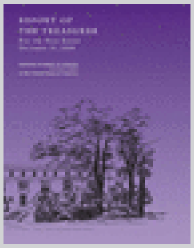

Report of the Treasurer of the National Academy of Sciences: For the Year Ended December 31, 2008

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National Academy of Sciences of the United States of America

REPORT OF THE TREASURER OF THE NATIONAL ACADEMY OF SCIENCES

For the Year
Ended December 31, 2008

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Treasurer's Statement

To the Council of the National Academy of Sciences:

This *Report of the Treasurer of the National Academy of Sciences* presents the financial position and results of operations as well as a review of the endowment, trust, and other long-term investments pool activities of our Academy for the year ended December 31, 2008.

Overview

First, we are delighted that we now have on board a new Chief Financial Officer for the National Academy of Sciences (NAS), Dr. Julie Englund. Dr. Englund has had a distinguished career in financial management, most recently as the Treasurer and Vice President for Finance at The Catholic University of America and previously as the Dean for Administration at the Harvard Law School. She has ably and efficiently taken the reins of her new NAS office at a time when the economic climate is, to say the least, complex.

Second, we function on the basis of two sources of income: that received through National Research Council (NRC) activities as compensation for the myriad of reports, studies, etc. produced each year and second, a much smaller sum that we obtain from our unrestricted endowment via the formula of the "spending rule" that we can use for essentially any purpose consistent with our charter. Regarding the first of these, the numbers are very heartening. Despite the difficult economic environment, our total program revenue for 2008 was above budget and a 7.1% increase over 2007. And for 2009, we are anticipating a still greater increase, currently estimated at 11% over the 2008 budget. There are many who deserve credit for this strong showing but not least among them is Dr. E. William Colglazier for his wise oversight as the Executive Officer of the NRC.

NAS Highlights

Development Office Programs

The NAS is grateful for the generous support of members, friends, and philanthropic organizations in 2008. The support received assists the NAS in taking a leadership and proactive role in addressing the issues and challenges facing our nation.

In 2008, despite the economic downturn, the NAS, including the Institute of Medicine (IOM), received a total of $14.1 million in new gifts and pledges, a decrease of only 4.1% from the previous year. Contributions to the NAS Annual Fund (plus other unrestricted funds) totaled $301,000 in 2008, which is essentially the same as the previous year. The gifts described below illustrate the scope of philanthropic support during 2008:

- The NAS received two gifts totaling $2 million from Raymond and Beverly Sackler and their foundation to endow a bilateral scientific forum to be operated jointly by the NAS and the Royal Society in London. The forum will hold scientific conferences and meetings in both the United States and United Kingdom, and the topics, participants, activities, and goals of these conferences will be determined by a joint panel of the NAS and the Royal Society.

- The NAS received a $140,000 charitable gift annuity from an NAS member and his wife, and a $50,000 bequest from another member.

- The Norman F. Gant/American Board of Obstetrics and Gynecology (ABOG) Fellowship was endowed through a gift of $650,000 from ABOG. Part of a broader Anniversary Fellows program of the IOM, the Gant/ABOG fellowship will provide an exceptional learning and career development opportunity to obstetricians and gynecologists early in their careers. Fellows will continue with their main academic responsibilities while engaging part time over a two-year period in IOM's health and science policy work.

- The Committee on Human Rights received $329,000 in gifts in 2008, including support from 191 members of the NAS, IOM, and the National Academy of Engineering (NAE).

In June 2008, Eric C. Johnson was appointed chief advancement officer for the National Academies. Mr. Johnson, who had been vice president for development at both Rice University and Carnegie Mellon University, oversees development for all three Academies. Mr. Johnson has been charged with creating a stronger culture of philanthropy by applying his experience in two top-25 universities to the development programs of the NAS and the other Academies. New programs and dedicated staff will focus on improving stewardship of all gifts; increasing annual unrestricted support; developing more planned gifts, such as charitable gift annuities, charitable remainder trusts, and bequests; and acquiring new endowment gifts and capital gifts to support the planned restoration of the NAS Building

Endowment, Trust, and Other Long-term Investments Pool

With the assistance of the Finance Committee, I am responsible for the prudent management of the endowment, trust, and other long-term investments (the "Pool"). The goal of the Pool is to provide stable support for the NAS General Fund; NAS programs, prizes and awards; and the Presidents' initiatives within the NRC program. To achieve this goal, the NAS Council, acting on the recommendation of the Finance Committee, has adopted a spending limitation designed to maintain the purchasing power of the Pool over time by reinvesting a portion of the annual total investment return. The spending limitation caps annual spending at 5% of the three-year average market value of the participating funds in the Pool.

The Pool saw its' market value decline from $438.0 million on 1/1/08 to $288.0 million on 12/31/08. The Pool returned -31.4% for the year, in line with the relevant market benchmarks and peer group endowments. Despite the broad diversification of the Pool's investments, the markets in 2008 were characterized by indiscriminate selling that commenced with the September fall of Lehman Brothers and spread globally to the world's stock and bond markets. Alternative investments in private equity and hedge funds fared only slightly better than the publicly traded markets but in the final analysis only cash and Treasury securities escaped the market sell off. The Pool's holdings at year-end are more defensive than would be permitted by the long term policy guidelines but still include investments in equities of approximately 51%.

Market values of the Pool, after withdrawals, for the years ended December 31, 2008 and 2007, are displayed in the following chart:

	(dollars in thousands) 2008	2007
Cash and Fixed-Income Securities	$ 63,624	$ 80,515
Equity Securities	224,398	357,530
Total	$ 288,022	$ 438,045

At the beginning of 2008, the Pool consisted of $438.0 million in assets. During the year, the Pool received contributions of $7.5 million, withdrew funds for programs of $18.0 million, and suffered investment losses of $139.5 million, resulting in an ending asset balance of $288.0 million. For the year, the Pool portfolio returned -31.4%, compared with a benchmark return of -31.5%. In 2007, the portfolio returned 11.2% versus 10.6% for the benchmark.

The Pool has consistently outperformed the market benchmarks over a long period. For the five years ending December 31, 2008, the Pool return is 2.6% compared to the market composite benchmark of 1.1% and, for the ten years ending December 31, 2008, the Pool return is 3.3% compared with the market composite benchmark of 2.3%.

In 2007, the NAS Finance Committee adopted the following investment structure for its asset allocation strategy. The comparison of these guidelines to the actual portfolio allocation at December 31, 2008, is as follows:

Overview of Current Investment Structure

		Guideline	Portfolio Allocation
Fixed-Income:	U.S. Fixed/Cash	12.0%	10.6%
	Non-U.S. Fixed	3.0%	11.5%
Equities:	U.S. Large Cap Funds	25.0%	15.6%
	U.S. Small-Mid Cap Funds	12.0%	4.0%
	Non-U.S. Stocks — Developed	20.0%	20.3%
	Non-U.S. Stocks — Emerging	8.0%	8.7%
	Real Estate Investments	5.0%	2.6%
Hedge Funds		12.0%	22.7%
Other Alternative Investments		3.0%	4.0%
Total		100.0%	100.0%

- See Schedule 2-A on page 21 for details of investments by asset class.

- The Finance Committee has opted to make only minor changes in the disposition of its investments since July 1, 2008. While it is too soon to evaluate the merits of these changes, the initial returns on investment have been excellent.

- Included in the $288.0 million total market value of the Pool as of December 31, 2008, are $5.6 million for the Woods Hole Endowment Funds, $47.4 million for the Institute of Medicine (IOM), and $7.2 million for The National Academies' Corporation (TNAC). TNAC, which is equally owned by the NAS and the National Academy of Engineering Fund (NAEF), owns and operates the Beckman Center (see note 1 to the financial statements on page 45).

- Withdrawals of $14.6 million were made to fund the President's Committee, NAS General Fund's activity, and prizes and awards for the current period. Additional withdrawals of $3.4 million were made to fund Woods Hole, IOM, and TNAC activity.

NAS General Fund

The NAS General Fund accounts for the activities of the Council, the Officers, and the Members. The primary funding for these activities is received from specified endowment, trust, and other long-term investment funds (see page 16 for detailed listing), based on the 5% spending rule.

For fiscal year 2008, the General Fund revenue totaled $7.0 million and expenditures totaled $5.4 million, resulting in a $1.6 million surplus. Comparable figures for fiscal year 2007 were $6.2 million in revenues, $5.3 million in expenditures, resulting in a surplus of $875,000.

The NAS Reserve is the accumulation of prior year surpluses, and one of the anticipated and appropriate uses of the NAS Reserve is to provide a cushion for ongoing operations during periods of revenue shortfalls. During 2008, President Ralph Cicerone has prudently spent less than the funds available, returning to the NAS Reserve $1.4 million. There are plans for a comparable degree of fiscal caution in 2009 as well. The remaining balance of the NAS Reserve at December 31, 2008, is $2.8 million. The $1.4 million surplus from fiscal year 2008 will be added to this balance in early 2009, for a net NAS Reserve balance of $4.2 million.

The 2008 NAS General Fund activity is summarized as follows:

	(dollars in thousands)
Revenues:	
Unrestricted Endowment	$ 5,638
Woods Hole Endowment	383
Communications Initiative Fund	206
Annual Giving from Members	193
Membership Dues	306
Annual Meeting	232
Short-Term Investment Interest, Royalties, etc.	33
Total Revenue	$ 6,991
Expenses:	
Development Office	$ 1,240
Member Services:	
Annual Meeting	618
Other	123
Programs/Projects:	
Cultural Programs of the NAS	384
Evolution, Education & Communication	157
Communications Initiative	206
Frontiers of Science	300
Committee on International Security & Arms Control	190
Local High School Project	35
Committee on Women in Science & Engineering	26
InterAcademy Council	181
Woods Hole	225
Foreign Meetings	194
President's Office	170
NAS Executive Office	95
NRC Operations	1,001
ISSUES Support	252
Miscellaneous	5
Total Expenses	$ 5,402
Surplus	$ 1,589
Disposition of Surplus:	
Due to NAS Reserve	1,431
Due to Woods Hole Reserve	158

The NAS Council has approved a General Funds budget of $6.5 million for fiscal year 2009, which includes a planned surplus of $900,000.

Prizes and Awards

Several award funds have existed for more than 100 years, while others were established more recently. The Home Secretary oversees the nomination process that selects award recipients and recommends to the Council (subject to legal and financial review) changes in the award cycle, amounts of the honoraria, and any other administrative changes.

Journal Publications

Financial results of the *Proceedings of the National Academy of Sciences* are shown below for the years ended December 31, 2008 and 2007:

	(dollars in thousands)	
	2008	2007
Revenues:		
Subscriptions	$ 6,906	$ 5,856
Author charges	5,535	6,605
Other	121	95
Total	$ 12,562	$ 12,556
Expenses:		
Printing	$ 6,048	$ 6,741
Other	6,429	5,539
Total	$ 12,477	$ 12,280
Net	$ 85	$ 276

Facilities

NAS owns the following facilities:

- Keck Center of the National Academies at 500 Fifth St., NW in Washington, D.C.
- National Academy of Sciences Building at 2101 Constitution Ave., NW in Washington, D.C.
- J. Erik Jonsson Center of the National Academies at 314 Quisset Dr. in Woods Hole, Massachusetts.
- Arnold and Mabel Beckman Center at 100 Academy in Irvine, California (jointly owned with NAEF through TNAC).

NAS is leasing the following facilities:

- Terrell Place Office Building (two suites) at 575 Seventh St. NW in Washington, D.C.
- National Academies Data Center at 8619 Westwood Center Drive in Vienna, Virginia.
- National Academy Press Printing Facility at 8700 Spectrum Drive in Landover, Maryland.

Last year, our Treasurer Ron Graham reported that we were working to preserve our option to expand the Keck building over the adjacent District of Columbia fire station. Since then, the District has advised us that it is undertaking a review of its city-wide property development strategy and is currently not interested in discussing development of the fire station property. This has allowed us to focus our attention on the NAS Building Restoration Project.

The plans for the NAS Building Restoration are nearing completion and the Council will make a decision on whether to go forward with the project this summer or to wait for a more propitious moment. We are hopeful that current economic conditions will keep the cost of the project down. At the same time, we have to recognize that these same conditions also make financing the project much more difficult than we anticipated just a year ago. To assist the Council in making this important decision, we are carefully monitoring the constantly changing financial landscape, analyzing our ability to take on new debt, and exploring what financing options may or may not be available for the project.

NRC Highlights

Revenues

The two main sources of revenue for the NRC are the U.S. government and private / nonfederal entities. The total contract and grant revenue from both of these sources totaled $256.2 million in 2008 and $245.7 million in 2007.

U.S. Government Contracts and Grants

NRC activities conducted in response to requests from a broad range of U.S. government agencies are funded through cost-reimbursable non-fee contracts and grants.

The total amount reimbursed by the U.S. government agencies in the year ended December 31, 2008, was $202.8 million (see following chart and the Statements of

Activities on page 43) and in the year ended December 31, 2007, was $178.0 million.

U.S. Government Revenues by Agency	(dollars in thousands)	
Agency for International Development	$	2,432
Department of Agriculture		1,327
Department of Commerce		7,793
Department of Defense:		
Department of the Air Force		4,014
Department of the Army		12,171
Department of Defense		4,898
Department of the Navy		11,433
Department of Education		361
Department of Energy		8,477
Department of Health and Human Services		17,482
Department of Homeland Security		3,165
Department of Housing and Urban Development		343
Department of the Interior		2,651
Department of Justice		1,353
Department of Labor		59
Department of State		1,068
Department of Transportation		86,621
Department of Treasury		598
Department of Veterans Affairs		3,509
Election Assistance Commission		345
Environmental Protection Agency		5,634
Executive Office of the President		619
General Accounting Office		84
General Services Administration		6
Institute of Museum and Library Services		143
Marine Mammal Commission		78
National Aeronautics and Space Administration		8,411
National Geospatial-Intelligence Agency		120
National Science Foundation		13,971
National Security Agency		114
Nuclear Regulatory Commission		105
Office of the Director of National Intelligence		55
Social Security Administration		10
United States Postal Service		132
Adjustment to Indirect Cost Receivable & Other		3,228
Total U.S. Government Agencies	**$**	**202,810**

In the past ten years, the basic core of NRC programs, which is represented by the government contracts and grants, has experienced relatively small percentage changes from one year to the next. However, in 2008, the NRC programs funded by the government increased by 13.9%. The increase was primarily attributable to programs sponsored by Department of Transportation. In 2007, the government funded programs had decreased 0.5% from the previous year.

Private/Nonfederal Contracts and Grants

Private sponsors supplemented government projects and provided for new initiatives by funding awards in the amount of $53.4 million in 2008, compared with $67.7 million in 2007. The private and nonfederal revenues were comprised of contracts and grants ($45.2 million) and other contributions ($8.2 million). (See Statements of Activities on page 43.)

- The private contracts and grants decreased from $48.8 million in 2007 to $45.2 million in 2008. This is due to an overall decrease in the number of private awards received. In 2007, NAS received 112 new private awards. In 2008, that number decreased to 97.

- The other contributions revenue decreased from $18.9 million in 2007 to $8.2 million in 2008. The 2007 figure was higher than usual due to a one-time $11.7 million contribution from TNAC to the NRC to be spent on programs conducted in whole or in part at the Beckman Center in Irvine, CA.

Expenses

The NRC programs include funding from government and private sources. Almost all contracts and grants are cost-reimbursable agreements. Therefore, even if the revenues and expenses are not equal in any one given year, the revenues and expenses will be the same over the life of the award.

As in many universities and nonprofit institutions, managing indirect cost expenditures for funding of necessary support services, while keeping these costs in reasonable proportion to program expenditures, is a continual challenge. Historically, NRC management has successfully maintained a relatively constant relationship between program and support costs, i.e., the growth rate of indirect costs has been approximately equal to the growth rate of direct costs. In 2008, total indirect expenses were $66.9 million compared to an approved budget of $69.3 million. The NAS Council approved a 2009 indirect expense budget of $72.0 million, which includes a 3% increase to the total salary budget, which is distributed on the basis of merit. This increase was approved in order to maintain a competitive position for hiring and retaining staff in the Washington, DC, market.

Related Entities

There are many financial transactions exchanged between the member organizations of the National Academies. The NRC serves as the clearinghouse for these transactions. However, it is important to note that only the financial activity and results of the NAS, NAE, IOM, and NRC are included in these financial statements. The financial activity and results of the National Academy of Engineering Fund (NAEF) and The National Academies' Corporation (TNAC) are audited and reported separately. Financial information for the NAEF is available on request from the NAE Finance Office; information for TNAC is available from the NAS Controller's Office.

Overall Financial Condition

The results of operations, per the NAS Statements of Activities, are summarized as follows:

	(dollars in millions) 2008	2007
Total Revenues	$ 131.1	$ 320.5
Total Expenses	304.1	276.5
Change in Net Assets	$ -173.0	$ 44.0

Each year, the overall financial condition of the NAS can be reviewed by taking into account the increase or decrease in the net assets of the organization. During calendar year 2008, the NAS suffered a decrease in its net assets resulting primarily from significant investment losses recorded in the endowment, trust, and other long-term investments pool.

Conclusion

The NRC continued to demonstrate financial strength and stability during 2008, with revenues projected to increase during 2009. The indirect expenses have been well-managed during the year. As is the case for all endowments, the stock market's immense sell-off has had a serious impact on the value of the NAS endowment, trust, and other long-term investments pool. We are weathering this storm with careful spending decisions now and planned for the future. The Finance Committee has made some changes to the Endowment investments and will continue to work to strengthen the portfolio.

I would like to thank the Council, the Committee on Budget and Internal Affairs, the Finance Committee, and NRC management for their continued input and support. Also, thanks to the Controller's Office for preparation of the financial statements and to all of the finance staff for maintaining strong financial controls and reporting.

Jeremiah P. Ostriker
Treasurer

I. Investments

SCHEDULE 1

Endowment, Trust, and Other Long–term Investments Pool
Description of Funds for the Year Ended December 31, 2008

I. Funds that Support the NAS

A. General Fund

		Capital Contribution (Column 1 of Schedule 1–A)
Agassiz Fund — Bequest of Alexander Agassiz, a member of the Academy.	$	50,000
Carnegie Fund — Balance of the original gift of $5,000,000 from the Carnegie Corporation of New York, for the purposes of the National Academy of Sciences/National Research Council, $1,725,000 of which has been used to cover the cost of the Academy building and the acquisition of other property.		3,275,000
Commonwealth Fund — A grant of the Commonwealth Fund for capital endowment of the Academy.		500,000
Carl Eckart Fund — Bequest of Carl Eckart received for the general purposes of the Academy.		1,246,366
Ford Foundation Fund — A grant of the Ford Foundation for capital endowment of the Academy.		5,000,000
Henrietta and Alexander Hollaender Fund — A bequest to the Academy from Dr. Alexander and Mrs. Henrietta Hollaender.		500,000
Grayce B. Kerr Fund — A grant from Grayce B. Kerr for the general purposes of the Academy.		250,000
Nealley Fund — Bequest of George True Nealley for the general purposes of the Academy.		19,556
Simon Ramo Fund — A gift from Simon Ramo for the general purposes of the Academy.		14,000
Rockefeller Foundation Fund — A grant of the Rockefeller Foundation to the National Academy of Sciences for the general purposes of the Academy.		1,000,000
Dorothea and Herbert Simon Fund — A gift from Dorothea and Herbert Simon for the general purposes of the Academy.		644,616
Sloan Foundation Fund — A grant of the Alfred P. Sloan Foundation for the general purposes of the Academy.		1,000,000
Amy Prudden Turner Fund — Bequest of Amy Prudden Turner for the general purposes of the Academy to serve as a memorial to her husband Scott and herself.		29,662
Anonymous Endowment Fund — A gift for the general purposes of the Academy from a donor who wishes to remain anonymous.		7,146,660
General Endowment Fund — Bequest of David Lloyd Fillman and others for the general purposes of the Academy. By action of the Council, the International Critical Tables were transferred into this fund during fiscal year 1976, and proceeds from the sale of the Audubon Folios were transferred in fiscal year 1981.		3,606,295
Members Endowment Fund — Contributions from various members to be used for the general purposes of the Academy.		2,717,179
Subtotal — General Fund	$	26,999,334

B. Woods Hole

Peter C. Cornell Trust Fund — To memorialize Detlev W. Bronk, former member and president of the Academy, for his contributions to science and the nation and to recognize the leadership and notable accomplishments of John S. Coleman as a member of the Academy's staff. The gift may be fully expended for its intended purpose.	$	100,000
J. Erik Jonsson Woods Hole Fund — A gift for the Woods Hole Study Center of the NAS in honor of J. Erik Jonsson, one of the founders of Texas Instruments and a former mayor of Dallas. The donor wishes to remain anonymous.		2,002,500
Richard King Mellon Foundation Fund — Grant from the Richard King Mellon Foundation for maintenance of the building and grounds at the Woods Hole Study Center.		50,000
Penzance Foundation Fund — A grant for the J. Erik Jonsson Woods Hole Study Center especially for support of the property's Clark Carriage House.		502,500
Woods Hole Endowment — Contributions from the Brown Foundation and various individuals for maintenance of the Woods Hole Study Center.		971,400

SCHEDULE 1

Endowment, Trust, and Other Long–term Investments Pool
Description of Funds for the Year Ended December 31, 2008

	Capital Contribution (Column 1 of Schedule 1–A)
Woods Hole Fund — Contributions from various individuals for maintenance of the Woods Hole Study Center.	12,874
Subtotal — Woods Hole	$ 3,639,274

C. Presidents' Committee Fund

Basic Science Fund - Earth Sciences — Contribution from an anonymous donor to match a gift from the Palisades Geophysical Institution of New York. Together these contributions will be used to establish the Maurice Ewing and Planetary Sciences Fund of the National Academy of Sciences.	$ 503,231
Biology and Biotechnology Fund — Contributions from various individuals to be used for studies and other activities that address emerging research and policy issues affecting biology and biotechnology, especially cross–disciplinary aspects and those involving the interface of science, technology, and commerce and used for dissemination and outreach efforts that seek to inform policymakers about the findings of the results.	420,232
Thomas Lincoln Casey Fund — Bequest of Thomas L. Casey as a memorial to his father, Thomas Lincoln Casey, to be used in the advancement of engineering in all its applications.	258,081
The Coca–Cola Foundation Fund — A grant to be used for initiatives in precollege science and mathematics education.	50,000
Arthur L. Day Fund — A bequest of Arthur L. Day, a member of the Academy, for the purpose of advancing studies of the physics of the earth.	5,047,846
Cecil and Ida Green Fund — A gift from Cecil and Ida Green to be used to support activities dedicated to improving the quality of life of our people.	467,256
W. K. Kellogg Foundation Fund — A grant of the W. K. Kellogg Foundation for an endowment in the areas of education, health, and agriculture. The income will be used to fund studies and other activities within these program areas such as enhancing the quality of U.S. education, assuring access to quality health care, assessing the role of biotechnology in the future of agriculture, and similar issues as they arise.	20,000,000
Kobelt Fund — Bequest of Nina I. Kobelt to be used for research scholarships for worthy students.	296,593
Andrew W. Mellon Foundation Fund — A grant from the Andrew W. Mellon Foundation to endow a program of Academy-initiated studies.	1,000,000
George and Cynthia Mitchell Endowment for Sustainability Sciences — Contribution from the George and Cynthia Mitchell Foundation to be held and used by the Academy in perpetuity to guide academic, government and other institutions in the development of sustainability science and to encourage the world's business community to apply knowledge from this new field in business practices.	14,000,000
George and Cynthia Mitchell Matching Endowment — Contributions from public and private sources to be used to support the same purposes as the original George and Cynthia Mitchell Endowment for sustainability Sciences. Also, to raise funds to be eligible for a matching gift from George and Cynthia Mitchell.	39,749
Frank Press Fund for Dissemination and Outreach — Established with contributions from members of the Presidents' Circle of the NAS, NAE, and the IOM, the income from the fund is to support a variety of dissemination and outreach activities that seek to share the Academy's complex knowledge and resources with the policy making community and the general public.	1,167,255
Scientists and Engineers for the Future Fund — Contribution from an individual who wishes to remain anonymous. The income from this fund is used to support educational projects focused on maintaining the health of American science and technology by ensuring an adequate supply of well-prepared American scientists and engineers for the future.	1,000,000
Subtotal — Presidents' Committee Funds	$ 44,250,243

SCHEDULE 1

Endowment, Trust, and Other Long–term Investments Pool
Description of Funds for the Year Ended December 31, 2008

D. Program Specific Funds

	Capital Contribution (Column 1 of Schedule 1–A)
Arnold and Mabel Beckman Fund of the National Academies of Sciences and Engineering — A fully expendable fund designated for support of programs at the Beckman Center. The fund was established to receive contributions of unexpended income from the TNAC operations endowment as well as earnings from the TNAC program endowment.	$ 11,951,876
Billings Fund — Bequest of Mrs. Mary Ann Palmer Draper (Mrs. Henry Draper) to support publication of the *Proceedings of the National Academy of Sciences* or for other purposes to be determined by the Academy.	50,102
Blakeslee Fund — Bequest of Albert Francis Blakeslee, the income from which is to be used in support of genetics research.	886,902
Henry G. Booker Fellowship Fund — Contributions from various individuals to provide a travel grant to one young American radio scientist to attend each International Union of Radio Science Assembly as a Henry G. Booker Fellow.	20,826
Cultural Programs of the National Academy of Sciences Fund — Contributions from various sources for sponsoring free cultural programs of merit for local residents and for providing a platform for musicians and artists.	18,934
Henry and Bryna David Endowment — A bequest of Henry and Bryna David for the establishment and funding of the Henry and Bryna David Endowment to support the communication of insights and discoveries from the social and behavioral sciences to policy makers and other decision makers to promote informed public policy and staff development through various Academy activities.	850,000
Global Commons Project Fund	39,058
Marian Koshland Science Museum Fund — Contributions from Dr. Daniel E. Koshland, Jr. and the Koshland Foundation to fund the operation and activities of the museum for the purpose of extending the resources of the National Academies and increasing public understanding of the nature and value of science. Dr. Koshland's original commitment of $30 million was completed in 2004. The gift was used to fund the museum's opening in April 2004 and ongoing operations until November 2004, when the remainder was invested in the Endowment and Other Long-term Investments Pool.	22,786,243
Bruce Alberts Fund of the Marian Koshland Science Museum — Contributions from Dr. Daniel E. Koshland, Jr. and the Koshland Foundation to support the travelling costs of the museum's exhibits, to fund new exhibits to replace traveling exhibits, and to extend the museum's outreach to school districts.	5,194,909
National Science Resources Center Fund — Funded by royalty revenues from elementary and middle school science kits developed by the National Science Resources Center (NSRC). Funds will be used to provide core support of NSRC programs to enhance and improve the learning and teaching of science in domestic and international schools.	4,986,473
New Canaan Library Fund — Contribution from the Board of the New Canaan Library to permanently maintain a current National Academies book collection in honor of Dr. H.R. Shepherd at their library.	4,000
Kumar and Shela Patel Endowment for US–India Dialogs — To support US-India scientific and technical communication and dialog through various Academy activities.	600,000
Arthur M. Sackler Colloquia of the National Academy of Sciences Fund — A gift from Mrs. Arthur M. Sackler to endow a series of scientific symposia that promote interaction among world–class researchers in rapidly advancing scientific fields.	4,375,000
The Raymond and Beverly Sackler USA–UK Scientific Forum Endowment — Contribution from the Raymond and Beverly Sackler Foundation to endow a bilateral scientific forum. The primary purpose of this Forum is to forge a partnership between the scientific leadership of the United Kingdom and the United States through conferences and meetings on topics of immediate and future scientific concern.	2,025,108

Endowment, Trust, and Other Long–term Investments Pool Description of Funds for the Year Ended December 31, 2008		**Capital Contribution (Column 1 of Schedule 1–A)**
U.S. National Committee for the International Astronomical Union (USNC/IAU) Fund — Contributions from USNC/IAU to provide funds in support of participation by U.S. astronomers in the activities of the International Astronomical Union Triennial General Assemblies.		100,000
NAS Members Endowment(s) — Additional member contributions that have been designated for special purposes, such as the Board on Chemical Sciences Fund and the Section 14 Chemistry Discretionary Fund.		58,941
Subtotal — Program Specific Funds	$	53,948,372

E. Prizes and Awards

American Psychological Association (APA) Science Directorate Fund — A gift from the APA to conduct activities that will help inform the public of the knowledge base, value, and importance of behavioral science research.	$	30,000
Henryk Arctowski Fund — Bequest of Jane Arctowski in memory of her husband Henryk Arctowski, for the promotion and study of solar activity changes of short or long duration and their effects upon the ionosphere and terrestrial atmosphere.		95,736
Bache Fund — Bequest of Alexander Dallas Bache, a member of the Academy, to aid research in the physical and natural sciences.		60,000
Blaauw Fund — Bequest of Marianne Blaauw to establish the Edmond and Marianne Blaauw Fund to support research in the field of ophthalmology.		71,299
John J. Carty Fund — Gift of the American Telephone and Telegraph Company in recognition of the distinguished achievements of John J. Carty and as a lasting testimonial of the love and esteem in which he was held by his many thousands of associates in the Bell System, for a gold medal and award for noteworthy and distinguished accomplishments in any field of science.		25,000
Comstock Fund — Gift of General Cyrus B. Comstock, a member of the Academy, to promote research in electricity, magnetism, or radiant energy through the Comstock Prize to be awarded for notable investigations.		10,400
Draper Fund — Gift of Mrs. Henry Draper in memory of her husband, a former member of the Academy, to found the Henry Draper Medal to be awarded for notable investigations in astronomical physics; the balance of income is applied to aid research in this science.		6,000
Elliot Fund — Gift of Margaret Henderson Elliot to found the Daniel Giraud Elliot Gold Medal and Honorarium for the most meritorious work on zoology and paleontology published in each year.		8,000
Estes Award in Social and Behavioral Sciences — A gift from William K. and Katherine W. Estes to be used initially for an award relating to contributions to the prevention of nuclear war. After several awards are given for this purpose, the remaining money will be set aside for use by the Division of Behavioral and Social Sciences and Education.		79,849
Gibbs Brothers Fund — Gift of William Francis Gibbs and Frederic H. Gibbs to found the Gibbs Brothers Medal for outstanding contributions in the field of naval architecture and marine engineering.		24,000
Gibbs Fund — Established by gift of Wolcott Gibbs, a member of the Academy, and increased by a bequest of the late Morris Loeb in 1914 for the promotion of research in chemistry.		5,274
Ralph E. Gomory Award for the Application of Science — A grant from the International Business Machines Corporation for an award to be given in honor of Ralph Gomory.		179,046
Gould Fund — Gift of Mrs. Alice Bache Gould in memory of her father, former member of the Academy, for the promotion of research in astronomy, bequest of $20,000 from the estate of Alice Bache Gould received in 1954, and bequest of $10,000 from the estate of Elizabeth Chandler Hockley received in 1979.		50,000

SCHEDULE 1

Endowment, Trust, and Other Long–term Investments Pool Description of Funds for the Year Ended December 31, 2008

Fund	Capital Contribution (Column 1 of Schedule 1–A)
Joseph Henry Fund — Contributions by Fairman Rogers, Joseph Patterson, George W. Childs, and others as an expression of their respect and esteem for Joseph Henry, for the establishment of a fund to assist meritorious investigators, especially in the direction of original research.	39,740
Alexander Hollaender Award in Biophysics — A bequest of Alexander Hollaender, the income from which is to be used to provide a prize to an outstanding biophysicist. The prize is to be given at the Annual Meeting of the Academy, with selection of the recipient at the Academy's discretion.	100,000
Hunsaker Fund — Gift of Mr. and Mrs. J. C. Hunsaker to found an Academy award in the field of aeronautical engineering.	24,750
Franklin Livingston Hunt Fund — Bequest of Franklin Livingston Hunt to aid research in physics, chemistry, and preventive medicine. A portion of the income may also be used from time to time to provide a medal to be known as the Franklin Livingston Hunt Medal for distinguished accomplishment in scientific research.	10,465
Kovalenko Fund — Gift of Michael S. Kovalenko, in memory of his wife, to found the Jessie Stevenson Kovalenko Gold Medal for meritorious research in medical sciences.	63,789
Marsh Fund — Bequest of Othniel Charles Marsh, a member of the Academy, to promote original research in the natural sciences.	10,000
George P. Merrill Fund — Gift of Mrs. George P. Merrill, the income from which is to be used for studies of meteors, meteorites, and space.	10,000
Stanley Miller Award — Bequest of Stanley L. Miller, member of the Academy, to establish a medal to be awarded to a recipient selected by the Academy for work or contributions to early earth studies. The National Academy of Sciences Award in Early Earth and Life Sciences will rotate presentations of the Stanley Miller Medal for research on early earth sciences and the Charles Doolittle Walcott Medal for research on Cambrian or pre-Cambrian life and its history.	154,554
Monsanto Award in Molecular Biology — A grant from the Monsanto Company for an award to be given in recognition of contributions in the field of molecular biology.	421,374
Murray Fund — Gift of the late Sir John Murray to found the Alexander Agassiz Gold Medal in honor of a former member and president of the Academy, to be awarded for original contributions to the science of oceanography.	6,000
National Academy of Sciences Award for Chemistry in Service to Society — Established by the E. I. DuPont de Nemours & Company to recognize contributions to chemistry, whether in fundamental science or its applications, that clearly satisfy a societal need. Given in alternate years to chemists working in industry, academia, government, and nonprofit organizations.	181,838
National Academy of Sciences Award in Mathematics — Established by the American Mathematical Society for a prize to be awarded every four years in mathematics.	53,597
National Academy of Sciences Award in Chemical Sciences — An annual award currently sponsored and endowed by The Merck Company Foundation to recognize distinction in research and broad fundamental impact in pure chemistry. This award was originally established by the Occidental Petroleum Corporation in honor of Armand Hammer.	478,277
National Academy of Sciences Award in Neuroscience — Established by the Fidia Research Foundation for an award in neuroscience, to be given every three years.	140,206
National Academy of Sciences Fund for Sciences and Technology in International Affairs — Contributions from Cecil and Ida Green, J. Erik Jonsson, Jerome B. Wiesner, and Academy sources to establish the National Academy of Sciences Fund for Sciences and Technology in International Affairs in honor of Walter A. Rosenblith.	49,119
Pradel Fund — A bequest of Jules Pradel to be applied to work on the human central nervous system and allied subjects.	16,392
H. P. Robertson Lectureship Fund — Contributions by friends of H. P. Robertson, foreign secretary of the Academy, to establish a lectureship under which distinguished scientists would be invited from anywhere in the world to present lectures to be known as the Robertson Memorial Lecture of the National Academy of Sciences.	20,325

Endowment, Trust, and Other Long–term Investments Pool
Description of Funds for the Year Ended December 31, 2008

		Capital Contribution (Column 1 of Schedule 1–A)
Helen P. Smith Fund — A bequest of Helen P. Smith in memory of her husband, Gilbert Morgan Smith, to establish a triennial medal and honorarium to be conferred in recognition of published research in marine and freshwater algae.		67,107
Mrs. J. Lawrence Smith Fund — Gift of Mrs. J. Lawrence Smith in memory of her husband, a former member of the Academy, to found the J. Lawrence Smith Gold Medal to be awarded for important investigations of meteoric bodies and to assist, by grants of money, research concerning such objects.		8,000
Thompson Fund — Gift of Mrs. Mary Clark Thompson for a gold medal of appropriate design, to be known as the Mary Clark Thompson Gold Medal, to be awarded for important services to geology and paleontology.		10,000
Troland Fund — Bequest of Leonard T. Troland to be known as the Troland Foundation for Research in Psychophysics. The income is to be expended with a view to the actual advancement of scientific knowledge in the field of psychophysics.		505,359
Walcott Fund — Gift of Mrs. Mary Vaux Walcott in honor of her husband, a former member and president of the Academy, to establish a medal to be awarded to a recipient selected by the Academy for work or contributions to Cambrian or pre-Cambrian life and its history. The National Academy of Sciences Award in Early Earth and Life Sciences will rotate presentations of the Charles Doolittle Walcott Medal for research on Cambrian or pre–Cambrian life and its history and the Stanley Miller Medal for research on early earth sciences.		5,000
G. K. Warren Fund — Gift of Miss Emily B. Warren in memory of her father, a member of the Academy, the income from which is to be used for an award to be known as the G. K. Warren Prize in any field of science.		15,000
Watson Fund — Bequest of James Craig Watson, a member of the Academy, for the promotion of astronomical sciences through the award of the Watson Gold Medal and grants of money in aid of research.		25,000
Subtotal — Prizes and Awards	$	3,060,496

F. Reserve Funds

National Academy of Sciences Reserve Fund — Accumulated surplus from prior years' NAS General Fund operating budget. The reserve provides additional funding for ongoing operations during periods of market decline.	$	4,090,168
Proceedings of the National Academy of Sciences (PNAS) Fund		1,000,000
Transportation Research Board (TRB) Reserve Fund — Holds income in excess of expenditures for TRB core support activities in a fiscal year. This fund is used to cover temporary shortfalls and extraordinary one-time expenditures.		1,500,000
Subtotal — Reserve Funds	$	6,590,168
Subtotal — Funds that Support the NAS	$	138,487,887

II. Funds that Support the IOM

A. General Funds

General Endowment Fund — Contributions from various sources, including members of the Institute of Medicine, for capital endowment of the Institute of Medicine.	$	1,113,097
Robert Wood Johnson Foundation Fund — An endowment grant, the income from which is to be used for core support of the Institute of Medicine.		5,000,000
Institute of Medicine Kellogg Fund — A grant from the Kellogg Foundation to be used for the general purposes of the Institute of Medicine.		282,500
Institute of Medicine Members' Dues		197,500

Endowment, Trust, and Other Long–term Investments Pool Description of Funds for the Year Ended December 31, 2008

	Capital Contribution (Column 1 of Schedule 1–A)
Henry J. Kaiser Family Foundation Fund — Contribution to an endowment fund to support core activities of the Institute of Medicine. The grant indicates the Foundation's view that the Institute of Medicine is of great importance to the development of sound social policy related to health. In 1989 this grant was amended by the Kaiser Family Foundation to provide for the transfer of $250,000 as a matching contribution to the endowment contribution to the Institute of Medicine's Food and Nutrition Board.	488,485
John D. and Catherine T. MacArthur Foundation Fund — A grant to be used exclusively as an endowment to the Institute of Medicine, the income from which is restricted to the general purposes of the Institute.	5,000,000
Pharmaceutical Discretionary Fund — A grant from W. K. Kellogg to further the Institute of Medicine's long-range program development.	480,000
Pharmaceutical Endowment Fund — Contributions of $250,000 over a period of five years from Glaxo, Inc., and $10,000 from Eli Lilly Company, the income from which is to be used for the general purposes of the Institute of Medicine.	259,448
Miscellaneous Private Sector Fund — Contributions from Kaiser Permanente to be used for core support requirements of the Institute of Medicine.	26,346
Subtotal — General Funds	$ 12,847,376

B. Program Specific Funds

Distinguished Scholar Fund — Contributions from various IOM members to permit the selection of one or more persons of senior caliber to spend a period of time at the IOM in scholarly pursuits related to key program initiatives.	$ 16,550
Food and Nutrition Board (FNB) Fund — Grant of $250,000 to the Institute of Medicine as a contribution to the endowment fund to support core activities of the Food and Nutrition Board. This award was contingent on the Institute of Medicine transferring a matching amount from the 1986 unrestricted contribution from the Kaiser family for general core support of the Institute. Further contributions to the FNB endowment would be matched by one dollar from the earlier grant for every two dollars of new contributions.	525,350
Food and Nutrition Board Corporations Fund — Contributions from Monsanto Company and Nestle, USA, Inc., to provide support for FNB activities.	125,000
Food and Nutrition Board Members Fund — Contributions from various members to be used for general purposes of the Food and Nutrition Board.	4,550
Norman F. Gant, M.D. and American Board of Obstetrics and Gynecology Fellowship Fund — A gift from the American Board of Obstetrics and Gynecology for an endowment to establish the Norman F. Gant, M.D. and American Board of Obstetrics and Gynecology Fellowship fund at the Institute of Medicine for an early career health scientist in the field of obstetrics and gynecology, as part of IOM's Anniversary Fellows program.	650,000
David and Betty Hamburg Endowment Fund — Contributions from various individuals in support of communication/dissemination programs, collaborations among key public health stakeholders, and forward-looking studies. This fund honors former IOM president David Hamburg and his wife, colleague, and longtime NRC participant Beatrix Hamburg.	987,775
Howard Hughes Medical Institute Fund — Contribution for the exclusive use of the Institute of Medicine to initiate and maintain a program of studies whose purpose is to foster the translation of science into advances in health.	5,000,000
Kellogg Health of the Public Fund — Contribution for the establishment of the Kellogg Health of the Public Fund, an endowment which shall be held and used by the National Academy of Sciences to advance the Institute of Medicine's capacity to contribute to the improvement of the health of America's communities.	4,460,620
Kellogg Health of the Public Fund Matching Contributions — In response to the Kellogg challenge grant to match dollar for dollar up to $2.5 million to support communication and outreach activities now and for future projects.	2,278,844

SCHEDULE 1

Endowment, Trust, and Other Long–term Investments Pool Description of Funds for the Year Ended December 31, 2008

		Capital Contribution (Column 1 of Schedule 1–A)
Richard and Hinda Rosenthal Lecture Series — Through the generosity of the Richard and Hinda Rosenthal Foundation, a lecture series was established in 1988. In 2000, the Richard and Hinda Rosenthal Lecture Series was endowed at the Institute of Medicine of the National Academy of Sciences to bring greater attention to some of the critical health policy issues facing the country.		1,000,000
Women's Health Issues Fund — Contribution from Syntex (U.S.A.), Inc., to be used for purposes related to women's health issues.		20,000
Subtotal — Program Specific Funds	$	15,068,689
C. Prizes and Awards		
Gustav O. Lienhard Award — Initially established by an annual grant award in 1986, the Robert Wood Johnson Foundation in 1991 approved a grant for endowment of the Gustav O. Lienhard Award to be given annually in recognition of an outstanding contribution to the advancement of health care.	$	1,200,000
Rhoda and Bernard G. Sarnat International Prize in Mental Health — A grant from Rhoda and Bernard G. Sarnat for the purpose of honoring an individual, group, or organization for distinguished accomplishments in the field of mental health.		1,009,179
Subtotal — Prizes and Awards	$	2,209,179
D. Reserve Funds		
IOM Reserve Fund — Unexpended balance earned on endowment based on IOM Council spending plan. The IOM reserve permits the effective management of unanticipated financial emergencies.	$	500,000
Subtotal — Reserve Funds	$	500,000
Subtotal — Funds that Support the IOM	$	30,625,244
Subtotal — NAS and IOM Funds	$	169,113,131
III. FUNDS HELD ON BEHALF OF OTHERS		
A. The National Academies' Corporation (TNAC)		
Operations Endowment — An endowment from the Arnold and Mabel Beckman Foundation to TNAC to support operations of the Beckman Center in Irvine, California. The endowment is held on behalf of TNAC and invested by the NAS.	$	8,000,000
Program Endowment — An endowment from the Arnold and Mabel Beckman Foundation to TNAC to support NRC program activities conducted in whole or in part at the Beckman Center. The endowment is held on behalf of TNAC and invested by the NAS.		1,939,644
Subtotal — The National Academies' Corporation	$	9,939,644
TOTAL	$	179,052,775

SCHEDULE 1-A

Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2008

	(Dollars in thousands)					
	Capital Contributions as of Dec. 31, 2008	Market Value at Dec. 31, 2007	2008 Contributions	2008 Investment Loss	2008 Expenditures & Transfers	Market Value at Dec. 31, 2008
I. Funds that Support the NAS						
A. General Fund						
Agassiz Fund	$ 50	$ 640	$ -	$ (201)	$ (28)	$ 411
Carnegie Fund	3,275	44,297	-	(13,933)	(1,913)	28,451
Commonwealth Fund	500	2,874	-	(904)	(123)	1,847
Carl Eckart Fund	1,246	2,928	-	(921)	(127)	1,880
Ford Foundation Fund	5,000	28,257	-	(8,892)	(1,209)	18,156
Henrietta and Alexander Hollaender Fund	500	1,262	-	(397)	(54)	811
Grayce B. Kerr Fund	250	627	-	(197)	(27)	403
Nealley Fund	19	254	-	(80)	(11)	163
Simon Ramo Fund	14	43	-	(13)	(2)	28
Rockefeller Foundation Fund	1,000	5,730	-	(1,803)	(245)	3,682
Dorothea and Herbert Simon Fund	645	1,312	-	(413)	(56)	843
Sloan Foundation Fund	1,000	5,711	-	(1,797)	(245)	3,669
Amy Prudden Turner Fund	30	145	-	(45)	(6)	94
Anonymous Endowment Fund	7,147	18,357	-	(5,776)	(784)	11,797
General Endowment Fund	3,606	10,483	-	(3,443)	(375)	6,665
Members Endowment Fund	2,717	6,584	69	(1,950)	(344)	4,359
	$ 26,999	$ 129,504	$ 69	$ (40,765)	$ (5,549)	$ 83,259
B. Woods Hole						
Peter C. Cornell Trust Fund	$ 100	$ 308	$ -	$ (98)	$ (13)	$ 197
J. Erik Jonsson Woods Hole Fund	2,002	5,339	-	(1,695)	(229)	3,415
Richard King Mellon Foundation Fund	50	226	-	(72)	(10)	144
Penzance Foundation Fund	503	1,342	-	(427)	(57)	858
Woods Hole Endowment Fund	971	1,543	-	(490)	(66)	987
Woods Hole Fund	13	47	-	(14)	(2)	31
	$ 3,639	$ 8,805	$ -	$ (2,796)	$ (377)	$ 5,632
C. Presidents' Committee Funds						
Basic Science Fund - Earth Sciences	$ 503	$ 1,498	$ -	$ (484)	$ (1)	$ 1,013
Biology and Biotechnology Fund	420	993	-	(316)	(16)	661
Thomas Lincoln Casey Fund	258	7,415	-	(2,353)	(226)	4,836
Coca-Cola Foundation Fund	50	160	-	(52)	-	108
Arthur L. Day Fund	5,048	20,532	-	(6,413)	(940)	13,179
Cecil and Ida Green Fund	467	1,764	-	(568)	(13)	1,183
W. K. Kellogg Foundation Fund	20,000	51,504	-	(16,317)	(1,570)	33,617
Kobelt Fund	297	2,320	-	(735)	(58)	1,527
Andrew W. Mellon Foundation Fund	1,000	2,049	-	(647)	(154)	1,248
George and Cynthia Mitchell Endowment for Sustainability Sciences	14,000	17,427	2,000	(6,025)	(470)	12,932
George and Cynthia Mitchell Matching Endowment	40	70	1	(23)	-	48
Frank Press Fund for Dissemination and Outreach	1,167	2,773	-	(855)	(180)	1,738
Scientists and Engineers for the Future Fund	1,000	2,007	-	(636)	(54)	1,317
	$ 44,250	$ 110,512	$ 2,001	$ (35,424)	$ (3,682)	$ 73,407

SCHEDULE 1-A

Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2008

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2008	Market Value at Dec. 31, 2007	2008 Contributions	2008 Investment Loss	2008 Expenditures & Transfers	Market Value at Dec. 31, 2008
D. Program Specific Funds						
Arnold and Mabel Beckman Fund of the NAS and NAE	$ 11,952	$ 11,299	$ 274	$ (3,261)	$ (1,957)	$ 6,355
Billings Fund	50	1,015	-	(328)	-	687
Blakeslee Fund	887	2,910	-	(901)	(131)	1,878
Henry G. Booker Fellowship Fund	21	66	-	(21)	(2)	43
Communications Initiative Fund	-	4,163	-	(1,355)	(200)	2,608
Cultural Programs of the NAS Fund	19	29	5	(11)	-	23
Henry and Bryna David Endowment	850	1,540	-	(492)	(19)	1,029
Global Commons Project Fund	39	181	-	(59)	-	122
Marian Koshland Science Museum Fund	22,786	28,354	-	(8,770)	(1,793)	17,791
Bruce Alberts Fund for the Marian Koshland Science Museum	5,195	7,329	-	(2,340)	(137)	4,852
National Science Resources Center Fund	4,987	6,490	-	(2,099)	(3)	4,388
New Canaan Library Fund	4	12	-	(4)	-	8
Kumar and Shela Patel Endowment for US-India Dialogs	600	988	-	(309)	(39)	640
Arthur M. Sackler Colloquia Fund	4,375	6,417	625	(2,012)	(301)	4,729
Raymond & Beverly Sackler USA-UK Scientific Forum Endowment	2,025	-	2,025	(566)	-	1,459
USNC/IAU	100	195	-	(63)	-	132
NAS Members Endowment(s)	59	311	-	(100)	-	211
	$ 53,949	$ 71,299	$ 2,929	$ (22,691)	$ (4,582)	$ 46,955
E. Prizes and Awards						
American Psychological Association Science Directorate Fund	$ 30	$ 78	$ -	$ (25)	$ (1)	$ 52
Henryk Arctowski Fund	96	3,854	-	(1,237)	(87)	2,530
Bache Fund	60	454	-	(147)	-	307
Blaauw Fund	71	982	-	(317)	-	665
John J. Carty Fund	25	898	-	(281)	(32)	585
Comstock Fund	11	922	-	(298)	(2)	622
Draper Fund	6	392	-	(127)	(1)	264
Elliot Fund	8	217	-	(64)	(20)	133
Estes Award in Social and Behavioral Sciences	80	315	-	(102)	-	213
Gibbs Brothers Fund	24	350	-	(112)	(5)	233
Gibbs Fund	5	142	-	(46)	-	96
Ralph E. Gomory Award for the Application of Science	179	604	-	(185)	(34)	385
Gould Fund	50	814	-	(263)	-	551
Joseph Henry Fund	40	531	-	(171)	(1)	359
Alexander Hollaender Award in Biophysics	100	369	-	(119)	(1)	249
Hunsaker Fund	25	485	-	(157)	-	328
Franklin Livingston Hunt Fund	11	260	-	(84)	-	176
Kovalenko Fund	64	1,570	-	(507)	(1)	1,062
Marsh Fund	10	232	-	(75)	-	157

SCHEDULE 1-A

Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2008

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2008	Market Value at Dec. 31, 2007	2008 Contributions	2008 Investment Loss	2008 Expenditures & Transfers	Market Value at Dec. 31, 2008
George P. Merrill Fund	$ 10	$ 737	$ -	$ (238)	$ (1)	$ 498
Stanley Miller Award	155	-	155	(45)	-	110
Monsanto Award in Molecular Biology	421	1,297	-	(409)	(35)	853
Murray Fund	6	203	-	(66)	-	137
NAS Award for Chemistry in Service to Society	182	452	-	(147)	(1)	304
NAS Award in Mathematics	54	79	-	(23)	(8)	48
NAS Award in Chemical Sciences	478	652	-	(205)	(21)	426
NAS Award in Neuroscience	140	560	-	(181)	-	379
NAS Fund for Sciences and Technology in International Affairs	49	280	-	(90)	-	190
Pradel Fund	16	1,879	-	(607)	(1)	1,271
H. P. Robertson Lectureship Fund	20	324	-	(105)	-	219
Helen P. Smith Fund	67	738	-	(238)	(3)	497
Mrs. J. Lawrence Smith Fund	8	806	-	(262)	-	544
Thompson Fund	10	299	-	(97)	(1)	201
Troland Fund	505	5,100	-	(1,614)	(116)	3,370
Walcott Fund	5	93	-	(30)	-	63
G. K. Warren Fund	15	221	-	(71)	-	150
Watson Fund	25	1,579	-	(506)	(14)	1,059
	$ 3,061	$ 28,768	$ 155	$ (9,251)	$ (386)	$ 19,286
F. Reserve Funds						
National Academy of Sciences Reserve Fund	$ 4,090	$ 3,324	$ 914	$ (1,318)	$ (96)	$ 2,824
Proceedings of the National Academy of Sciences Fund	1,000	1,169	-	(341)	(1)	827
Transportation Research Board Reserve Fund	1,500	2,486	-	(803)	(1)	1,682
Due to (from) National Academy of Sciences	-	(17)	-	-	(393)	(410)
	$ 6,590	$ 6,962	$ 914	$ (2,462)	$ (491)	$ 4,923
Subtotal — Funds that Support the NAS	**$ 138,488**	**$ 355,850**	**$ 6,068**	**$ (113,389)**	**$ (15,067)**	**$ 233,462**
II. Funds that Support the IOM						
A. General Funds						
General Endowment Fund	$ 1,113	$ 2,243	$ -	$ (700)	$ (114)	$ 1,429
Robert Wood Johnson Foundation Fund	5,000	13,239	-	(4,128)	(687)	8,424
IOM Kellogg Fund	283	569	-	(184)	-	385
IOM Members Dues	198	398	-	(128)	(1)	269
Henry J. Kaiser Family Foundation Fund	488	1,033	-	(322)	(54)	657
John D. and Catherine T. MacArthur Foundation Fund	5,000	13,166	-	(4,127)	(667)	8,372
Pharmaceutical Discretionary Fund	480	1,016	-	(328)	(1)	687
Pharmaceutical Endowment Fund	259	626	-	(195)	(32)	399
Miscellaneous Private Sector Fund	26	74	-	(23)	(4)	47
	$ 12,847	$ 32,364	$ -	$ (10,135)	$ (1,560)	$ 20,669

SCHEDULE 1-A

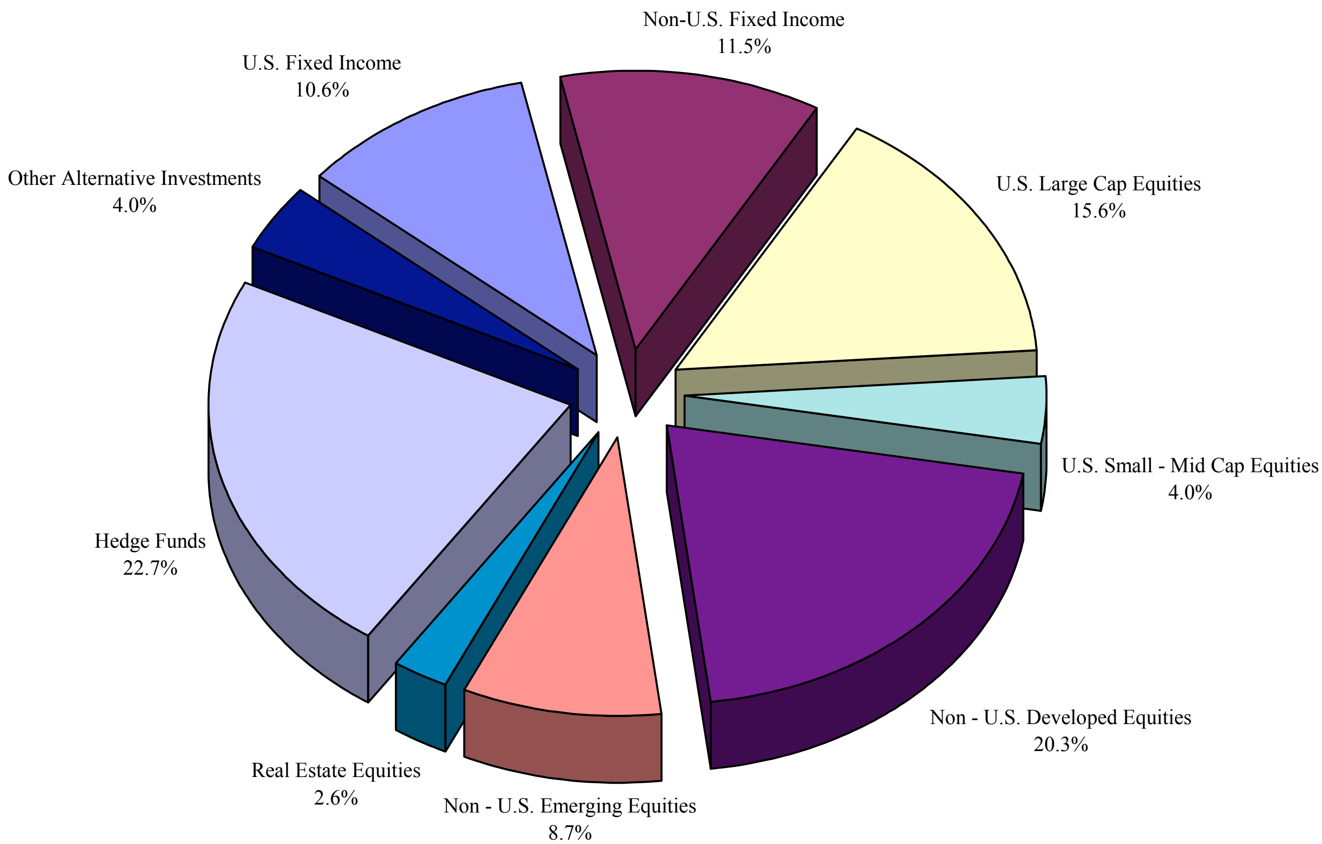
Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2008

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2008	Market Value at Dec. 31, 2007	2008 Contributions	2008 Investment Loss	2008 Expenditures & Transfers	Market Value at Dec. 31, 2008
B. Program Specific Funds						
Distinguished Scholar Fund	$ 16	$ 76	$ -	$ (24)	$ -	$ 52
Food & Nutrition Board (FNB) Fund	525	1,669	-	(539)	(1)	1,129
FNB Corporations Fund	125	482	-	(156)	-	326
FNB Members Fund	5	27	-	(9)	-	18
Norman Gant & ABOG Fellowship	650	-	650	(17)	-	633
Hamburg Endowment Fund	988	1,351	19	(441)	(1)	928
Howard Hughes Medical Institute Fund	5,000	16,657	-	(5,381)	(8)	11,268
Kellogg Health of the Public Fund	4,461	5,766	693	(2,039)	(186)	4,234
Kellogg Health of the Public Fund Matching Contributions	2,279	2,748	87	(868)	(21)	1,946
Richard and Hinda Rosenthal Lecture Series	1,000	1,691	-	(540)	(24)	$ 1,127
Women's Health Issues Fund	20	89	-	(29)	-	60
	$ 15,069	$ 30,556	$ 1,449	$ (10,043)	$ (241)	$ 21,721
C. Prizes and Awards						
Gustav O. Lienhard Award	$ 1,200	$ 4,804	$ -	$ (1,534)	$ (62)	$ 3,208
Rhonda and Bernard G. Sarnat International Prize in Mental Health	1,009	1,688	-	(539)	(37)	1,112
	$ 2,209	$ 6,492	$ -	$ (2,073)	$ (99)	$ 4,320
D. Reserve Funds						
IOM Reserve Fund	$ 500	$ 979	$ -	$ (316)	$ -	$ 663
Subtotal — Funds that Support the IOM	**$ 30,625**	**$ 70,391**	**$ 1,449**	**$ (22,567)**	**$ (1,900)**	**$ 47,373**
Subtotal — NAS and IOM Funds	**$ 169,113**	**$ 426,241**	**$ 7,517**	**$ (135,956)**	**$ (16,967)**	**$ 280,835**
III. Funds Held on Behalf of Others						
A. The National Academies' Corporation						
Operations Endowment	$ 8,000	$ 9,027	$ -	$ (2,613)	$ (1,049)	$ 5,365
Program Endowment	1,940	2,196	-	(648)	(260)	1,288
Building Maintenance Reserve	-	581	-	(263)	216	534
	$ 9,940	$ 11,804	$ -	$ (3,524)	$ (1,093)	$ 7,187
TOTAL	**$ 179,053**	**$ 438,045**	**$ 7,517**	**$ (139,480)**	**$ (18,060)**	**$ 288,022**

SCHEDULE 2

Endowment, Trust, and Other Long-term Investments Pool – Asset Allocation as of December 31, 2008



SCHEDULE 2-A

Endowment, Trust, and Other Long-term Investments Pool - Change in Valuation and Market Value Summary

Change in Valuation from 12/31/07 to 12/31/08

(Dollars in Thousands)

Market Value at 12/31/07	**$**	**438,045**
Realized Capital Losses		(4,653)
Unrealized Capital Losses		(152,807)
Reinvested Income		17,980
Contributions		7,517
Expenditures and Transfers		(18,060)
Market Value at 12/31/08	**$**	**288,022**

Holdings and Market Value Summary as of 12/31/08

(Dollars in Thousands)

U.S. Large Cap Equities		
Berkshire Hathaway A	$	31,105
Berkshire Hathaway B		29
Powershares Water Resources		1,151
Vanguard Index 500		10,389
Vanguard Precious Metals		1,176
Materials Select Sector SPDR		1,183
Subtotal	**$**	**45,033**
U.S. Small - Mid Cap Equities		
Tamarack Enterprise	$	1,797
Third Avenue Value		4,589
Vanguard Extended		2,788
Vanguard Small		2,277
Subtotal	**$**	**11,451**
Non-U.S. Developed Equities		
Dodge & Cox International	$	5,841
Driehaus Int'l Discovery		6,563
Templeton Foreign		15,709
Vanguard European		9,487
Vanguard Pacific		6,987
Vanguard Int'l Growth		6,506
Vanguard Int'l Value		7,378
Subtotal	**$**	**58,471**
Real Estate Equities		
iShares Dow Jones RE Index	$	3,903
Third Avenue RE Fund		3,604
Subtotal	**$**	**7,507**

Non-U.S. Emerging Equities		
Capital International	$	13,408
Templeton Emerging		10,155
Morgan Stanley India		1,406
Subtotal	**$**	**24,969**
U.S. Fixed Income		
PIMCO Funds Total Return	$	16,760
Cash Equivalents		13,479
Other		312
Subtotal	**$**	**30,551**
Non-U.S. Fixed Income		
PIMCO Foreign Bond	$	26,738
PIMCO Developing		6,335
Subtotal	**$**	**33,073**
Hedge Funds		
GT Offshore	$	8,468
Goldman Sachs Princeton		21,572
Renaissance Institutional Equities		15,313
Renaissance Institutional Futures		19,930
Subtotal	**$**	**65,283**
Other Alternative Investments	**$**	**11,684**
GRAND TOTAL	**$**	**288,022**

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Semiconductor Industry Association
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Society for Academic Emergency Medicine
Society for Industrial and Applied Mathematics
Society for Industrial Microbiology
Society for Neuroscience
Society of Academic Emergency Medicine
Society of Pediatric Psychology
Southern Illinois University
Southern Methodist University
Stanford University
The State of the USA, Inc.
State University of New York Medical Center
State University of New York
Stevens Institute of Technology
Syracuse University
Tennessee Technological University
Texas A&M University
Texas Christian University
Texas State University
Texas Tech University
Thomas Jefferson University
Tufts University
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Western Michigan University
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Wright State University

We have made every effort to list donors accurately and according to their wishes. If we have made an error, please accept our apology and contact the Office of Development at (202) 334-3517 so that we may correct our records.

III. Financial Condition

NATIONAL ACADEMY OF SCIENCES
THE NATIONAL ACADEMIES

Report of the Auditing Committee of the National Academy of Sciences

June 9, 2009

Dr. Ralph J. Cicerone, President
National Academy of Sciences

Dear Dr. Cicerone:

In accordance with paragraph 11 of section II of the Bylaws of the National Academy of Sciences, the firm of KPMG LLP was retained by the Auditing Committee on behalf of the Council to conduct an audit of the accounts of the Treasurer for the year ended December 31, 2008, and to report to the Auditing Committee.

The independent accountants have completed their audit and submitted their report. In accordance with paragraph 13 of section II of the Bylaws, the Auditing Committee has reviewed the report and recommends to the Council that it be accepted and that the opinion of the independent accountants be published with the report of the Treasurer.

Respectfully submitted,

PURNELL W. CHOPPIN, Chair
SUSAN GOTTESMAN
RONALD L. GRAHAM
GERALD M. RUBIN
SEAN C. SOLOMON
Auditing Committee

THE NATIONAL ACADEMIES
Advisers to the Nation on Science, Engineering, and Medicine

2101 Constitution Avenue, NW
Washington, DC 20418

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Auditing Committee
National Academy of Sciences:

We have audited the accompanying statements of financial position of the National Academy of Sciences (NAS) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NAS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NAS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NAS as of December 31, 2008 and 2007, and its changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2(j) to the financial statements, NAS adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of January 1, 2008, for fair value measurements of all financial assets and financial liabilities.

As discussed in notes 2(k) and 9 to the financial statements, NAS adopted the provisions of 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*, as of January 1, 2008.

KPMG LLP

May 28, 2009

NATIONAL ACADEMY OF SCIENCES
Statements of Financial Position
December 31, 2008 and 2007
(Dollars in thousands)

Assets	**2008**	**2007**
Current assets:		
Cash and cash equivalents	$ 4,110	$ 3,203
Short-term investments (note 3)	43,456	46,941
Contracts receivable – U.S. government (note 11)	55,786	45,566
Contributions and other receivables, net (note 5)	15,212	16,377
Other current assets	4,156	3,813
Total current assets	122,720	115,900
Other assets (notes 2, 12, 14, and 16)	8,508	12,266
Long-term investments (note 3)	309,740	464,908
Contributions receivable, net (note 5)	31,480	37,312
Property and equipment, net (notes 4 and 15)	128,349	129,671
Einstein Memorial	1,723	1,723
	$ 602,520	$ 761,780

Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 38,598	$ 30,770
Deferred revenue (note 6)	35,471	31,414
Line of credit (note 7)	686	3,345
Other current liabilities (note 12)	4,818	5,533
Total current liabilities	79,573	71,062
Bonds payable (note 12)	120,681	121,067
Funds held on behalf of others (note 3)	7,186	11,804
Note payable (note 13)	1,513	2,270
Accrued employee benefits (note 14)	8,597	5,879
Other long-term liabilities (notes 2, 12, and 15)	17,698	9,409
Total liabilities	235,248	221,491
Net assets:		
Unrestricted	51,731	191,130
Temporarily restricted (note 8)	200,791	238,325
Permanently restricted (note 9)	114,750	110,834
Total net assets	367,272	540,289
Commitments and contingencies (notes 3, 11, 12, 14, 17, and 18)		
Total liabilities and net assets	$ 602,520	$ 761,780

See accompanying notes to financial statements.

NATIONAL ACADEMY OF SCIENCES
Statements of Activities
Years ended December 31, 2008 and 2007
(Dollars in thousands)

	2008				2007			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Totals**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Totals**
Revenues, gains, and other support:								
Government contracts and grants (note 11)	$ 202,810	-	-	202,810	$ 178,021	-	-	178,021
Private contracts and grants	23,836	21,423	-	45,259	20,071	28,763	-	48,834
Other contributions	3,195	1,064	3,916	8,175	4,511	12,825	1,544	18,880
Fees and publications	18,757	-	-	18,757	19,909	-	-	19,909
Investment income (loss) (note 3)	(25,108)	(120,758)	-	(145,866)	23,636	24,290	-	47,926
Other income (note 12)	1,945	-	-	1,945	6,944	-	-	6,944
Net assets released from restriction (note 8)	42,077	(42,077)	-	-	33,991	(33,991)	-	-
Total revenues, gains, and other support	267,512	(140,348)	3,916	131,080	287,083	31,887	1,544	320,514
Expenses (notes 12, 14, and 15):								
Programs (note 10)	247,426	-	-	247,426	225,164	-	-	225,164
Management and general	47,823	-	-	47,823	48,452	-	-	48,452
Fundraising	2,511	-	-	2,511	2,302	-	-	2,302
Total expenses	297,760	-	-	297,760	275,918	-	-	275,918
Post-retirement changes other than net periodic benefit cost (note 14)	6,337	-	-	6,337	-	-	-	-
Change in net assets, before adoption of SFAS No. 158 and reclassification of net assets under FSP 117-1	(36,585)	(140,348)	3,916	(173,017)	11,165	31,887	1,544	44,596
Effect of adoption of SFAS No. 158 (note 14)	-	-	-	-	(604)	-	-	(604)
Reclassification of net assets under FSP 117-1 (note 9)	(102,814)	102,814	-	-	-	-	-	-
Change in net assets	(139,399)	(37,534)	3,916	(173,017)	10,561	31,887	1,544	43,992
Net assets at beginning of the year	191,130	238,325	110,834	540,289	180,569	206,438	109,290	496,297
Net assets at end of the year	$ 51,731	200,791	114,750	367,272	$ 191,130	238,325	110,834	540,289

See accompanying notes to financial statements.

NATIONAL ACADEMY OF SCIENCES
Statements of Cash Flows
Years ended December 31, 2008 and 2007
(Dollars in thousands)

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (173,017)	$ 43,992
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,162	7,571
Loss on disposal of property and equipment	84	50
Bad debt expense	533	322
Net loss (gain) on investments	165,904	(20,098)
Net loss (gain) on investments held on behalf of others	3,765	(562)
Amounts collected on behalf of others	(2,723)	(5,630)
Amounts remitted on behalf of others	3,664	17,402
Amortization of deferred gain	-	(430)
Change in value of interest rate swap	9,057	2,325
Change in value of split-interest agreements	343	(121)
Effect of adoption of SFAS No. 158	-	604
Contributions restricted for construction or endowment	(6,645)	(3,997)
(Increase) decrease in assets:		
Other receivables	6,465	181
Contracts receivable — U.S. government	(10,220)	(4,262)
Other current assets	(343)	401
Other assets	2,612	(183)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	7,828	(1,492)
Deferred revenue	4,057	3,768
Other current liabilities	(885)	(1,702)
Funds held on behalf of others	(4,618)	(11,210)
Other long-term liabilities	35	3,692
Accrued employee benefits	2,718	(2,046)
Net cash provided by operating activities	15,776	28,575
Cash flows from investing activities:		
Additions to property and equipment	(5,910)	(1,874)
Sales or maturities of investments	231,756	294,044
Purchases of investments	(243,624)	(321,899)
Net cash used in investing activities	(17,778)	(29,729)
Cash flows from financing activities:		
Contributions restricted for construction or endowment	6,645	3,997
Proceeds from line of credit	123,426	108,029
Payments on line of credit	(126,085)	(108,449)
Payments on bank note	(757)	(757)
Proceeds from interest rate swaption	-	2,150
Proceeds from bond issue	66,325	-
Payments on bond principal	(66,645)	(1,565)
Payments on capital lease liability	-	(2,830)
Net cash provided by (used in) financing activities	2,909	575
Net increase (decrease) in cash and cash equivalents	907	(579)
Cash and cash equivalents, beginning of year	3,203	3,782
Cash and cash equivalents, end of year	$ 4,110	$ 3,203
Supplemental disclosure of cash flow information:		
Interest paid	$ 5,189	$ 6,324

See accompanying notes to financial statements.

NATIONAL ACADEMY OF SCIENCES

Notes to Financial Statements

December 31, 2008 and 2007

(1) ORGANIZATION AND RELATED ENTITIES

(a) National Academy of Sciences

The National Academy of Sciences (NAS) was formed under a charter that was passed as an Act of Incorporation by the United States Congress and signed into law on March 3, 1863. NAS operates as a private cooperative society of distinguished scholars engaged in scientific or engineering research, dedicated to the furtherance of science and its use for the general welfare. NAS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income.

(b) National Research Council

Most of the activities undertaken by NAS are carried out through the divisions and boards of the National Research Council (NRC). The NRC draws on a wide cross section of the nation's leading scientists and engineers for advisory services to government agencies and Congress. To respond effectively to both the disciplinary concerns of the research community and the complex interdisciplinary problems facing American society, NRC is organized into the following five major divisions responsible for most study activities:

- Behavioral and Social Sciences and Education
- Earth and Life Studies
- Engineering and Physical Sciences
- Policy and Global Affairs
- Transportation Research Board

NRC activities are under the control of the NAS governance structure, and therefore are included in the NAS financial statements.

(c) Institute of Medicine

The Institute of Medicine (IOM), established in 1970, conducts studies of policy issues related to health and medicine. IOM issues position statements on these policies, cooperates with the major scientific and professional societies in the field, identifies qualified individuals to serve on study groups in other organizational units, and disseminates information to the public and the relevant professions. IOM was established as a separate membership organization within NAS. The financial activities and results of IOM are included in the NAS financial statements.

(d) National Academy of Engineering

The National Academy of Engineering (NAE) was established in 1964 under the charter of NAS as a related parallel organization, autonomous in its governance, administration, and the selection of its members. NAE shares with NAS the responsibility for advising the federal government on scientific issues. The NAE conducts independent program activities and activities through the NRC. The results of both of these activities are included in the NAS financial statements.

(e) National Academy of Engineering Fund

The National Academy of Engineering Fund (NAEF) is a separately incorporated not-for-profit organization established and controlled by NAE to raise funds to support its goals. The financial activities and results of NAEF are not included in the NAS financial statements.

(f) The National Academies' Corporation

The National Academies' Corporation (TNAC) was separately incorporated in 1986 as a not-for-profit corporation for the purpose of constructing and maintaining a study and conference facility. This facility, the Arnold and Mabel Beckman Center, located in Irvine, California, operates to expand and support the general activities of NAS, NRC, IOM, and NAE. TNAC is controlled by NAS and NAEF. The financial position and results of TNAC are not consolidated in the NAS financial statements.

In May 2007, NAS began managing the operations of the Beckman Center. TNAC contributed $510,000 and $851,000 to the NRC for the years ended December 31, 2008 and 2007, respectively, towards the operation of the Beckman Center. In addition, TNAC contributed $277,000 and $11.7 million to the NRC for the years ending December 31, 2008 and 2007, respectively, to be spent on programs conducted in whole or in part at the Beckman Center.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of NAS are classified and reported as follows:

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by NAS. Generally, the donors of these assets permit NAS to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of NAS and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unrestricted – Net assets arising from exchange transactions and contributions not subject to donor-imposed stipulations.

(b) Cash Equivalents

NAS reports liquid, temporary investments purchased with original maturities of three months or less as cash equivalents.

(c) Investments

Investments are stated at fair value. Changes in the fair value of investments are reported within investment income in the statements of activities.

Certain investments are pooled for long-term investment purposes. Investments in the pool are administered as an open-end investment trust, with shares of the pool funds expressed in terms of participating capital units (PCUs). PCU values are used to determine equity in the allocation of investment income among funds in the pool whenever additional funds are contributed or withdrawn.

(d) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until all conditions on which receipt depends are substantially met.

Gifts of land, buildings, or equipment are reported as unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Temporary restrictions on gifts that must be used to acquire long-lived assets are released in the period in which the assets are acquired or placed in service.

Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the credit worthiness of the donor, past collection experience, and other relevant factors. Contributions to be received after one year are discounted at an appropriate rate commensurate with risks involved. Amortization of the discount is recorded as additional revenue and is used in accordance with donor imposed restrictions, if any, on the contributions.

NAS performs certain fundraising activities on behalf of NAEF. NAS collected a total of $2.5 million and $4.9 million in 2008 and 2007, respectively, on behalf of NAEF. NAS disbursed $2.6 million and $4.9 million to NAEF from these collected amounts in 2008 and 2007, respectively. Amounts collected but not yet remitted to NAEF are reported as assets and liabilities in the NAS financial statements

(e) Contracts and Grants

The majority of NAS activities are performed under cost-reimbursable contracts with the U.S. government. For the years ended December 31, 2008 and 2007, the Department of Transportation provided 43% and 35%, respectively, of NAS government grant and contract revenue.

NAS records federal contracts as exchange transactions, recognizing revenue as recoverable costs are incurred.

Revenues from nonfederal grants qualifying as contributions are recorded by NAS upon notification of the grant award. Such grants are classified as temporarily restricted net assets when use of the grant funds is limited to specific areas of study or is designated for use in future periods.

(f) Deferred Revenue

For both federal and nonfederal grants and contracts that are determined to be exchange transactions, revenue is recognized as the related costs are incurred. Funds received in advance of being earned for these grants are recorded as deferred revenue in the statements of financial position.

(g) Inventories

Inventories are stated at the lower of cost or net realizable value and include both work in-process and finished goods related to publication activities. The majority of NAS publication inventories and supplies reside with an NAS unit, the National Academy Press (NAP). NAP uses the full absorption costing methodology in pricing finished products. This methodology includes direct printing and related indirect costs. Inventories are included in other current assets in the statements of financial position.

(h) Property and Equipment

Depreciation of NAS buildings and equipment is computed on a straight-line basis using the following lives:

- Buildings – 40 years
- Building and leasehold improvements – lesser of the remaining life of the building or improvement
- Furniture and equipment – 4 to 10 years

The Einstein Memorial sculpture is valued at cost and is not depreciated. Construction-in-progress is not depreciated until the related assets are placed in service.

(i) Split-Interest Agreements

Charitable gift annuity agreements are classified as other assets in the statements of financial position. Periodically, NAS pays a fixed amount of the assets to the beneficiary designated by the donor. Upon termination of an annuity, the remainder interest in the assets is available for use by NAS as restricted or unrestricted assets in accordance with the donor's designation. At December 31, 2008 and 2007, NAS had charitable gift annuity assets of $2.1 million and $3.0 million, respectively. NAS has recorded a liability of $1.5 million and $1.4 million at December 31, 2008 and 2007, respectively, representing the present value of estimated future cash payments to annuitants based on the annuitant's life expectancy.

(j) New Accounting Standards: Fair Value Measurements and Fair Value Option

Effective January 1, 2008, NAS adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. This pronouncement did not require any new fair value measurements and its adoption did not affect the results of operations or financial position of NAS.

On January 1, 2009, NAS will be required to apply the provisions of SFAS No. 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. NAS is in the process of evaluating the impact, if any, of applying these provisions on its financial position and results of operations.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP 157-3)," which was effective immediately. FSP 157-3 clarifies the application of SFAS No. 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. NAS has considered the guidance provided by FSP 157-3 in its determination of estimated fair values during 2008.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices 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 full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about NAS' business, its value or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

The carrying value of cash equivalents such as money market funds approximates the fair value because of the short maturity of these investments. These amounts are disclosed in Level 1.

NAS' fixed maturity investments (bonds and notes), other than U.S. Treasury securities, generally do not trade on a daily basis. The fair value estimates of such debt securities are based on prices provided by NAS' investment managers and custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. NAS' debt securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services. Accordingly, the estimates of fair value for such debt securities are included in Level 2 inputs. The estimated values of U.S. Treasury securities are based on actively-traded market prices and are accordingly included in the bonds and notes amount in Level 1.

Fair values of exchange-traded equity securities have been determined by NAS from observable market quotations on major trade exchanges. Accordingly, such equity securities are disclosed in Level 1. NAS also invests in institutional debt and equity mutual funds. These mutual funds are not available to retail investors and are not traded on national exchanges. The fair values of such institutional mutual funds are based on observable market information rather than quoted exchange market prices. Accordingly, the estimates of fair value for such mutual funds are included in Level 2.

Fair value of alternative investments including private placement equity securities and hedge funds is based on the alternative investment fund managers' net asset value (NAV). Valuations provided by alternative investment fund managers include estimates, appraisals, assumptions and methods that are reviewed by management. When necessary, NAS adjusts NAV for contributions, distributions, or general market conditions subsequent to the latest NAV valuation date when calculating fair value. Since the most significant valuation inputs are not observable in the marketplace, the alternative investment valuations are disclosed in Level 3.

Charitable gift annuity investments and deferred compensation investments are held in institutional debt and equity mutual funds along with some U.S. Treasury securities. The U.S. Treasury securities are included in Level 1, and the mutual funds are included in Level 2. The deferred compensation obligation to employees is equal to the fair value of the investments held and is disclosed in the same levels as the investment assets.

NAS has an interest rate swap agreement covering the fixed-rate bonds payable. NAS also entered into a swaption agreement which gives the counterparty the option to require NAS to enter into an additional swap agreement related to the fixed-rate bonds payable. The fair value of the swap and swaption are determined using pricing models based on observable market data such as prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility. The value was determined after considering the potential impact of collateralization and netting agreement, adjusted to reflect nonperformance risk of both the counterparty and NAS. Accordingly, the swap and swaption are included in derivative assets and liabilities as Level 2.

The funds held on behalf of others liability approximates the investments held in NAS' long-term investment pool on behalf of TNAC. Therefore, the liability is disclosed in the same levels as the investment assets.

The following table presents NAS' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2008 (dollars in thousands):

		Fair value measurements at December 31 using:		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Short-term and Long-term Investments:				
Cash Equivalents	$ 19,928	$ 19,928	$ -	$ -
Bonds and notes	83,820	21,790	62,030	-
Equity securities	172,481	71,353	101,128	-
Hedge funds	65,283	-	-	65,283
Private placements	11,684	-	-	11,684
Total Investments	353,196	113,071	163,158	76,967
Charitable gift annuity assets:				
Cash equivalents	30	30	-	-
Bonds and notes	644	59	585	-
Equity securities	1,439	-	1,439	-
Total charitable gift annuity assets	2,113	89	2,024	-
Deferred compensation assets:				
Cash equivalents	31	31	-	-
Bonds and notes	339	-	339	-
Equity securities	1,835	-	1,835	-
Total deferred compensation assets	2,205	31	2,174	-
Interest rate swap	934	-	934	-
Total Financial Assets	$ 358,448	$ 113,191	$ 168,290	$ 76,967
Financial Liabilities:				
Funds held on behalf of others	$ 7,186	$ 2,021	$ 3,245	$ 1,920
Deferred compensation liability	2,205	31	2,174	-
Interest rate swaption	12,543	-	12,543	-
Total Financial Liabilities	$ 21,934	$ 2,052	$ 17,962	$ 1,920

Level 3 assets comprised approximately 22% of NAS' total investment portfolio fair value at December 31, 2008.

The following table presents the changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2008 (dollars in thousands).

	Hedge Funds	**Private Placements**	**Total**
Financial Assets			
Beginning balance January 1, 2008	$ 65,487	$ 13,622	$ 79,109
Net loss on investments	(10,704)	(2,253)	(12,957)
Purchases and sales, net	10,500	315	10,815
Transfers in (out) of Level 3	-	-	-
Ending balance December 31, 2008	$ 65,283	$ 11,684	$ 76,967

Effective January 1, 2008, NAS adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments, as defined in SFAS No. 159, at fair value. Changes in unrealized gains and losses on items for which the fair value option has been elected are reported in income at each subsequent reporting date and upfront costs and fees related to those items will be reported in income as incurred and not deferred. At adoption, for those financial assets and financial liabilities which management has elected to carry at fair value, an entity will report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of unrestricted net assets. Management did not elect to measure any additional eligible financial assets or financial liabilities at fair value and as a result, adoption of this standard did not have an effect on the results of operations or financial position of NAS.

(k) Other New Accounting Standards

As discussed in note 9, NAS adopted the provisions of 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,* effective January 1, 2008.

On January 1, 2007, NAS adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of FIN 48 had no impact on NAS's statement of financial position or statement of activities. NAS does not believe its financial statements include any uncertain tax positions.

As discussed in note 14, NAS adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2007.

(l) Use of Estimates

The preparation of these financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosures in the financial statements. Actual results could differ from those estimates.

(m) Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

(3) INVESTMENTS

Investments, which are reported at fair value (except as noted), consisted of the following as of December 31, 2008 and 2007 (dollars in thousands):

	2008	2007
Short-term investments:		
Cash equivalents	$ 5,762	$ 4,570
Bonds and notes	26,026	29,477
Equity securities	11,668	12,894
Total short-term investments	$ 43,456	$ 46,941
Long-term investments:		
Investment pool, including endowment assets:		
Cash equivalents	$ 13,479	$ 22,086
Bonds and notes	50,145	58,429
Equity securities	147,431	278,421
Hedge funds	65,283	65,487
Private placements	11,684	13,622
	288,022	438,045
Other long-term investments:		
Cash equivalents	687	503
Bonds and notes	7,649	9,054
Equity securities	13,382	17,306
	21,718	26,863
Total long-term investments	$ 309,740	$ 464,908

Vanguard equity funds comprised approximately $47 million and $119 million of the total equity securities funds at December 31, 2008 and 2007, respectively.

NAS holds alternative investments, comprised of private placement equity securities and hedge funds, in its long-term investment pool. At December 31, 2008 and 2007, these funds had a fair value of approximately $77.0 million and $79.1 million, respectively. The unrealized gain or loss on the hedge funds was approximately a $10.7 million loss and a $5.2 million gain for the years ended December 31, 2008 and 2007, respectively, and is included as a component of investment income in the accompanying statements of activities. Private placement equity investments are comprised of limited partnership interests. NAS had remaining commitments at December 31, 2008 and 2007 to provide approximately $5.9 million and $5.2 million, respectively, to these partnerships.

TNAC, a related entity, invests certain of its assets in the NAS long-term investment pool. TNAC investments participate in the investment pool experience proportionally with all other funds in this pool. The NAS obligation to TNAC for these funds held in trust, which totaled approximately $7.2 million and $11.8 million as of

December 31, 2008 and 2007, respectively, is reported as funds held on behalf of others in the statements of financial position.

Investment income is reported net of investment expenses of approximately $597,000 and $566,000 for the years ended December 31, 2008 and 2007, respectively, and is comprised of the following (dollars in thousands):

	2008	2007
Interest and dividends income	$ 20,038	$ 27,828
Net gain (loss) on investments	(165,904)	20,098
Total investment income (loss)	$ (145,866)	$ 47,926

(4) PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2008 and 2007, is comprised of the following (dollars in thousands):

	2008	2007
Land	$ 29,689	$ 29,689
Furniture and equipment	33,001	32,096
Buildings and improvements	109,199	109,063
Construction in progress	4,857	240
Leasehold improvements	7,349	7,286
	184,095	178,374
Less accumulated depreciation and amortization	(55,746)	(48,703)
Total property and equipment, net	$ 128,349	$ 129,671

(5) CONTRIBUTIONS RECEIVABLE

Contributions not yet collected are included in contributions and other receivables (current) and contributions receivable (long-term) in the statements of financial position, and mature as follows (dollars in thousands):

Years ending December 31:	
2009	$ 13,109
2010	4,652
2011	8,807
2012	5,265
2013	3,633
Thereafter	13,147
	48,613
Less discount at rates from 3% to 5% to estimated net present value	(4,024)
Less allowance for uncollectible contributions	(456)
	44,133
Less current portion	(12,653)
Total contributions receivable, long-term	$ 31,480

At December 31, 2007, the discount on contributions receivable was approximately $5.4 million at rates ranging from 3% to 5% and the allowance for uncollectible contributions was approximately $208,000.

(6) DEFERRED REVENUE

Deferred revenue consisted of the following as of December 31, 2008 and 2007 (dollars in thousands):

	2008	2007
Advances from private grants and contract sponsors	$24,537	$24,082
Advances from U.S. government sponsors	6,958	2,663
Publication subscriptions and other	3,976	4,669
Total deferred revenue	$35,471	$31,414

(7) LINE OF CREDIT

NAS is party to an $18 million unsecured line of credit from Bank of America which bears interest at LIBOR plus 0.40% and expires on August 30, 2010. Interest expense related to the line of credit for the years ended December 31, 2008 and 2007, was approximately $343,000 and $497,000, respectively.

(8) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31, 2008 and 2007 (dollars in thousands):

	2008	2007
Sponsored research and advisory programs	$126,835	$203,182
General endowment	54,157	-
Prizes and awards	17,903	30,088
Woods Hole facility	1,896	5,055
Total temporarily restricted net assets	$200,791	$238,325

Temporarily restricted net assets were released from restriction for the following purposes during the years ended December 31, 2008 and 2007 (dollars in thousands):

	2008	2007
Sponsored research and advisory programs	$ 34,397	$ 32,989
General endowment	6,300	-
Prizes and awards	917	658
Woods Hole facility	463	344
Total temporarily restricted net assets released from restriction	$ 42,077	$ 33,991

(9) ENDOWMENTS

(a) Permanently Restricted Net Assets

The income generated by permanently restricted net assets is available to support donor-specified programs. As of December 31, 2008 and 2007, NAS held the following permanently restricted net assets, classified by the purpose for which the income is to be used (dollars in thousands):

	2008	**2007**
Sponsored research and advisory programs	$109,635	$105,720
Prizes and awards	5,115	5,114
Total permanently restricted net assets	$114,750	$110,834

(b) Endowment Assets

In August 2008, FASB Staff Position No. FAS 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), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of FSP 117-1 is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. NAS recorded the effect of adopting FSP 117-1 as a reclassification of unrestricted net assets to temporarily restricted net assets of $102.8 million as of January 1, 2008.

The NAS endowment consists of approximately 100 individual funds established to support general operations, sponsored research and advisory programs, prizes and awards, and the operations of the Woods Hole facility. The endowment is comprised solely of donor-restricted endowment funds. The investments of the endowment are included in the NAS long-term investment pool, as described in note 3.

Interpretation of Relevant Law

NAS has interpreted the District of Columbia “Uniform Prudent Management of Institutional Funds Act of 2007” (the “Act”) as requiring NAS, absent explicit donor stipulations to the contrary, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. NAS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument. The remaining portion of donor-restricted endowment funds that are not classified as permanently restricted are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by NAS. In making a determination to appropriate or accumulate, NAS adheres to the standard of prudence prescribed by the Act and considers the following factors.

(1) The duration and preservation of the endowment fund;
(2) The purposes of the institution and the endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation or deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the institution; and
(7) The investment policy of the institution.

Return Objectives and Strategies

NAS has adopted an investment and spending policy for endowment assets that is designed to provide a predictable stream of funding to programs supported by the endowment while seeking to protect the real purchasing power of the assets from inflation. Accordingly, NAS has adopted guidelines which feature a material commitment to equity and equity-like investments.

The asset allocation guidelines are as follows:

Asset Category	**Guideline %**
US Large Stocks	25%
US Small-Mid Stocks	12%
Non-US Stocks (Developed)	20%
Non-US Stocks (Emerging)	8%
Real Estate Stocks	5%
Total Stocks	**70%**
US Fixed/Cash	12%
Non-US Fixed	3%
Total Fixed	**15%**
Hedge Funds	12%
Other Alternative	3%
Total	**100%**

NAS has adopted a spending policy that limits the annual spending to 5 percent of the three-year average fair value of the participating funds in the endowment portfolio. This is consistent with NAS' objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Changes in Endowment assets for the fiscal year ended December 31, 2008 are as follows (dollars in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, January 1, 2008	$ 102,814	$ 124,459	$ 102,351	$ 329,624
Net asset reclassification based on change in law	(102,814)	102,814	-	-
Endowment assets after reclassification	-	227,273	102,351	329,624
Investment return:				
Interest and dividend income	-	13,605	-	13,605
Net loss on investments	(2,358)	(116,239)	-	(118,597)
Total investment return	(2,358)	(102,634)	-	(104,992)
Contributions	-	-	6,173	6,173
Amounts appropriated for expenditure	-	(13,828)	-	(13,828)
Other changes:				
2007 Appropriation withdrawn in 2008	-	(395)	-	(395)
Unspent purpose restricted appropriations	-	1,667	-	1,667
Accrued expenses withdrawn in 2009	-	1,377	-	1,377
Endowment assets, December 31, 2008	$ (2,358)	$ 113,460	$ 108,524	$ 219,626

Changes in Endowment assets for the fiscal year ended December 31, 2007 are as follows (dollars in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, January 1, 2007	$ 93,628	$ 108,827	$ 99,228	$ 301,683
Investment return:				
Interest and dividend income	8,003	11,567	-	19,570
Net gain on investments	5,524	7,718	-	13,242
Total investment return	13,527	19,285	-	32,812
Contributions	-	-	3,123	3,123
Amounts appropriated for expenditure	(5,704)	(6,824)	-	(12,528)
Other changes:				
Unspent purpose restricted appropriations	1,363	3,171	-	4,534
Endowment assets, December 31, 2007	$ 102,814	$ 124,459	$ 102,351	$ 329,624

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gift donated to the permanent endowment. Deficiencies of this nature are reported as unrestricted net assets. At December 31, 2008, NAS had deficiencies of $2.4 million reported as unrestricted net assets. These deficiencies were primarily a result of unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of December 31, 2007.

(10) PROGRAM EXPENSES

Program expenses for the years ended December 31, 2008 and 2007 are summarized as follows (dollars in thousands):

	2008	2007
Transportation Research Board	$ 91,742	$ 65,179
Policy and Global Affairs	53,593	55,911
Institute of Medicine	23,154	20,388
Earth and Life Sciences	19,319	19,435
Engineering and Physical Sciences	19,783	18,839
Behavioral and Social Sciences and Education	9,649	13,886
Proceedings of the National Academy of Sciences	12,477	12,280
National Academy Press	4,573	5,479
National Academy of Engineering	4,641	4,950
Koshland Science Museum	1,890	1,932
NAS and National Sciences Resource Center	6,605	6,885
Total program expenses	$247,426	$225,164

(11) RECOVERY OF INDIRECT COSTS

NAS receives indirect cost recovery on its federal contracts and grants. An overhead assessment is applied to direct salaries, accrued leave, fringe benefits, and services provided by outside contractors (e.g., temporary personnel agencies, consultants) on NAS property. A general and administrative assessment (G&A) is applied to direct costs and overhead less subcontract costs and stipends. Therefore, both the overhead and G&A rates are applied to projects incurring direct salaries and other direct costs such as travel. If a program does not require direct salaries, such as a travel grant program, a subcontract/flow-through administration rate is applied. Certain off-site work (not performed on NAS property) is assessed reduced overhead rates.

NAS bills for indirect cost recovery throughout the year based on negotiated rates. At the end of each year, NAS compares actual expenses incurred in each of its cost pools to the amounts recovered based on its billing rates. The difference is recorded as its indirect cost carryforward. If NAS overrecovers on its indirect costs during the year, a liability is recorded. If NAS underrecovers, a receivable is recorded.

NAS has a cumulative net underrecovery of approximately $7.5 million and $3.1 million as of December 31, 2008 and 2007, respectively, which is included in the contracts receivable balance in the statements of financial position.

(12) BUILDING PROJECT AND FINANCING

(a) Building Project Revenue Bonds

In January 1999, the District of Columbia issued Series 1999A, Series 1999B, and Series 1999C tax-exempt revenue bonds in the total amount of $130,960,000 on behalf of NAS. Proceeds from the sale of the revenue bonds financed the cost of the acquisition of 44,250 square feet of land and related construction of an office building, as well as paid certain costs of issuing the bonds. This building consolidates most of NAS' program activities into one location. The facility was occupied in July 2002.

In June 2008, the District of Columbia issued Series 2008A tax-exempt revenue bonds in the amount of $66,325,000 on behalf of NAS. The proceeds were used to refund the Series 1999B and Series 1999C revenue bonds, as well as pay certain costs of issuing the bonds

NAS is obligated under the revenue bonds as follows (dollars in thousands):

	2008	2007
Series 1999A revenue bonds, serial, interest rate 5%, maturing at various dates from January 1, 2009 through 2012	$ 7,440	$ 9,085
Series 1999A revenue bonds, term: Interest rate 5%, due January 1, 2019	17,085	17,085
Interest rate 5%, due January 1, 2028	32,545	32,545
Series 2008A revenue bonds, term, at flexible rates (2.1% in 2008) maturing at various dates from January 1, 2029 through 2039	66,325	-
Series 1999B revenue bonds, term, at flexible rates (2.6% in 2008 and 3.62% in 2007) due January 1, 2039	-	32,500
Series 1999C revenue bonds, term, at variable rates (2.8% in 2008 and 3.62% in 2007) due January 1, 2039	-	32,500
Total bonds, at face value	123,395	123,715
Less unamortized discount and premium	(989)	(1,003)
Total bonds payable	122,406	122,712
Less current portion (included in other current liabilities)	(1,725)	(1,645)
Bonds payable, long-term	$ 120,681	$ 121,067

The serial and term bonds represent unsecured general obligations of NAS.

Interest on all Series 1999A revenue bonds is payable semiannually every January 1 and July 1. Interest on the 2008A, 1999B and 1999C bonds is payable monthly.

The carrying value of bonds payable in the financial statements was less than their fair value by approximately

$1.1 million and $2.4 million on December 31, 2008 and 2007, respectively.

The term bonds maturing on January 1, 2019, and January 1, 2028, are subject to mandatory redemption by operation of sinking fund installments. The installment payments for the term bonds maturing January 1, 2019, begin on January 1, 2013, and range from $2.1 to $2.8 million per year through the maturity date. Installment payments for the term bond maturing January 1, 2028, begin on January 1, 2020, and range from $2.9 to $4.3 million per year through the maturity date.

Scheduled maturities and sinking fund requirements are as follows (dollars in thousands):

Years ending December 31:		
2009	$	1,725
2010		1,810
2011		1,905
2012		2,000
2013		2,100
Thereafter		113,855
	$	123,395

Interest expense on the bonds payable for 2008 and 2007 totaled $4.5 million and $5.3 million, respectively.

(b) Interest Rate Swaps

In October 1999, NAS entered into a swap agreement, with an effective date of February 1, 2000, relating to the $66 million face amount of its Series 1999A revenue bonds. The agreement provides for NAS to receive 4.97% in interest on a notional amount of $65 million and to pay interest at a floating rate option based on the weekly interest rate resets of tax-exempt variable-rate issues per the SIFMA Municipal Swap Index. NAS amended the agreement for the 2005-2020 period by agreeing to give up the benefit of any 30-day period during which the SIFMA index remains below 2.25% for the entire 30 days. Each time this occurs, the rate on the swap portfolio reverts to the fixed rate noted above for that month only.

NAS entered into this swap agreement to manage its exposure to interest rate changes. The fixed-rate debt obligations expose NAS to variability in the cost recovery stream due to changes in interest rates. NAS recovers the costs of borrowing through a capital investment incentive rate that is set by the U.S. government and is tied to a variable index. If interest rates increase, the capital investment incentive recovery increases.

Conversely, if interest rates decrease, the capital investment incentive recovery decreases. Therefore, NAS entered into a derivative instrument that ties the fixed-rate debt to a variable index to manage fluctuations in cash flows resulting from interest rate risk. By using derivative financial instruments to hedge exposures to changes in interest rates, NAS exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes NAS, which creates credit risk for NAS. When the fair value of a derivative contract is negative, NAS owes the counterparty, and therefore, it does not possess credit risk. NAS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

NAS entered into a swaption agreement on August 21, 2007 that gives the counterparty the option to require NAS to enter into an additional swap agreement related to the Series 1999A Revenue Bonds. If executed by the counterparty (see note 19), the swap will be effective on May 1, 2009 and require NAS to pay 5.00% on a notional amount of $55 million and to receive a floating rate equal to 67% of 1-month LIBOR plus 0.41%. The counterparty paid NAS a premium of $2.2 million in advance to enter into this agreement.

Under Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, the fair value of the swap and swaption must be recorded in the NAS financial statements. Accordingly, for the years ended December 31, 2008 and 2007, NAS recorded a loss on the change in the fair value of its swap agreement of $803,000 and $185,000, respectively, which is included in other income in the accompanying statements of activities. The fair value of the interest rate swap was $934,000 and $2.0 million as of December 31, 2008 and 2007, respectively, and is included in contributions and other receivables and other assets on the statements of financial position.

The fair value of the swaption at December 31, 2008 and 2007 is recorded as a liability of $12.5 million and $4.3 million, respectively, in other long-term liabilities and represents the estimated cost to NAS to cancel the agreement at the reporting date and is based on pricing models that consider interest rates and other market factors. The change in the fair value of the swaption is a net loss of approximately $8.3 million and $2.2 million for the years ended December 31, 2008 and 2007, respectively, and is included in other income in the statements of activities.

(13) NOTE PAYABLE

During 2006, NAS entered into a loan agreement with Bank of America for an amount up to $5 million. The principal balance of this note is payable in equal monthly installments until January 1, 2012. On December 31, 2008 and 2007, the principal balance was approximately $2.3 million and $3.0 million, respectively. The note bears interest at 30-day LIBOR plus 40 basis points. The interest rate at December 31, 2008 was 0.86%.

(14) EMPLOYEE BENEFITS

(a) Retirement Plans

NAS has a noncontributory defined contribution retirement plan covering substantially all of its employees (based on certain benefit eligibility requirements). The plan is intended to qualify under Section 401(a) of the Internal Revenue Code and uses Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) group retirement annuity contracts as the investment vehicle. Participants in this plan vest immediately. NAS has received a favorable determination letter from the IRS on the qualification of this plan under Section 401(a) of the Internal Revenue Code.

In addition, NAS has a voluntary employee contribution retirement plan that is funded solely by employee contributions made on a pretax salary-reduction basis under Section 403(b) of the Internal Revenue Code. The investment vehicles under this voluntary plan are retirement annuity contracts issued by TIAA/CREF and mutual funds offered by the Vanguard Group, Inc.

Pension expense for the years ended December 31, 2008 and 2007, amounted to approximately $10.3 million and $9.8 million, respectively. The NAS policy is to fund pension benefits as they are earned. The NAS normal retirement age is 60, but there is no mandatory age for retirement.

(b) Deferred Compensation

NAS holds long-term investments as part of a frozen deferred compensation arrangement for certain employees. The fair value of these investments was approximately $2.2 million and $4.1 million as of December 31, 2008 and 2007, respectively, which is reported within other assets in the statements of financial position. The related obligation is included in accrued employee benefits in the statements of financial position.

(c) Postretirement and Postemployment Benefits

NAS provides certain health and life insurance benefits for employees retired due to length of service. All benefit-eligible employees may become eligible for service retiree benefits if they reach age 60 while working for NAS and complete 5 years of service in a benefit-eligible status for medical and life insurance benefits. In addition, certain health and life insurance benefits are provided for employees retired due to disability. A benefit-eligible employee may become eligible for disabled retiree benefits if deemed totally disabled under NAS' long-term disability insurance or if they are eligible for disability benefits from the Social Security Administration. Life insurance benefits are provided based on coverage at date of disability and health insurance may be continued if the disabled retiree had participated in an NAS health insurance plan for 5 years at the date of disability. Insurance companies whose premiums are determined on an experience-rated basis provide life and health insurance benefits for retirees. Medicare supplement insurance is not experience rated. The retiree welfare benefit plan is contributory for health insurance purposes for employees who retired on or after January 1, 1990. Participant contributions for health insurance are based on a percentage of the monthly premium paid by NAS (from 25% to 100%). The participant contribution is also based on their date of retirement, length of service and choice of health insurance carrier.

NAS has elected to recognize the initial postretirement benefit obligation over a period of 20 years. The accrued postretirement benefit obligation is reported in accrued employee benefits on the statements of financial position.

In 2006, the Financial Accounting Standards Board issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which NAS has adopted for the year ended December 31, 2007. This statement requires that an employer recognize the funded status of its benefit plans in its statement of financial position and report the corresponding gains and losses in its statement of activities. NAS reported the funded status of the accumulated postretirement benefit obligation of $1.8 million as a component of accrued employee benefits liability at December 31, 2007. NAS recorded the effect of adopting SFAS No. 158 of $604,000 for the year ended December 31, 2007.

The effects of applying SFAS No. 158 on NAS' financial position as of December 31, 2007 were as follows (dollars in thousands):

	Before SFAS No. 158	After SFAS No. 158
Accrued employee benefits	$ 5,275	$ 5,879
Total liabilities	220,887	221,491
Total net assets	540,893	540,289

Post-retirement changes other than net periodic benefit cost are as follows (dollars in thousands):

	2008
Net actuarial (gain) loss	$ 6,555
Recognized actuarial gain (loss)	18
Recognized prior service (cost) credit	(210)
Recognized net initial asset (obligation)	(26)
Total	$ 6,337

Items not yet recognized as a component of net periodic benefit cost at December 31, 2008 and 2007 are as follows (dollars in thousands).

	2008	2007
Net actuarial loss (gain)	$ 5,447	$ (1,125)
Prior service cost (credit)	1,352	1,562
Unrecognized net initial obligation	142	167
Total	$ 6,941	$ 604

The estimated amounts, measured at year-end, that are expected to be recognized in the net periodic benefit cost over the next fiscal year for the postretirement benefit plan are as follows (dollars in thousands):

	2008	2007
Prior service cost	$ 210	$ 210
Recognized actuarial loss (gain)	469	(18)
Recognized net initial obligation	26	26
Total	$ 705	$ 218

The following table presents the changes in benefit obligations, changes in plan assets, funded status, and the components of net periodic benefit cost for the year ended December 31, 2008 and 2007 (dollars in thousands):

	2008	2007
Change in benefit obligations:		
Benefit obligation, January 1	$ 16,461	$ 16,525
Service cost	608	660
Interest cost	963	927
Plan participant contributions	131	117
Actuarial loss (gain)	1,161	(1,152)
Benefits paid	(732)	(616)
Benefits obligation, December 31	18,592	16,461
Change in plan assets, combined:		
Fair value of plan assets, January 1	14,660	11,920
Actual return on plan assets	(4,325)	797
Employer contributions	1,865	2,442
Plan participants contributions	-	117
Benefits paid	-	(616)
Fair value of plan assets, December 31	12,200	14,660
Funded status	$ (6,392)	$ (1,801)
Components of net periodic benefit cost:		
Service cost	$ 608	$ 661
Interest cost	963	927
Expected return on plan assets	(1,069)	(899)
Recognized prior service cost (credit)	210	210
Recognized actuarial (gain) loss	(18)	(2)
Recognized net initial obligation (asset)	26	26
Net periodic benefit cost	$ 720	$ 923

The assumptions used to determine net periodic benefit cost for years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Discount rate	6.00%	6.00%
Expected long-term return on plan assets	7.50%	7.50%

The assumptions used to calculate the accumulated postretirement benefit obligation for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Discount rate	6.00%	6.00%

NAS postretirement benefit plan asset allocations at December 31, 2008 and 2007, by asset category are as follows:

	2008	2007
Cash	3%	11%
Bonds and notes	11%	15%
Equity securities	86%	74%
	100%	100%

The investment objective of the Plan is to produce a rate of return over the long term that will provide for fund growth, protect against the effect of inflation, and provide for some stability in different market environments. The fund is diversified between fixed income and equity investments. With this diversification and investment in broader market funds, there is reasonable assurance that no single security or class of securities will have a disproportionate impact on the Plan assets. The Plan assets are invested with a long-term growth strategy, with a 70% equity guideline.

The overall long-term rate of return was developed by estimating the long-term real rate of return for the Plan's asset mix, while taking into account the effects of inflation. This estimate was developed by evaluating the history and similar asset allocation of the NAS Endowment.

NAS expects to contribute to the Plan the actuarially determined net periodic cost for 2009, which is approximately $1,500,000.

The following benefit payments, which reflect future services, are expected to be paid in future years as noted, as of December 31, 2008 (dollars in thousands):

Years ending December 31:	
2009	$ 906
2010	1,028
2011	1,139
2012	1,221
2013	1,294
2014-2017	7,115
	$ 12,703

The measurement date of the plan assets and benefit obligations for 2008 and 2007 is December 31, 2008 and 2007, respectively:

The trend rate for growth in healthcare costs used in calculating the accumulated postretirement benefit obligation was 8.7% and 9.5% for the years ended December 31, 2008 and 2007, respectively, declining gradually to 5% in the year 2019. The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. The effect of a 1% change in the assumed healthcare cost trend rate at December 31, 2008, would have resulted in an estimated $1.7 million increase or $1.5 million decrease in the postretirement benefit obligation and an estimated $201,000 increase or $165,000 decrease in the 2008 benefit expense.

The effect of a 1% change in the assumed healthcare cost trend rate at December 31, 2007, would have resulted in an estimated $1.5 million increase or $1.3 million decrease in the postretirement benefit obligation and an estimated $203,000 increase or $167,000 decrease in the 2007 benefit expense).

(15) CONDITIONAL ASSET RETIREMENT OBLIGATION

In March 2005, the Financial Accounting Standards Board (FASB) issued the FASB Interpretation No. 47 (FIN 47). This interpretation clarifies the term "conditional asset retirement obligation" as it is used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, and requires a liability to be recorded if the fair value of the obligation to retire an asset can be reasonably estimated. Asset retirement obligations covered by FIN 47 include those for which an entity has a legal obligation to perform an asset retirement activity. However, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

In accordance with FIN 47, NAS recorded an asset retirement obligation for which fair value of the liability could be reasonably estimated relating to the regulatory remediation of asbestos and other hazardous materials in one of its office buildings. Accordingly, NAS recorded a charge to management and general expense of $1.5 million for the year ended December 31, 2007. NAS recorded a liability for asset retirement obligations of $1.7 million in other long-term liabilities and increased the carrying value of the related building assets by $364,000, less accumulated depreciation of $291,000.

During 2008, NAS recognized accretion expense of $80,000, increasing the value of the liability to approximately $1.8 million at December 31, 2008. There were no additional liabilities incurred or settled and no revisions to estimated cash flows in 2008.

(16) RELATED PARTY TRANSACTIONS

The NAS Council has authorized two agreements providing noninterest bearing, collateralized advances to two employees in connection with the purchase of each employee's residence. The agreements between the parties were executed in May 2005 and May 2007. They each provide that the repayment obligation will be adjusted to allocate to each party its proportional share of the appreciation or depreciation in the value of the residence, which is based on the relative financing percentage provided by each party. The agreements will terminate upon pay-back of the advance, sale of the property, or the end of each individual's employment with NAS, which will not exceed 12 years. The estimated present value of the receivables at December 31, 2008 and 2007, is $3.3 million and $3.5 million, respectively, and is included in other assets on the statements of financial position.

(17) COMMITMENTS AND CONTINGENCIES

(a) Leases

NAS is committed to several noncancelable operating leases for office space. Future minimum rental payments due under noncancelable operating leases are as follows (dollars in thousands):

Year ending December 31:	
2009	$ 2,440
2010	2,380
2011	2,017
2012	1,686
2013	1,730
Thereafter	5,119
	$ 15,372

Rental expense amounted to approximately $2.1 million for both years ended December 31, 2008 and 2007, respectively.

(b) Contingencies

NAS receives a portion of its revenues directly or indirectly from federal government grants and contracts, all of which are subject to audit by the Defense Contract Audit Agency, which has completed its examinations through December 31, 2005. A contingency exists relating to unexamined periods and final settlements of examined periods to refund any amounts received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

(c) Litigation

NAS is involved in one litigation matter. While the ultimate outcome of the litigation is uncertain, NAS management believes that it has a strong legal position, intends to vigorously defend against any liability, and has concluded that the probable outcome will not have a material impact on NAS.

(18) RISKS AND UNCERTAINTIES

NAS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported.

(19) SUBSEQUENT EVENT

As described in Note 12(b), NAS is party to a swaption agreement. On March 17, 2009, the counterparty exercised its option to require NAS to enter into an additional swap agreement related to the Series 1999A Revenue Bonds. The swap becomes effective on May 1, 2009, requiring NAS to pay 5.00% on a notional amount of $55 million and to receive a floating rate equal to 67% of 1-month LIBOR plus 0.41%.

On April 30, 2009 the District of Columbia issued $57.5 million of variable rate tax exempt revenue bonds on behalf of NAS. The proceeds were used to refund the existing Series 1999A fixed rate revenue bonds in the amount of $55.3 million and pay for certain costs of issuance.

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