

Report of the Treasurer of the National Academy of Sciences for the Year Ended December 31, 2010

DETAILS

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AUTHORS

National Academy of Sciences

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REPORT OF
THE TREASURER
OF THE
NATIONAL ACADEMY
OF SCIENCES

For the Year
Ended December 31, 2010

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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 portfolio activities of our Academy for the year ended December 31, 2010.

Overview

The income that supports the activities of the National Academy of Sciences (NAS) comes from two major sources: program revenue received from sponsors to pay for the myriad studies and other activities undertaken each year by the National Research Council (NRC), and a much smaller sum that we obtain from our endowment under the endowment spending policies adopted by the Council. Regarding the first of these, the 2010 results are very positive. Our total program revenue for 2010 was nearly 6% above 2009 revenue, and we are anticipating further growth, currently estimated at 10% in 2011. There are many NRC volunteers and staff who deserve credit for this strong showing. I want to single out for special recognition Bill Colglazier, who has announced that he is retiring this summer after nearly two decades of outstanding service as the Executive Officer of the NAS and the NRC.

With respect to the second source of revenue, it has for many years been the policy of the Council to limit annual endowment spending to 5% of the average value of endowment for the twelve quarters ending in June of the previous year. When the endowment declined significantly in 2008, the Council made the prudent decision to hold spending in 2009 to 4% and to avoid spending whenever possible from endowments with value below the original gift amount. For 2010, the Council has again held endowment spending to the 4% level, in order to help endowment values to recover. The spending level for 2011 will also be 4%.

Finally, I am delighted to report that on March 24, 2011 President Cicerone announced the promotion of Mary "Didi" Salmon to Chief Financial Officer of the NAS/NRC as per April 9, 2011. With previous expertise as a senior auditor for KPMG Didi has been at the NAS since 2001, most recently serving as Deputy Chief

Financial Officer and Controller. Also, Jim Hinchman, who has been ably serving as interim CFO (in addition to his position as General Counsel) will move up to become the NAS/NRC Deputy Executive Officer and NRC Chief Operating Officer.

NAS Highlights

Endowment, Trust, and Other Long-term Investments Portfolio

As the Chairman of the Finance Committee, I am responsible, along with the other committee members, for the prudent management of the endowment, trust, and other long-term investments portfolio (the "Portfolio"). The goal of the endowment is to provide stable support for the Academy's programs and activities. To achieve this goal, the Council, acting on the recommendation of the Finance Committee, has historically authorized spending from the Portfolio at a rate designed to maintain the purchasing power of the endowment over time. The current spending rule caps annual spending at 5 percent of the trailing 12 quarter average market value of the Portfolio. As noted above, for 2010 the Council limited spending to 4%.

During 2010, the market value of the Portfolio continued to regain a major portion of the value that was lost during the market downturn in 2008. The market value of the Portfolio increased net of withdrawals and new contributions from \$344.4 million on January 1, 2010 to \$383.9 million at December 31, 2010. The Portfolio returned 15.5% for the year which was 2.1% higher than the relevant benchmark return of 13.4%. Many of the portfolio holdings performed in line with the benchmark for the year. Shares of Berkshire Hathaway represent approximately 7% of the Portfolio holdings. For the year, Berkshire Hathaway outperformed the S&P 500 index by over 5%, helping the portfolio to outperform the benchmark.

Liquidity of the Portfolio investments is a concern of organizations that rely on income for operational needs and/or have bond obligations. As NAS has outstanding bonds, liquidity of the portfolio is a factor that will continue to be monitored by rating agencies. At the end of 2010, the Portfolio remained highly liquid, with 73% of the portfolio being available between 1-3 days and 81% being available within a month.

Market values of the Portfolio, after withdrawals, for the years ended December 31, 2010 and 2009, are displayed in the following chart:

	(dollars in thousands)	
	2010	2009
Cash and Fixed-Income Securities	\$ 45,156	\$ 47,697
Equity Securities	338,773	296,683
Total	\$ 383,929	\$ 344,380

The Portfolio has consistently outperformed the market benchmarks over a long period. For the five years ending December 31, 2010, the Portfolio return is 5.6% compared to the market composite benchmark of 5.1% and, for the ten years ending December 31, 2010, the Portfolio return is 5.9% compared with the market composite benchmark of 5.1%.

At the end of 2010, the Finance Committee proposed, and the Council approved, changes in the guidelines for portfolio asset allocation. The Finance Committee moved the guidelines closer to what it has been allocating to our actual new investments in recent years. In general, the new guidelines decreased allocations to U.S. equities, increased allocations to non-U.S. equities and increased the allocation to hedge funds. The old guidelines that were in place through 2010 and were used for the benchmark calculations in this report are listed below. The new guidelines are also noted below and will be used for benchmark calculations starting in 2011.

Overview of Current Investment Structure

		Guideline 2010	Portfolio Allocation
Fixed-			
Income:	U.S. Fixed/Cash	12.0%	6.1%
	Non-U.S. Fixed	3.0%	5.7%
Equities:	U.S. Large Cap Funds	25.0%	18.4%
	U.S. Small-Mid Cap Funds	12.0%	11.3%
	Non-U.S. Stocks — Developed	20.0%	21.5%
	Non-U.S. Stocks — Emerging	8.0%	14.5%
	Real Estate Investments	5.0%	3.0%
Hedge Funds		12.0%	14.4%
Other Alternative Investments		3.0%	5.1%
Total		100.0%	100.0%

Overview of Future Investment Structure

		Guideline 2011
Fixed-		
Income:	U.S. Fixed/Cash	9.0%
	Non-U.S. Fixed	5.0%
Equities:	U.S. Large Cap Funds	19.0%
	U.S. Small-Mid Cap Funds	9.0%
	Non-U.S. Stocks — Developed	20.0%
	Non-U.S. Stocks — Emerging	15.0%
	Real Estate Investments	3.0%
Hedge Funds		17.0%
Other Alternative Investments		3.0%
Total		100.0%

- See Schedule 2-A on page 21 for details of investments by asset class.
- Included in the \$383.9 million total market value of the Portfolio as of December 31, 2010, are \$7.1 million for the Woods Hole Endowment Funds, \$66.4 million for the Institute of Medicine (IOM), and \$9.9 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 \$15.3 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 \$1.8 million were made to fund Woods Hole, IOM, and TNAC activity.

NAS General Fund

The NAS General Funds, which provides unrestricted resources to support the activities of the Academy, receives its funding from the unrestricted portion of the NAS Endowment. As noted above, for 2009, 2010, and 2011, the Council has limited spending from the endowment, including the unrestricted portion, to 4%.

For fiscal year 2010, the General Fund revenue totaled \$6.4 million and expenditures totaled \$5.6 million, resulting in a \$756,000 surplus. Comparable figures for fiscal year 2009 were \$7.7 million in revenues, \$5.8 million in expenditures, resulting in a surplus of \$1.9 million.

Any surplus in the General Funds Budget at the end of the year is transferred to the NAS Reserve. Similarly, deficits are funded from the Reserve. The Reserve is invested in the NAS endowment, trust and other long-term investments portfolio. The NAS Reserve had a market value of \$5.6 million on December 31, 2010, which is an increase of 27% over December 31, 2009.

The 2010 NAS General Fund activity is summarized as follows:

(dollars in thousands)	
Revenues:	
Unrestricted Endowment	\$ 4,429
Woods Hole Endowment	376
Communications Initiative Fund	277
Annual Giving from Members	358
Membership Dues	223
Annual Meeting	194
NAS Reserve	488
Short-Term Investment Interest, Royalties, etc.	13
Total Revenue	<u>\$ 6,358</u>
Expenses:	
Development Office	\$ 1,535
Member Services:	
Annual Meeting	656
Other	166
Programs/Projects:	
Cultural Programs of the NAS	353
Evolution, Education & Communication	141
Communications Initiative	729
Frontiers of Science	303
Committee on International Security & Arms Control	176
Local High School Project	36
InterAcademy Council	84
Woods Hole	244
Foreign Meetings	133
President's Office	23
NAS Executive Office	62
NRC Operations	961
Total Expenses	<u>\$ 5,602</u>
Surplus	<u>\$ 756</u>
Disposition of Surplus:	
Due to NAS Reserve	586
Due to Woods Hole Reserve	133
Due to Communications Initiative Reserve	37

The NAS Council has approved a General Funds Budget of \$4.7 million for 2011.

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, 2010 and 2009:

	(dollars in thousands)	
	2010	2009
Revenues:		
Subscriptions	\$ 6,880	\$ 6,820
Author charges	7,234	6,174
Other	141	119
Total	<u>\$ 14,255</u>	<u>\$ 13,113</u>
Expenses:		
Publishing	\$ 6,468	\$ 6,387
Other	5,294	7,038
Total	<u>\$ 11,762</u>	<u>\$ 13,425</u>
Net	<u>\$ 2,493</u>	<u>\$ (312)</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.
- Proceedings of the National Academy of Sciences temporary office at 700 Eleventh St. NW in Washington, D.C.
- Temporary office space at 555 12th Street, N.W., Washington, D.C.
- Temporary warehouse space at 6313 Gravel Ave, Alexandria, Virginia.

Restoration of the National Academy of Sciences Building in Washington, D.C. has been underway since June 2010. We are half way through the project and still on schedule for completion in time for the 2012 annual meeting. The total cost of the project will be about \$60 million. The work is being financed through the issuance of tax exempt fixed rate bonds, which will be repaid principally from the revenue received from sponsors of NRC studies and other activities.

Development Office Programs

The NAS is grateful for the generous support of members, friends, and philanthropic organizations in 2010. 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. The fund-raising effort continues to focus on building the endowment and expendable unrestricted sources for the NAS, including the IOM. Unrestricted gifts and endowment earnings are important resources to helping the NAS initiate studies in sensitive areas and take a leadership role in addressing the complex issues facing our nation.

In 2010, the NAS, including IOM, received a total of \$20.4 million in new gifts and pledges, an increase of more than \$8.2 million from the previous year. Much of this growth is due to an increase in private funding from corporations and foundations for IOM studies, roundtables and forums, which grew by more than 60%. Member giving to the annual fund of NAS remained strong. The NAS experienced an increase of more than 16% in member participation. Of the amount received in

gifts, \$898,000 was allocated to the NAS endowment. The selected gifts described below illustrate the scope of philanthropic support received during 2010:

- The NAS received a \$602,000 distribution from the estate of Gerda K. Nelson, widow of NAS member Oliver E. Nelson, that will be added to the NAS General Endowment Fund.
- The NAS's Marion Koshland Science Museum received a gift of \$943,000 from the Daniel E. Koshland, Jr. Family Fund to support the Museum's initiative to develop a long-range plan.
- A gift of \$129,000 from Sydney Brenner (NAS member) to establish the Seymour Benzer Lectures. The lecture prize will be awarded to early-career scientists in genetics or neuroscience. The lectures are named for Dr. Brenner's colleague and friend, Seymour Benzer, an NAS member who passed away in 2007.
- 246 donors gave a total of \$333,000 to support the Committee on Human Rights in its efforts to protect the basic human rights of scientists, engineers, and health professional who are unjustly imprisoned around the world.

While these gifts are only a select few, they are representative of the generous support of many members, friends, and philanthropic organizations for which we are extremely grateful. With these financial resources the Academy is better positioned to fulfill its mission of addressing the critical scientific and technical issues and challenges facing our nation.

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 \$286.8 million in 2010 and \$259.7 million in 2009.

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, 2010, was \$242.7 million (see following chart and the Statements of Activities on page 43) and in the year ended December 31, 2009, was \$215.0 million.

U.S. Government Revenues by Agency	(dollars in thousands)
Agency for International Development	\$ 517
Chemical Safety Board	48
Department of Agriculture	2,379
Department of Commerce	12,195
Department of Defense:	
Department of the Air Force	5,621
Department of the Army	9,932
Department of Defense	6,648
Department of the Navy	11,906
Department of Education	1,918
Department of Energy	7,774
Department of Health and Human Services	28,859
Department of Homeland Security	1,922
Department of the Interior	2,360
Department of Justice	1,639
Department of Labor	42
Department of State	5,505
Department of Transportation	108,941
Department of Treasury	781
Department of Veterans Affairs	2,343
Election Assistance Commission	22
Environmental Protection Agency	5,942
Executive Office of the President	1,310
General Accounting Office	312
General Services Administration	200
Institute of Museum and Library Services	116
Marine Mammal Commission	45
National Aeronautics and Space Administration	7,607
National Geospatial-Intelligence Agency	335
National Science Foundation	15,981
National Security Agency	297
Nuclear Regulatory Commission	100
Office of the Director of National Intelligence	329
Social Security Administration	1,253
Adjustment to Indirect Cost Receivable & Other	(2,431)
Total U.S. Government Agencies	\$ 242,748

Private/Nonfederal Contracts and Grants

Private sponsors supplemented government projects and provided for new initiatives by funding awards in the amount of \$44.1 million in 2010, compared with \$44.7 million in 2009. The private and nonfederal revenues were comprised of contracts and grants (\$35.5 million)

and other contributions (\$8.6 million). (See Statements of Activities on page 43.)

- The private contracts and grants decreased from \$39.0 million in 2009 to \$35.5 million in 2010. While the number of new awards increased from 2009 to 2010, the average new donation amount decreased by approximately 35%.
- In 2009, NAS received 73 new private awards. In 2010, that number increased to 92.
- Other contributions revenue increased from \$5.7 million in 2009 to \$8.6 million in 2010 primarily due to a \$2.0 million endowment contribution from Leonard D. Schaeffer to IOM.

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, allowing adequate indirect cost expenditures for 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 2010, total indirect expenses were \$71.7 million compared to an approved budget of \$77.0 million and NAS recovered \$2.8 million more from sponsors than was spent. In the future, the indirect rates will decrease slightly in order to compensate for this over-recovery. The NAS Council has approved a 2011 indirect expense budget of \$77.7 million.

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 2010, the NAS has been able to grow its net assets through increased program revenues and continued recovery of a major portion of the investment losses suffered in 2008.

Conclusion

I would like to thank the Council, the Committee on Budget and Internal Affairs, the Finance Committee, and NRC leadership for their continued input and support. Also, thanks to the Office of the Chief Financial Officer for its help in managing the Endowment and Trust Portfolio, its steady oversight of the Academy's various budgets, and its careful attention to the Academy's financial systems, records and reports.

Jeremiah P. Ostriker
Treasurer

	(dollars in millions)	
	2010	2009
Total Revenues	\$ 375.6	\$ 370.1
Total Expenses	332.5	307.4
Change in Net Assets	\$ 43.1	\$ 62.7

The NAS 2010 results of operations are further described in the financial statements starting on page 42.

I. Investments

Endowment, Trust, and Other Long-term Investments Pool
Description of Funds for the Year Ended December 31, 2010

**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.	4,206,295
<u>Members Endowment Fund</u> — Contributions from various members to be used for the general purposes of the Academy.	2,773,629
Subtotal — General Fund	<u>\$ 27,655,784</u>

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, 2010

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

<u>Woods Hole Fund</u> — Contributions from various individuals for maintenance of the Woods Hole Study Center.	12,874
Subtotal — Woods Hole	\$ 3,639,274
C. Presidents' Committee Fund	
<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.	18,000,000
<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
Subtotal — Presidents' Committee Funds	\$ 48,250,244

Endowment, Trust, and Other Long-term Investments Pool
Description of Funds for the Year Ended December 31, 2010

**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.	27,784
<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.	601,500
<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, 2010

	Capital Contribution (Column 1 of Schedule 1-A)
<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
<u>Christine Mirzayan Fellowship</u> — A program designed to engage graduate students in various fields in the analysis and creation of science and technology policy.	5,760
<u>Seymour Benzer Lecture Series</u> — Contribution from Sydney Brenner to establish a free lecture series to increase public understanding of science, engineering, technology and health.	128,000
Subtotal – Program Specific Funds	\$ 54,115,052
 <i>E. Prizes and Awards</i>	
<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

Endowment, Trust, and Other Long-term Investments Pool
Description of Funds for the Year Ended December 31, 2010

	Capital Contribution (Column 1 of Schedule 1–A)
<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
<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.	64,690
<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.	204,554
<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

Endowment, Trust, and Other Long-term Investments Pool
Description of Funds for the Year Ended December 31, 2010

	Capital Contribution (Column 1 of Schedule 1-A)
<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
<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
Subtotal — Prizes and Awards	<u>\$ 3,111,397</u>
<i>F. Reserve Funds</i>	
<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.	\$ 6,655,608
<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
Subtotal — Reserve Funds	<u>\$ 9,155,608</u>
Subtotal — Funds that Support the NAS	<u>\$ 145,927,359</u>

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.	\$ 1,119,507
<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

Endowment, Trust, and Other Long-term Investments Pool
Description of Funds for the Year Ended December 31, 2010

	Capital Contribution (Column 1 of Schedule 1-A)
<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
<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
Subtotal — General Funds	\$ 12,853,786
<i>B. Program Specific Funds</i>	
<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.	4,950
<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.	1,010,775
<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.	4,788,945

Endowment, Trust, and Other Long-term Investments Pool
Description of Funds for the Year Ended December 31, 2010

	Capital Contribution (Column 1 of Schedule 1-A)
<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.	2,570,544
<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
<u>James C. Puffer / ABFM Fund</u> — Gift from the American Board of Family Medicine to establish a 2-year fellowship enabling early career health policy or health science scholars in family medicine to participate actively and further their careers as future leaders in the field.	826,000
Subtotal — Program Specific Funds	\$ 16,538,614
C. Prizes and Awards	
<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
<u>Sandra H. Matthews Cecil Award</u> — Recognizes a current or former administrative support staff member who has made a significant and sustained contribution to developing and maintaining efficient, effective, and service oriented support for the membership or program activities.	5,000
Subtotal — Prizes and Awards	\$ 2,214,179
D. Reserve Funds	
<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
Subtotal — Reserve Funds	\$ 500,000
Subtotal — Funds that Support the IOM	\$ 32,106,579
Subtotal — NAS and IOM Funds	\$ 178,033,938
III. FUNDS HELD ON BEHALF OF OTHERS	
A. The National Academies' Corporation (TNAC)	
<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
Subtotal — The National Academies' Corporation	\$ 9,939,644
TOTAL	\$ 187,973,582

***Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2010***

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2010	Market Value at Dec. 31, 2009	2010 Contributions	2010 Investment Gain	2010 Expenditures & Transfers	Market Value at Dec. 31, 2010
I. Funds that Support the NAS						
A. General Fund						
Agassiz Fund	\$ 50	\$ 480	\$ -	\$ 71	\$ (22)	\$ 529
Carnegie Fund	3,275	33,181	-	4,927	(1,515)	36,593
Commonwealth Fund	500	2,154	-	320	(98)	2,376
Carl Eckart Fund	1,246	2,193	-	325	(100)	2,418
Ford Foundation Fund	5,000	21,177	-	3,145	(966)	23,356
Henrietta and Alexander Hollaender Fund	500	946	-	140	(43)	1,043
Grayce B. Kerr Fund	250	470	-	70	(21)	519
Nealley Fund	19	190	-	28	(9)	209
Simon Ramo Fund	14	32	-	5	(1)	36
Rockefeller Foundation Fund	1,000	4,294	-	638	(196)	4,736
Dorothea and Herbert Simon Fund	645	983	-	146	(45)	1,084
Sloan Foundation Fund	1,000	4,280	-	636	(195)	4,721
Amy Prudden Turner Fund	30	109	-	16	(5)	120
Anonymous Endowment Fund	7,147	13,760	-	2,043	(628)	15,175
General Endowment Fund	4,206	7,729	600	1,174	(352)	9,151
Members Endowment Fund	2,774	5,148	50	770	(232)	5,736
	<u>\$ 27,656</u>	<u>\$ 97,126</u>	<u>\$ 650</u>	<u>\$ 14,454</u>	<u>\$ (4,428)</u>	<u>\$ 107,802</u>
B. Woods Hole						
Peter C. Cornell Trust Fund	\$ 100	\$ 230	\$ -	\$ 34	\$ (13)	\$ 251
J. Erik Jonsson Woods Hole Fund	2,003	3,978	-	584	(228)	4,334
Richard King Mellon Foundation Fund	50	168	-	25	(10)	183
Penzance Foundation Fund	502	1,000	-	147	(57)	1,090
Woods Hole Endowment Fund	971	1,150	-	169	(66)	1,253
Woods Hole Fund	13	36	-	5	(2)	39
	<u>\$ 3,639</u>	<u>\$ 6,562</u>	<u>\$ -</u>	<u>\$ 964</u>	<u>\$ (376)</u>	<u>\$ 7,150</u>
C. Presidents' Committee Funds						
Basic Science Fund - Earth Sciences	\$ 503	\$ 1,266	\$ -	\$ 196	\$ -	\$ 1,462
Biology and Biotechnology Fund	420	812	-	124	(22)	914
Thomas Lincoln Casey Fund	258	5,626	-	837	(278)	6,185
Coca-Cola Foundation Fund	50	135	-	21	-	156
Arthur L. Day Fund	5,048	15,819	-	2,398	(402)	17,815
Cecil and Ida Green Fund	467	1,452	-	203	(142)	1,513
W. K. Kellogg Foundation Fund	20,000	39,738	-	5,789	(2,663)	42,864
Kobelt Fund	297	1,815	-	278	(22)	2,071
Andrew W. Mellon Foundation Fund	1,000	1,531	-	218	(187)	1,562
George and Cynthia Mitchell Endowment for Sustainability Sciences	18,000	17,924	2,000	3,115	(505)	22,534
George and Cynthia Mitchell Matching Endowment	40	60	-	10	-	70
Frank Press Fund for Dissemination and Outreach	1,167	2,091	-	299	(206)	2,184
Scientists and Engineers for the Future Fund	1,000	1,590	-	228	(143)	1,675
	<u>\$ 48,250</u>	<u>\$ 89,859</u>	<u>\$ 2,000</u>	<u>\$ 13,716</u>	<u>\$ (4,570)</u>	<u>\$ 101,005</u>

***Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2010***

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2010	Market Value at Dec. 31, 2009	2010 Contributions	2010 Investment Gain	2010 Expenditures & Transfers	Market Value at Dec. 31, 2010
D. Program Specific Funds						
Arnold and Mabel Beckman Fund of the NAS and NAE	\$ 11,974	\$ 5,506	\$ -	\$ 586	\$ (1,705)	\$ 4,387
Billings Fund	50	858	-	130	(16)	972
Blakeslee Fund	887	2,165	-	322	(74)	2,413
Henry G. Booker Fellowship Fund	21	54	-	8	-	62
Communications Initiative Fund	-	3,022	-	455	(101)	3,376
Cultural Programs of the NAS Fund	28	32	7	6	-	45
Henry and Bryna David Endowment	850	1,275	-	196	(6)	1,465
Global Commons Project Fund	39	153	-	24	-	177
Marian Koshland Science Museum Fund	22,786	20,439	-	2,867	(2,181)	21,125
Bruce Alberts Fund for the Marian Koshland Science Museum	5,195	5,963	-	912	(66)	6,809
National Science Resources Center Fund	4,986	5,482	-	836	(185)	6,133
New Canaan Library Fund	4	10	-	2	-	12
Kumar and Shela Patel Endowment for US-India Dialogs	602	799	2	120	(71)	850
Arthur M. Sackler Colloquia Fund	4,375	5,687	-	835	(298)	6,224
Raymond & Beverly Sackler USA-UK Scientific Forum Endowment	2,025	1,822	-	281	-	2,103
USNC/IAU	100	159	-	24	(1)	182
NAS Members Endowment(s)	59	263	-	41	-	304
Christine Mirzayan Fellowship Endowment	6	-	6	1	-	7
Seymour Benzer Lecture Series	128	-	128	6	-	134
	\$ 54,115	\$ 53,689	\$ 143	\$ 7,652	\$ (4,704)	\$ 56,780
E. Prizes and Awards						
American Psychological Association Science Directorate Fund	\$ 30	\$ 62	\$ -	\$ 10	\$ -	\$ 72
Henryk Arctowski Fund	96	3,143	-	470	(94)	3,519
Bache Fund	60	356	-	51	(33)	374
Blaauw Fund	71	771	-	112	(69)	814
John J. Carty Fund	25	653	-	98	(25)	726
Comstock Fund	11	730	-	113	-	843
Draper Fund	6	295	-	46	-	341
Elliot Fund	8	159	-	25	-	184
Estes Award in Social and Behavioral Sciences	80	216	-	33	-	249
Gibbs Brothers Fund	24	210	-	32	-	242
Gibbs Fund	5	143	-	21	(12)	152
Ralph E. Gomory Award for the Application of Science	179	474	-	73	(3)	544
Gould Fund	50	639	-	92	(59)	672
Joseph Henry Fund	40	416	-	60	(39)	437
Alexander Hollaender Award in Biophysics	100	301	-	43	(27)	317
Hunsaker Fund	25	404	-	58	(22)	440
Franklin Livingston Hunt Fund	11	220	-	34	-	254

Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2010

(Dollars in thousands)

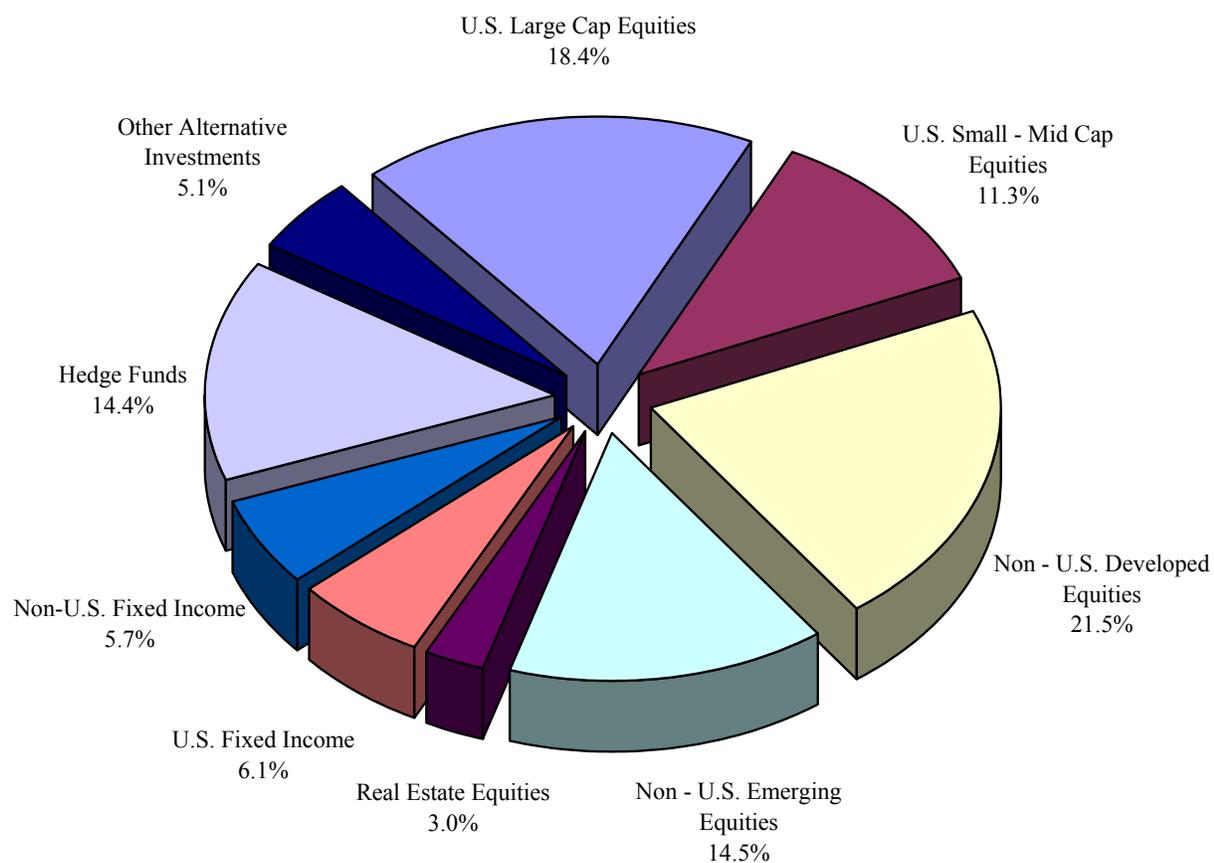
	Capital Contributions as of Dec. 31, 2010	Market Value at Dec. 31, 2009	2010 Contributions	2010 Investment Gain	2010 Expenditures & Transfers	Market Value at Dec. 31, 2010
Kovalenko Fund	\$ 64	\$ 1,312	\$ -	\$ 199	\$ (32)	\$ 1,479
Marsh Fund	10	182	-	26	(17)	191
George P. Merrill Fund	10	578	-	86	(37)	627
Stanley Miller Award	205	137	50	29	(3)	213
Monsanto Award in Molecular Biology	421	993	-	150	(35)	1,108
Murray Fund	6	163	-	23	(21)	165
NAS Award for Chemistry in Service to Society	182	334	-	52	(3)	383
NAS Award in Mathematics	54	52	-	9	-	61
NAS Award in Chemical Sciences	478	469	-	73	(22)	520
NAS Award in Neuroscience	140	464	-	68	(32)	500
NAS Fund for Sciences and Technology in International Affairs	49	237	-	37	-	274
Pradel Fund	16	1,587	-	245	-	1,832
H. P. Robertson Lectureship Fund	20	274	-	42	-	316
Helen P. Smith Fund	67	572	-	89	-	661
Mrs. J. Lawrence Smith Fund	8	624	-	97	-	721
Thompson Fund	10	205	-	32	-	237
Troland Fund	505	4,004	-	607	(120)	4,491
Walcott Fund	5	71	-	11	-	82
G. K. Warren Fund	15	180	-	26	(16)	190
Watson Fund	25	1,309	-	193	(62)	1,440
	\$ 3,111	\$ 22,939	\$ 50	\$ 3,465	\$ (783)	\$ 25,671
F. Reserve Funds						
National Academy of Sciences Reserve Fund	\$ 6,656	\$ 4,375	\$ 1,135	\$ 803	\$ (690)	\$ 5,623
Proceedings of the National Academy of Sciences Fund	1,000	1,033	-	160	-	1,193
Transportation Research Board Reserve Fund	1,500	2,101	-	324	-	2,425
Due to (from) National Academy of Sciences	-	(11)	-	-	11	-
	\$ 9,156	\$ 7,498	\$ 1,135	\$ 1,287	\$ (679)	\$ 9,241
Subtotal — Funds that Support the NAS	\$ 145,927	\$ 277,673	\$ 3,978	\$ 41,538	\$ (15,540)	\$ 307,649
II. Funds that Support the IOM						
A. General Funds						
General Endowment Fund	\$ 1,120	\$ 1,687	\$ -	\$ 256	\$ (40)	\$ 1,903
Robert Wood Johnson Foundation Fund	5,000	9,908	-	1,501	(235)	11,174
IOM Kellogg Fund	283	480	-	74	-	554
IOM Members Dues	198	336	-	52	-	388
Henry J. Kaiser Family Foundation Fund	488	773	-	117	(18)	872
John D. and Catherine T. MacArthur Foundation Fund	5,000	9,844	-	1,478	(235)	11,087
Pharmaceutical Discretionary Fund	480	858	-	133	-	991
Pharmaceutical Endowment Fund	259	470	-	71	(11)	530
Miscellaneous Private Sector Fund	26	55	-	8	(1)	62
	\$ 12,854	\$ 24,411	\$ -	\$ 3,690	\$ (540)	\$ 27,561

Endowment, Trust, and Other Long-term Investments Pool
Financial Detail of Funds for the Year Ended December 31, 2010

(Dollars in thousands)

	Capital Contributions as of Dec. 31, 2010	Market Value at Dec. 31, 2009	2010 Contributions	2010 Investment Gain	2010 Expenditures & Transfers	Market Value at Dec. 31, 2010
B. Program Specific Funds						
Distinguished Scholar Fund	\$ 17	\$ 65	\$ -	\$ 10	\$ -	\$ 75
Food & Nutrition Board (FNB) Fund	525	1,411	-	218	-	1,629
FNB Corporations Fund	125	408	-	63	-	471
FNB Members Fund	5	23	-	4	-	27
Norman Gant & ABOG Fellowship	650	755	-	114	(16)	853
Hamburg Endowment Fund	1,011	1,174	11	183	-	1,368
Howard Hughes Medical Institute Fund	5,000	14,052	-	2,093	(694)	15,451
Kellogg Health of the Public Fund	4,789	5,338	87	848	23	6,296
Kellogg Health of the Public Fund Matching Contributions	2,571	2,752	30	444	-	3,226
Richard and Hinda Rosenthal Lecture Series	1,000	1,368	-	206	(35)	1,539
Women's Health Issues Fund	20	75	-	11	-	86
James C. Puffer / ABFM	826	-	826	50	-	876
	\$ 16,539	\$ 27,421	\$ 954	\$ 4,244	\$ (722)	\$ 31,897
C. Prizes and Awards						
Gustav O. Lienhard Award	\$ 1,200	\$ 3,904	\$ -	\$ 594	\$ (73)	\$ 4,425
Rhonda and Bernard G. Sarnat International Prize in Mental Health	1,009	1,350	-	206	(37)	1,519
Sandra H. matthews Cecil Award	5	-	5	-	-	5
	\$ 2,214	\$ 5,254	\$ 5	\$ 800	\$ (110)	\$ 5,949
D. Reserve Funds						
IOM Reserve Fund	\$ 500	\$ 827	\$ -	\$ 128	\$ -	\$ 955
Subtotal — Funds that Support the IOM	\$ 32,107	\$ 57,913	\$ 959	\$ 8,862	\$ (1,372)	\$ 66,362
Subtotal — NAS and IOM Funds	\$ 178,034	\$ 335,586	\$ 4,937	\$ 50,400	\$ (16,912)	\$ 374,011
III. Funds Held on Behalf of Others						
A. The National Academies' Corporation						
Operations Endowment	\$ 8,000	\$ 6,701	\$ -	\$ 1,038	\$ -	\$ 7,739
Program Endowment	1,940	1,623	-	258	-	1,881
Building Maintenance Reserve	-	470	-	48	(220)	298
	\$ 9,940	\$ 8,794	\$ -	\$ 1,344	\$ (220)	\$ 9,918
TOTAL	\$ 187,974	\$ 344,380	\$ 4,937	\$ 51,744	\$ (17,132)	\$ 383,929

***Endowment, Trust, and Other Long-term Investments Pool –
Asset Allocation as of December 31, 2010***



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

Change in Valuation from 12/31/09 to 12/31/10

(Dollars in Thousands)

Market Value at 12/31/09	\$ 344,380
Realized Capital Gains	10,221
Unrealized Capital Gains	30,347
Reinvested Income	11,176
Contributions	4,937
Expenditures and Transfers	(17,132)
Market Value at 12/31/10	\$ 383,929

Holdings and Market Value Summary as of 12/31/10

(Dollars in Thousands)

U.S. Large Cap Equities

Berkshire Hathaway A	\$ 26,499
Berkshire Hathaway B	36
Oil Service Holders Trust	3,114
Vanguard Institutional Index	28,365
Vanguard Precious Metals & Mining	4,899
Materials Select Sector SPDR	3,799
Powershares Water Portfolio	3,907
Subtotal	\$ 70,619

U.S. Small - Mid Cap Equities

Guggenheim Solar Energy	\$ 401
First Trust NASDAQ Clean Edge	576
First Trust Global Wind Energy	360
ISHARES S&P Gbl Clean Energy	347
Market Vector Global ALT Energy	408
Market Vectors Solar Energy	392
Powershares Cleantech Portfolio	618
Powershares Gbl Wind Energy	326
Powershares Wilderhill Clean Energy	519
SPDR S&B Biotech ETF	6,056
RBC Enterprise Fund	2,741
Vanguard Extended Market Index	11,149
Vanguard Small Cap Index	10,266
Third Avenue Value	8,665
Powershares Global Clean Energy	469
Other	206
Subtotal	\$ 43,499

Non-U.S. Developed Equities

Dodge & Cox International	\$ 9,524
Driehaus International Discovery	13,969
Templeton Institutional	16,789
Vanguard European Stock Index	9,621
Vanguard Pacific Stock Index	12,217
Vanguard International Growth	10,320
Vanguard International Value	10,127
Subtotal	\$ 82,567

Non-U.S. Emerging Equities

Capital Int'l Emerging Market	\$ 27,859
Templeton Emerging Market	25,022
Morgan Stanley India Inv.	2,884
Subtotal	\$ 55,765

Real Estate Equities

iShares Dow Jones RE Index	\$ 5,866
Third Avenue RE Fund	5,584
Subtotal	\$ 11,450

U.S. Fixed Income

PIMCO Funds Total Return	\$ 16,927
Cash Equivalents	6,381
Other	74
Subtotal	\$ 23,382

Non-U.S. Fixed Income

PIMCO Foreign Bond	\$ 15,484
PIMCO Developing	6,290
Subtotal	\$ 21,774

Hedge Funds

Goldman Sachs Princeton	\$ 27,104
Tactician Windward	1,185
Makena Capital Associates	11,028
Maverick Fund Ltd	6,716
Platinum Fund	6,770
Tiedmann Global Emerging Markets	2,500
Subtotal	\$ 55,303

Other Alternative Investments

	\$ 19,570
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GRAND TOTAL

	\$ 383,929
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Entelos, Inc.	Schering-Plough Corporation
Eucalyptus Associates, Inc.	Schwab Charitable Fund
ExxonMobil Foundation	SEMATECH
Faraday Technology, Inc.	Semiconductor Research Corporation
Fidelity Charitable Gift Fund	Siemens Corporate Research, Inc.
GE Energy	Sigma-Aldrich Corporation
GE Foundation	SkyFuel, Inc.
GE Healthcare	Stryker
Genentech, Inc.	T. Rowe Price Foundation
General Mills, Inc.	Textron Systems
General Motors	Toyota Motor Engineering & Manufacturing North America, Inc.
Genetic Alliance	United Health Foundation
Genomic Health, Inc.	United Healthcare
GlaxoSmithKline	University Physicians, Inc.
Google, Inc.	Vanguard Charitable Endowment Program
The Hershey Company	Wyeth
Hewlett-Packard Company	
IBM	
Intel Corporation	

Other Organizations

Alzheimer's Association	Minnesota Corn Growers Association
American Academy of Nursing	National Association of Chain Drug Stores Foundation
American Association for Cancer Research	National Association of County and City Health Officials
American Association of Emergency Medical Technicians	National Association of Emergency Medical Technicians
American Association of Retired Persons	National Association of Epilepsy Centers
American Board of Family Medicine	National Coalition for Cancer Survivorship
American Board of Internal Medicine Foundation	National Pork Board
American Cancer Society, Inc.	National Society of Genetic Counselors
American Chemical Society	National Water Research Institute
American Chemistry Council	New Jersey Institute of Technology
American College of Emergency Physicians	New York University
American College of Medical Genetics	Northeastern University
American College of Physicians	Northwestern University
American Diabetes Association	The Ohio State University
American Epilepsy Society	Oncology Nursing Society
American Hospital Association	Oregon State University
American Mathematical Society	Pacific Council on International Policy
American Medical Association	Parkland Health & Hospital System
American Nurses Association	Pennsylvania State University
American Society for Clinical Pathology	Pharmaceutical Research and Manufacturers of America
American Society for Microbiology	Princeton University
American Society of Clinical Oncology	Proteus Action League
Association of American Cancer Institutes	The Purdue University
Association of American Medical Colleges	RE Children's Project
Association of American Railroads	Rensselaer Polytechnic University
Association of State and Territorial Health Officials	Rice University
Association of University Research Parks	The Royal Society
Business Software Alliance	Rutgers, The State University of New Jersey
Catholic Health Initiatives	Society for Industrial and Applied Mathematics
C-Change	Southwest Research Institute
Children's Hospital of Philadelphia	Stanford University
Citizens United for Research in Epilepsy, Inc.	Stony Brook University
Claremont Colleges	SUNY, Binghamton
College of American Pathologists	Syracuse University
Colorado State University	Task Force for Child Survival and Development
Cornell University	Texas State University
The Critical Path Institute	Texas Tech University
Diane Burko Studio	Tuberous Sclerosis Alliance
Duke University	University of Alabama
Emergency Nurses Association	University of Alaska, Fairbanks
Environmental Systems Research Institute	University of Arizona
Epilepsy Therapy Project	University of California, Berkeley
George Mason University	University of California, Davis
Georgia Institute of Technology	University of California, Irvine
Hemispherectomy Angels, Inc.	University of California, Los Angeles
Human Factors and Ergonomics Society	University of California, San Francisco
James B. Hunt Institute for Educational Leadership	University of Cincinnati
IDEA League Inc.	University of Illinois
Illinois Corn Marketing Board	University of Iowa
Infectious Diseases Society of America	The University of Kansas Center for Research, Inc.
Institute for Feed Education and Research	University of Kentucky
Institute of International Education, Inc.	University of Maryland
International Institute for Applied Systems Analysis (ILASA)	University of Michigan
International League Against Epilepsy	University of Minnesota
Iowa State University	University of Missouri
Kansas State University	University of Nebraska- Lincoln
Meals on Wheels Association of America	University of New Mexico
Michigan State University	University of Notre Dame

University of North Carolina
University of North Carolina at Charlotte
University of North Texas Health Sciences Center
University of Oregon
University of Pittsburgh
University of Rochester
University of South Alabama
University of Southern California
University of Tennessee

University of Texas at Arlington
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III. Financial Condition



NATIONAL ACADEMY OF SCIENCES

THE NATIONAL ACADEMIES

Report of the Auditing Committee of the National Academy of Sciences

June 8, 2011

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, 2010, 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,

JERRY P. GOLLUB, Chair
GEORGE GLOECKLER
SUSAN GOTTESMAN
RONALD L. GRAHAM
ROBERT H. WURTZ
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 20036-3389

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, 2010 and 2009, 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, 2010 and 2009, 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 25, 2011

NATIONAL ACADEMY OF SCIENCES
Statements of Financial Position
December 31, 2010 and 2009
(Dollars in thousands)

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 1,522	\$ 1,387
Short-term investments (note 3)	56,777	49,113
Contracts receivable – U.S. government (note 12)	58,426	47,027
Contributions and other receivables, net (note 6)	12,922	14,565
Bond proceeds held with trustee (note 13)	47,216	-
Other current assets	5,828	4,627
Total current assets	<u>182,691</u>	<u>116,719</u>
Other assets (notes 2, 13, 15, and 17)	7,468	8,093
Long-term investments (note 3)	423,062	376,163
Contributions receivable, net (note 6)	22,235	28,191
Property and equipment, net (notes 5 and 16)	134,953	127,476
Einstein Memorial	1,723	1,723
Total assets	<u>\$ 772,132</u>	<u>\$ 658,365</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 47,116	\$ 42,064
Deferred revenue (notes 7 and 12)	28,007	32,080
Line of credit (note 8)	10,000	-
Other current liabilities (notes 13 and 14)	4,776	3,498
Total current liabilities	<u>89,899</u>	<u>77,642</u>
Bonds payable (note 13)	181,202	122,545
Funds held on behalf of others (note 3)	9,918	8,794
Note payable (note 14)	-	757
Accrued employee benefits (note 15)	4,618	4,603
Other long-term liabilities (notes 2, 13, and 16)	13,370	14,057
Total liabilities	<u>299,007</u>	<u>228,398</u>
Net assets:		
Unrestricted	89,054	72,871
Temporarily restricted (note 9)	265,702	241,734
Permanently restricted (note 10)	118,369	115,362
Total net assets	<u>473,125</u>	<u>429,967</u>
Commitments and contingencies (notes 3, 12, 13, 15, 18, and 19)		
Total liabilities and net assets	<u>\$ 772,132</u>	<u>\$ 658,365</u>

See accompanying notes to financial statements.

NATIONAL ACADEMY OF SCIENCES
Statements of Activities
Years ended December 31, 2010 and 2009
(Dollars in thousands)

	2010				2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues, gains, and other support:								
Government contracts and grants (note 12)	\$ 242,748	-	-	242,748	\$ 214,957	-	-	214,957
Private contracts and grants	18,869	16,650	-	35,519	21,596	17,441	-	39,037
Other contributions	5,022	596	3,007	8,625	4,201	851	612	5,664
Fees and publications	19,744	-	-	19,744	18,828	-	-	18,828
Investment income (note 3)	13,981	44,860	-	58,841	19,088	60,289	-	79,377
Other income (note 13)	10,157	-	-	10,157	12,225	-	-	12,225
Net assets released from restriction (note 9)	38,138	(38,138)	-	-	37,638	(37,638)	-	-
Total revenues, gains, and other support	348,659	23,968	3,007	375,634	328,533	40,943	612	370,088
Expenses (notes 13, 15, and 16):								
Programs (note 11)	280,357	-	-	280,357	260,709	-	-	260,709
Management and general	48,566	-	-	48,566	45,843	-	-	45,843
Fundraising	2,938	-	-	2,938	3,010	-	-	3,010
Total expenses	331,861	-	-	331,861	309,562	-	-	309,562
Post retirement changes other than net periodic benefit cost (note 15)	615	-	-	615	(2,169)	-	-	(2,169)
Change in net assets	16,183	23,968	3,007	43,158	21,140	40,943	612	62,695
Net assets at beginning of year	72,871	241,734	115,362	429,967	51,731	200,791	114,750	367,272
Net assets at end of year	\$ 89,054	265,702	118,369	473,125	\$ 72,871	241,734	115,362	429,967

See accompanying notes to financial statements.

NATIONAL ACADEMY OF SCIENCES
Statements of Cash Flows
Years ended December 31, 2010 and 2009
(Dollars in thousands)

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 43,158	\$ 62,695
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	7,595	7,632
Loss on disposal of property and equipment	140	140
Bad debt expense	439	192
Net gain on investments	(49,231)	(70,998)
Net gain on investments held on behalf of others	(1,174)	(1,600)
Amounts collected on behalf of others	(4,293)	(5,490)
Amounts remitted on behalf of others	4,352	5,320
Change in value of interest rate swap	1,510	(4,301)
Change in value of split-interest agreements	56	137
Contributions restricted for construction or endowment	(3,031)	(2,791)
(Increase) decrease in assets:		
Other receivables	7,161	3,744
Contracts receivable - U.S. government	(11,399)	8,759
Other current assets	(1,201)	(471)
Other assets	586	(590)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,052	3,466
Deferred revenue	(4,073)	(3,391)
Other current liabilities	216	(916)
Funds held on behalf of others	1,124	1,608
Other long-term liabilities	(2,019)	(103)
Accrued employee benefits	15	(3,994)
Net cash used in operating activities	<u>(5,017)</u>	<u>(952)</u>
Cash flows from investing activities:		
Additions to property and equipment	(13,968)	(5,911)
Sales or maturities of investments	167,159	215,761
Purchases of investments	(171,368)	(215,234)
Net cash used in investing activities	<u>(18,177)</u>	<u>(5,384)</u>
Cash flows from financing activities:		
Contributions restricted for construction or endowment	3,031	2,791
Proceeds from line of credit	173,182	139,954
Payments on line of credit	(163,182)	(140,640)
Payments on bank note	(756)	(756)
Proceeds from interest rate swaption	-	1,834
Proceeds from bond issue	59,550	57,500
Payments on bond principal	(1,280)	(57,070)
Increase in bond proceeds held by trustee	(47,216)	-
Net cash provided by financing activities	<u>23,329</u>	<u>3,613</u>
Net increase (decrease) in cash and cash equivalents	135	(2,723)
Cash and cash equivalents, beginning of year	1,387	4,110
Cash and cash equivalents, end of year	<u>\$ 1,522</u>	<u>\$ 1,387</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 3,751	\$ 4,803

See accompanying notes to financial statements.

NATIONAL ACADEMY OF SCIENCES

Notes to

Financial Statements

December 31, 2010 and 2009

(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. There were no contributions from TNAC to the NRC during 2010 and 2009 to support operations of the Beckman Center. TNAC contributed \$5,000 and \$4,000 to the NRC for the years ending December 31, 2010 and 2009, 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 \$4.1 million and \$5.3 million in 2010 and 2009, respectively, on behalf of NAEF. NAS disbursed \$4.1 million and \$5.2 million to NAEF from these collected amounts in 2010 and 2009, 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, 2010 and 2009, the Department of Transportation provided 45% and 44%, 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:

<u>Asset Class</u>	<u>Depreciable Lives</u>
Buildings	40 years
Buildings and leasehold improvements	Lesser of the remaining life of the building or improvement
Furniture and equipment	4 to 10 years
Capitalized software	3 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. Capitalized software is amortized over its depreciable life when it is ready for its intended use and 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, 2010 and 2009, NAS had charitable gift annuity assets of \$2.1 million and \$2.4 million, respectively. NAS has recorded a liability of \$1.3 million and \$1.4 million at December 31, 2010 and 2009, 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 December 31, 2010, NAS applied the guidance in FASB Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements*, to its financial assets and liabilities disclosed at fair value. This

guidance requires fair value measurement disclosures for each class of assets and liabilities and enhanced disclosures for transfers among the fair value hierarchy.

Effective December 31, 2009, NAS applied the guidance in FASB Accounting Standards Update 2009-12, *Fair Value Measurements 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, 2010 and 2009 (dollars in thousands):

	2010	2009
<i>Short-term investments:</i>		
Cash equivalents	\$ 12,503	\$ 8,990
Bonds and notes	31,666	29,561
Equity securities	12,608	10,562
Total short-term investments	<u>\$ 56,777</u>	<u>\$ 49,113</u>

<i>(continued)</i>	2010	2009
<i>Long-term investments:</i>		
<i>Investment pool, including endowment assets:</i>		
Cash equivalents	\$ 6,381	\$ 7,699
Bonds and notes	38,775	39,998
Equity securities	263,900	239,112
Hedge funds	55,303	45,536
Private equity	19,570	12,035
	<u>383,929</u>	<u>344,380</u>
 <i>Other long-term investments:</i>		
Cash equivalents	3,004	1,291
Bonds and notes	16,463	13,583
Equity securities	19,666	16,909
	<u>39,133</u>	<u>31,783</u>
Total long-term investments	<u>\$ 423,062</u>	<u>\$ 376,163</u>

Vanguard equity funds comprised approximately \$97.0 million and \$85.5 million of the total equity securities funds at December 31, 2010 and 2009, respectively.

NAS holds alternative investments, comprised of private equity securities and hedge funds, in its long-term investment pool. At December 31, 2010 and 2009, these funds had a fair value of approximately \$74.9 million and \$57.6 million, respectively. The unrealized gain on the hedge funds was approximately \$4.1 million and \$2.6 million for the years ended December 31, 2010 and 2009, 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, 2010 and 2009 to provide approximately \$3.6 million and \$5.1 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 \$9.9 million and \$8.8 million as of December 31, 2010 and 2009, 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 \$446,000 and \$691,000 for the years ended December 31, 2010 and 2009, respectively, and is comprised of the following (dollars in thousands):

	2010	2009
Interest and dividends income	\$ 9,610	\$ 8,379
Net gain on investments	49,231	70,998
Total investment income	<u>\$ 58,841</u>	<u>\$ 79,377</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. For purposes of the fair value disclosure, mutual funds are presented based on the class of the underlying investment holdings. 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.

Funds on deposit with trustee are held in U.S. Treasury securities or funds of U.S. Treasury securities and therefore included in Level 1. 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 agreements, 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, 2010 (dollars in thousands):

	Fair value measurements at December 31 using:			
	Fair Value	Level 1	Level 2	Level 3
Financial Assets:				
Short-term and long-term investments:				
Cash equivalents	\$ 21,888	\$ 21,888	\$ -	\$ -
Bonds and notes				
U.S. treasuries/government bonds	6,964	5,844	1,120	-
Mortgage-backed securities	32,044	16,980	15,064	-
Corporate bonds	26,122	11,146	14,976	-
Non-U.S. fixed income	21,774	21,774	-	-

<i>(continued)</i>	Fair value measurements at December 31 using:			
	Fair Value	Level 1	Level 2	Level 3
Equity securities				
U.S. large stock	70,619	70,619	-	-
U.S. small/mid cap	67,547	67,547	-	-
Non-U.S. stocks (developed countries)	89,016	89,016	-	-
Non-U.S. stocks (emerging countries)	57,054	57,054	-	-
Real estate stocks	11,938	11,938	-	-
Hedge funds				
Fund of fund – multi-strategies	27,104	-	27,104	-
Multi-strategies/multi-vehicle	11,028	-	-	11,028
Fixed income single strategy	1,185	-	1,185	-
Long/short equity	15,986	-	2,500	13,486
Private equity				
Asia	12,725	-	-	12,725
Global	4,840	-	-	4,840
Domestic	2,005	-	-	2,005
Total short-term and long-term investments	<u>479,839</u>	<u>373,806</u>	<u>61,949</u>	<u>44,084</u>
Deposit with trustee				
Bonds and notes				
U.S. treasuries/government bonds	<u>47,216</u>	<u>47,216</u>	-	-
Total deposit with trustee	<u>47,216</u>	<u>47,216</u>		
Charitable gift annuity assets:				
Cash equivalents	56	56	-	-
Bonds and notes				
U.S. treasuries/government bonds	66	66	-	-
Mortgage-backed securities	376	376	-	-
Corporate bonds	86	86	-	-
Equity securities				
U.S. small/mid cap	<u>1,475</u>	<u>1,475</u>	-	-
Total charitable gift annuity assets	<u>2,059</u>	<u>2,059</u>	-	-
Deferred compensation assets:				
Cash equivalents	13	13	-	-
Bonds and notes				
U.S. treasuries/government bonds	97	97	-	-
Corporate bonds	426	426	-	-
Equity securities				
U.S. large stock	164	164	-	-
U.S. small/mid cap	1,279	1,279	-	-
Non-U.S. stocks (developed countries)	<u>339</u>	<u>339</u>	-	-
Total deferred compensation assets	<u>2,318</u>	<u>2,318</u>	-	-
Total financial assets	<u>\$ 531,432</u>	<u>\$ 425,399</u>	<u>\$ 61,949</u>	<u>\$ 44,084</u>
Financial Liabilities:				
Funds held on behalf of others	\$ 9,918	\$ 7,984	\$ 795	\$ 1,139
Deferred compensation liability	2,318	2,318	-	-
Interest rate swaps	<u>10,534</u>	-	<u>10,534</u>	-
Total financial liabilities	<u>\$ 22,770</u>	<u>\$ 10,302</u>	<u>\$ 11,329</u>	<u>\$ 1,139</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, 2009 (dollars in thousands):

	Fair Value	Fair value measurements at December 31 using:		
		Level 1	Level 2	Level 3
Financial Assets:				
Short-term and long-term investments:				
Cash equivalents	\$ 17,980	\$ 17,980	\$ -	\$ -
Bonds and notes				
U.S. treasuries/government bonds	5,470	5,225	245	-
Mortgage-backed securities	29,039	17,924	11,115	-
Corporate bonds	26,586	9,707	16,879	-
Non-U.S. fixed income	22,047	22,047	-	-
Equity securities				
U.S. large stock	66,483	66,483	-	-
U.S. small/mid cap	53,319	53,319	-	-
Non-U.S. stocks (developed countries)	88,181	88,181	-	-
Non-U.S. stocks (emerging countries)	48,439	48,439	-	-
Real estate stocks	10,161	10,161	-	-
Hedge funds				
Fund of fund – multi-strategies	34,255	-	34,255	-
Multi-strategies/multi-vehicle	10,000	-	-	10,000
Fixed income single strategy	1,281	-	-	1,281
Private equity				
Asia	4,990	-	-	4,990
Global	5,073	-	-	5,073
Domestic	1,972	-	-	1,972
Total short-term and long-term investments	425,276	339,466	62,494	23,316
Charitable gift annuity assets:				
Cash equivalents	125	125	-	-
Bonds and notes				
U.S. treasuries/government bonds	55	55	-	-
Mortgage-backed securities	452	452	-	-
Corporate bonds	118	118	-	-
Equity securities				
U.S. small/mid cap	1,631	1,631	-	-
Total charitable gift annuity assets	2,381	2,381	-	-
Deferred compensation assets:				
Cash equivalents	24	24	-	-
Bonds and notes				
U.S. treasuries/government bonds	103	103	-	-
Corporate bonds	324	324	-	-
Equity securities				
U.S. large stock	99	99	-	-
U.S. small/mid cap	1,317	1,317	-	-
Non-U.S. stocks (developed countries)	522	522	-	-
Total deferred compensation assets	2,389	2,389	-	-
Total financial assets	\$ 430,046	\$ 344,236	\$ 62,494	\$ 23,316
Financial Liabilities:				
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	\$ 20,393	\$ 9,713	\$ 10,085	\$ 595

Level 3 assets comprised approximately 9% and 5% of NAS' total investment portfolio fair value at December 31, 2010 and 2009, 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, 2010 (dollars in thousands):

	Balance January 1, 2010	Net gain (loss) on investments	Purchases	Sales	Transfers out of Level 3 (a)	Balance December 31, 2010
Hedge funds:						
Multi-strategies/multi-vehicle	\$ 10,000	\$ 1,028	\$ -	\$ -	\$ -	\$ 11,028
Fixed income single strategy	1,281	(96)	-	-	(1,185) (b)	-
Long/short equity	-	486	13,000	-	-	13,486
Private equity:						
Asia	4,990	6,407	1,428	(100)	-	12,725
Global	5,073	481	90	(804)	-	4,840
Domestic	1,972	251	-	(218)	-	2,005
	<u>\$ 23,316</u>	<u>\$ 8,557</u>	<u>\$ 14,518</u>	<u>\$ (1,122)</u>	<u>\$ (1,185)</u>	<u>\$ 44,084</u>

Notes:

(a) NAS' policy is to recognize transfers in and transfers out as of the end of the reporting period in which the event or change in circumstances occurred.

(b) Transferred from Level 3 to Level 2 due to expiration of lock up period allowing for redemption in the near term.

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):

	Balance January 1, 2009	Net gain (loss) on investments	Purchases	Sales	Transfers out of Level 3 (a)	Balance December 31, 2009
Hedge funds:						
Fund of fund - multi-strategies	\$ 35,243	\$ (449)	\$ -	\$ (34,794)	\$ -	\$ -
Multi-strategies/multi-vehicle	30,040	4,215	10,000	-	(34,255) (b)	10,000
Fixed income single strategy	-	(68)	1,000	349	-	1,281
Private equity:						
Asia	4,139	155	749	(53)	-	4,990
Global	5,554	(512)	-	31	-	5,073
Domestic	1,991	58	-	(77)	-	1,972
	<u>\$ 76,967</u>	<u>\$ 3,399</u>	<u>\$ 11,749</u>	<u>\$ (34,544)</u>	<u>\$ (34,255)</u>	<u>\$ 23,316</u>

Notes:

(a) NAS' policy is to recognize transfers in and transfers out as of the end of the reporting period in which the event or change in circumstances occurred.

(b) Transferred from Level 3 to Level 2 due to expiration of lock up period allowing for redemption in the near term.

The following table presents the nature and risk of assets with fair values estimated using NAV held at December 31, 2010 (dollars in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of the hedge fund – multi-strategies (a)	\$ 27,104	N/A	Quarterly	90 days
Hedge fund – multi-strategies/multi-vehicle (b)	11,028	N/A	Annually, but not currently eligible	365 days
Hedge fund – fixed income single strategy (c)	1,185	N/A	Quarterly	30 days
Hedge fund – long/short equity strategy (d)	15,986	N/A	Monthly/Quarterly/Annually	45/60/90 days
Private equity – Asia (e)	12,725	2,940	N/A	N/A
Private equity – Global (f)	4,840	347	N/A	N/A
Private equity – Domestic (g)	2,005	303	N/A	N/A
Total	<u>\$ 74,873</u>	<u>\$ 3,590</u>		

Notes:

(a) This class includes investments in funds of hedge funds that use 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 class have been estimated using the NAV per share of the investments.

(b) This class 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 class have been estimated using the NAV per share of the investments. Currently, none of the investments in this class 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 1 year at December 31, 2010.

(c) This class 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 class have been estimated using the NAV per share of the investments. The investments in this class are redeemable quarterly.

(d) This category is comprised of long-short equity hedge funds investing in securities of U.S. companies as well as securities of developed and emerging countries. The geographical allocation among U.S. equity funds, global funds and emerging market funds is approximately 42%, 42% and 16%, respectively. Each of these funds buys securities long and sells short securities with the ability to use leverage. These funds can also invest in derivative instruments such as forward, futures and options contracts. The fair values of the investments in this category have been estimated using the net asset value per share of

the investments. Currently, approximately \$2.5M of investments in this category is redeemable within the near term from December 31, 2010. The remaining investments are not redeemable because the funds include restrictions that do not allow for redemption in the first 12 months after acquisition. The remaining restriction for these investments is four to six months at December 31, 2010.

(e) This class 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 class 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 8 years.

(f) This class 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 class 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 5 years.

(g) This class 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 class 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 2 years.

(5) PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2010 and 2009, is comprised of the following (dollars in thousands):

	2010	2009
Land	\$ 29,689	\$ 29,689
Furniture and equipment	35,030	36,195
Buildings and improvements	109,518	109,396
Construction in progress	14,207	5,568
Software development in process	5,062	1,255
Leasehold improvements	4,635	7,437
	<u>198,141</u>	<u>189,540</u>
Less accumulated depreciation and amortization	(63,188)	(62,064)
Total property and equipment, net	<u>\$ 134,953</u>	<u>\$ 127,476</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>	
2011	\$ 11,156
2012	7,110
2013	4,164
2014	3,764
2015	3,901
Thereafter	<u>5,481</u>
	35,576
Less discount at rates from 3% to 6.75% to estimated net present value	(2,185)
Less allowance for uncollectible contributions	<u>(701)</u>
	32,690
Less current portion	<u>(10,455)</u>
Total contributions receivable, long-term	<u>\$ 22,235</u>

At December 31, 2009, the discount on contributions receivable was approximately \$3.0 million at rates ranging from 3% to 6% and the allowance for uncollectible contributions was approximately \$453,000.

(7) DEFERRED REVENUE

Deferred revenue consisted of the following as of December 31, 2010 and 2009 (dollars in thousands):

	2010	2009
Advances from private grants and contract sponsors	\$15,828	\$22,257
Advances from U.S. government sponsors	7,320	4,692
Publication subscriptions and other	4,859	5,131
Total deferred revenue	<u>\$28,007</u>	<u>\$32,080</u>

(8) LINE OF CREDIT

NAS is party to a \$22 million unsecured line of credit from Bank of America, which bears interest at LIBOR plus 0.65% and expires on August 30, 2011. Effective November 1, 2010, NAS is also party to a \$15 million unsecured line of credit from Wells Fargo, which bears interest at LIBOR plus 0.65% and expires on October 31, 2011. Interest expense related to the lines of credit for the years ended December 31, 2010 and 2009, was approximately \$84,000 and \$68,500, respectively.

(9) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31, 2010 and 2009 (dollars in thousands):

	2010	2009
Sponsored research and advisory programs	\$156,557	\$147,050
General endowment	79,400	69,107
Prizes and awards	26,385	22,784
Woods Hole facility	3,360	2,793
Total temporarily restricted net assets	<u>\$265,702</u>	<u>\$241,734</u>

Temporarily restricted net assets were released from restriction for the following purposes during the years ended December 31, 2010 and 2009 (dollars in thousands):

	2010	2009
Sponsored research and advisory programs	\$ 32,040	\$ 30,788
General endowment	4,927	5,732
Prizes and awards	799	728
Woods Hole facility	372	390
Total temporarily restricted net assets released from restriction	<u>\$ 38,138</u>	<u>\$ 37,638</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, 2010 and 2009, NAS held the following permanently restricted net assets, classified by the purpose for which the income is to be used (dollars in thousands):

	2010	2009
Sponsored research and advisory programs	\$113,253	\$110,122
Prizes and awards	5,116	5,240
Total permanently restricted net assets	<u>\$118,369</u>	<u>\$115,362</u>

(b) Endowment Assets

The NAS endowment consists of approximately 110 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>
U.S. large stocks	25%
U.S. small-mid stocks	12%
Non-U.S. stocks (developed)	20%
Non-U.S. stocks (emerging)	8%
Real estate stocks	5%
Total equity	70%
U.S. fixed/cash	12%
Non-U.S. fixed	3%
Total fixed	15%
Hedge funds and alternative investments	15%
Total	100%

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, 2010 are as follows (dollars in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, January 1, 2010	\$ (214)	\$ 152,382	\$ 111,055	\$ 263,223
Investment return:				
Interest and dividend income	-	5,021	-	5,021
Net gain on investments	214	34,530	-	34,744
Total investment return	214	39,551	-	39,765
Contributions	-	-	3,147	3,147
Amounts appropriated for expenditure	-	(11,074)	-	(11,074)
Other changes:				
2009 appropriation expended in 2010	-	(2,604)	-	(2,604)
Unspent purpose restricted appropriations	-	2,443	-	2,443
Accrued expenses withdrawn in 2011	-	170	-	170
Endowment assets, December 31, 2010	\$ -	\$ 180,868	\$ 114,202	\$ 295,070

Changes in endowment assets for the fiscal year ended December 31, 2009 are as follows (dollars in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

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, 2010, there were no endowment funds with a fair value below the original value of the gift. At December 31, 2009, NAS had deficiencies of \$214,000 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 restored 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, 2010 and 2009 are summarized as follows (dollars in thousands):

	2010	2009
Transportation Research Board	\$112,445	\$ 97,045
Policy and Global Affairs	55,117	51,111
Institute of Medicine	32,116	27,519
Earth and Life Sciences	21,371	22,123
Engineering and Physical Sciences Behavioral and Social Sciences and Education	12,042	10,268
Proceedings of the National Academy of Sciences	11,762	13,425
National Academy Press	4,412	4,351
National Academy of Engineering	3,158	4,079
Koshland Science Museum	1,850	1,616
NAS	7,834	8,129
Total program expenses	<u>\$280,357</u>	<u>\$260,709</u>

(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 over recovers on its indirect costs during the year, a liability is recorded. If NAS under recovers, a receivable is recorded.

NAS has a cumulative net overrecovery of approximately \$4.8 million and \$2.4 million as of December 31, 2010 and 2009, respectively. The overrecovery is included in the deferred revenue 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.

In May 2010, the District of Columbia issued Series 2010A tax-exempt revenue bonds in the amount of \$59,550,000 on behalf of NAS. These bonds were sold to finance the cost to restore the NAS headquarters building on Constitution Avenue in Washington, D.C. and pay for certain costs of issuance. The restoration is expected to be completed in April 2012.

The bond proceeds are held by a Trustee and invested in U.S. government obligations or funds of U.S. government obligations. The Trustee reimburses NAS and third-party vendors for expenditures related to the restoration project.

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

	2010	2009
Series 2008A revenue bonds, term, at flexible rates (0.3% in 2010 and 0.6% in 2009) maturing at various dates from January 1, 2029 through 2039	\$ 66,325	\$ 66,325
Series 2009A revenue bonds, term, at flexible rates (0.3% in 2010 and 0.4% in 2009) maturing at various dates from January 1, 2010 through 2028	56,220	57,500
Series 2010A revenue bonds, serial, with interest rates ranging from 3.0% to 5.0%, maturing at various dates from April 1, 2013 through 2030	29,385	-
Series 2010A revenue bonds, term, Interest rate 5%, maturing April 1, 2035	13,205	-
Interest rate 5%, maturing April 1, 2040	16,960	-
Total bonds, at face value	182,095	123,825
Plus unamortized premium	1,244	-
Total bonds payable	183,339	123,825
Less current portion (included in other current liabilities)	(2,137)	(1,280)
Bonds payable, long-term	<u>\$ 181,202</u>	<u>\$ 122,545</u>

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

Interest on the 2008A and 2009A bonds is payable monthly. Interest on the 2010A bonds is payable semiannually every April 1 and October 1.

The term bonds maturing on April 1, 2035, and April 1, 2040, are subject to mandatory redemption by operation of sinking fund installments. Installment payments for the term bond maturing April 1, 2035, begin on April 1, 2031, and range from \$2.4 to \$2.9 million per year through the maturity date. Installment payments for the term bond maturing April 1, 2040, begin on April 1, 2036, and range from \$3.1 to \$3.8 million per year through the maturity date.

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

<u>Years ending December 31:</u>	
2011	\$ 2,000
2012	2,100
2013	3,325
2014	3,475
2015	3,645
Thereafter	<u>167,550</u>
	<u>\$ 182,095</u>

The carrying value of bonds payable in the financial statements was approximately \$3.7 million greater than fair value as of December 31, 2010 and was approximately equal to fair value on December 31, 2009.

Interest expense on the bonds payable for 2010 and 2009 totaled \$2.0 million and \$1.5 million, respectively. Of this amount, \$1.4 million was capitalized as part of the building restoration project for 2010. No interest expense was capitalized for 2009.

(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.

In May 2009, NAS entered into an additional swap agreement as a result of a counterparty exercising a swaption related to the Series 1999A Revenue Bonds. The variable-to-fixed swap 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 \$1.8 million upon execution of the swaption in 2009.

NAS entered into this variable-to-fixed swap agreement in order to preserve the synthetic variable rate achieved through the 1999 swap agreement once the fixed-rate Series 1999A bonds were refunded with the variable-rate Series 2009A bonds.

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

Accordingly, with regard to the fixed-to-variable interest rate swap, NAS recorded a gain on the change in the fair value of its swap agreement of \$17,000 for the year ended December 31, 2010 and a loss of \$902,000 for the year ended December 31, 2009, which is included in other income in the accompanying statements of activities. The fair value of the interest rate swap is recorded as an asset of \$17,000 as of December 31, 2010 and is included in other assets in the statements of financial position. The fair value of this interest rate swap was recorded as a liability of \$35,000 as of December 31, 2009, and is included in other long-term liabilities in the statements of financial position.

Pertaining to the swaption and resultant variable-to-fixed interest rate swap, NAS recorded a loss on the change in the fair value of approximately \$1.3 million for the year ended December 31, 2010 and a gain of \$3.6 million for the year ended December 31, 2009. 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 \$10.5 million and \$9.2 million at December 31, 2010 and 2009, respectively, and is included in other current liabilities and 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, 2010 and 2009, the principal balance was approximately \$0.8 million and \$1.5 million, respec-

tively. The note bears interest at 30-day LIBOR plus 40 basis points. The interest rate at December 31, 2010 and 2009 was 0.66% and 0.63%, respectively.

(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, 2010 and 2009, amounted to approximately \$12.0 million and \$11.2 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 \$2.3 million and \$2.4 million as of December 31, 2010 and 2009, 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 in the statements of financial position.

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

	2010	2009
Net actuarial loss (gain)	\$ 1,041	\$ (1,464)
Recognized net actuarial loss	(190)	(469)
Recognized prior service cost	(210)	(210)
Recognized net initial obligation	(26)	(26)
Total	<u>\$ 615</u>	<u>\$ (2,169)</u>

Items not yet recognized as a component of net periodic benefit cost at December 31, 2010 and 2009 are as follows (dollars in thousands):

	2010	2009
Net actuarial loss	\$ 4,365	\$ 3,513
Prior service cost	932	1,142
Unrecognized net initial obligation	90	117
Total	<u>\$ 5,387</u>	<u>\$ 4,772</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):

	2010	2009
Prior service cost	\$ 210	\$ 210
Recognized actuarial loss	302	190
Recognized net initial obligation	26	26
Total	<u>\$ 538</u>	<u>\$ 426</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, 2010 and 2009 (dollars in thousands):

	2010	2009
Change in benefit obligations:		
Benefit obligation, January 1	\$ 19,914	\$ 18,592
Service cost	625	613
Interest cost	1,168	1,088
Plan participants contributions	105	101
Actuarial loss	1,307	170
Benefits paid	(635)	(650)
Benefits obligation, December 31	<u>22,484</u>	<u>19,914</u>
Change in plan assets, combined:		
Fair value of plan assets, January 1	17,701	12,200
Actual return on plan assets	1,593	2,550
Employer contributions	891	2,951
Fair value of plan assets, December 31	<u>20,185</u>	<u>17,701</u>
Funded status	<u>\$ (2,299)</u>	<u>\$ (2,213)</u>
Components of net periodic benefit cost:		
Service cost	\$ 625	\$ 613
Interest cost	1,168	1,088
Expected return on plan assets	(1,328)	(915)
Recognized prior service cost	210	210
Recognized actuarial loss	190	469
Recognized net initial obligation	26	26
Net periodic benefit cost	<u>\$ 891</u>	<u>\$ 1,491</u>

The assumptions used to determine net periodic benefit cost for years ended December 31, 2010 and 2009 are as follows:

	2010	2009
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, 2010 and 2009 are as follows:

	2010	2009
Discount rate	5.25%	6.00%

NAS postretirement benefit plan asset allocations at December 31, 2010 and 2009, by asset class are as follows:

	2010	2009
Cash	5%	3%
Bonds and notes	18%	22%
Equity securities	77%	75%
	100%	100%

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

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

The following table presents the fair value hierarchy for the postretirement benefit plan assets at December 31, 2010 (dollars in thousands):

	Fair Value	Fair value measurements at December 31 using:		
		Level 1	Level 2	Level 3
Financial Assets:				
Retiree Welfare Benefit Plan investments:				
Cash equivalents	\$ 1,034	\$ 1,034	\$ -	\$ -
Bonds and notes				
U.S. treasuries/ gov. bonds	2,395	2,395	-	-
Mortgage-backed securities	1,294	-	1,294	-
Corporate bonds	3,879	3,879	-	-
Equity securities				
U.S. small/mid cap	9,823	9,823	-	-
Non-U.S. stocks (developed countries)	1,760	1,760	-	-
Total investments	\$20,185	\$18,891	\$ 1,294	\$ -

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
Financial Assets:				
Retiree Welfare Benefit Plan investments:				
Cash equivalents	\$ 519	\$ 519	\$ -	\$ -
Bonds and notes				
U.S. treasuries/ gov. bonds	2,505	2,505	-	-
Mortgage-backed securities	911	-	911	-
Corporate bonds	4,109	3,560	549	-
Equity securities				
U.S. small/mid cap	7,408	7,408	-	-
Non-U.S. stocks (developed countries)	2,249	2,249	-	-
Total investments	\$17,701	\$16,241	\$ 1,460	\$ -

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 2011, which is approximately \$849,000.

The following benefit payments, which reflect future services, are expected to be paid in future years as noted, as of December 31, 2010 (dollars in thousands):

<u>Years ending December 31:</u>	
2011	\$ 927
2012	1,104
2013	1,233
2014	1,323
2015	1,432
2016-2020	<u>7,670</u>
	<u>\$ 13,689</u>

The measurement date of the plan assets and benefit obligations for 2010 and 2009 is December 31, 2010 and 2009, respectively.

The trend rate for growth in healthcare costs used in calculating the accumulated postretirement benefit obligation was 8.5% for under age 65 and 6.5% for over age 65 declining gradually to 5% in the year 2017 and 2013 for under age 65 and over age 65, respectively for year ended December 31, 2010. The trend rate for growth in healthcare costs was 9.0% for under age 65 and 7.0% for over age 65 for the year ended December 31, 2009, 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, 2010, would have resulted in an estimated \$2.4 million increase or \$2.0 million decrease in the postretirement benefit obligation and an estimated \$226,000 increase or \$186,000 decrease in the 2010 benefit expense.

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.

(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. During 2010, NAS remediated a significant portion of the asbestos and hazardous materials with the remaining remediation expected to occur in early 2011. NAS recognized a gain on the settlement of the asset retirement obligation of \$785,000 for the year ended December 31, 2010, which is included in other income in the statement of activities. For the years ended December 31, 2010 and 2009, NAS has a liability of \$60,000 and \$1,840,000 included in other long-term liabilities in the statements of financial position. Accretion expense of \$0 and \$84,000 were included in management and general expense for the years ended December 31, 2010 and 2009, respectively.

(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 is \$3.0 million and \$3.3 million at December 31, 2010 and 2009, respectively, and is included in other assets in 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):

Years ending December 31:

2011	\$ 3,120
2012	2,234
2013	1,730
2014	1,776
2015	1,822
Thereafter	<u>1,522</u>
	<u>\$ 12,204</u>

Rental expense amounted to approximately \$3.0 million and \$2.6 million for years ended December 31, 2010 and 2009, 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 two litigation matters. 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 has evaluated subsequent events from the balance sheet date through May 25, 2011, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

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