



## Report of the Treasurer of the National Academy of Sciences: For the Year Ended December 31, 2009

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REPORT OF  
THE TREASURER  
OF THE  
NATIONAL ACADEMY  
OF SCIENCES

For the Year  
Ended December 31, 2009



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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, 2009.

### Overview

The National Academy of Sciences (NAS) functions on the basis of two sources of income: that received through National Research Council (NRC) activities as compensation for the myriad reports, studies, etc. produced each year and second, a much smaller sum that we obtain from our 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 actual program revenue for 2009 was 9.6% over 2008 actual revenue. And for 2010, we are anticipating continued growth, currently estimated at 6.0%. There are many who deserve credit for this strong showing but not least among them is Bill Colglazier for his wise oversight as the Executive Officer of the NRC.

As the recent economic problems have had a serious impact on the endowment's value, management has adopted a prudent spending level, agreeing to a decreased spending level in 2009 to 4% of the 12 quarter average as of June 30, 2009, of unrestricted funds and to avoid spending whenever possible from underwater endowments (those with value below the original gift from restricted funds). Management agreed to the same 4% spending level for 2010.

### NAS Highlights

#### *Endowment, Trust, and Other Long-term Investments Pool*

As the Chairman 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 Trust and Award activities, and the Presidents' initiatives within the NRC program. To

achieve this goal, the NAS Council, acting on the recommendation of the Finance Committee, has historically adopted a "spending rule" designed to maintain the purchasing power of the Pool over time. The spending rule caps annual spending at 5 percent of the trailing 12 quarter average market value of the participating funds in the Pool.

During calendar year 2009, the market value of the Pool regained a portion of the value that was lost during the market downturn in 2008. Market value of the Pool increased net of withdrawals and new contributions from \$288.0 million on January 1, 2009 to \$344.4 million at December 31, 2009. The Pool returned 25.1% for the year which was lower than the 29.2% of the relevant benchmark. The performance of the hedge fund investments was the main contributing negative factor for the relative performance differential. Positive contributions to performance came from non-US emerging markets, small-mid US equity and fixed income funds. By actions of the Finance Committee in the latter part of 2008 and continuing in 2009, investments were made in a basket of securities in the natural resources and alternative energy arenas which have contributed significant positive returns to the Pool's overall performance. A further action by the Committee led to the sale of poor performing investments in certain hedge funds.

Liquidity of the Pool investments is a concern of organizations that rely on income for operational needs and/or have bond obligations. It has been extensively publicized that several prominent university endowments had serious difficulties in extracting operating income from illiquid portfolios. A careful study of our portfolio by Chief Financial Officer, Julie Englund, shows it to be highly liquid, with 76% of the portfolio being available between 1-3 days; 83% is available within a month.

Market values of the Pool, after withdrawals, for the years ended December 31, 2009 and 2008, are displayed in the following chart:

	(dollars in thousands)	
	2009	2008
Cash and Fixed-Income Securities	\$ 47,697	\$ 63,624
Equity Securities	296,683	224,398
<b>Total</b>	<b>\$ 344,380</b>	<b>\$ 288,022</b>

The Pool has consistently outperformed the market benchmarks over a long period. For the five years ending December 31, 2009, the Pool return is 4.6% compared to the market composite benchmark of 3.9% and, for the ten

years ending December 31, 2009, the Pool return is 4.5% compared with the market composite benchmark of 3.3%.

The Finance Committee will continue to monitor the performance of investments and the portfolio overall asset allocation compared to policy, and to review possible future investments. The comparison of these guidelines to the actual portfolio allocation at December 31, 2009, is as follows:

<b>Overview of Current Investment Structure</b>			
		<b>Guideline</b>	<b>Portfolio Allocation</b>
<b>Fixed-Income:</b>	U.S. Fixed/Cash	12.0%	7.4%
	Non-U.S. Fixed	3.0%	6.4%
<b>Equities:</b>	U.S. Large Cap Funds	25.0%	19.4%
	U.S. Small-Mid Cap Funds	12.0%	9.9%
	Non-U.S. Stocks — Developed	20.0%	23.6%
	Non-U.S. Stocks — Emerging	8.0%	13.8%
	Real Estate Investments	5.0%	2.8%
<b>Hedge Funds</b>		12.0%	13.2%
<b>Other Alternative Investments</b>		3.0%	3.5%
<b>Total</b>		100.0%	100.0%

- See Schedule 2-A on page 21 for details of investments by asset class.
- Included in the \$344.4 million total market value of the Pool as of December 31, 2009, are \$6.6 million for the Woods Hole Endowment Funds, \$57.9 million for the Institute of Medicine (IOM), and \$8.8 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 \$15.5 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 \$2.2 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), normally based on the 5% spending rule.

For fiscal year 2009, the General Fund revenue totaled \$7.7 million and expenditures totaled \$5.8 million, resulting in a \$1.9 million surplus. Comparable figures for fiscal year 2008 were \$7.0 million in revenues, \$5.4 million in expenditures, resulting in a surplus of \$1.6 million.

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 2009, President Ralph Cicerone has prudently spent less than the funds available, returning to the NAS Reserve \$1.6 million. There are plans for a comparable degree of fiscal caution in 2010 as well. The remaining balance of the NAS Reserve at December 31, 2009, is \$4.4 million. The \$1.6 million of the surplus from fiscal year 2009 will be added to this balance in early 2010, for a net NAS Reserve balance of \$6.0 million.

The 2009 NAS General Fund activity is summarized as follows:

<b>(dollars in thousands)</b>	
<b>Revenues:</b>	
Unrestricted Endowment	\$ 5,896
Woods Hole Endowment	401
Communications Initiative Fund	201
Annual Giving from Members	327
Membership Dues	252
Annual Meeting	207
NAS Reserve	385
Short-Term Investment Interest, Royalties, etc.	46
<b>Total Revenue</b>	<b>\$ 7,715</b>

<b>Expenses:</b>	
Development Office	\$ 1,570
Member Services:	
Annual Meeting	647
Other	191
Programs/Projects:	
Cultural Programs of the NAS	395
Evolution, Education & Communication	158
Communications Initiative	446
Frontiers of Science	144
Committee on International Security & Arms Control	196
Local High School Project	40
Committee on Women in Science, Engineering and Medicine	98
InterAcademy Council	109
Woods Hole	248
Foreign Meetings	125
President's Office	103
NAS Executive Office	55
NRC Operations	1,025
ISSUES Support	265
Miscellaneous	19
<b>Total Expenses</b>	<u>\$ 5,834</u>
<b>Surplus</b>	<u>\$ 1,881</u>

Disposition of Surplus:	
Due to NAS Reserve	1,571
Due to Woods Hole Reserve	160
Due to Communications Initiative Reserve	150

The NAS Council has approved a General Funds budget of \$4.8 million for fiscal year 2010, which is less than the amount available by \$252,000. This budget level was accomplished by reducing the budget through prudent reductions to existing programs as well as the transfer of some programs to unrestricted funds.

### ***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, 2009 and 2008:

	(dollars in thousands)	
	2009	2008
<b>Revenues:</b>		
Subscriptions	\$ 6,820	\$ 6,906
Author charges	6,174	5,535
Other	119	121
<b>Total</b>	<u>\$ 13,113</u>	<u>\$ 12,562</u>
<b>Expenses:</b>		
Publishing	\$ 6,387	\$ 6,048
Other	7,038	6,429
<b>Total</b>	<u>\$ 13,425</u>	<u>\$ 12,477</u>
<b>Net</b>	<u>\$ (312)</u>	<u>\$ 85</u>

### ***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.
- Proceedings of the National Academy of Sciences Office at 700 Eleventh St. NW in Washington, D.C.

The plans for the restoration of the historic Constitution Avenue NAS Building are moving ahead. The contractor provided a Guaranteed Maximum Price for the project in April 2010. Bonds were issued in late May 2010 with

construction beginning in June 2010. The project is expected to be completed by April 2012.

### ***Development Office Programs***

The NAS is grateful for the generous support of members, friends, and philanthropic organizations in 2009. The support received assists the NAS in taking a leadership and proactive role in addressing the issues and challenges facing our nation.

The NAS Development Office continues to seek and receive private philanthropic support from members, friends and organizations. This has been a truly critical source of strength in building the endowment and all members are encouraged to help support the NAS. The availability of funds derived from our own endowments assists the NAS in initiating studies in sensitive areas, and in taking a leadership role in addressing the issues and challenges facing our nation.

In 2009, the NAS, including the IOM, received a total of \$12.2 million in new gifts and pledges, a decrease of 8% from the previous year. Contributions to the NAS Annual Fund were essentially the same as 2008, although there was a gratifying 21% increase in the number of members who made gifts in this economically challenging environment. The IOM Annual Fund receipts were up 52% over 2008, and the number of members contributing increased by more than a third. The gifts described below illustrate the scope of philanthropic support during 2009:

- The NAS received a \$1.5 million gift from the Carnegie Corporation to underwrite the expenses of the Christine Mirzayan Science & Technology Graduate Fellowship Program for the next several years. The NAS will use this budget relief to undertake an ambitious effort to permanently endow this highly successful program, which engages selected recent graduates in the analytical process that informs U.S. science and technology policy.
- The IOM secured \$750,000 in commitments from two individual philanthropists for the IOM Initiatives Fund. This new fund will be used to convene exploratory symposia and workshops and to initiate studies to examine those health and healthcare issues that may be too politically sensitive or too long term to attract timely support. The IOM plans to secure a total of \$1.5 million for the Fund by the end of 2010.
- The Committee on Human Rights received \$317,000 in gifts in 2009, including support from 191 members

of the NAS, IOM and the National Academy of Engineering (NAE).

- Three NAS members reported that they had included the Academy in their estate plans, including one at the level of \$100,000.

The NAS Development Office also undertook a comprehensive review of all funds in the NAS endowment. They are collecting the gift agreements and other records governing the use of each of the more than 100 funds. To be completed in 2010, this project will document the purpose of each endowment as designated by the donor to help guide the appropriate use of the distributions, identify any opportunities to better utilize endowments, and develop an effective program of regularly reporting to living donors on the use of their endowments.

Over thirteen percent of the Academy's endowment has come from estate gifts, largely from members or their spouses. Deferred gifts, such as bequests, charitable gift annuities, and charitable remainder trusts represent an increasingly important source of philanthropic support for NAS. Accordingly, the NAS Development Office is undertaking an effort to significantly increase deferred gifts through regular informative mailings to members, educational seminars on estate planning, and visible recognition for this kind of support. The Heritage Society was created in 2005 to recognize members who provide for the NAS in their estates or make other deferred gifts. A permanent, professional position has been established to support these efforts across all three academies.

### **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 \$259.7 million in 2009 and \$256.2 million in 2008.

#### ***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, 2009, was

\$215.0 million (see following chart and the Statements of Activities on page 43) and in the year ended December 31, 2008, was \$202.8 million.

<b>U.S. Government Revenues by Agency</b>	<b>(dollars in thousands)</b>
Agency for International Development	\$ 1,487
Department of Agriculture	2,280
Department of Commerce	11,097
Department of Defense:	
Department of the Air Force	5,283
Department of the Army	10,564
Department of Defense	6,419
Department of the Navy	11,563
Department of Education	1,116
Department of Energy	8,555
Department of Health and Human Services	27,152
Department of Homeland Security	3,462
Department of Housing and Urban Development	16
Department of the Interior	2,179
Department of Justice	1,256
Department of Labor	415
Department of State	2,411
Department of Transportation	95,121
Department of Treasury	964
Department of Veterans Affairs	2,453
Election Assistance Commission	202
Environmental Protection Agency	4,829
Executive Office of the President	1,646
General Accounting Office	219
General Services Administration	90
Institute of Museum and Library Services	195
Marine Mammal Commission	70
National Aeronautics and Space Administration	9,652
National Science Foundation	13,321
Nuclear Regulatory Commission	41
Social Security Administration	717
Adjustment to Indirect Cost Receivable & Other	(9,818)
<b>Total U.S. Government Agencies</b>	<b>\$ 214,957</b>

Overall, the financial results for 2009 were better than expected. The 6.0% increase in program revenues represents the largest one-year percentage increase in program revenues since 2002. This growth is expected to continue in 2010 with an estimated increase in NRC program revenues of 6.0%.

### ***Private/Nonfederal Contracts and Grants***

Private sponsors supplemented government projects and provided for new initiatives by funding awards in the amount of \$44.7 million in 2009, compared with \$53.4 million in 2008. The private and nonfederal revenues were comprised of contracts and grants (\$39.0 million) and other contributions (\$5.7 million). (See Statements of Activities on page 43.)

- The private contracts and grants decreased from \$45.2 million in 2008 to \$39.0 million in 2009. This is due to an overall decrease in the number of private awards received. In 2008, NAS received 97 new private awards. In 2009, that number decreased to 73.
- Other contributions revenue decreased from \$8.2 million in 2008 to \$5.7 million in 2009. In 2008, the NAS received two gifts totaling \$2.0 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.

### ***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 expenditures for funding the 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 2009, total indirect expenses were \$70.7 million compared to an approved budget of \$72.0 million. The NAS Council approved a 2010 indirect expense budget of \$77.0 million, which includes a 2.5% 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**

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 2009, the NAS has been able to grow its net assets through increased program revenues and recovery of a significant portion of the investment losses suffered in 2008. The 2008 investment losses are reflected in lower revenue total for 2008 in the chart below:

	(dollars in millions)	
	2009	2008
Total Revenues	\$ 370.1	\$ 130.8
Total Expenses	307.4	303.8
<b>Change in Net Assets</b>	<b>\$ 62.7</b>	<b>\$ (173.0)</b>

These NAS 2009 results of operations are further described in the financial statements starting on page 42.

**Conclusion**

The NRC demonstrated strong financial growth during 2009, with revenues projected to continue to grow in 2010. Indirect expenses have been well-managed during the year. As is the case for all endowments, the stock market's major decline in 2008 has had a serious impact on the value of our endowment although it has experienced strong rebuilding in 2009. 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 go to the Office of the Chief Financial Officer for careful and steady oversight of the budgets, for preparation of the financial statements, and its help with oversight of the endowment.

Jeremiah P. Ostriker  
Treasurer

# I. Investments

***Endowment, Trust, and Other Long-term Investments Pool***  
***Description of Funds for the Year Ended December 31, 2009***

**Capital  
Contribution  
(Column 1 of  
Schedule 1–A)**

***I. Funds that Support the NAS***

***A. General Fund***

<u>Agassiz Fund</u> — Bequest of Alexander Agassiz, a member of the Academy.	\$ 50,000
<u>Carnegie Fund</u> — 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
<u>Commonwealth Fund</u> — A grant of the Commonwealth Fund for capital endowment of the Academy.	500,000
<u>Carl Eckart Fund</u> — Bequest of Carl Eckart received for the general purposes of the Academy.	1,246,366
<u>Ford Foundation Fund</u> — A grant of the Ford Foundation for capital endowment of the Academy.	5,000,000
<u>Henrietta and Alexander Hollaender Fund</u> — A bequest to the Academy from Dr. Alexander and Mrs. Henrietta Hollaender.	500,000
<u>Grayce B. Kerr Fund</u> — A grant from Grayce B. Kerr for the general purposes of the Academy.	250,000
<u>Nealley Fund</u> — Bequest of George True Nealley for the general purposes of the Academy.	19,556
<u>Simon Ramo Fund</u> — A gift from Simon Ramo for the general purposes of the Academy.	14,000
<u>Rockefeller Foundation Fund</u> — A grant of the Rockefeller Foundation to the National Academy of Sciences for the general purposes of the Academy.	1,000,000
<u>Dorothea and Herbert Simon Fund</u> — A gift from Dorothea and Herbert Simon for the general purposes of the Academy.	644,616
<u>Sloan Foundation Fund</u> — A grant of the Alfred P. Sloan Foundation for the general purposes of the Academy.	1,000,000
<u>Amy Prudden Turner Fund</u> — 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
<u>Anonymous Endowment Fund</u> — A gift for the general purposes of the Academy from a donor who wishes to remain anonymous.	7,146,660
<u>General Endowment Fund</u> — 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
<u>Members Endowment Fund</u> — Contributions from various members to be used for the general purposes of the Academy.	2,723,279
<b>Subtotal — General Fund</b>	<b>\$ 27,005,434</b>

***B. Woods Hole***

<u>Peter C. Cornell Trust Fund</u> — 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
<u>J. Erik Jonsson Woods Hole Fund</u> — 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
<u>Richard King Mellon Foundation Fund</u> — Grant from the Richard King Mellon Foundation for maintenance of the building and grounds at the Woods Hole Study Center.	50,000
<u>Penzance Foundation Fund</u> — A grant for the J. Erik Jonsson Woods Hole Study Center especially for support of the property's Clark Carriage House.	502,500
<u>Woods Hole Endowment</u> — Contributions from the Brown Foundation and various individuals for maintenance of the Woods Hole Study Center.	971,400

***Endowment, Trust, and Other Long-term Investments Pool***  
***Description of Funds for the Year Ended December 31, 2009***

	<b>Capital Contribution (Column 1 of Schedule 1-A)</b>
<u>Woods Hole Fund</u> — Contributions from various individuals for maintenance of the Woods Hole Study Center.	12,874
<b>Subtotal — Woods Hole</b>	<b>\$ 3,639,274</b>
 <b>C. Presidents' Committee Fund</b>	
<u>Basic Science Fund - Earth Sciences</u> — 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
<u>Biology and Biotechnology Fund</u> — 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
<u>Thomas Lincoln Casey Fund</u> — 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
<u>The Coca-Cola Foundation Fund</u> — A grant to be used for initiatives in precollege science and mathematics education.	50,000
<u>Arthur L. Day Fund</u> — 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
<u>Cecil and Ida Green Fund</u> — 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
<u>W. K. Kellogg Foundation Fund</u> — 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
<u>Kobelt Fund</u> — Bequest of Nina I. Kobelt to be used for research scholarships for worthy students.	296,593
<u>Andrew W. Mellon Foundation Fund</u> — A grant from the Andrew W. Mellon Foundation to endow a program of Academy-initiated studies.	1,000,000
<u>George and Cynthia Mitchell Endowment for Sustainability Sciences</u> — 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.	16,000,000
<u>George and Cynthia Mitchell Matching Endowment</u> — 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.	39,750
<u>Frank Press Fund for Dissemination and Outreach</u> — 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
<u>Scientists and Engineers for the Future Fund</u> — 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
<b>Subtotal — Presidents' Committee Funds</b>	<b>\$ 46,250,244</b>

***Endowment, Trust, and Other Long-term Investments Pool***  
***Description of Funds for the Year Ended December 31, 2009***

**Capital  
Contribution  
(Column 1 of  
Schedule 1–A)**

***D. Program Specific Funds***

<u>Arnold and Mabel Beckman Fund of the National Academies of Sciences and Engineering</u> — 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.	\$ 11,974,446
<u>Billings Fund</u> — Bequest of Mrs. Mary Ann Palmer Draper (Mrs. Henry Draper) to support publication of the <i>Proceedings of the National Academy of Sciences</i> or for other purposes to be determined by the Academy.	50,102
<u>Blakeslee Fund</u> — Bequest of Albert Francis Blakeslee, the income from which is to be used in support of genetics research.	886,902
<u>Henry G. Booker Fellowship Fund</u> — 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
<u>Cultural Programs of the National Academy of Sciences Fund</u> — Contributions from various sources for sponsoring free cultural programs of merit for local residents and for providing a platform for musicians and artists.	21,284
<u>Henry and Bryna David Endowment</u> — 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
<u>Global Commons Project Fund</u>	39,058
<u>Marian Koshland Science Museum Fund</u> — 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
<u>Bruce Alberts Fund of the Marian Koshland Science Museum</u> — 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
<u>National Science Resources Center Fund</u> — 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
<u>New Canaan Library Fund</u> — 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
<u>Kumar and Shela Patel Endowment for US–India Dialogs</u> — To support US-India scientific and technical communication and dialog through various Academy activities.	600,000
<u>Arthur M. Sackler Colloquia of the National Academy of Sciences Fund</u> — 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
<u>The Raymond and Beverly Sackler USA–UK Scientific Forum Endowment</u> — 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, 2009***

	<b>Capital Contribution (Column 1 of Schedule 1-A)</b>
<u>U.S. National Committee for the International Astronomical Union (USNC/IAU) Fund</u> — 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
<u>NAS Members Endowment(s)</u> — 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
<b>Subtotal — Program Specific Funds</b>	<b>\$ 53,973,292</b>
 <b><i>E. Prizes and Awards</i></b>	
<u>American Psychological Association (APA) Science Directorate Fund</u> — 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
<u>Henryk Arctowski Fund</u> — 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
<u>Bache Fund</u> — Bequest of Alexander Dallas Bache, a member of the Academy, to aid research in the physical and natural sciences.	60,000
<u>Blaauw Fund</u> — Bequest of Marianne Blaauw to establish the Edmond and Marianne Blaauw Fund to support research in the field of ophthalmology.	71,299
<u>John J. Carty Fund</u> — 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
<u>Comstock Fund</u> — 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
<u>Draper Fund</u> — 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
<u>Elliot Fund</u> — 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
<u>Estes Award in Social and Behavioral Sciences</u> — 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
<u>Gibbs Brothers Fund</u> — 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
<u>Gibbs Fund</u> — 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
<u>Ralph E. Gomory Award for the Application of Science</u> — A grant from the International Business Machines Corporation for an award to be given in honor of Ralph Gomory.	179,046
<u>Gould Fund</u> — 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

***Endowment, Trust, and Other Long-term Investments Pool***  
***Description of Funds for the Year Ended December 31, 2009***

	<b>Capital Contribution (Column 1 of Schedule 1-A)</b>
<u>Joseph Henry Fund</u> — 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
<u>Alexander Hollaender Award in Biophysics</u> — 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
<u>Hunsaker Fund</u> — Gift of Mr. and Mrs. J. C. Hunsaker to found an Academy award in the field of aeronautical engineering.	24,750
<u>Franklin Livingston Hunt Fund</u> — 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
<u>Kovalenko Fund</u> — Gift of Michael S. Kovalenko, in memory of his wife, to found the Jessie Stevenson Kovalenko Gold Medal for meritorious research in medical sciences.	64,270
<u>Marsh Fund</u> — Bequest of Othniel Charles Marsh, a member of the Academy, to promote original research in the natural sciences.	10,000
<u>George P. Merrill Fund</u> — Gift of Mrs. George P. Merrill, the income from which is to be used for studies of meteors, meteorites, and space.	10,000
<u>Stanley Miller Award</u> — 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
<u>Monsanto Award in Molecular Biology</u> — A grant from the Monsanto Company for an award to be given in recognition of contributions in the field of molecular biology.	421,374
<u>Murray Fund</u> — 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
<u>National Academy of Sciences Award for Chemistry in Service to Society</u> — 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
<u>National Academy of Sciences Award in Mathematics</u> — Established by the American Mathematical Society for a prize to be awarded every four years in mathematics.	53,597
<u>National Academy of Sciences Award in Chemical Sciences</u> — 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
<u>National Academy of Sciences Award in Neuroscience</u> — Established by the Fidia Research Foundation for an award in neuroscience, to be given every three years.	140,206
<u>National Academy of Sciences Fund for Sciences and Technology in International Affairs</u> — 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
<u>Pradel Fund</u> — A bequest of Jules Pradel to be applied to work on the human central nervous system and allied subjects.	16,392
<u>H. P. Robertson Lectureship Fund</u> — 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, 2009***

	<b>Capital Contribution (Column 1 of Schedule 1-A)</b>
<u>Helen P. Smith Fund</u> — 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
<u>Mrs. J. Lawrence Smith Fund</u> — 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
<u>Thompson Fund</u> — 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
<u>Troland Fund</u> — 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
<u>Walcott Fund</u> — 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
<u>G. K. Warren Fund</u> — 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
<u>Watson Fund</u> — 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
<b>Subtotal — Prizes and Awards</b>	<b>\$ 3,060,977</b>

***F. Reserve Funds***

<u>National Academy of Sciences Reserve Fund</u> — Accumulated surplus from prior years' NAS General Fund operating budget. The reserve provides additional funding for ongoing operations during periods of market decline.	\$ 5,520,781
<u>Proceedings of the National Academy of Sciences (PNAS) Fund</u>	1,000,000
<u>Transportation Research Board (TRB) Reserve Fund</u> — 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
<b>Subtotal — Reserve Funds</b>	<b>\$ 8,020,781</b>
<b>Subtotal — Funds that Support the NAS</b>	<b>\$ 141,950,002</b>

***II. Funds that Support the IOM***

***A. General Funds***

<u>General Endowment Fund</u> — Contributions from various sources, including members of the Institute of Medicine, for capital endowment of the Institute of Medicine.	\$ 1,119,132
<u>Robert Wood Johnson Foundation Fund</u> — An endowment grant, the income from which is to be used for core support of the Institute of Medicine.	5,000,000
<u>Institute of Medicine Kellogg Fund</u> — A grant from the Kellogg Foundation to be used for the general purposes of the Institute of Medicine.	282,500
<u>Institute of Medicine Members' Dues</u>	197,500

***Endowment, Trust, and Other Long-term Investments Pool***  
***Description of Funds for the Year Ended December 31, 2009***

	<b>Capital Contribution (Column 1 of Schedule 1–A)</b>
<u>Henry J. Kaiser Family Foundation Fund</u> — 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
<u>John D. and Catherine T. MacArthur Foundation Fund</u> — 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
<u>Pharmaceutical Discretionary Fund</u> — A grant from W. K. Kellogg to further the Institute of Medicine's long-range program development.	480,000
<u>Pharmaceutical Endowment Fund</u> — 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
<u>Miscellaneous Private Sector Fund</u> — Contributions from Kaiser Permanente to be used for core support requirements of the Institute of Medicine.	26,346
<b>Subtotal — General Funds</b>	<b>\$ 12,853,411</b>
 <b><i>B. Program Specific Funds</i></b>	
<u>Distinguished Scholar Fund</u> — 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
<u>Food and Nutrition Board (FNB) Fund</u> — 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
<u>Food and Nutrition Board Corporations Fund</u> — Contributions from Monsanto Company and Nestle, USA, Inc., to provide support for FNB activities.	125,000
<u>Food and Nutrition Board Members Fund</u> — Contributions from various members to be used for general purposes of the Food and Nutrition Board.	4,850
<u>Norman F. Gant, M.D. and American Board of Obstetrics and Gynecology Fellowship Fund</u> — 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.	650,500
<u>David and Betty Hamburg Endowment Fund</u> — 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.	999,775
<u>Howard Hughes Medical Institute Fund</u> — 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
<u>Kellogg Health of the Public Fund</u> — 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.	4,701,845
<u>Kellogg Health of the Public Fund Matching Contributions</u> — 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.	2,540,944

***Endowment, Trust, and Other Long-term Investments Pool***  
***Description of Funds for the Year Ended December 31, 2009***

	<b>Capital Contribution (Column 1 of Schedule 1-A)</b>
<u>Richard and Hinda Rosenthal Lecture Series</u> — 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
<u>Women's Health Issues Fund</u> — Contribution from Syntex (U.S.A.), Inc., to be used for purposes related to women's health issues.	20,000
<b>Subtotal — Program Specific Funds</b>	<b>\$ 15,584,814</b>
<b>C. Prizes and Awards</b>	
<u>Gustav O. Lienhard Award</u> — 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
<u>Rhoda and Bernard G. Sarnat International Prize in Mental Health</u> — 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
<b>Subtotal — Prizes and Awards</b>	<b>\$ 2,209,179</b>
<b>D. Reserve Funds</b>	
<u>IOM Reserve Fund</u> — Unexpended balance earned on endowment based on IOM Council spending plan. The IOM reserve permits the effective management of unanticipated financial emergencies.	\$ 500,000
<b>Subtotal — Reserve Funds</b>	<b>\$ 500,000</b>
<b>Subtotal — Funds that Support the IOM</b>	<b>\$ 31,147,404</b>
<b>Subtotal — NAS and IOM Funds</b>	<b>\$ 173,097,406</b>
<b>III. FUNDS HELD ON BEHALF OF OTHERS</b>	
<b>A. The National Academies' Corporation (TNAC)</b>	
<u>Operations Endowment</u> — 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
<u>Program Endowment</u> — 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
<b>Subtotal — The National Academies' Corporation</b>	<b>\$ 9,939,644</b>
<b>TOTAL</b>	<b>\$ 183,037,050</b>

***Endowment, Trust, and Other Long-term Investments Pool  
Financial Detail of Funds for the Year Ended December 31, 2009***

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2009	Market Value at Dec. 31, 2008	2009 Contributions	2009 Investment Gain	2009 Expenditures & Transfers	Market Value at Dec. 31, 2009
<b>I. Funds that Support the NAS</b>						
<b>A. General Fund</b>						
Agassiz Fund	\$ 50	\$ 411	\$ -	\$ 99	\$ (30)	\$ 480
Carnegie Fund	3,275	28,451	-	6,787	(2,057)	33,181
Commonwealth Fund	500	1,847	-	441	(134)	2,154
Carl Eckart Fund	1,246	1,880	-	449	(136)	2,193
Ford Foundation Fund	5,000	18,156	-	4,332	(1,311)	21,177
Henrietta and Alexander Hollaender Fund	500	811	-	193	(58)	946
Grayce B. Kerr Fund	250	403	-	96	(29)	470
Nealley Fund	19	163	-	39	(12)	190
Simon Ramo Fund	14	28	-	6	(2)	32
Rockefeller Foundation Fund	1,000	3,682	-	878	(266)	4,294
Dorothea and Herbert Simon Fund	645	843	-	201	(61)	983
Sloan Foundation Fund	1,000	3,669	-	876	(265)	4,280
Amy Prudden Turner Fund	30	94	-	22	(7)	109
Anonymous Endowment Fund	7,147	11,797	-	2,814	(851)	13,760
General Endowment Fund	3,606	6,665	-	1,565	(501)	7,729
Members Endowment Fund	2,723	4,359	6	1,067	(284)	5,148
	<u>\$ 27,005</u>	<u>\$ 83,259</u>	<u>\$ 6</u>	<u>\$ 19,865</u>	<u>\$ (6,004)</u>	<u>\$ 97,126</u>
<b>B. Woods Hole</b>						
Peter C. Cornell Trust Fund	\$ 100	\$ 197	\$ -	\$ 47	\$ (14)	\$ 230
J. Erik Jonsson Woods Hole Fund	2,003	3,415	-	811	(248)	3,978
Richard King Mellon Foundation Fund	50	144	-	35	(11)	168
Penzance Foundation Fund	502	858	-	204	(62)	1,000
Woods Hole Endowment Fund	971	987	-	234	(71)	1,150
Woods Hole Fund	13	31	-	7	(2)	36
	<u>\$ 3,639</u>	<u>\$ 5,632</u>	<u>\$ -</u>	<u>\$ 1,338</u>	<u>\$ (408)</u>	<u>\$ 6,562</u>
<b>C. Presidents' Committee Funds</b>						
Basic Science Fund - Earth Sciences	\$ 503	\$ 1,013	\$ -	\$ 254	\$ (1)	\$ 1,266
Biology and Biotechnology Fund	420	661	-	164	(13)	812
Thomas Lincoln Casey Fund	258	4,836	-	1,158	(368)	5,626
Coca-Cola Foundation Fund	50	108	-	27	-	135
Arthur L. Day Fund	5,048	13,179	-	3,231	(591)	15,819
Cecil and Ida Green Fund	467	1,183	-	290	(21)	1,452
W. K. Kellogg Foundation Fund	20,000	33,617	-	8,048	(1,927)	39,738
Kobelt Fund	297	1,527	-	370	(82)	1,815
Andrew W. Mellon Foundation Fund	1,000	1,248	-	308	(25)	1,531
George and Cynthia Mitchell Endowment for Sustainability Sciences	16,000	12,932	2,000	3,458	(466)	17,924
George and Cynthia Mitchell Matching Endowment	40	48	-	12	-	60
Frank Press Fund for Dissemination and Outreach	1,167	1,738	-	424	(71)	2,091
Scientists and Engineers for the Future Fund	1,000	1,317	-	324	(51)	1,590
	<u>\$ 46,250</u>	<u>\$ 73,407</u>	<u>\$ 2,000</u>	<u>\$ 18,068</u>	<u>\$ (3,616)</u>	<u>\$ 89,859</u>

***Endowment, Trust, and Other Long-term Investments Pool  
Financial Detail of Funds for the Year Ended December 31, 2009***

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2009	Market Value at Dec. 31, 2008	2009 Contributions	2009 Investment Gain	2009 Expenditures & Transfers	Market Value at Dec. 31, 2009
<b>D. Program Specific Funds</b>						
Arnold and Mabel Beckman Fund of the NAS and NAE	\$ 11,975	\$ 6,355	\$ 23	\$ 1,365	\$ (2,237)	\$ 5,506
Billings Fund	50	687	-	172	(1)	858
Blakeslee Fund	887	1,878	-	427	(140)	2,165
Henry G. Booker Fellowship Fund	21	43	-	11	-	54
Communications Initiative Fund	-	2,608	-	618	(204)	3,022
Cultural Programs of the NAS Fund	21	23	2	7	-	32
Henry and Bryna David Endowment	850	1,029	-	257	(11)	1,275
Global Commons Project Fund	39	122	-	31	-	153
Marian Koshland Science Museum Fund Bruce Alberts Fund for the Marian Koshland Science Museum	22,786 5,195	17,791 4,852	-	4,192 1,191	(1,544) (80)	20,439 5,963
National Science Resources Center Fund	4,987	4,388	-	1,100	(6)	5,482
New Canaan Library Fund	4	8	-	2	-	10
Kumar and Shela Patel Endowment for US-India Dialogs	600	640	-	160	(1)	799
Arthur M. Sackler Colloquia Fund	4,375	4,729	-	1,187	(229)	5,687
Raymond & Beverly Sackler USA-UK Scientific Forum Endowment	2,025	1,459	-	365	(2)	1,822
USNC/IAU	100	132	-	33	(6)	159
NAS Members Endowment(s)	59	211	-	53	(1)	263
	<b>\$ 53,974</b>	<b>\$ 46,955</b>	<b>\$ 25</b>	<b>\$ 11,171</b>	<b>\$ (4,462)</b>	<b>\$ 53,689</b>
<b>E. Prizes and Awards</b>						
American Psychological Association Science Directorate Fund	\$ 30	\$ 52	\$ -	\$ 13	\$ (3)	\$ 62
Henryk Arctowski Fund	96	2,530	-	631	(18)	3,143
Bache Fund	60	307	-	70	(21)	356
Blaauw Fund	71	665	-	152	(46)	771
John J. Carty Fund	25	585	-	131	(63)	653
Comstock Fund	11	622	-	147	(39)	730
Draper Fund	6	264	-	59	(28)	295
Elliot Fund	8	133	-	32	(6)	159
Estes Award in Social and Behavioral Sciences	80	213	-	43	(40)	216
Gibbs Brothers Fund	24	233	-	44	(67)	210
Gibbs Fund	5	96	-	26	21	143
Ralph E. Gomory Award for the Application of Science	179	385	-	95	(6)	474
Gould Fund	50	551	-	126	(38)	639
Joseph Henry Fund	40	359	-	82	(25)	416
Alexander Hollaender Award in Biophysics	100	249	-	61	(9)	301
Hunsaker Fund	25	328	-	82	(6)	404
Franklin Livingston Hunt Fund	11	176	-	44	-	220
Kovalenko Fund	64	1,062	-	264	(14)	1,312
Marsh Fund	10	157	-	36	(11)	182

***Endowment, Trust, and Other Long-term Investments Pool***  
***Financial Detail of Funds for the Year Ended December 31, 2009***

(Dollars in thousands)

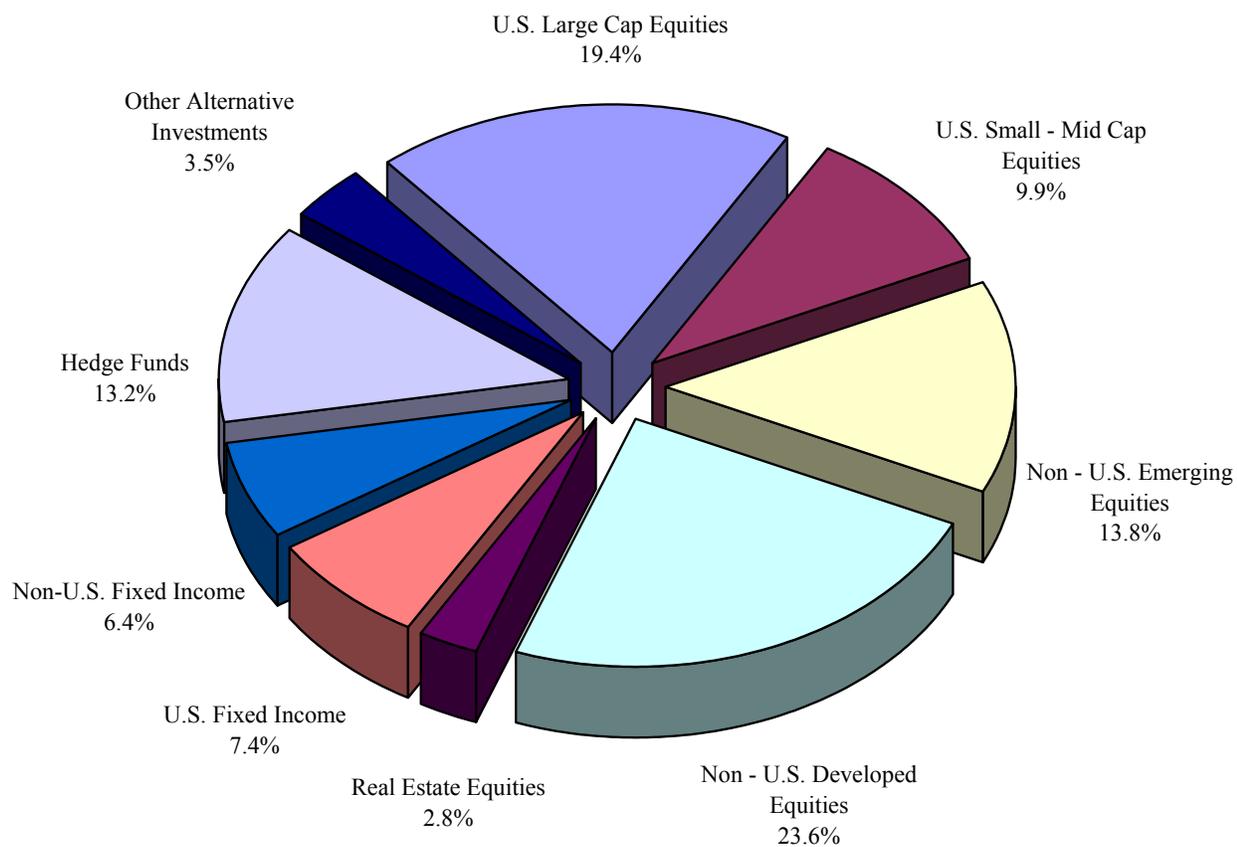
	Capital Contributions as of Dec. 31, 2009	Market Value at Dec. 31, 2008	2009 Contributions	2009 Investment Gain	2009 Expenditures & Transfers	Market Value at Dec. 31, 2009
George P. Merrill Fund	\$ 10	\$ 498	\$ -	\$ 114	\$ (34)	\$ 578
Stanley Miller Award	155	110	-	27	-	137
Monsanto Award in Molecular Biology	421	853	-	199	(59)	993
Murray Fund	6	137	-	33	(7)	163
NAS Award for Chemistry in Service to Society	182	304	-	70	(40)	334
NAS Award in Mathematics	54	48	-	10	(6)	52
NAS Award in Chemical Sciences	478	426	-	93	(50)	469
NAS Award in Neuroscience	140	379	-	93	(8)	464
NAS Fund for Sciences and Technology in International Affairs	49	190	-	47	-	237
Pradel Fund	16	1,271	-	318	(2)	1,587
H. P. Robertson Lectureship Fund	20	219	-	55	-	274
Helen P. Smith Fund	67	497	-	115	(40)	572
Mrs. J. Lawrence Smith Fund	8	544	-	125	(45)	624
Thompson Fund	10	201	-	41	(37)	205
Troland Fund	505	3,370	-	800	(166)	4,004
Walcott Fund	5	63	-	14	(6)	71
G. K. Warren Fund	15	150	-	36	(6)	180
Watson Fund	25	1,059	-	263	(13)	1,309
	<b>\$ 3,061</b>	<b>\$ 19,286</b>	<b>\$ -</b>	<b>\$ 4,591</b>	<b>\$ (938)</b>	<b>\$ 22,939</b>
<b>F. Reserve Funds</b>						
National Academy of Sciences Reserve Fund	\$ 5,521	\$ 2,824	\$ 1,431	\$ 959	\$ (839)	\$ 4,375
Proceedings of the National Academy of Sciences Fund	1,000	827	-	207	(1)	1,033
Transportation Research Board Reserve Fund	1,500	1,682	-	421	(2)	2,101
Due to (from) National Academy of Sciences	-	(410)	-	-	399	(11)
	<b>\$ 8,021</b>	<b>\$ 4,923</b>	<b>\$ 1,431</b>	<b>\$ 1,587</b>	<b>\$ (443)</b>	<b>\$ 7,498</b>
<b>Subtotal — Funds that Support the NAS</b>	<b>\$ 141,950</b>	<b>\$ 233,462</b>	<b>\$ 3,462</b>	<b>\$ 56,620</b>	<b>\$ (15,871)</b>	<b>\$ 277,673</b>
<b>II. Funds that Support the IOM</b>						
<b>A. General Funds</b>						
General Endowment Fund	\$ 1,119	\$ 1,429	\$ 6	\$ 347	\$ (95)	\$ 1,687
Robert Wood Johnson Foundation Fund	5,000	8,424	-	2,044	(560)	9,908
IOM Kellogg Fund	283	385	-	96	(1)	480
IOM Members Dues	198	269	-	67	-	336
Henry J. Kaiser Family Foundation Fund	488	657	-	160	(44)	773
John D. and Catherine T. MacArthur Foundation Fund	5,000	8,372	-	2,032	(560)	9,844
Pharmaceutical Discretionary Fund	480	687	-	172	(1)	858
Pharmaceutical Endowment Fund	259	399	-	97	(26)	470
Miscellaneous Private Sector Fund	26	47	-	11	(3)	55
	<b>\$ 12,853</b>	<b>\$ 20,669</b>	<b>\$ 6</b>	<b>\$ 5,026</b>	<b>\$ (1,290)</b>	<b>\$ 24,411</b>

***Endowment, Trust, and Other Long-term Investments Pool***  
***Financial Detail of Funds for the Year Ended December 31, 2009***

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2009	Market Value at Dec. 31, 2008	2009 Contributions	2009 Investment Gain	2009 Expenditures & Transfers	Market Value at Dec. 31, 2009
<b>B. Program Specific Funds</b>						
Distinguished Scholar Fund	\$ 17	\$ 52	\$ -	\$ 13	\$ -	\$ 65
Food & Nutrition Board (FNB) Fund	525	1,129	-	283	(1)	1,411
FNB Corporations Fund	125	326	-	82	-	408
FNB Members Fund	5	18	-	5	-	23
Norman Gant & ABOG Fellowship	650	633	1	157	(36)	755
Hamburg Endowment Fund	1,000	928	12	235	(1)	1,174
Howard Hughes Medical Institute Fund	5,000	11,268	-	2,819	(35)	14,052
Kellogg Health of the Public Fund	4,702	4,234	241	1,046	(183)	5,338
Kellogg Health of the Public Fund Matching Contributions	2,541	1,946	262	505	39	2,752
Richard and Hinda Rosenthal Lecture Series	1,000	1,127	-	274	(33)	1,368
Women's Health Issues Fund	20	60	-	15	-	75
	<u>\$ 15,585</u>	<u>\$ 21,721</u>	<u>\$ 516</u>	<u>\$ 5,434</u>	<u>\$ (250)</u>	<u>\$ 27,421</u>
<b>C. Prizes and Awards</b>						
Gustav O. Lienhard Award	\$ 1,200	\$ 3,208	\$ -	\$ 786	\$ (90)	\$ 3,904
Rhonda and Bernard G. Sarnat International Prize in Mental Health	1,009	1,112	-	276	(38)	1,350
	<u>\$ 2,209</u>	<u>\$ 4,320</u>	<u>\$ -</u>	<u>\$ 1,062</u>	<u>\$ (128)</u>	<u>\$ 5,254</u>
<b>D. Reserve Funds</b>						
IOM Reserve Fund	\$ 500	\$ 663	\$ -	\$ 166	\$ (2)	\$ 827
<b>Subtotal — Funds that Support the IOM</b>	<u>\$ 31,147</u>	<u>\$ 47,373</u>	<u>\$ 522</u>	<u>\$ 11,688</u>	<u>\$ (1,670)</u>	<u>\$ 57,913</u>
<b>Subtotal — NAS and IOM Funds</b>	<u>\$ 173,097</u>	<u>\$ 280,835</u>	<u>\$ 3,984</u>	<u>\$ 68,308</u>	<u>\$ (17,541)</u>	<u>\$ 335,586</u>
<b>III. Funds Held on Behalf of Others</b>						
<b>A. The National Academies' Corporation</b>						
Operations Endowment	\$ 8,000	\$ 5,365	\$ -	\$ 1,343	\$ (7)	\$ 6,701
Program Endowment	1,940	1,288	-	337	(2)	1,623
Building Maintenance Reserve	-	534	-	86	(150)	470
	<u>\$ 9,940</u>	<u>\$ 7,187</u>	<u>\$ -</u>	<u>\$ 1,766</u>	<u>\$ (159)</u>	<u>\$ 8,794</u>
<b>TOTAL</b>	<u>\$ 183,037</u>	<u>\$ 288,022</u>	<u>\$ 3,984</u>	<u>\$ 70,074</u>	<u>\$ (17,700)</u>	<u>\$ 344,380</u>

***Endowment, Trust, and Other Long-term Investments Pool –  
Asset Allocation as of December 31, 2009***



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

***Change in Valuation from 12/31/08 to 12/31/09***

(Dollars in Thousands)

<b>Market Value at 12/31/08</b>	<b>\$ 288,022</b>
Realized Capital Gains	2,206
Unrealized Capital Gains	61,328
Reinvested Income	6,540
Contributions	3,984
Expenditures and Transfers	(17,700)
<b>Market Value at 12/31/09</b>	<b>\$ 344,380</b>

***Holdings and Market Value Summary as of 12/31/09***

(Dollars in Thousands)

**U.S. Large Cap Equities**

Berkshire Hathaway A	\$ 28,470
Berkshire Hathaway B	29
Powershares Water Resources	2,765
Vanguard Index 500	24,908
Vanguard Precious Metals	3,743
Materials Select Sector SPDR	3,263
Oil Service Holders Trust	3,305
Other	205
<b>Subtotal</b>	<b>\$ 66,688</b>

**U.S. Small - Mid Cap Equities**

RBC (Tamarack) Enterprise	\$ 2,215
Third Avenue Value	7,357
Vanguard Extended	8,386
Vanguard Small	7,677
Claymore Mac Gbl Solar Enrg	451
First Tr NASDAQ Clean Edge	450
First Tr Gbl Wind Energy	421
ISHARES S&P Gbl Clean Enrg	378
Market Vector Gbl ALT Enrg	400
Market Vectors Solar Energy	442
Pwrshs Cleantech Portfolio	466
Pwrshs Gbl Wind Enrg	401
Pwrshs Widerhill Clean Enrg	440
SPDR S&B Biotech ETF	4,077
Pwrshs Gbl Clean Enrg	450
Other	57
<b>Subtotal</b>	<b>\$ 34,068</b>

**Non-U.S. Emerging Equities**

Capital International	\$ 24,013
Templeton Emerging	20,788
Morgan Stanley India	2,542
<b>Subtotal</b>	<b>\$ 47,343</b>

**Non-U.S. Developed Equities**

Dodge & Cox International	\$ 8,495
Driehaus Int'l Discovery	11,562
Templeton Foreign	20,457
Vanguard European	12,051
Vanguard Pacific	9,997
Vanguard Int'l Growth	9,065
Vanguard Int'l Value	9,639
<b>Subtotal</b>	<b>\$ 81,266</b>

**Real Estate Equities**

iShares Dow Jones RE Index	\$ 4,814
Third Avenue RE Fund	4,933
<b>Subtotal</b>	<b>\$ 9,747</b>

**U.S. Fixed Income**

PIMCO Funds Total Return	\$ 17,851
Cash Equivalents	7,699
Other	100
<b>Subtotal</b>	<b>\$ 25,650</b>

**Non-U.S. Fixed Income**

PIMCO Foreign Bond	\$ 15,623
PIMCO Developing	6,424
<b>Subtotal</b>	<b>\$ 22,047</b>

**Hedge Funds**

GT Offshore	\$ 9,666
Goldman Sachs Princeton	24,589
Tactician Windward	1,281
Makena Capital Associates	10,000
<b>Subtotal</b>	<b>\$ 45,536</b>

**Other Alternative Investments**

	<b>\$ 12,035</b>
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**GRAND TOTAL** **\$ 344,380**



## II. Private Contributions

## 2009 PRIVATE CONTRIBUTIONS

*We gratefully acknowledge the support of private contributors to the National Academy of Sciences, Institute of Medicine, and National Research Council. The collective, private philanthropy of our members and friends helps to enhance the National Academies' impact as advisors to the nation. Contributions to the National Academy of Engineering are recognized in the NAE Annual Report and The Bridge.*

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## FOUNDATIONS, CORPORATIONS, AND OTHER ORGANIZATIONS

*In recognition of foundations, corporations, and other organizations that contributed to the NAS, IOM, and NRC in 2009.*

### Foundations

American Legacy Foundation  
America's Health Insurance Plans Foundation  
Rose-Marie and Jack R. Anderson Foundation  
Atlantic Philanthropies Fund of the Tides Foundation  
The Atlantic Philanthropies  
The AYCO Charitable Foundation  
Baltimore Community Foundation  
The Beall Family Foundation  
S. D. Bechtel, Jr. Foundation  
Bell Family Foundation  
The Diane & Norman Bernstein Foundation  
Branscomb Family Foundation  
The Bravewell Collaborative  
Brewster Foundation  
The Harold & Colene Brown Family Foundation  
Burroughs Wellcome Fund  
Calabi Fund of the Philadelphia Foundation  
The California Endowment  
California HealthCare Foundation  
Carnegie Corporation of New York  
The Carson Family Charitable Trust  
The Annie E. Casey Foundation  
C-Change  
Charina Endowment Fund  
Commonweal Foundation  
The Commonwealth Fund  
The Community Foundation for Greater Atlanta, Inc.  
Community Foundation for Southeastern Michigan  
Connecticut Health Foundation, Inc.  
The Camille and Henry Dreyfus Foundation, Inc.  
Doris Duke Charitable Foundation  
East Bay Community Foundation  
Energy Foundation  
Farm Foundation  
The Ford Foundation  
Foundation for Child Development  
Foundation for Translational Science  
Michael J. Fox Foundation for Parkinson's Disease  
The Bill & Melinda Gates Foundation  
George Family Foundation  
Golden Family Foundation  
Google, Inc. Charitable Giving Fund of the Tides Foundation  
The Greenwall Foundation  
Otto Haas Charitable Trust  
The John A. Hartford Foundation, Inc.  
The Heinz Endowments  
Herbst Family Foundation  
The William and Flora Hewlett Foundation  
High Q Foundation  
Hirsh Family Foundation  
The Hood-Barrow Foundation  
Houston Jewish Community Foundation  
The Henry M. Jackson Foundation for the Advancement of  
Military Medicine  
Jewish Community Foundation San Diego  
Jewish Healthcare Foundation  
The Robert Wood Johnson Foundation  
Scott A. Jones Foundation, Inc.  
The Henry J. Kaiser Family Foundation  
Ewing Marion Kauffman Foundation  
The Kavli Foundation  
W.M. Keck Foundation  
W. K. Kellogg Foundation  
Kramer Family Foundation  
Marvin and Annette Lee Foundation Inc.  
Richard Lounsbery Foundation  
Lumina Foundation for Education  
The John D. and Catherine T. MacArthur Foundation  
Josiah Macy, Jr. Foundation  
The Malott Family Foundation  
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March of Dimes Birth Defects Foundation  
The Andrew W. Mellon Foundation  
Milbank Memorial Fund  
Missouri Foundation for Health  
The Cynthia and George Mitchell Foundation  
The Ambrose Monell Foundation  
Gordon and Betty Moore Foundation  
Myelin Repair Foundation, Inc.  
National Geographic Society Education Foundation  
National Starch and Chemical Foundation, Inc.  
The New York Community Trust  
The David and Lucile Packard Foundation  
Peter G. Peterson Foundation  
The Philadelphia Foundation  
Ploughshares Fund  
The Randolph Foundation  
Reed-Siegel Charitable Foundation  
Robertson Foundation  
The Rockefeller Foundation  
The Rowe Family Foundation  
B. Don and Becky Russell Charitable Foundation  
Russell Sage Foundation  
The San Francisco Foundation  
Schuler Family Foundation  
The Seattle Foundation  
Alfred P. Sloan Foundation  
The Starr Foundation  
Stony Brook Foundation, Inc.  
The Clara J. Szekely Foundation  
Triangle Community Foundation, Inc.  
United Nations Foundation  
The Adam J. Weissman Foundation  
WEM Foundation  
The Whitehead Foundation

## Corporations

Abbott Fund Matching Grant Plan  
 Abbott Laboratories  
 Acciona Wind Energy USA  
 Aetna Inc.  
 Amgen, Inc.  
 ANTEM  
 Arch Chemicals, Inc.  
 AstraZeneca Pharmaceuticals LP  
 Aventis Pharmaceuticals Inc.  
 Ball Aerospace and Technologies Corp.  
 Battelle  
 Blue Cross and Blue Shield Association  
 Blue Shield of California Foundation  
 The Boeing Company  
 BP America Inc.  
 Bristol-Myers Squibb Company  
 CA, Inc.  
 Campbell Soup Company  
 Cargill, Inc.  
 Caterpillar Foundation  
 Celtic Therapeutics Holdings L.P.  
 Cenerx Biopharma, Inc.  
 Citi Global Impact Funding Trust, Inc.  
 ConAgra, Inc.  
 ConocoPhillips  
 Corning Incorporated  
 Covidien  
 Deere & Company  
 Dow Chemical Company  
 Dow Chemical Company Foundation  
 E.I. du Pont de Nemours & Company  
 Entelos, Inc.  
 Essilor of America, Inc.  
 Experient, Inc.  
 ExxonMobil Corporation  
 ExxonMobil Foundation  
 Faraday Technology  
 Fidelity Charitable Gift Fund  
 Fish & Richardson P.C.  
 Ford Motor Company  
 GE Energy  
 GE Healthcare  
 Genentech, Inc.  
 General Electric Company  
 General Motors Corporation  
 Genetic Alliance  
 Genomic Health, Inc.  
 GlaxoSmithKline  
 Google, Inc.  
 Hewlett-Packard Company  
 Honeywell International, Inc.  
 Humana, Inc.  
 Intel Corporation  
 International Business Machines Corporation  
 John Deere  
 Johnson & Johnson Pharmaceutical Research & Development  
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 Kaiser Permanente Community Giving Campaign  
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 Lundbeck Research USA, Inc.  
 Manekin LLC  
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 Merck & Company, Inc.  
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 Merck Institute for Science Education  
 Merck Partnership for Giving  
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 Merrill Lynch & Company, Inc.  
 MetLife Foundation  
 Michelin North America, Inc.  
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 Sanofi-aventis  
 Sanofi Pasteur  
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 Siemens Corporate Research  
 Sigma-Aldrich Corporation  
 SkyFuel, Inc.  
 Stryker  
 T. Rowe Price Foundation  
 Textron  
 Toyota Motor Engineering & Mfg. North America, Inc.  
 United Engineering Foundation, Inc.  
 United Health Foundation  
 United Healthcare  
 UnitedHealth Group, Inc.  
 The UPS Foundation  
 Vanguard Charitable Endowment Program  
 Waggener Edstrom  
 Wyeth  
 Xerox Corporation

## Other Organizations

Alzheimer's Association  
American Academy of Nursing  
American Association for Laboratory Animal Science  
American Association of Emergency Medical Technicians  
American Association of Retired Persons  
American Biological Safety Association  
The American Board of Obstetrics and Gynecology  
American Board on Internal Medicine Foundation  
American Cancer Society, Inc.  
American Chemical Society  
American College of Emergency Physicians  
American College of Medical Genetics  
American College of Physicians  
American Diabetes Association  
American Farm Bureau Foundation for Agriculture  
American Hospital Association  
American Mathematical Society  
American Nurses Association  
American Public Transportation Association  
American Society for Biochemistry and Molecular Biology  
American Society for Microbiology  
American Society of Agronomy  
American Society of Clinical Oncology  
American University  
Arizona State University  
Association of Academic Chairs of Emergency Medicine  
Association of American Cancer Institutes  
Association of American Medical Colleges  
Association of American Railroads  
Association of American Veterinary Medical Colleges  
Association of State and Territorial Health Officials  
Association of University Research Parks  
Auburn University  
Baylor University  
Biotechnology Industry Organization  
Boston College  
Boston University  
Bowling Green State University  
Brandeis University  
The British Society  
Brown University  
California Institute of Technology  
Carnegie Mellon University  
Case Western Reserve University  
The Catholic University of America  
Children's Hospital of Philadelphia  
Claremont Colleges  
Clark University  
Clarkson University  
Cold Spring Harbor Laboratory  
The College Entrance Exam Board  
College of American Pathologists  
College of William and Mary  
Colorado State University  
Columbia University  
Cornell University  
Council of Emergency Medicine Residency Directors  
The Critical Path Institute  
Dartmouth College  
Defenders of Wildlife  
Drew University  
Drexel University  
Duke University  
Duquesne University  
Emergency Medicine Residents Association  
Emergency Nurses Association  
FasterCures/The Center for Accelerating Medical Solutions  
Federation of American Societies for Experimental Biology  
Florida Atlantic University  
Florida Institute of Technology  
Florida International University  
Florida State University  
Fordham University  
Simon Fraser University  
Geological Society of America  
George Washington University  
Georgetown University  
Georgia State University  
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Harvard University  
Hebrew Union College  
The Johns Hopkins University  
Howard Hughes Medical Institute  
Human Factors and Ergonomics Society  
Hunt Institute  
IEEE  
Illinois Corn Marketing Board  
Illinois Institute of Technology  
Indiana University  
Infectious Diseases Society of America  
Institute for Public Health and Water Research  
International Society for Optical Engineering  
Iowa State University  
Thomas Jefferson University  
Kansas State University  
Kent State University  
Lehigh University  
Loma Linda University  
Louisiana State University  
Loyola University Chicago  
James Madison University  
Marquette University  
George Mason University  
Massachusetts Institute of Technology  
Massachusetts Medical Society  
Mathematical Association of America  
Mayo Foundation for Medical Education and Research  
McGill University, Canada  
Medical College of Georgia  
Miami University of Ohio  
Michigan State University  
Michigan Technological University  
The Microcirculatory Society, Inc.  
Minnesota Corn Growers Association  
Mississippi State University  
Montana State University, Bozeman  
National Academy of Education

National Association of Chain Drug Stores Foundation	Tufts University
National Association of County and City Health Officials	The U.S. Pharmacopeial Convention
National Association of Emergency Medical Technicians	United Soybean Board
National Association of EMS Physicians	University of Akron
National Math and Science Initiative, Inc.	University of Alabama
National Multiple Sclerosis Society	University of Alaska
National Pork Board	University of Arizona
National Society of Genetic Counselors	University of California, Berkeley
National Water Research Institute	University of California, Davis
Nature America, Inc.	University of California, Irvine
New Jersey Institute of Technology	University of California, Los Angeles
New Mexico State University	University of California, Riverside
New York Medical College	University of California, San Francisco
New York University	University of California, Santa Barbara
New Mexico Museum of Natural History Foundation, Inc.	University of Central Florida
Noblis	University of Chicago
North Carolina State University	University of Cincinnati
Northeastern University	University of Colorado
Northwestern University	University of Connecticut
Nuclear Threat Initiative	University of Dallas
The Ohio State University	University of Dayton
Oklahoma State University	University of Delaware
Optical Society of America	University of Detroit
Oregon Health and Science University	University of Florida
Oregon State University	University of Georgia
Pacific Northwest National Laboratory	University of Hawaii
Partnership for 21st Century Skills	University of Houston
Penn State University	University of Idaho
Pharmaceutical Research and Manufacturers of America	University of Illinois
Princeton Theological Seminary	University of Iowa
Proteus Action League	The University of Kansas Center for Research, Inc.
The Psychonomic Society, Inc.	University of Kentucky
Purdue University	University of Louisville
Rensselaer Polytechnic Institute	University of Maryland, Baltimore
The Research Foundation of State University of New York	University of Maryland
Rice University	University of Massachusetts
Rochester Institute of Technology	University of Memphis
The Rockefeller University	University of Miami
The Royal Society	University of Michigan
Rutgers, The State University of New Jersey	University of Minnesota
Saint Luke School	University of Mississippi
San Diego State University	University of Missouri
Seton Hall University	University of Montana
Society for Academic Emergency Medicine	University of Nebraska, Lincoln
Society for Industrial and Applied Mathematics	University of Nevada
Society for Industrial Microbiology	University of New Hampshire
Society for Neuroscience	University of New Mexico
Society of Academic Emergency Medicine	University of New Orleans
Southern Illinois University	University of North Carolina at Charlotte
Southern Methodist University	University of North Carolina
Stanford University	University of North Dakota
The State of the USA, Inc.	University of North Texas Health Sciences Center
State University of New York Medical Center	University of North Texas
State University of New York	University of Notre Dame
Stevens Institute of Technology	University of Oklahoma
Syracuse University	University of Oregon
Task Force for Child Survival and Development	University of Pennsylvania
Tennessee Technological University	University of Pittsburgh
Texas A&M University	University of Rhode Island
Texas Christian University	University of Rochester
Texas State University	University of South Alabama
Texas Tech University	University of Southern California

University of Southern Mississippi  
University of Tennessee  
The University of Texas  
University of Texas at Dallas  
The University of Texas at San Antonio  
The University of Texas Medical Branch  
University of Utah  
University of Virginia  
University of Washington  
University of Wisconsin  
Utah State University

Vanderbilt University  
Virginia Commonwealth University  
Virginia Tech University  
Wake Forest University  
Washington State University  
Wayne State University  
West Virginia University  
Western Michigan University  
The World Conservation Union  
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 apologies 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 2, 2010

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, 2009, 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,

ROBERT H. WURTZ, Chair  
GEORGE GLOECKLER  
SUSAN GOTTESMAN  
RONALD L. GRAHAM  
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, 2009 and 2008, 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, 2009 and 2008, and its changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

May 21, 2010

**NATIONAL ACADEMY OF SCIENCES**  
**Statements of Financial Position**  
**December 31, 2009 and 2008**  
**(Dollars in thousands)**

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Current assets:		
Cash and cash equivalents	\$ 1,387	\$ 4,110
Short-term investments (note 3)	49,113	43,456
Contracts receivable – U.S. government (note 12)	47,027	55,786
Contributions and other receivables, net (note 6)	14,565	15,212
Other current assets	4,627	4,156
Total current assets	<u>116,719</u>	<u>122,720</u>
Other assets (notes 2, 13, 15, and 17)	8,093	8,508
Long-term investments (note 3)	376,163	309,740
Contributions receivable, net (note 6)	28,191	31,480
Property and equipment, net (notes 5 and 16)	127,476	128,349
Einstein Memorial	1,723	1,723
Total assets	<u>\$ 658,365</u>	<u>\$ 602,520</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 42,064	\$ 38,598
Deferred revenue (note 7 and 12)	32,080	35,471
Line of credit (note 8)	-	686
Other current liabilities (note 13 and 14)	3,498	4,818
Total current liabilities	<u>77,642</u>	<u>79,573</u>
Bonds payable (note 13)	122,545	120,681
Funds held on behalf of others (note 3)	8,794	7,186
Note payable (note 14)	757	1,513
Accrued employee benefits (note 15)	4,603	8,597
Other long-term liabilities (notes 2, 13, and 16)	14,057	17,698
Total liabilities	<u>228,398</u>	<u>235,248</u>
Net assets:		
Unrestricted	72,871	51,731
Temporarily restricted (note 9)	241,734	200,791
Permanently restricted (note 10)	115,362	114,750
Total net assets	<u>429,967</u>	<u>367,272</u>
Commitments and contingencies (notes 3, 12, 13, 15, 18, and 19)		
Total liabilities and net assets	<u>\$ 658,365</u>	<u>\$ 602,520</u>

See accompanying notes to financial statements.

**NATIONAL ACADEMY OF SCIENCES**  
**Statements of Activities**  
**Years ended December 31, 2009 and 2008**  
**(Dollars in thousands)**

	2009				2008			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues, gains, and other support:								
Government contracts and grants (note 12)	\$ 214,957	-	-	214,957	\$ 202,810	-	-	202,810
Private contracts and grants	21,596	17,441	-	39,037	23,836	21,423	-	45,259
Other contributions	4,201	851	612	5,664	3,195	1,064	3,916	8,175
Fees and publications	18,828	-	-	18,828	18,757	-	-	18,757
Investment income (loss) (note 3)	19,088	60,289	-	79,377	(25,138)	(120,987)	-	(146,125)
Other income (note 13)	12,225	-	-	12,225	1,945	-	-	1,945
Net assets released from restriction (note 9)	37,638	(37,638)	-	-	41,848	(41,848)	-	-
Total revenues, gains, and other support	328,533	40,943	612	370,088	267,253	(140,348)	3,916	130,821
Expenses (notes 13, 15, and 16):								
Programs (note 11)	260,709	-	-	260,709	247,426	-	-	247,426
Management and general	45,843	-	-	45,843	47,564	-	-	47,564
Fundraising	3,010	-	-	3,010	2,511	-	-	2,511
Total expenses	309,562	-	-	309,562	297,501	-	-	297,501
Post-retirement changes other than net periodic benefit cost (note 15)	(2,169)	-	-	(2,169)	6,337	-	-	6,337
Change in net assets, before reclassification of net assets under FASB ASC Section 958-205-45	21,140	40,943	612	62,695	(36,585)	(140,348)	3,916	(173,017)
Reclassification of net assets under FASB ASC Section 958-205-45 (notes 2 and 10)	-	-	-	-	(102,814)	102,814	-	-
Change in net assets	21,140	40,943	612	62,695	(139,399)	(37,534)	3,916	(173,017)
Net assets at beginning of year	51,731	200,791	114,750	367,272	191,130	238,325	110,834	540,289
Net assets at end of year	\$ 72,871	241,734	115,362	429,967	\$ 51,731	200,791	114,750	367,272

See accompanying notes to financial statements.

**NATIONAL ACADEMY OF SCIENCES**  
**Statements of Cash Flows**  
**Years ended December 31, 2009 and 2008**  
**(Dollars in thousands)**

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 62,695	\$ (173,017)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,632	7,162
Loss on disposal of property and equipment	140	84
Bad debt expense	192	533
Net loss (gain) on investments	(70,998)	165,904
Net loss (gain) on investments held on behalf of others	(1,600)	3,765
Amounts collected on behalf of others	(5,490)	(2,723)
Amounts remitted on behalf of others	5,320	3,664
Change in value of interest rate swap	(4,301)	9,057
Change in value of split-interest agreements	137	343
Contributions restricted for construction or endowment	(2,791)	(6,645)
(Increase) decrease in assets:		
Other receivables	3,744	6,465
Contracts receivable - U.S. government	8,759	(10,220)
Other current assets	(471)	(343)
Other assets	(590)	2,612
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	3,466	7,828
Deferred revenue	(3,391)	4,057
Other current liabilities	(916)	(885)
Funds held on behalf of others	1,608	(4,618)
Other long-term liabilities	(103)	35
Accrued employee benefits	(3,994)	2,718
Net cash provided by (used in) operating activities	<u>(952)</u>	<u>15,776</u>
Cash flows from investing activities:		
Additions to property and equipment	(5,911)	(5,910)
Sales or maturities of investments	215,761	231,756
Purchases of investments	(215,234)	(243,624)
Net cash used in investing activities	<u>(5,384)</u>	<u>(17,778)</u>
Cash flows from financing activities:		
Contributions restricted for construction or endowment	2,791	6,645
Proceeds from line of credit	139,954	123,426
Payments on line of credit	(140,640)	(126,085)
Payments on bank note	(756)	(757)
Proceeds from interest rate swaption	1,834	-
Proceeds from bond issue	57,500	66,325
Payments on bond principal	(57,070)	(66,645)
Net cash provided by financing activities	<u>3,613</u>	<u>2,909</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,723)</u>	<u>907</u>
Cash and cash equivalents, beginning of year	4,110	3,203
Cash and cash equivalents, end of year	<u>\$ 1,387</u>	<u>\$ 4,110</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,803	\$ 5,189

See accompanying notes to financial statements.

## ***NATIONAL ACADEMY OF SCIENCES***

### **Notes to**

### **Financial Statements**

***December 31, 2009 and 2008***

#### ***(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.

##### ***(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.

NAS manages the operations of the Beckman Center. TNAC contributed \$510,000 to the NRC for the year ended December 31, 2008, towards the operation of the Beckman Center. There was no similar contribution from TNAC to the NRC during 2009. In addition, TNAC contributed \$4,000 and \$277,000 to the NRC for the years ending December 31, 2009 and 2008, 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 \$5.3 million and \$2.5 million in 2009 and 2008, respectively, on behalf of NAEF. NAS disbursed \$5.2 million and \$2.6 million to NAEF from these collected amounts in 2009 and 2008, 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, 2009 and 2008, the Department of Transportation provided 44% and 43%, 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, 2009 and 2008, NAS had charitable gift annuity assets of \$2.4 million and \$2.1 million, respectively. NAS has recorded a liability of \$1.4 million and \$1.5 million at December 31, 2009 and 2008, respectively, representing the present value of estimated future cash payments to annuitants based on the annuitant's life expectancy.

**(j) Income Taxes**

NAS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income. NAS recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. NAS does not believe its financial statements include any uncertain tax positions.

**(k) Recently Adopted Accounting Pronouncements**

Effective January 1, 2008, NAS applied the enhanced recognition and disclosure provisions of the Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) Topic 820, *Fair Value Measurements and Disclosures* (FASB ASC 820), 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.

Effective January 1, 2008, NAS applied the enhanced disclosure provisions of FASB ASC Section 958-205-45, *Other Presentation Matters* (FASB ASC 958-205-45), to its endowment. FASB ASC 958-205-45 provides guidance on the presentation and disclosure of donor-restricted endowment funds for a nonprofit organization. NAS recorded the effect of applying the provisions of FASB ASC Section 958-205-45 as a reclassification of unrestricted net assets to temporarily restricted net assets of \$102.8 million as of January 1, 2008.

Effective December 31, 2009, NAS applied the guidance in FASB Accounting Standards Update 2009-12, *Fair Value Measurement and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to its investments including hedge funds and private placement equity investments. This guidance permits, as a practical expedient, the fair value of investments within its scope to be estimated using net asset value (NAV) per share or its equivalent.

Effective December 31, 2009, NAS applied the guidance in FASB ASC Topic 855, *Subsequent Events* (FASB ASC 855), which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events.

**(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, 2009 and 2008 (dollars in thousands):

	2009	2008
<i>Short-term investments:</i>		
Cash equivalents	\$ 8,990	\$ 5,762
Bonds and notes	29,561	26,026
Equity securities	10,562	11,668
Total short-term investments	<u>\$ 49,113</u>	<u>\$ 43,456</u>
<i>Long-term investments:</i>		
<i>Investment pool, including endowment assets:</i>		
Cash equivalents	\$ 7,699	\$ 13,479
Bonds and notes	39,998	50,145
Equity securities	239,112	147,431
Hedge funds	45,536	65,283
Private equity	12,035	11,684
	<u>344,380</u>	<u>288,022</u>
<i>Other long-term investments:</i>		
Cash equivalents	1,291	687
Bonds and notes	13,583	7,649
Equity securities	16,909	13,382
	<u>31,783</u>	<u>21,718</u>
Total long-term investments	<u>\$ 376,163</u>	<u>\$ 309,740</u>

Vanguard equity funds comprised approximately \$85 million and \$47 million of the total equity securities funds at December 31, 2009 and 2008, respectively.

NAS holds alternative investments, comprised of private equity securities and hedge funds, in its long-term investment pool. At December 31, 2009 and 2008, these funds had a fair value of approximately \$57.6 million and \$77.0 million, respectively. The unrealized gain or loss on the hedge funds was approximately a \$2.6 million gain and a \$10.7 million loss for the years ended December 31, 2009 and 2008, respectively, and is included as a component of investment income in the accompanying statements of activities. Private equity investments are comprised of limited partnership interests. NAS had remaining commitments at December 31, 2009 and 2008 to provide approximately \$5.1 million and \$5.9 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 \$8.8 million and \$7.2 million as of

December 31, 2009 and 2008, 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 \$691,000 and \$856,000 for the years ended December 31, 2009 and 2008, respectively, and is comprised of the following (dollars in thousands):

	2009	2008
Interest and dividends income	\$ 8,379	\$ 19,779
Net gain (loss) on investments	70,998	(165,904)
Total investment income (loss)	<u>\$ 79,377</u>	<u>\$ (146,125)</u>

### (4) FAIR VALUE MEASUREMENTS

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. FASB ASC Topic 820 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 debt and equity mutual funds. The fair values of such mutual funds are based on observable market information from active markets. Accordingly, the estimates of fair value for such mutual funds are included in Level 1.

Fair value of alternative investments including private equity securities and hedge funds is based on the alternative investment fund managers' 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 2 or Level 3. The distinction is that those funds which are available for redemption in the near term at NAV are included in Level 2.

Charitable gift annuity investments and deferred compensation investments are held in debt and equity mutual funds along with some U.S. Treasury securities, all of which are included in Level 1. 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 interest rate swap agreements covering the variable-rate bonds payable. The fair value of the swaps 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 interest rate swaps are included in 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, 2009 (dollars in thousands):

	Fair Value	Fair value measurements at December 31 using:		
		Level 1	Level 2	Level 3
<b>Financial Assets:</b>				
Short-term and long-term investments:				
Cash equivalents	\$ 17,980	\$ 17,980	\$ -	\$ -
Bonds and notes	83,142	54,903	28,239	-
Equity securities	266,583	266,583	-	-
Hedge funds	45,536	-	34,255	11,281
Private equity	12,035	-	-	12,035
Total investments	<u>425,276</u>	<u>339,466</u>	<u>62,494</u>	<u>23,316</u>
Charitable gift annuity assets:				
Cash equivalents	125	125	-	-
Bonds and notes	625	625	-	-
Equity securities	1,631	1,631	-	-
Total charitable gift annuity assets	<u>2,381</u>	<u>2,381</u>	<u>-</u>	<u>-</u>
Deferred compensation assets:				
Cash equivalents	24	24	-	-
Bonds and notes	427	427	-	-
Equity securities	1,938	1,938	-	-
Total deferred compensation assets	<u>2,389</u>	<u>2,389</u>	<u>-</u>	<u>-</u>
Total Financial Assets	<u>\$ 430,046</u>	<u>\$ 344,236</u>	<u>\$ 62,494</u>	<u>\$ 23,316</u>
<b>Financial Liabilities:</b>				
Funds held on behalf of others	\$ 8,794	\$ 7,324	\$ 875	\$ 595
Deferred compensation liability	2,389	2,389	-	-
Interest rate swaps	9,210	-	9,210	-
Total Financial Liabilities	<u>\$ 20,393</u>	<u>\$ 9,713</u>	<u>\$ 10,085</u>	<u>\$ 595</u>

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	Fair value measurements at December 31 using:		
		Level 1	Level 2	Level 3
<b>Financial Assets:</b>				
Short-term and long-term investments:				
Cash equivalents	\$ 19,928	\$ 19,928	\$ -	\$ -
Bonds and notes	83,820	62,058	21,762	-
Equity securities	172,481	172,481	-	-
Hedge funds	65,283	-	-	65,283
Private equity	11,684	-	-	11,684
Total investments	<u>353,196</u>	<u>254,467</u>	<u>21,762</u>	<u>76,967</u>
Charitable gift annuity assets:				
Cash equivalents	30	30	-	-
Bonds and notes	644	644	-	-
Equity securities	1,439	1,439	-	-
Total charitable gift annuity assets	<u>2,113</u>	<u>2,113</u>	-	-
Deferred compensation assets:				
Cash equivalents	31	31	-	-
Bonds and notes	339	339	-	-
Equity securities	1,835	1,835	-	-
Total deferred compensation assets	<u>2,205</u>	<u>2,205</u>	-	-
Interest rate swap	934	-	934	-
Total Financial Assets	<u>\$ 358,448</u>	<u>\$ 258,785</u>	<u>\$ 22,696</u>	<u>\$ 76,967</u>
<b>Financial Liabilities:</b>				
Funds held on behalf of others	\$ 7,186	\$ 5,266	\$ -	\$ 1,920
Deferred compensation liability	2,205	2,205	-	-
Interest rate swaption	12,543	-	12,543	-
Total Financial Liabilities	<u>\$ 21,934</u>	<u>\$ 7,471</u>	<u>\$ 12,543</u>	<u>\$ 1,920</u>

Level 3 assets comprised approximately 5% and 22% of NAS' total investment portfolio fair value at December 31, 2009 and 2008, respectively.

The following table presents the changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2009 (dollars in thousands):

	Hedge Funds	Private Equity	Total
<b>Financial Assets:</b>			
Beginning balance January 1, 2009	\$ 65,283	\$ 11,684	\$ 76,967
Net gain (loss) on investments	3,698	(299)	3,399
Purchases and sales, net	(23,445)	650	(22,795)
Transfers in (out) of Level 3	(34,255)	-	(34,255)
Ending balance December 31, 2009	\$ 11,281	\$ 12,035	\$ 23,316

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 Equity	Total
<b>Financial Assets</b>			
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

The following table presents the nature and risk of assets with fair values estimated using NAV held at December 31, 2009 (dollars in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of the hedge fund – multi-strategies (a)	\$ 34,255	N/A	Quarterly	90 days
Hedge fund – multi-strategies/multi-vehicle (b)	10,000	N/A	Annually, but not currently eligible	365 days
Hedge fund – fixed income single strategy (c)	1,281	N/A	Quarterly, but not currently eligible	30 days
Private equity – Asia (d)	4,990	4,368	N/A	N/A
Private equity – Global (e)	5,073	436	N/A	N/A
Private equity – Domestic (f)	1,972	303	N/A	N/A
Total	\$ 57,571	\$ 5,107		

(a) This category includes investments in funds of hedge funds that uses multiple strategies to obtain total returns on a leveraged basis. Direct and indirect investments are made using equity long/short, event driven, relative value, and tactical trading strategies. The funds have investments in multiple investees which may trade various financial instruments such as, but not limited to, securities sold short, futures, forwards, swaps, and written options. The fair values of the investments in this category have been estimated using the NAV per share of the investments. A pending total redemption of one of the funds in the amount of \$9.7 million was receivable at December 31, 2009.

(b) This category includes investments in a multi-strategy, multi-vehicle hedge fund with the objective of maximizing long-term, risk-adjusted returns and capital appreciation by investing in securities, investment funds, discretionary accounts, and investment partnerships across a broad range of marketable and alternative asset classes. Asset classes include domestic and international marketable equity securities, hedged equity, real estate, natural resource, fixed income, and private equity and absolute return strategies, primarily focused in the United States. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Currently, none of the investments in this category are redeemable because the fund includes restrictions that do not allow for redemption in the first 2 years after acquisition. The remaining restriction for these investments is 2 years at December 31, 2009.

(c) This category includes investments in a single strategy hedge fund focused on undervalued fixed income securities. Investments held by this fund consist of U.S. government agency mortgage-backed securities and derivatives, primarily in the form of collateralized mortgage obligations. Securities are generally held in the portfolio as long as interest rates and repayment rates are unfolding as anticipated. The majority of the investment return is expected to come from trading mortgage-backed securities in attempt to maximize interest income. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Currently, none of the investments in this category are redeemable because the fund includes restrictions that do not allow for redemption in the first 12 months after acquisition. The remaining restriction for these investments is seven months at December 31, 2009.

(d) This category includes several private equity funds that invest in equity, debt or debt-oriented instruments, primarily in privately held companies which own or contractually control operating entities located in the Peoples' Republic of China and India. Investments held in India primarily include equity securities of "early to early growth stage" companies in multiple sectors, except real estate. The fair values of these investments have been estimated using the NAV of NAS' ownership interest in partners' capital. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over 1 to 7 years.

(e) This category includes several global private equity funds with diverse portfolios consisting primarily of venture capital funds, leveraged buyout funds, mid-stage growth capital funds, and international private equity funds. These investments are focused on several industries including, but not limited to, insurance, services, and consumer-related industries. The fair values of these investments have been estimated using the NAV of NAS' ownership interest in partners' capital. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over 1 to 6 years.

(f) This category includes several domestic private equity funds which make investments in domestic equity securities, warrants or other securities that are generally not actively traded at the time of investment. These investments are focused on several industries including, but not limited to, insurance, financial services, consumer-related, and communications. The fair values of

these investments have been estimated using the NAV of NAS' ownership interest in partners' capital. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over 1 to 3 years

## **(5) PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2009 and 2008, is comprised of the following (dollars in thousands):

	2009	2008
Land	\$ 29,689	\$ 29,689
Furniture and equipment	36,195	33,001
Buildings and improvements	109,396	109,199
Construction in progress	6,823	4,857
Leasehold improvements	7,437	7,349
	189,540	184,095
Less accumulated depreciation and amortization	(62,064)	(55,746)
Total property and equipment, net	<u>\$ 127,476</u>	<u>\$ 128,349</u>

## **(6) 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):

<u>Years ending December 31:</u>	
2010	\$ 12,393
2011	8,885
2012	5,548
2013	3,634
2014	3,764
Thereafter	9,382
	43,606
Less discount at rates from 3% to 6% to estimated net present value	(3,022)
Less allowance for uncollectible contributions	(453)
	40,131
Less current portion	(11,940)
Total contributions receivable, long-term	<u>\$ 28,191</u>

At December 31, 2008, the discount on contributions receivable was approximately \$4.0 million at rates ranging from 3% to 5% and the allowance for uncollectible contributions was approximately \$456,000.

**(7) DEFERRED REVENUE**

Deferred revenue consisted of the following as of December 31, 2009 and 2008 (dollars in thousands):

	2009	2008
Advances from private grants and contract sponsors	\$22,257	\$24,537
Advances from U.S. government sponsors	4,692	6,958
Publication subscriptions and other	5,131	3,976
Total deferred revenue	<u>\$32,080</u>	<u>\$35,471</u>

**(8) 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, 2009 and 2008, was approximately \$68,500 and \$343,000, respectively.

**(9) TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes as of December 31, 2009 and 2008 (dollars in thousands):

	2009	2008
Sponsored research and advisory programs	\$147,050	\$126,835
General endowment	69,107	54,157
Prizes and awards	22,784	17,903
Woods Hole facility	2,793	1,896
Total temporarily restricted net assets	<u>\$241,734</u>	<u>\$200,791</u>

Temporarily restricted net assets were released from restriction for the following purposes during the years ended December 31, 2009 and 2008 (dollars in thousands):

	2009	2008
Sponsored research and advisory programs	\$ 30,788	\$ 34,275
General endowment	5,732	6,219
Prizes and awards	728	896
Woods Hole facility	390	458
Total temporarily restricted net assets released from restriction	<u>\$ 37,638</u>	<u>\$ 41,848</u>

**(10) ENDOWMENT****(a) Permanently Restricted Net Assets**

The income generated by permanently restricted net assets is available to support donor-specified programs.

As of December 31, 2009 and 2008, NAS held the following permanently restricted net assets, classified by the purpose for which the income is to be used (dollars in thousands):

	2009	2008
Sponsored research and advisory programs	\$110,122	\$109,635
Prizes and awards	5,240	5,115
Total permanently restricted net assets	<u>\$115,362</u>	<u>\$114,750</u>

**(b) Endowment Assets**

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:

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

NAS has adopted a spending policy that limits the annual spending to 5% 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, 2009 are as follows (dollars in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, January 1, 2009	\$ (2,412)	\$ 112,988	\$ 108,524	\$ 219,100
Investment return:				
Interest and dividend income	-	4,822	-	4,822
Net gain on investments	2,198	46,101	-	48,299
Total investment return	2,198	50,923	-	53,121
Contributions	-	-	2,531	2,531
Amounts appropriated for expenditure	-	(11,089)	-	(11,089)
Other changes:				
2008 appropriation expended in 2009	-	(3,044)	-	(3,044)
Unspent purpose restricted appropriations	-	2,022	-	2,022
Accrued expenses withdrawn in 2010	-	582	-	582
Endowment assets, December 31, 2009	\$ (214)	\$ 152,382	\$ 111,055	\$ 263,223

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	-	13,405	-	13,405
Net loss on investments	(2,412)	(116,711)	-	(119,123)
Total investment return	(2,412)	(103,306)	-	(105,718)
Contributions	-	-	6,173	6,173
Amounts appropriated for expenditure	-	(13,828)	-	(13,828)
Other changes:				
2007 appropriation expended in 2008	-	(395)	-	(395)
Unspent purpose restricted appropriations	-	1,532	-	1,532
Accrued expenses withdrawn in 2009	-	1,712	-	1,712
Endowment assets, December 31, 2008	\$ (2,412)	\$ 112,988	\$ 108,524	\$ 219,100

#### *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, 2009 and 2008, NAS had deficiencies of \$214,000 and \$2.4 million, respectively, 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 were classified as an increase in unrestricted net assets.

#### **(11) PROGRAM EXPENSES**

Program expenses for the years ended December 31, 2009 and 2008 are summarized as follows (dollars in thousands):

	2009	2008
Transportation Research Board	\$ 97,045	\$ 91,742
Policy and Global Affairs	51,111	53,593
Institute of Medicine	27,519	23,154
Earth and Life Sciences	22,123	19,319
Engineering and Physical Sciences	21,043	19,783
Behavioral and Social Sciences and Education	10,268	9,649
Proceedings of the National Academy of Sciences	13,425	12,477
National Academy Press	4,351	4,573
National Academy of Engineering	4,079	4,641
Koshland Science Museum	1,616	1,890
NAS and National Sciences Resource Center	8,129	6,605
Total program expenses	\$260,709	\$247,426

## ***(12) 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 overrecovery of approximately \$2.4 million as of December 31, 2009 and a cumulative net underrecovery of approximately \$7.5 million as of December 31, 2008. The overrecovery is included in the deferred revenue balance and the underrecovery is included in the contracts receivable balance in the statements of financial position.

## ***(13) 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.

In April 2009, the District of Columbia issued Series 2009A tax-exempt revenue bonds in the amount of \$57,500,000 on behalf of NAS. The proceeds were used to refund the Series 1999A revenue bonds, as well as pay certain costs of issuing the bonds.

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

	2009	2008
Series 1999A revenue bonds, serial, interest rate 5%, maturing at various dates from January 1, 2009 through 2012	\$ -	\$ 7,440
Series 1999A revenue bonds, term: Interest rate 5%, due January 1, 2019	-	17,085
Interest rate 5%, due January 1, 2028	-	32,545
Series 2008A revenue bonds, term, at flexible rates (0.6% in 2009 and 2.1% in 2008) maturing at various dates from January 1, 2029 through 2039	66,325	66,325
Series 2009A revenue bonds, term, at variable rates (0.4% in 2009) maturing at various dates from January 1, 2010 through 2028	57,500	-
Total bonds, at face value	123,825	123,395
Less unamortized discount and premium	-	(989)
Total bonds payable	123,825	122,406
Less current portion (included in other current liabilities)	(1,280)	(1,725)
Bonds payable, long-term	<u>\$ 122,545</u>	<u>\$ 120,681</u>

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

Interest on all Series 1999A revenue bonds was payable semiannually every January 1 and July 1. Interest on the 2008A and 2009A bonds is payable monthly.

The carrying value of bonds payable in the financial statements was equal to their fair value on December 31, 2009, and was less than their fair value by approximately \$1.1 million on December 31, 2008.

Interest expense on the bonds payable for 2009 and 2008 totaled \$1.5 million and \$4.5 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 fixed-to-variable swap agreement to manage its exposure to interest rate changes. The fixed-rate debt obligations exposed 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 gave the counterparty the option to require NAS to enter into an additional swap agreement related to the Series 1999A Revenue Bonds. The counterparty exercised the option in March 2009. The resultant variable-to-fixed swap became effective on May 1, 2009, and requires 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 in 2007 and \$1.8 million upon execution of the swaption in 2009.

As required by the Derivatives and Hedging topic of the FASB ASC, the fair value of the fixed-to-variable swap, the swaption, and the resultant variable-to-fixed swap must be recorded in the NAS financial statements.

Accordingly, with regard to the fixed-to-variable interest rate swap, NAS recorded a loss on the change in the fair value of its swap agreement of \$902,000 and \$803,000 for the years ended December 31, 2009 and 2008, respectively, which is included in other income in the accompanying statements of activities. The fair value of the

interest rate swap is recorded as a liability of \$35,000 as of December 31, 2009, and is included in other long-term liabilities on the statements of financial position. The fair value of the interest rate swap was recorded as an asset of \$934,000 as of December 31, 2008, and is included in contributions and other receivables and other assets on the statements of financial position.

Pertaining to the swaption and resultant variable-to-fixed interest rate swap, NAS recorded a gain on the change in the fair value of approximately \$3.6 million for the year ended December 31, 2009, and a loss of approximately \$8.3 million for the year ended December 31, 2008. The gain and loss are included in other income in the statements of activities. The fair value of the swap is recorded as a liability of \$9.2 million at December 31, 2009, and is included in other current liabilities and other long-term liabilities. At December 31, 2008, the fair value of the swaption was recorded as a liability of \$12.5 million in other long-term liabilities.

#### ***(14) 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, 2009 and 2008, the principal balance was approximately \$1.5 million and \$2.3 million, respectively. The note bears interest at 30-day LIBOR plus 40 basis points. The interest rate at December 31, 2009 was 0.63%.

#### ***(15) 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, 2009 and 2008, amounted to approximately \$11.2 million and \$10.3 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 \$2.4 million and \$2.2 million as of December 31, 2009 and 2008, 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.

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

	2009	2008
Net actuarial (gain) loss	\$ (1,464)	\$ 6,555
Recognized actuarial gain (loss)	(469)	18
Recognized prior service cost	(210)	(210)
Recognized net initial obligation	(26)	(26)
Total	<u>\$ (2,169)</u>	<u>\$ 6,337</u>

Items not yet recognized as a component of net periodic benefit cost at December 31, 2009 and 2008 are as follows (in thousands):

	2009	2008
Net actuarial loss	\$ 3,513	\$ 5,447
Prior service cost	1,142	1,352
Unrecognized net initial obligation	117	142
Total	<u>\$ 4,772</u>	<u>\$ 6,941</u>

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):

	2009	2008
Prior service cost	\$ 210	\$ 210
Recognized actuarial loss	190	469
Recognized net initial obligation	26	26
Total	<u>\$ 426</u>	<u>\$ 705</u>

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, 2009 and 2008 (dollars in thousands):

	2009	2008
<b>Change in benefit obligations:</b>		
Benefit obligation, January 1	\$ 18,592	\$ 16,461
Service cost	613	608
Interest cost	1,088	963
Plan participants contributions	101	131
Actuarial loss	170	1,161
Benefits paid	(650)	(732)
Benefits obligation, December 31	<u>19,914</u>	<u>18,592</u>
<b>Change in plan assets, combined:</b>		
Fair value of plan assets, January 1	12,200	14,660
Actual return on plan assets	2,550	(4,325)
Employer contributions	2,951	1,865
Fair value of plan assets, December 31	<u>17,701</u>	<u>12,200</u>
<b>Funded status</b>	<u>\$ (2,213)</u>	<u>\$ (6,392)</u>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 613	\$ 608
Interest cost	1,088	963
Expected return on plan assets	(915)	(1,069)
Recognized prior service cost	210	210
Recognized actuarial (gain) loss	469	(18)
Recognized net initial obligation	26	26
Net periodic benefit cost	<u>\$ 1,491</u>	<u>\$ 720</u>

The assumptions used to determine net periodic benefit cost for years ended December 31, 2009 and 2008 are as follows:

	2009	2008
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, 2009 and 2008 are as follows:

	2009	2008
Discount rate	6.00%	6.00%

NAS postretirement benefit plan asset allocations at December 31, 2009 and 2008, by asset category are as follows:

	2009	2008
Cash	3%	3%
Bonds and notes	22%	11%
Equity securities	75%	86%
	<u>100%</u>	<u>100%</u>

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.

The following table presents the fair value hierarchy for the postretirement benefit plan assets at December 31, 2009 (dollars in thousands):

	Fair Value	Fair value measurements at December 31 using:		
		Level 1	Level 2	Level 3
<b>Financial Assets:</b>				
Retiree Welfare Benefit Plan				
Money market funds	\$ 519	\$ 519	\$ -	\$ -
U.S. Government securities	3,416	3,416	-	-
Corporate bonds	549	-	549	-
Common stock	7,082	7,082	-	-
Mutual funds	6,135	6,135	-	-
Total investments	<u>\$17,701</u>	<u>\$17,152</u>	<u>\$ 549</u>	<u>\$ -</u>

The methods and assumptions used to estimate the fair value of each class of financial instrument are further discussed in footnote 4, *Fair Value Measurements*.

NAS expects to contribute to the Plan the actuarially determined net periodic cost for 2010, which is approximately \$891,000.

The following benefit payments, which reflect future services, are expected to be paid in future years as noted, as of December 31, 2009 (dollars in thousands):

<b>Years ending December 31:</b>	
2010	\$ 892
2011	1,078
2012	1,201
2013	1,295
2014	1,366
2015-2019	7,618
	<u>\$ 13,450</u>

The measurement date of the plan assets and benefit obligations for 2009 and 2008 is December 31, 2009 and 2008, respectively.

The trend rate for growth in healthcare costs used in calculating the accumulated postretirement benefit obligation was 9.0% for under age 65 and 7.0% for over age 65, and 8.7% for the years ended December 31, 2009 and 2008, 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, 2009, would have resulted in an estimated \$2.0 million increase or \$1.7 million decrease in the postretirement benefit obligation and an estimated \$215,000 increase or \$177,000 decrease in the 2009 benefit expense.

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.

## ***(16) CONDITIONAL ASSET RETIREMENT OBLIGATION***

The Asset Retirement Obligation subtopic of FASB ASC requires a liability to be recorded if the fair value of the obligation to retire an asset can be reasonably estimated. Asset retirement obligations 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.

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. For the years ended December 31, 2009 and 2008, NAS has a liability of \$1.84 million and \$1.76 million included in other long-term liabilities on the statements of financial position. Accretion expense of \$84,000 and \$80,000 were included in management and general expense for the years ended December 31, 2009 and 2008, respectively. There were no additional liabilities incurred or settled and no revisions to estimated cash flows in 2009 or 2008.

## ***(17) 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, 2009 and 2008, is \$3.3 million, and is included in other assets on the statements of financial position.

## ***(18) 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):

<b>Year ending December 31:</b>	
2010	\$ 2,431
2011	2,017
2012	1,686
2013	1,730
2014	1,776
Thereafter	3,344
	<u>\$ 12,984</u>

Rental expense amounted to approximately \$2.6 million and \$2.1 million for years ended December 31, 2009 and 2008, 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.

## ***(19) 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.

## ***(20) SUBSEQUENT EVENT***

NAS evaluated subsequent events through May 21, 2010, which is the date the financial statements were available for issuance.

In May 2010, the District of Columbia issued \$59.6 million of fixed-rate tax-exempt revenue bonds on behalf of NAS. The bonds mature at various dates through the year 2040, with yields ranging from 1.44% to 4.70%. These bonds were sold to finance the cost to restore a portion of the NAS headquarters building on Constitution Avenue in Washington, D.C. and pay for certain costs of issuance.

In conjunction with the restoration project, NAS has entered into a contract with a guaranteed maximum price of \$44.7 million.

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