit with a major financial institution for an aggregate commitment of $500.0 million. As of June 30, 2009, $323.5 million was available under this line of credit. The line of credit expires on March 28, 2011.

Variable interest rates at June 30, 2009 are shown in Table 12 below.

Table 12. Variable Interest Rates

(in thousands of dollars)	Amount	Rate
MHEFA Series J-1	$ 125,000	0.17%
MHEFA Series J-2	125,000	0.10%
Notes payable to bank	176,509	0.37%

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

H. Commitments and Contingencies

Federal Government Funding

MIT 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), MIT's cognizant Federal agency. MIT's indirect cost reimbursements have been based on fixed rates with carry-forward of under or over recoveries, except in 2008, during which fixed rates were negotiated without carry-forward for most on and off-campus research activity. At June 30, 2008, MIT recorded a net under-recovery of $5.8 million resulting primarily from activity in its specialized service facility, where carry-forward arrangements were still in place. At June 30, 2009, MIT recorded a net over-recovery of $2.4 million.

The DCAA is responsible for auditing both direct and indirect charges to grants and contracts in support of ONR's negotiating responsibility. MIT has final audited rates through 2007. MIT's 2009 research revenues of $1,375.1 million include reimbursement of indirect costs of $221.5 million, which includes the adjustment for the variance between the indirect cost income determined by the fixed rates and actual costs for 2009. In 2008, research revenues were $1,245.2 million, which included reimbursement of indirect costs of $206.2 million.

Leases

At June 30, 2009, there were no capital lease obligations. MIT is committed under certain operating (rental) leases. Rent expense incurred under operating lease obligations was $65.5 million and $62.3 million in 2009 and 2008, respectively. Some of the leases expiring in 2010 are subject to renewal. Future minimum payments under operating leases are shown in Table 13 below.

Table 13. Lease Obligations

(in thousands of dollars)

2010	$ 54,747
2011	49,467
2012	44,171
2013	40,959
2014	33,900

Investments

As of June 30, 2009, MIT is committed to invest approximately $2,342.6 million with equity managers and with private partnerships for hedge funds, private equity and other alternative investments. This compares to $3,352.5 million as of June 30, 2008. As of June 30, 2009, $42.6 million of investments were pledged as collateral to various supplier and government agencies, the largest being to the Nuclear Regulatory Commission and for self-insured workers' compensation insurance.

Future Construction

MIT has contracted for educational plant in the amount of $214.1 million at June 30, 2009. It is expected that the resources to satisfy these commitments will be provided from unexpended plant funds, anticipated gifts, unrestricted funds and future borrowings. MIT will be committing additional resources to planned major construction projects and improvements to the current infrastructure over the next several years.

Related Entities

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

General

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

I. Functional Expense Classification

MIT's expenditures on a functional basis are shown in Table 14 below.

Table 14. Expenditures by Functional Classification

(in thousands of dollars)	2009	2008
General and administrative	$ 497,043	$ 486,444
Instruction and unsponsored research	680,848	641,241
Sponsored research	1,167,036	1,054,474
Auxiliary enterprises	104,443	100,545
Operation of alumni association	11,916	11,543
Total operating expense	**$2,461,286**	**$2,294,247**

J. Retirement Benefits

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

MIT also provides retiree welfare benefits (certain health care and life insurance benefits) for retired employees. Substantially all of MIT's employees may become eligible for those benefits if they reach a qualifying retirement age while working for MIT. Retiree health plans are paid for in part by retirees and covered retirees, their covered dependents and beneficiaries. Benefits are provided through various insurance companies whose charges are based either on the benefits and administrative expenses paid during the year or annual insured premiums. Retiree life insurance plans are non-contributory and cover the retiree only. MIT maintains a trust to pay for retiree welfare benefits.

MIT contributes to the defined benefit plan amounts that are actuarially determined to provide the retirement plan with sufficient assets to meet future benefit requirements. There were no contributions to the defined benefit plan in 2009 or 2008.

For purposes of calculating net periodic pension cost for the defined benefit plan, plan amendments are amortized on a straight line basis over the average future service to expected retirement of active participants at the date of the amendment. Cumulative gains and losses (including changes in assumptions) in excess of 10 percent of the greater of the projected benefit obligation and the market related value of assets are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to $1 million.

During 2008, MIT amended its defined benefit plan to provide participants with immediate vesting of their accrued benefits. The Pension Protection Act required a change from five-year vesting to three-year vesting for MIT's defined benefit plan; this change has been treated as mandatory and the impact has been reflected as an actuarial loss. The change from three-year vesting to immediate vesting was reflected as a plan amendment.

The amount contributed and expenses recognized during 2009 and 2008 related to the defined contribution plan were $40.3 million and $37.8 million, respectively.

For purposes of calculating net periodic postretirement benefit cost, a portion of the current obligation, related to the transition to SFAS No. 106, is being amortized on a straight line basis over 20 years from the date of adoption of that statement in 1994. Plan amendments are amortized on a straight line basis over the average future service to full eligibility of active participants at the date of amendment. Cumulative gains and losses (including changes in assumptions) in excess of 10 percent of the greater of the plan's obligation and the market related value of assets are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to $1 million.

J. Retirement Benefits (continued)

Components of Net Periodic Benefit (Income) Cost and Other Amounts Recognized in Unrestricted Net Assets

Table 15 summarizes the components of net periodic benefit (income) cost recognized in the Statement of Activities and other amounts recognized in unrestricted net assets for the years ended June 30, 2009 and 2008.

Table 15. Components of Net Periodic Benefit (Income) Cost and Other Amounts Recognized in Unrestricted Net Assets

(in thousands of dollars)	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Components of net periodic benefit (income) cost				
Service cost	$ 54,344	$ 47,122	$ 15,009	$ 13,335
Interest cost	134,080	127,332	25,137	21,084
Expected return on plan assets	(215,752)	(201,487)	(20,647)	(19,756)
Amortization of transition amount	–	–	4,776	4,775
Amortization of net actuarial (gain) loss	(31,172)	(7,802)	2,380	1,000
Amortization of prior service cost	2,180	2,103	3,555	3,557
One-time specific termination benefits (FAS 88)	1,143	–	–	–
Net periodic benefit (income) cost	**(55,177)**	**(32,732)**	**30,210**	**23,995**
Other amounts recognized in unrestricted net assets				
Current year actuarial loss	728,482	120,884	78,677	67,476
Amortization of actuarial gain (loss)	31,172	7,802	(2,380)	(1,000)
Current year prior service cost	–	3,598	–	–
Amortization of prior service cost	(2,180)	(2,103)	(3,555)	(3,557)
Amortization of transition obligation	–	–	(4,776)	(4,775)
Total recognized in unrestricted net assets	**757,474**	**130,181**	**67,966**	**58,144**
Total recognized in net periodic benefit (income) cost and unrestricted net assets	**$ 702,297**	**$ 97,449**	**$ 98,176**	**$ 82,139**

The estimated net actuarial gain and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit income during the next fiscal year are $29.5 million and $2.2 million, respectively. The estimated net actuarial loss, prior service cost and transition obligation for the other postretirement plans that will be amortized from unrestricted net assets into net periodic benefit cost during the next fiscal year are $4.4 million, $3.6 million and $4.8 million, respectively.

J. Retirement Benefits (continued)

Benefit Obligations and Fair Value of Assets

Table 16 summarizes the funded status, benefit obligations, amounts recognized in the Statements of Financial Position, and amounts recognized in unrestricted net assets for the MIT's benefit plans. MIT uses a June 30 measurement date for its pension and postretirement benefit plans.

Table 16. Benefit Obligations and Fair Value of Assets

(in thousands of dollars)	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation at beginning of year	$ 2,066,978	$ 2,042,729	$ 382,845	$ 334,436
Service cost	54,344	47,122	15,009	13,335
Interest cost	134,080	127,332	25,137	21,084
Retiree contributions	–	–	3,105	2,914
Plan amendment	–	3,598	–	–
Net benefit payments and transfers	(111,972)	(107,757)	(22,043)	(23,544)
Assumption changes and actuarial net loss (gain)	(25,596)	(46,046)	5,685	34,620
Special termination benefits	1,143	–	–	–
Benefit obligation at end of year	**2,118,977**	**2,066,978**	**409,738**	**382,845**
Change in plan assets				
Fair value of plan assets at beginning of year	2,989,316	3,062,516	251,684	285,414
Actual return on plan assets	(538,325)	34,557	(52,345)	(13,100)
Employer contributions	(54,200)	–	54,200	–
Retiree contributions	–	–	3,105	2,914
Net benefit payments and transfers	(111,972)	(107,757)	(22,043)	(23,544)
Fair value of plan assets at end of year	**2,284,819**	**2,989,316**	**234,601**	**251,684**
Funded (unfunded) status at end of year	**$ 165,842**	**$ 922,338**	**$ (175,137)**	**$ (131,161)**
Amounts recognized in the statements of financial position consist of:				
Benefit assets	$ 165,842	$ 922,338	$ –	$ –
Benefit liability	–	–	(175,137)	(131,161)
Total	**$ 165,842**	**$ 922,338**	**$ (175,137)**	**$ (131,161)**
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss (gain)	$ (20,371)	$ (780,024)	$ 148,942	$ 72,645
Prior service cost	11,182	13,362	7,113	10,668
Transition liability	–	–	19,103	23,879
Total	**$ (9,189)**	**$ (766,662)**	**$ 175,158**	**$ 107,192**

J. Retirement Benefits (continued)

The accumulated benefit obligation for MIT's defined benefit pension plan was $2,011.3 million and $1,966.5 million at June 30, 2009 and 2008, respectively.

Defined benefit plan funding rules are set forth under the Pension Protection Act of 2006 (PPA). On a PPA basis, the funded position of a plan is measured by comparing the actuarial value of assets with the funding target. The actuarial value of assets is an average of the fair market value over a three-year period adjusted for cash flow and expected earnings, but not greater than 110 percent of the fair market value. The funding target is the present value of benefits accrued or earned as of the valuation date (January 1). As of January 1, 2009 (the plan's valuation date), the MIT defined benefit pension plan was 129.7 percent funded on a PPA basis. This is based on a funding target of $1,957.2 million and an actuarial value of assets of $2,538.5 million.

Under accounting rules set forth in Statement of Financial Accounting Standards No. 87 *Employers' Accounting for Pension* (SFAS No. 87), the funded position of the plan is measured by comparing the fair value of assets with the accumulated benefit obligation (ABO) or the projected benefit obligation (PBO). The ABO equals the present value of benefits as of the end of the fiscal year (June 30). The PBO equals the ABO adjusted for the effect of future expected pay increases. As of June 30, 2009, the MIT defined benefit pension plan was 113.6 percent funded on an ABO basis. This is based on an ABO of $2,011.3 million and the fair value of assets of $2,284.8 million.

The ABO and PPA funded percentages differ primarily due to the difference in plan assets and economic conditions (and therefore plan valuation assumptions) between January 1, 2009 and June 30, 2009.

MIT has recognized the effect of the expected Medicare subsidy by reducing its accumulated postretirement benefit obligation by $67.8 million and $64.0 million as of June 30, 2009 and 2008, respectively. This initial reduction was recognized as an actuarial gain. Additionally, the service and interest cost components of postretirement benefits cost were reduced in 2009 and future periods.

Table 17. Assumptions and Health Care Cost Trend Rates

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Rate of compensation increase	4.00%[1]	4.00%		
Assumptions used to determine net periodic benefit (income) cost for year ended June 30:				
Discount rate	6.50%	6.25%	6.50%	6.25%
Expected long-term return on plan assets	8.00%	8.25%	7.00%	7.50%
Rate of compensation increase	4.00%	4.00%		
Assumed health care cost trend rates:				
Health care cost trend rate assumed for next year			8.00%	8.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the rate reaches the ultimate trend rate			2015	2015

[1] *The average rate of salary increase is assumed to be 2% for 2010 and 2011, 3% for 2012, and 4% thereafter.*

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

J. Retirement Benefits (continued)

As an indicator of sensitivity, a one percentage point change in the assumed health care cost trend rate would effect 2009 as shown in Table 18 below.

Table 18. Health Care Cost Trend Rate Sensitivity

(in thousands of dollars)	1% point increase	1% point decrease
Effect on 2009 post-retirement service and interest cost	$ 5,963	$ (4,941)
Effect on post-retirement benefit obligation as of June 30, 2009	$ 46,870	$ (39,674)

Plan Assets

Target allocations and weighted-average asset allocations of the investment portfolio for the MIT defined benefit plan and other postretirement benefit plans at June 30, 2009 and 2008 are shown in Table 19 below.

Table 19. Plan Assets

	Pension Benefits Plan Assets as of June 30			Other Benefits Plan Assets as of June 30		
	Target Allocation	2009	2008	Target Allocation	2009	2008
Cash	–	4%	–	–	2%	–
Equity securities	73%	71%	79%	75%	77%	75%
Fixed income securities	8%	8%	13%	20%	18%	24%
Real estate	19%	17%	8%	5%	3%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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

Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers and the maintenance of a portfolio diversified by asset class, investment approach and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due. In 2008, the defined benefit plan participated in securities lending programs in order to generate additional income by loaning plan assets to borrowers on a fully collateralized basis. The defined benefit plan had no outstanding securities lending arrangements at June 30, 2009.

Contributions

MIT does not expect to contribute to its defined benefit pension plan, and expects to contribute approximately $36.8 million to its other postretirement benefit plan in 2010. These contributions have been estimated based on the same assumptions used to measure MIT's benefit obligation at June 30, 2009.

In 2009, under provision of Section 420 of the Internal Revenue Code, the MIT defined benefit plan transferred $54.2 million of excess pension assets to the postretirement welfare benefit plan. The Internal Revenue Code permits transfers annually of an amount not to exceed actual expenditures on retiree health care benefits. The transfer resulted in a negative contribution of $54.2 million for the defined benefit plan and a positive contribution of $54.2 million to the postretirement welfare benefit plan.

J. Retirement Benefits (continued)

Expected Future Benefit Payments

Table 20 reflects total expected benefit payments for the defined benefit and other postretirement benefit plans, as well as expected receipt of the federal subsidy. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligation at year end.

Table 20. Expected Future Benefit Payments

(in thousands of dollars)	Pension Benefits	Other Benefits[1]	Federal Subsidy[2]
2010	$ 117,270	$ 28,759	$ 2,893
2011	125,361	31,154	3,176
2012	128,446	33,044	3,498
2013	131,426	34,870	3,814
2014	134,532	36,595	4,122
2015–2019	729,805	208,258	24,886

[1]*Other benefits reflect the total net benefits expected to be paid from the plans and exclude the participants' share of the cost, which is funded by participant contributions to the plans, and does not reflect any subsidy expected to be received from the government for MIT's retiree prescription drug coverage.*

[2] *Federal subsidy reflects the amount MIT is expected to receive from the government and reflects MIT's expected drugs claims experience.*

K. Components of Net Assets and Endowment

Table 21 below presents the three categories of net assets by purpose as of June 30, 2009. The amounts listed in the unrestricted column labeled Endowment Funds Principal are those gifts received over the years that MIT designated as funds functioning as endowment and invested with the endowment funds. A large component of temporarily restricted net assets is pledges, the majority of which will be reclassified to unrestricted net assets when cash is received.

Table 21. Fund Category

(in thousands of dollars)	2009 Unrestricted	2009 Temporarily Restricted	2009 Permanently Restricted	2009 Total	2008 Total
Endowment funds principal					
General purpose	$ 594,998	$ 707,929	$ 214,524	$ 1,517,451	$ 1,929,726
Departments and research	325,179	562,495	383,533	1,271,207	1,597,782
Library	7,883	12,781	7,799	28,463	36,031
Salaries and wages	285,788	1,559,674	571,340	2,416,802	3,062,843
Graduate general	47,580	72,129	69,981	189,690	210,750
Graduate departments	55,309	171,312	159,681	386,302	478,012
Undergraduate	142,731	629,330	286,449	1,058,510	1,333,218
Prizes	4,780	15,278	17,167	37,225	47,583
Miscellaneous	668,552	127,935	33,694	830,181	1,056,514
Investment income held for distribution	246,190	–	–	246,190	316,328
Endowment funds before pledges	2,378,990	3,858,863	1,744,168	7,982,021	10,068,787
Pledges	–	–	169,784	169,784	165,713
Total endowment funds	**2,378,990**	**3,858,863**	**1,913,952**	**8,151,805**	**10,234,500**
Other invested funds					
Student loan funds	19,889	–	17,536	37,425	36,900
Building funds	58,258	147,623	–	205,881	185,771
Designated purposes:					
– Departments and research	258,747	–	–	258,747	246,194
– Other purposes	51,440	–	–	51,440	47,038
Reserve funds	98,316	–	–	98,316	3,777
Real estate gifts held for sale	7,908	–	–	7,908	7,653
Life income funds	6,179	39,273	53,960	99,412	122,457
Pledges	–	294,953	–	294,953	277,590
Other funds available for current expenses	254,780	60,303	–	315,083	1,154,847
Funds expended for educational plant	425,418	–	–	425,418	453,247
Total other funds	1,180,935	542,152	71,496	1,794,583	2,535,474
Total net assets at fair value	**$ 3,559,925**	**$ 4,401,015**	**$ 1,985,448**	**$ 9,946,388**	**$12,769,974**

K. Components of Net Assets and Endowment (continued)

MIT's endowment consists of approximately 3,000 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of MIT has interpreted the Massachusetts enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing MIT to appropriate for expenditure or accumulate so much of an endowment fund as MIT determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, MIT has not changed the way permanently restricted net assets are classified. See note A for further information on net asset classification. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

Fiscal Year 2009

Table 22. Endowment Net Asset Composition by Type of Fund as of June 30, 2009

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 3,858,863	$ 1,913,952	$ 5,772,815
Board-designated endowment funds	2,378,990	–	–	2,378,990
Total endowment funds	**$ 2,378,990**	**$ 3,858,863**	**$ 1,913,952**	**$ 8,151,805**

Table 23. Changes in Endowment Net Assets for the Fiscal Year ended June 30, 2009

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	$ 3,091,110	$5,320,317	$1,823,073	$10,234,500
Investment return:				
Investment income	21,970	48,094	4,046	74,110
Net depreciation (realized and unrealized)	(618,016)	(1,143,356)	(24,337)	(1,785,709)
Total investment return	(596,046)	(1,095,262)	(20,291)	(1,711,599)
Contributions	4,650	–	108,155	112,805
Appropriation of endowment assets for expenditure	(153,545)	(364,402)	–	(517,947)
Other changes:				
Underwater gain adjustment and funds held for reinvestment	(23,984)	23,984	4,587	4,587
Net asset reclassifications and transfers to create board-designated endowment funds	56,805	(25,774)	(1,572)	29,459
Endowment net assets, June 30, 2009	**$ 2,378,990**	**$ 3,858,863**	**$ 1,913,952**	**$ 8,151,805**

K. Components of Net Assets and Endowment (continued)

Fiscal Year 2008

Table 24. Endowment Net Asset Composition by Type of Fund as of June 30, 2008

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 5,320,317	$ 1,823,073	$ 7,143,390
Board-designated endowment funds	3,091,110	–	–	3,091,110
Total endowment funds	**$ 3,091,110**	**$ 5,320,317**	**$ 1,823,073**	**$10,234,500**

Table 25. Changes in Endowment Net Assets for the Fiscal Year ended June 30, 2008

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2007	$ 3,147,258	$5,273,222	$1,695,909	$10,116,389
Investment return:				
Investment income	46,960	107,261	3,551	157,772
Net depreciation (realized and unrealized)	86,065	131,332	8,209	225,606
Total investment return	133,025	238,593	11,760	383,378
Contributions	15,242	–	106,129	121,371
Appropriation of endowment assets for expenditure	(116,874)	(275,788)	–	(392,662)
Other changes:				
Underwater gain adjustment and funds held for reinvestment	(329)	329	1,482	1,482
Net asset reclassifications and transfers to create board-designated endowment funds	(87,212)	83,961	7,793	4,542
Endowment net assets, June 30, 2008	**$ 3,091,110**	**$ 5,320,317**	**$ 1,823,073**	**$10,234,500**

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted net assets. Total underwater endowment funds reported in unrestricted net assets were $24.3 million and $0.3 million as of June 30, 2009 and 2008, respectively. The underwater status of these funds resulted from unfavorable market fluctuations.

Investment and Spending Policies

MIT maintains its investments primarily in two investment pools: Pool A, principally for endowment and funds functioning as endowment, and Pool C, principally for investment of current funds of MIT's schools and departments and MIT's operating funds. Pool A operates as a mutual fund with units purchased and redeemed based on the previous month's unit market value of Pool A. The total market value of Pool A was $8,143.7 million at June 30, 2009 and $10,292.5 million in 2008. The total value of Pool A includes Pool C investments of $323.7 million at June 30, 2009 and $416.0 million in 2008. Certain assets are also maintained in separately invested funds. Separately invested funds totaled $162.1 million as of June 30 2009 and $192.3 million in 2008.

K. Components of Net Assets and Endowment (continued)

MIT has adopted endowment investment and spending policies designed to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets is to attain an average, annual, real total return of at least 6 percent over the long term. Real total return is the sum of capital appreciation (or depreciation) and current income adjusted for inflation by the Higher Education Price Index (HEPI). An additional investment goal is to maximize return relative to appropriate risk such that performance exceeds appropriate benchmark returns at the total pool, asset class and individual manager levels.

To achieve its long-term rate of return objectives, MIT relies on a total return strategy in which investment returns are realized through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). MIT targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Executive Committee of the Corporation votes to distribute funds for operational support from general investments. In accordance with MIT's spending policy, these distributions are funded from both investment income and market appreciation. In 2009, the distribution rate was $69.21 per Pool A unit, up 30.6 percent from $53.00 in 2008. The increase in the distribution per unit from 2008 to 2009 is the result of a planned increase consistent with the comprehensive financial framework developed in 2008. The financial framework addressed a long term structural imbalance in the funding of operations, bringing MIT's operating revenues into alignment with planned operating expenses in 2009, including adjusting the annual endowment spending.

In 2009, the amount distributed for spending from Pool A and Pool C totaled $582.8 million, compared to $443.5 million distributed in the prior year. In 2009, the distribution included $455.7 million from investment gains, or 78.2 percent of the total distributed to funds. In 2008, the comparable amount distributed included $244.8 million, or 54.9 percent, from investment gains. During 2009, distributions from separately invested funds were $3.3 million, compared to $3.9 million in 2008. The income earned in Pool C, or currently invested funds, was fully distributed. In addition to the aforementioned distributions, there was also a special distribution of $24.0 million from gains in Pool C in 2009 and $5.0 million in 2008.

L. Subsequent Events

The Broad Institute

On July 1, 2009, The Broad Institute, previously a unit of MIT, became a separately incorporated entity. The Broad Institute is a research center located adjacent to the MIT campus. Before July 1, 2009, MIT administered The Broad Institute as a collaboration among MIT, Harvard University and its affiliated hospitals, and The Whitehead Institute for Biomedical Research. Following the separation, The Broad Institute is a self-administered collaboration of MIT, Harvard University, and affiliated hospitals.

The separation was enabled by a $400 million gift pledged by Los Angeles philanthropists Eli and Edythe Broad to The Broad Institute. The gift serves to create an endowment to transform The Broad Institute from a 10-year experiment, as it was conceived when founded in 2004 with a $100 million gift of operating funds to MIT, into a permanent entity.

The Broad Institute's assets and liabilities reflected in MIT's Statements of Financial Position as of June 30, 2009 were $199.5 million and $106.2 million, respectively. Assets consist primarily of equipment, leasehold improvements, accounts receivable, grants and contracts in progress, cash, investments, and inventory. Liabilities include sponsor advances, agency funds held, and deferred landlord financed leasehold improvements. At separation on July 1, 2009, MIT transferred these assets and liabilities to the separately incorporated Broad Institute. The Broad Institute's revenues as reflected in MIT's Statement of Activities in 2009 totaled $206.0 million; expenses were $215.4 million.

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Report of Independent Auditors

To the Audit Committee of the
Massachusetts Institute of Technology

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of the Massachusetts Institute of Technology (the "Institute") at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 our opinion.

As described in Note A to the accompanying consolidated financial statements, as of July 1, 2008, the Institute adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*.

PricewaterhouseCoopers LLP

September 16, 2009

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights

(Dollars in thousands)

	2009	2008	2007	2006	2005
Financial Position:					
Investments, at fair value	$ 9,519,413	$ 11,308,429	$ 11,061,142	$ 9,500,178	$ 8,022,655
Land, buildings, and equipment, at cost less accumulated depreciation	2,120,613	1,938,919	1,743,203	1,687,835	1,608,719
Borrowings	1,735,843	1,335,393	1,078,234	1,278,489	1,249,591
Total assets	12,949,552	15,458,982	14,946,369	12,362,451	10,856,158
Total liabilities	3,003,164	2,689,008	2,251,065	2,302,676	2,230,588
Unrestricted net assets, at market	3,559,925	5,086,270	5,216,844	3,732,539	3,277,741
Temporarily restricted net assets, at market	4,401,015	5,765,302	5,684,006	4,699,881	3,792,029
Permanently restricted net assets, at market	1,985,448	1,918,402	1,794,454	1,627,355	1,555,800
Total net assets	9,946,388	12,769,974	12,695,304	10,059,775	8,625,570
Market value of endowment funds	7,982,021	10,068,787	9,980,409	8,368,066	6,712,436
Principal Sources of Revenue:					
Tuition and other income	$ 431,772	$ 421,230	$ 394,652	$ 373,309	$ 362,299
Research revenues:					
Campus direct	497,493	448,065	407,650	419,144	400,345
Campus indirect	193,289	173,455	163,148	163,340	159,359
Lincoln Laboratory direct	642,101	587,076	573,696	602,426	579,915
Lincoln Laboratory indirect	27,667	32,611	32,234	33,968	31,210
SMART direct	14,026	3,857	–	–	–
SMART indirect	496	106	–	–	–
Gifts, bequests and pledges	303,890	385,952	332,874	232,472	177,305
Net (losses) gains on investments and other assets	(1,854,380)	154,765	1,673,275	1,432,552	885,605
Investment distribution	603,907	456,154	355,848	329,375	318,067
Principal Purposes of Expenditures:					
Total operating expenditures	$ 2,461,286	$ 2,294,247	$ 2,201,696	$ 2,175,913	$ 2,032,517
General and administrative	497,043	486,444	482,527	485,306	424,770
Instruction and unsponsored research	680,848	641,241	608,423	548,256	503,901
Direct cost of sponsored research – current dollars	1,167,036	1,054,474	1,001,144	1,035,417	996,943
Direct cost of sponsored research – constant dollars (2005 = 100)	1,042,176	954,803	940,104	997,433	996,943
Scholarships and fellowships	214,383	192,131	185,399	174,140	165,458

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights (continued)

(Dollars in thousands)

	2009	2008	2007	2006	2005
Research Revenues:[A]					
Campus:					
Federal government sponsored:					
Health and Human Services	$ 255,896	$ 226,307	$ 201,557	$ 195,573	$ 180,682
Department of Defense	97,528	87,370	90,571	89,552	86,096
Department of Energy	65,773	65,611	64,899	67,265	69,927
National Science Foundation	61,386	64,973	65,057	65,163	66,768
National Aeronautics and Space Administration	27,358	25,479	27,889	31,228	32,170
Other federal	14,559	14,169	14,431	15,570	11,954
Total federal	522,500	483,909	464,404	464,351	447,597
Non-federal sponsored:					
State/local/foreign governments	27,145	18,549	13,055	15,137	17,912
Non-profits	60,538	47,695	32,200	24,833	19,744
Industry	99,219	82,194	79,725	72,743	65,108
Total non-federal	186,902	148,438	124,980	112,713	102,764
Total federal & non-federal	709,402	632,347	589,384	577,064	550,361
F&A and other adjustments	(18,620)	(10,827)	(18,586)	5,420	9,343
Total campus	690,782	621,520	570,798	582,484	559,704
Lincoln Laboratory:					
Federal government sponsored	675,329	606,850	607,270	631,292	606,441
Non-federal sponsored	2,989	3,602	4,602	5,102	4,684
F&A and other adjustments	(8,550)	9,235	(5,942)	–	–
Total Lincoln Laboratory	669,768	619,687	605,930	636,394	611,125
SMART:[B]					
Non-federal sponsored	14,522	3,963	–	–	–
Total SMART	14,522	3,963	–	–	–
Total Research Revenues	**$ 1,375,072**	**$ 1,245,170**	**$ 1,176,728**	**$ 1,218,878**	**$ 1,170,829**

[A] *The amounts in this table reflect revenues from the original source of funds.*

[B] *The amounts represent research that has taken place in Singapore.*

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

	2009	2008	2007	2006	2005
Students:					
Undergraduate					
Full-time	4,118	4,119	4,068	4,014	4,078
Part-time	35	53	59	52	58
Undergraduate Applications					
Applicants	13,396	12,445	11,374	10,440	10,466
Accepted	1,589	1,553	1,514	1,494	1,665
Acceptance rate	12%	13%	13%	14%	16%
Enrolled	1,048	1,067	1,002	996	1,077
Yield	66%	69%	66%	67%	65%
Freshmen ranking in the top 10% of their class	97%	97%	97%	97%	97%
Average SAT scores (math and verbal)	1,453	1,458	1,460	1,461	1,471
Graduate					
Full-time	5,991	5,837	5,924	5,865	5,907
Part-time	155	211	202	275	277
Graduate applications					
Applicants	17,325	16,208	15,968	14,958	15,015
Accepted	3,215	3,058	3,002	3,115	3,159
Acceptance rate	19%	19%	19%	21%	21%
Enrolled	1,955	1,825	1,857	1,876	1,782
Yield	61%	60%	62%	60%	56%
Student Financial Aid: *(in thousands of dollars)*					
Undergraduate tuition support	$ 78,534	$ 70,157	$ 65,529	$ 57,963	$ 54,649
Graduate tuition support	187,732	174,847	172,021	167,297	161,384
Fellowship stipends	27,509	25,647	25,020	32,440	31,717
Student loans	9,641	8,766	8,962	9,542	11,052
Student employment	82,287	78,892	77,732	78,503	75,917
Total financial assistance	**$ 385,703**	**$ 358,309**	**$ 349,264**	**$ 345,745**	**$ 334,719**
Tuition *(in dollars)*:					
Tuition and fees	$ 36,390	$ 34,986	$ 33,600	$ 32,300	$ 30,800
Average room and board	10,860	10,400	9,950	9,500	9,100
Faculty and staff:					
Faculty	1,009	1,008	998	992	983
Staff	13,320	12,832	12,453	11,970	11,490

Report of the Treasurer
for the year ended
June 30, 2009

Massachusetts
Institute of
Technology

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