



Report of the Treasurer of the National Academy of Sciences: For the Year Ending December 31, 2007

National Academy of Sciences of the United States of America

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REPORT OF
THE TREASURER
OF THE
NATIONAL ACADEMY
OF SCIENCES

For the Year
Ended December 31, 2007

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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 and trust activities of our Academy for the year ended December 31, 2007.

NAS Highlights

Development Office Programs

The National Academy of Sciences (NAS) is grateful for the generous support of members, friends, and philanthropic organizations in 2007, support that is vital to our continued success in addressing current and emerging challenges facing not only the scientific community and science policymakers but the well-being and economic prosperity of all our citizens.

In 2007, the NAS received new gifts and pledges totaling \$15.18 million, an increase of more than 9.6 percent. The Academy's fundraising efforts featured a series of notable contributions from individuals and foundations. These contributions have enabled the Academy to pursue important new initiatives.

Highlights of the year's Development efforts included:

- The National Academies received 175 gifts and grants from foundations and corporations during 2007. Notable among these are a \$10 million commitment from the Cynthia and George Mitchell Foundation to increase the Mitchell Endowment that enables the Academies to undertake projects on the application of science and technology to sustainability and sustainable development; a 4-year, \$5,716,027 commitment from the Robert Wood Johnson Foundation to support the Institute of Medicine's efforts to establish a standing committee on childhood obesity prevention and undertake a series of ad hoc studies; and \$2.7 million received from a

consortium of funders – the Kavli Foundation, W.M. Keck Foundation, Dow Chemical Company Foundation, GE Energy, General Motors Corporation and Intel Corporation – to support a series of energy studies that will help the nation meet a rising demand for energy while ensuring long-term economic vitality, climate stability, and environmental quality.

- The Einstein Society, which recognizes donors who have made cumulative gifts of \$100,000 or more to the Academies, welcomed five new members in its third year, bringing the total membership to 111 (deceased members not included). The Elkan Blout Society, which honors donors who have made cumulative gifts of \$20,000 to \$99,999 to the NAS, added two new members, bringing the total membership to 59. And eight individuals joined the Heritage Society in 2007. The 73 members of this planned giving society have bolstered the future of the Academies through estate-based gifts such as bequest intentions and charitable gift annuities.

Endowment and Trust Investment Pool

With the assistance of the Finance Committee, I am responsible for the prudent management of the endowment and trust fund portfolio. The goal of the endowment is to provide stable support for the NAS General Fund, NAS Trust and Award activities, and the Presidents' initiatives within the National Research Council (NRC) program. To achieve this goal, the NAS Council, acting on the recommendation of the Finance Committee, has adopted a spending limitation designed to maintain the purchasing power of the endowment over time by reinvesting a portion of the annual total investment return. The spending limitation caps annual spending at 5 percent of the three-year average market value of the participating funds in the investment pool.

During 2007, the Finance Committee undertook a comprehensive review of its Statement of Investment Policy. The Committee updated the asset allocation guidelines which represent the desired structure and risk tolerance of the Portfolio under normal circumstances and form a basis for the composite market benchmark used to measure comparative performance. This policy was approved by the NAS Council at its June 2007 meeting.

As a benchmark for the Portfolio's performance, the Committee has established a composite measure of market indices that is weighted to approximate the allocation guideline for each asset category. The Portfolio benchmark is comprised of the Standard and Poor's 500 (30%), Russell 2000 Index (6%), Standard & Poor's MidCap 400 (6%), MSCI EAFE Index (20%), MSCI Emerging Markets Index (8%), Lehman U.S. Aggregate Index (12%), Salomon Non-U.S. WGBI Index (3%), and Hennessee Hedge Fund Index (15%). Starting in July 2007, this new composite benchmark was used to evaluate the Portfolio's performance.

Market values of the Endowment and Trust Investment Pool, after withdrawals, for the years ended December 31, 2007 and 2006, are displayed in the following chart:

	(dollars in thousands)	
	2007	2006
Cash and Fixed-Income Securities	\$ 80,515	\$ 52,291
Equity Securities	357,530	353,265
Total	\$ 438,045	\$ 405,556

At the beginning of 2007, the NAS Endowment consisted of \$405.6 million in assets. During the year, the Endowment received contributions of \$15.3 million, withdrew funds for programs of \$26.8 million, and earned investment income of \$43.9 million, resulting in an ending asset balance of \$438.0 million. For the year, the portfolio returned 11.2%, compared with a benchmark return of 10.6%. In 2006, the portfolio returned 19.0% versus 15.5% for the benchmark. For 2007, a significant portion of the returns for the year, both in absolute and relative terms, was due to the international markets, both equities and fixed income. NAS' hedge funds and foreign equity holdings performed relatively well and the increased allocation of non-US fixed income investments added to the good performance. In addition, Berkshire Hathaway continued to perform well, returning over 17% for the year.

NAS' portfolio has consistently outperformed the market benchmarks over a long period. For the five years ending December 31, 2007, the NAS return is 16.0% compared

to the market composite benchmark of 14.6% and, for the ten years ending December 31, 2007, the NAS return is 8.6% compared with the market composite benchmark of 7.7%.

The next chart presents the investment structure adopted by the NAS Finance Committee in 2007 for its asset allocation strategy and compares this guideline to the portfolio allocation at December 31, 2007.

Overview of Current Investment Structure

	Guideline	Portfolio Allocation
Fixed-Income:		
U.S. Fixed/Cash	12.0%	9.2%
Non-U.S. Fixed	3.0%	9.2%
Equities:		
U.S. Large Cap Funds	25.0%	20.3%
U.S. Small-Mid Cap Funds	12.0%	4.6%
Non-U.S. Stocks — Developed	20.0%	24.9%
Non-U.S. Stocks — Emerging	8.0%	10.7%
Real Estate Investments	5.0%	3.1%
Hedge Funds	12.0%	14.9%
Other Alternative Investments	3.0%	3.1%
Total	100.0%	100.0%

- See Schedule 2-A on page 21 for details of investments by asset class.
- Included in the \$438.0 million total market value of the Endowment and Trust Investment Pool as of December 31, 2007, are \$70.4 million for the Institute of Medicine (IOM), \$11.8 million for The National Academies Corporation (TNAC), and \$8.8 million for the Woods Hole Endowment Funds. 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 43).
- Withdrawals of \$11.7 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 \$15.1 million were made to fund IOM, Woods Hole, and TNAC activity.

Prize and Award Trust Funds

Several award trust 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.

NAS General Fund

The NAS General Fund accounts for the activities of the Council, the Officers, and the Members. The primary funding for these activities is received from the NAS Unrestricted Endowment, based on the 5% spending rule.

For fiscal year 2007, the General Fund revenue totaled \$6.2 million and expenditures totaled \$5.3 million, resulting in an \$875,000 surplus. Comparable figures for fiscal year 2006 were \$5.6 million in revenues, \$5.3 million in expenditures, resulting in a surplus of \$319,000.

The NAS Reserve is the accumulation of prior year surpluses, and one of the anticipated and appropriate uses of the NAS Reserve is to provide a cushion for ongoing operation during periods of revenue shortfalls. A balanced budget was approved for the fiscal year 2007 General Fund. The remaining balance of the NAS Reserve at December 31, 2007 is \$3.6 million. The \$875,000 surplus from fiscal year 2007 will be added to this investment in early 2008, for a net NAS Reserve balance of \$4.5 million.

The 2007 NAS General Fund activity is summarized as follows:

(dollars in thousands)	
Revenue:	
Unrestricted Endowment	\$ 5,079
Woods Hole Endowment	343
Communications Endowment	175
Annual Giving from Members	284
Membership Dues	160
Annual Meeting	150
Short-Term Investment Interest, Royalties, etc.	8
Total Revenue	\$ 6,199
Expenses:	
Development Office	\$ 1,096
Member Services:	
Annual Meeting	587
Other	134
Programs/Projects:	
Office of Exhibitions & Cultural Programs	366
Evolution, Education & Communication	100
Communications Initiative	175
Frontiers of Science	212
Committee on International Security & Arms Control	184
Sackler Colloquia	390
Biographies of Women Scientists for Middle School Students	125
Committee on Women in Science & Engineering	25
InterAcademy Council	144
Woods Hole	309
Foreign Meetings	120
President's Office	130
NAS Executive Office	105
NRC Operations	868
ISSUES Support	254
Total Expenses	\$ 5,324
Surplus	\$ 875

The NAS Council has approved a balanced General Funds budget of \$6.0 million for fiscal year 2008.

Journal Publications

Financial results of the *Proceedings of the National Academy of Sciences* are shown below for the years ended December 31, 2007 and 2006:

	(dollars in thousands)	
	2007	2006
Revenue:		
Subscriptions	\$ 5,856	\$ 6,889
Author charges	6,605	4,716
Other	95	102
Total	<u>\$ 12,556</u>	<u>\$ 11,707</u>
Expense:		
Printing	\$ 6,741	\$ 5,991
Other	5,539	5,636
Total	<u>\$ 12,280</u>	<u>\$ 11,627</u>
Net	<u>\$ 276</u>	<u>\$ 80</u>

Facilities

NAS owns the following facilities:

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

NAS is leasing the following facilities:

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

Last year I reported that we anticipated an agreement with the National Capital Revitalization Corporation (NCRC) to preserve the option to expand the Keck Building over the adjacent District of Columbia fire station. While we believe that our current option has not yet expired, there is presently no binding agreement in place for developing the site further. We are continuing to pursue this matter with the Deputy Mayor’s Office.

The plans for the NAS Restoration Project continue as scheduled, and we have begun the process to have tax-exempt financing in place in early 2009 to support this project. This financing is part of a larger refinancing proposal that will be presented to the Council in great detail during 2008.

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 \$245.7 million in 2007 and \$237.9 million in 2006.

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, 2007, was \$178.0 million (see following chart and the Statements of Activities on page 41) and in the year ended December 31, 2006, was \$178.9 million.

U.S. Government Revenues by Agency	(dollars in thousands)
Agency for International Development	\$ 4,019
Department of Agriculture	823
Department of Commerce	6,892
Department of Defense:	
Department of the Air Force	4,694
Department of the Army	12,493
Department of Defense	4,443
Department of the Navy	12,279
Department of Education	1,232
Department of Energy	8,191
Department of Health and Human Services	15,683
Department of Homeland Security	1,172
Department of Housing and Urban Development	359
Institute of Museum and Library Services	52
Department of the Interior	3,594
Department of Justice	1,196
Department of State	384
Department of Transportation	62,439
Department of Treasury	117
Election Assistance Commission	256
Environmental Protection Agency	6,090
Executive Office of the President	417
General Accounting Office	178
General Services Administration	40
Marine Mammal Commission	4
National Aeronautics and Space Administration	9,342
National Geospatial Intelligence Agency	111
National Science Foundation	15,722
National Security Agency	41
Nuclear Regulatory Commission	335
Smithsonian Institution	15
Social Security Administration	1,230
Veterans Administration	5,181
Adjustment to Indirect Cost Receivable & Other	(1,003)
Total U.S. Government Agencies	\$ 178,021

In the past ten years, the basic core of NRC programs, which is represented by the government contracts and grants, has experienced relatively small percentage changes from one year to the next. In 2007, the NRC programs funded by the government decreased 0.5%. In 2006, the government funded programs had decreased 0.5% from the previous year.

Private/Nonfederal Contracts and Grants

Private sponsors supplemented government projects and provided for new initiatives by funding \$67.7 million of awards in 2007, compared with \$59.0 million in 2006.

The private and nonfederal revenues were received in the form of contracts and grants (\$48.8 million) and other contributions (\$18.9 million). (See Statements of Activities on page 41.)

- The private contracts and grants decreased from \$51.5 million in 2006 to \$48.8 million in 2007. This is due to an overall decrease in the number of private awards received. In 2006, NAS received 131 new private awards. In 2007, that number decreased to 112.
- The other contributions revenue increased from \$7.5 million in 2006 to \$18.9 million in 2007. This increase is primarily attributable to a \$11.7 million contribution from TNAC to the NRC to be spent on programs conducted in whole or in part at the Beckman Center in Irvine, CA.

Expenses

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

As in many universities and nonprofit institutions, managing indirect cost expenditures for funding of necessary support services while keeping these costs in reasonable proportion to program expenditures continues to be a challenge. Historically, NRC management has successfully maintained a relatively steady relationship between program and support costs, i.e., the growth rate of indirect costs was approximately equal to the growth rate of direct costs. In 2007, total indirect expenses were \$64.9 million compared to an approved budget of \$67.9 million. As the 2008 program revenues are expected to remain consistent with the prior year, the NAS Council authorized a 2008 indirect expense budget of \$69.3 million in order to maintain the desired relationship between indirect and direct costs. This budget includes a 4.0 percent increase in the base salary compensation structure in order to maintain a competitive position in the marketplace for hiring and retaining staff.

Related Entities

There are many financial transactions exchanged between the member organizations of the National Academies. The NRC serves as the clearinghouse for these transactions. However, it is important to note that only the financial activity and results of the NAS, NAE, IOM, and NRC are included in these financial statements.

The financial activity and results of the National Academy of Engineering Fund (NAEF) and the National Academies Corporation (TNAC) are audited and reported separately. Financial information for the NAEF is available on request from the NAE Finance Office; information for TNAC is available from the NAS Controller's Office.

Overall Financial Condition

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

	(dollars in millions)	
	2007	2006
Total Revenues	\$ 320.5	\$ 335.5
Total Expenses	276.5	265.4
Change in Net Assets	\$ 44.0	\$ 70.1

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 2006 and 2007, the NAS has been able to increase its net assets, due in large part to the favorable results from the Endowment investments and generous gifts from donors.

Conclusion

As my twelve years as the NAS treasurer comes to a conclusion, I am happy to once again report that the NAS continues to be in sound financial condition. The NAS and NRC continued to demonstrate financial strength and stability during 2007. The NRC program remained stable, and the indirect expenses were well under control. The investment return achieved in the NAS Endowment in 2007 continues to outperform the benchmark and helps to provide additional financial support to NAS initiatives in the future.

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

Ronald L. Graham
Treasurer

I. Investments

***Endowment and Trust Investment Funds – Description of Funds
for the Year Ended December 31, 2007***

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

I. ENDOWMENT

A. Unrestricted

1. NAS Unrestricted Endowment

<u>Agassiz Fund</u> – Bequest of Alexander Agassiz, a member of the Academy.	\$ 50,000
<u>Carnegie Fund</u> – Balance of the original gift of \$5,000,000 from the Carnegie Corporation of New York, for the purposes of the National Academy of Sciences/National Research Council, \$1,725,000 of which has been used to cover the cost of the Academy building and the acquisition of other property.	3,275,000
<u>Commonwealth Fund</u> – A grant of the Commonwealth Fund for capital endowment of the Academy.	500,000
<u>Carl Eckart Fund</u> – Bequest of Carl Eckart received for the general purposes of the Academy.	1,246,366
<u>Ford Foundation Fund</u> – A grant of the Ford Foundation for capital endowment of the Academy.	5,000,000
<u>Henrietta and Alexander Hollaender Fund</u> – A bequest to the Academy from Dr. Alexander and Mrs. Henrietta Hollaender.	500,000
<u>Grayce B. Kerr Fund</u> – A grant from Grayce B. Kerr for the general purposes of the Academy.	250,000
<u>Nealley Fund</u> – Bequest of George True Nealley for the general purposes of the Academy.	19,556
<u>Simon Ramo Fund</u> – A gift from Simon Ramo for the general purposes of the Academy.	14,000
<u>Rockefeller Foundation Fund</u> – A grant of the Rockefeller Foundation to the National Academy of Sciences for the general purposes of the Academy.	1,000,000
<u>Dorothea and Herbert Simon Fund</u> – A gift from Dorothea and Herbert Simon for the general purposes of the Academy.	644,616
<u>Sloan Foundation Fund</u> – A grant of the Alfred P. Sloan Foundation for the general purposes of the Academy.	1,000,000
<u>Amy Prudden Turner Fund</u> – Bequest of Amy Prudden Turner for the general purposes of the Academy to serve as a memorial to her husband Scott and herself.	29,662
<u>Anonymous Endowment Fund</u> – A gift for the general purposes of the Academy from a donor who wishes to remain anonymous.	7,146,660
<u>General Endowment Fund</u> – Bequest of David Lloyd Fillman and others for the general purposes of the Academy. By action of the Council, the International Critical Tables were transferred into this fund during fiscal year 1976, and proceeds from the sale of the Audubon Folios were transferred in fiscal year 1981.	3,606,295
<u>Members Endowment Fund</u> – Contributions from various members to be used for the general purposes of the Academy.	2,647,813
Subtotal: NAS Unrestricted Endowment	<u>\$ 26,929,968</u>

2. IOM Unrestricted Endowment

<u>General Endowment Fund</u> – Contributions from various sources, including members of the Institute of Medicine, for capital endowment of the Institute of Medicine.	\$ 1,113,039
<u>Robert Wood Johnson Foundation Fund</u> – An endowment grant, the income from which is to be used for core support of the Institute of Medicine.	5,000,000
<u>Institute of Medicine Kellogg Fund</u> – A grant from the Kellogg Foundation to be used for the general purposes of the Institute of Medicine.	282,500
<u>Institute of Medicine Members’ Dues</u>	197,500

***Endowment and Trust Investment Funds – Description of Funds
 for the Year Ended December 31, 2007***

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

<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: IOM Unrestricted Endowment	<u>\$ 12,847,318</u>

B. Restricted for Specific Purpose

1. Program

a. NAS Restricted Program

<u>Arts in the Academy 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.	\$ 13,934
<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>Blakeslee Fund</u> – Bequest of Albert Francis Blakeslee, the income from which is to be used in support of genetics research.	886,902
<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>Henry and Bryna David Endowment</u> – A bequest of Henry and Bryna David 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>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>Global Commons Project Fund</u>	39,058

***Endowment and Trust Investment Funds – Description of Funds
 for the Year Ended December 31, 2007***

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

<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.	12,000,000
<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.	38,750
<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 dialogue through various Academy activities.	600,000
<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>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.	3,750,000
<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
<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.	60,966
Subtotal: NAS Restricted Program	\$ 48,454,104

b. IOM Restricted Program

<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

***Endowment and Trust Investment Funds – Description of Funds
 for the Year Ended December 31, 2007***

	Capital Contribution (Column 1 of Schedule 1–A)
<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.	4,800
<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.	969,275
<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.	3,767,082
<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.	2,191,869
<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
Subtotal: IOM Restricted Program	\$ 13,619,926

2. Prizes and Awards

a. NAS Prizes and Awards

<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 Bell System associates, 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

***Endowment and Trust Investment Funds – Description of Funds
for the Year Ended December 31, 2007***

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

<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 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.	5,173
<u>Ralph E. Gomory Award for the Application of Science</u> – A grant from the International Business Machines Corporation for an award to be given in honor of Ralph Gomory.	179,046
<u>Gould Fund</u> – Gift of Mrs. Alice Bache Gould in memory of her father, former member of the Academy, for the promotion of research in astronomy, bequest of \$20,000 from the estate of Alice Bache Gould received in 1954, and bequest of \$10,000 from the estate of Elizabeth Chandler Hockley received in 1979.	50,000
<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.	63,089
<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>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

***Endowment and Trust Investment Funds – Description of Funds
 for the Year Ended December 31, 2007***

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

<u>National Academy of Sciences Award in Chemical Sciences</u> – An annual award currently sponsored and endowed by The Merck Company Foundation to recognize distinction in research and broad fundamental impact in pure chemistry. This award was originally established by the Occidental Petroleum Corporation in honor of Armand Hammer.	478,277
<u>National Academy of Sciences Award in Neuroscience</u> – Established by the Fidia Research Foundation for an award in neuroscience, to be given every three years.	140,206
<u>National Academy of Sciences Fund for Sciences and Technology in International Affairs</u> – Contributions from Cecil and Ida Green, J. Erik Jonsson, Jerome B. Wiesner, and Academy sources to establish the National Academy of Sciences Fund for Sciences and Technology in International Affairs in honor of Walter A. Rosenblith.	49,119
<u>Pradel Fund</u> – A bequest of Jules Pradel to be applied to work on the human central nervous system and allied subjects.	16,392
<u>H. P. Robertson Lectureship Fund</u> – Contributions by friends of H. P. Robertson, former 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 triannual 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, for the award of medals and honoraria to persons, the results of whose published research, explorations, and discoveries of pre-Cambrian or Cambrian life and history shall be judged most meritorious; the award is to be known as the Charles Doolittle Walcott Medal.	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 former 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: NAS Prizes and Awards	<u>\$ 2,905,141</u>

b. IOM 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
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***Endowment and Trust Investment Funds – Description of Funds
 for the Year Ended December 31, 2007***

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

<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
Subtotal: IOM Prizes and Awards	<u>\$ 2,209,179</u>

3. Woods Hole Restricted Endowment

<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>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
<u>Woods Hole Fund</u> – Contributions from various individuals for maintenance of the Woods Hole Study Center.	12,874
<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
Subtotal: Woods Hole Restricted Endowment	<u>\$ 3,639,274</u>

4. PNAS Restricted Endowment

<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.	<u>\$ 50,102</u>
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II. FUNDS FUNCTIONING AS ENDOWMENT

A. Unrestricted Funds

<u>National Academy of Sciences Reserve Fund</u> – Accumulated surplus from prior years' NAS General Fund operating budget. The reserve provides additional funding for ongoing operations during periods of market decline.	\$ 3,176,075
<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
<u>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: Funds Functioning as Endowment, Unrestricted	<u>\$ 5,176,075</u>

***Endowment and Trust Investment Funds – Description of Funds
 for the Year Ended December 31, 2007***

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

B. Restricted for a Specific Purpose

<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>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 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 traveling 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. 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.	4,986,474
<u>Proceedings of the National Academy of Sciences Fund</u>	1,000,000
<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>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.	11,678,041
Subtotal: Funds Functioning as Endowment, Restricted for a Specific Purpose	<u>\$ 45,766,493</u>

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: TNAC Endowment	<u>\$ 9,939,644</u>

TOTAL \$171,537,224

**Endowment and Trust Investment Funds - Financial Detail
 of Funds for the Year Ended December 31, 2007**

(Dollars in thousands)

ENDOWMENT AND TRUST INVESTMENT POOL

	Capital Contributions as of Dec. 31, 2007	Market Value at Dec. 31, 2006	2007 Contributions	2007 Investment Income	2007 Expenditures & Transfers	Market Value at Dec. 31, 2007
I. Endowment						
A. Unrestricted						
1. NAS						
Agassiz Fund	\$ 50	\$ 602	\$ -	\$ 65	\$ (27)	\$ 640
Carnegie Fund	3,275	41,667	-	4,464	(1,834)	44,297
Commonwealth Fund	500	2,700	-	290	(116)	2,874
Carl Eckart Fund	1,246	2,754	-	295	(121)	2,928
Ford Foundation Fund	5,000	26,552	-	2,847	(1,142)	28,257
Henrietta and Alexander Hollaender Fund	500	1,186	-	127	(51)	1,262
Grayce B. Kerr Fund	250	589	-	63	(25)	627
Nealley Fund	20	239	-	26	(11)	254
Simon Ramo Fund	14	40	-	5	(2)	43
Rockefeller Foundation Fund	1,000	5,385	-	577	(232)	5,730
Dorothea and Herbert Simon Fund	644	1,233	-	132	(53)	1,312
Sloan Foundation Fund	1,000	5,368	-	575	(232)	5,711
Amy Prudden Turner Fund	30	136	-	15	(6)	145
Anonymous Endowment Fund	7,147	17,247	-	1,849	(739)	18,357
General Endowment Fund	3,606	10,203	64	1,101	(431)	10,937
Members Endowment Fund	2,648	5,754	6	617	(247)	6,130
	<u>\$ 26,930</u>	<u>\$ 121,655</u>	<u>\$ 70</u>	<u>\$ 13,048</u>	<u>\$ (5,269)</u>	<u>\$ 129,504</u>
2. IOM						
General Endowment Fund	\$ 1,113	\$ 2,074	\$ 2	\$ 226	\$ (59)	\$ 2,243
Robert Wood Johnson Foundation Fund	5,000	12,268	-	1,336	(365)	13,239
IOM Kellogg Fund	283	513	-	56	-	569
IOM Members Dues	198	358	-	40	-	398
Henry J. Kaiser Family Foundation Fund	488	957	-	104	(28)	1,033
John D. and Catherine T. MacArthur Foundation Fund	5,000	12,198	-	1,332	(364)	13,166
Pharmaceutical Discretionary Fund	480	916	-	100	-	1,016
Pharmaceutical Endowment Fund	259	580	-	63	(17)	626
Miscellaneous Private Sector Fund	26	68	-	8	(2)	74
	<u>\$ 12,847</u>	<u>\$ 29,932</u>	<u>\$ 2</u>	<u>\$ 3,265</u>	<u>\$ (835)</u>	<u>\$ 32,364</u>
B. Restricted for Specific Purpose						
1. Program						
a. NAS						
Arts in the Academy Fund	\$ 14	\$ 17	\$ 10	\$ 2	\$ -	\$ 29
Basic Science Fund - Earth Sciences	503	1,313	-	144	41	1,498
Biology and Biotechnology Fund	420	906	-	99	(12)	993
Blakeslee Fund	887	2,740	-	287	(117)	2,910
Thomas Lincoln Casey Fund	258	6,746	-	739	(70)	7,415
Coca-Cola Foundation Fund	50	124	-	13	23	160
Henry and Bryna David Endowment	850	1,418	-	154	(32)	1,540
Arthur L. Day Fund	5,048	18,625	-	2,040	(133)	20,532

**Endowment and Trust Investment Funds - Financial Detail
 of Funds for the Year Ended December 31, 2007**

(Dollars in thousands)
ENDOWMENT AND TRUST INVESTMENT POOL

	Capital Contributions as of Dec. 31, 2007	Market Value at Dec. 31, 2006	2007 Contributions	2007 Investment Income	2007 Expenditures & Transfers	Market Value at Dec. 31, 2007
Cecil and Ida Green Fund	\$ 467	\$ 1,599	\$ -	\$ 175	\$ (10)	\$ 1,764
Global Commons Project Fund	39	163	-	18	-	181
W. K. Kellogg Foundation Fund	20,000	46,488	-	5,091	(75)	51,504
Kobelt Fund	297	2,100	-	230	(10)	2,320
Andrew W. Mellon Foundation Fund	1,000	1,877	-	205	(33)	2,049
George and Cynthia Mitchell Endowment for Sustainability Sciences	12,000	14,011	2,000	1,622	(206)	17,427
George and Cynthia Mitchell Matching Endowment	39	60	4	6	-	70
New Canaan Library Fund	4	11	-	1	-	12
Kumar and Shela Patel Endowment for US-India Dialogs	600	902	-	98	(12)	988
Frank Press Fund for Dissemination and Outreach	1,167	2,578	-	281	(86)	2,773
Arthur M. Sackler Colloquia Fund Scientists and Engineers for the Future Fund	3,750	5,783	-	634	-	6,417
NAS Members Endowment(s)	1,000	1,802	-	197	8	2,007
	61	281	-	31	(1)	311
	\$ 48,454	\$ 109,544	\$ 2,014	\$ 12,067	\$ (725)	\$ 122,900

b. IOM

Distinguished Scholar Fund	\$ 17	\$ 69	\$ -	\$ 7	\$ -	\$ 76
Food & Nutrition Board (FNB) Fund	525	1,619	1	179	(130)	1,669
FNB Corporations Fund	125	435	-	47	-	482
FNB Members Fund	5	24	-	3	-	27
Hamburg Endowment Fund	969	1,121	105	130	(5)	1,351
Howard Hughes Medical Institute Fund	5,000	15,972	-	1,716	(1,031)	16,657
Kellogg Health of the Public Fund	3,767	4,707	533	564	(38)	5,766
Kellogg Health of the Public Fund Matching Contributions	2,192	2,070	465	245	(32)	2,748
Richard and Hinda Rosenthal Lecture Series	1,000	1,536	-	168	(13)	1,691
Women's Health Issues Fund	20	80	-	9	-	89
	\$ 13,620	\$ 27,633	\$ 1,104	\$ 3,068	\$ (1,249)	\$ 30,556

2. Prizes and Awards

a. NAS

American Psychological Association Science Directorate Fund	\$ 30	\$ 70	\$ -	\$ 8	\$ -	\$ 78
Henry Arctowski Fund	96	3,475	-	381	(2)	3,854
Bache Fund	60	428	-	47	(21)	454
Blaauw Fund	71	925	-	102	(45)	982
John J. Carty Fund	25	836	-	90	(28)	898
Comstock Fund	11	831	-	91	-	922
Draper Fund	6	353	-	39	-	392

**Endowment and Trust Investment Funds - Financial Detail
 of Funds for the Year Ended December 31, 2007**

(Dollars in thousands)

ENDOWMENT AND TRUST INVESTMENT POOL

	Capital Contributions as of Dec. 31, 2007	Market Value at Dec. 31, 2006	2007 Contributions	2007 Investment Income	2007 Expenditures & Transfers	Market Value at Dec. 31, 2007
Elliot Fund	\$ 8	\$ 196	\$ -	\$ 21	\$ -	\$ 217
Estes Award in Social and Behavioral Sciences	80	284	-	31	-	315
Gibbs Brothers Fund	24	315	-	35	-	350
Gibbs Fund	5	134	-	15	(7)	142
Ralph E. Gomory Award for the Application of Science	179	547	-	60	(3)	604
Gould Fund	50	767	-	84	(37)	814
Joseph Henry Fund	40	500	-	55	(24)	531
Alexander Hollaender Award in Biophysics	100	355	-	37	(23)	369
Hunsaker Fund	25	438	-	47	-	485
Franklin Livingston Hunt Fund	11	235	-	25	-	260
Kovalenko Fund	63	1,442	1	157	(30)	1,570
Marsh Fund	10	219	-	24	(11)	232
George P. Merrill Fund	10	693	-	76	(32)	737
Monsanto Award in Molecular Biology	421	1,197	-	129	(29)	1,297
Murray Fund	6	201	-	21	(19)	203
NAS Award for Chemistry in Service to Society	182	429	-	46	(23)	452
NAS Award in Mathematics	54	71	-	8	-	79
NAS Award in Chemical Sciences	478	605	-	66	(19)	652
NAS Award in Neurosciences	140	532	-	57	(29)	560
NAS Fund for Sciences and Technology in International Affairs	49	253	-	27	-	280
Pradel Fund	16	1,694	-	186	(1)	1,879
H. P. Robertson Lectureship Fund	20	292	-	32	-	324
Helen P. Smith Fund	67	665	-	73	-	738
Mrs. J. Lawrence Smith Fund	8	726	-	80	-	806
Thompson Fund	10	270	-	29	-	299
Troland Fund	505	4,699	-	509	(108)	5,100
Walcott Fund	5	97	-	10	(14)	93
G. K. Warren Fund	15	199	-	22	-	221
Watson Fund	25	1,464	-	158	(43)	1,579
	\$ 2,905	\$ 26,437	\$ 1	\$ 2,878	\$ (548)	\$ 28,768

b. IOM

Gustav O. Lienhard Award	\$ 1,200	\$ 4,408	\$ -	\$ 477	\$ (81)	\$ 4,804
Rhonda and Bernard G. Sarnat International Prize in Mental Health	1,009	1,548	-	169	(29)	1,688
	\$ 2,209	\$ 5,956	\$ -	\$ 646	\$ (110)	\$ 6,492

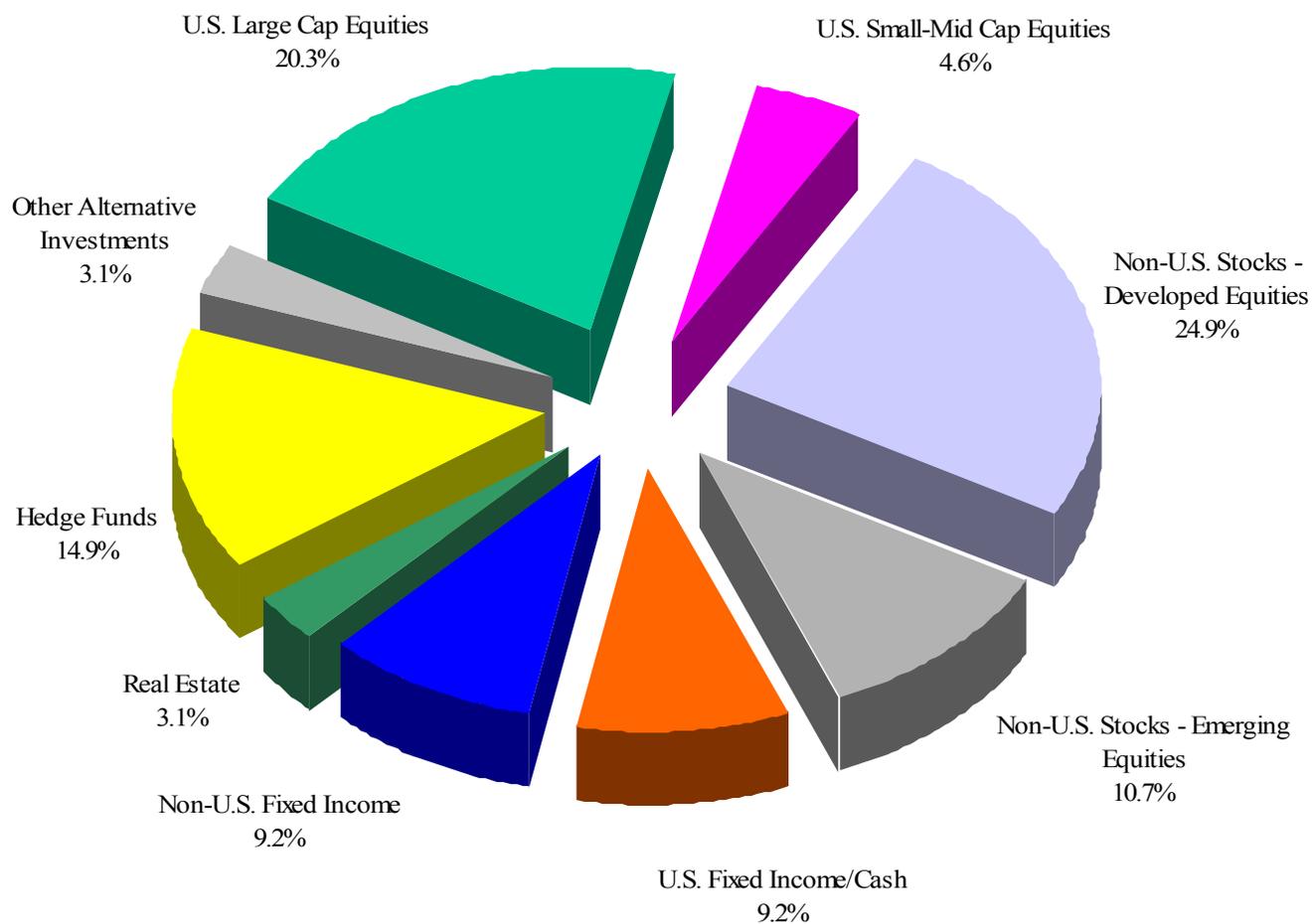
**Endowment and Trust Investment Funds - Financial Detail
 of Funds for the Year Ended December 31, 2007**

(Dollars in thousands)

ENDOWMENT AND TRUST INVESTMENT POOL

	Capital Contributions as of Dec. 31, 2007	Market Value at Dec. 31, 2006	2007 Contributions	2007 Investment Income	2007 Expenditures & Transfers	Market Value at Dec. 31, 2007
4. Woods Hole						
Peter C. Cornell Trust Fund	\$ 100	\$ 290	\$ -	\$ 31	\$ (13)	\$ 308
J. Erik Jonsson Woods Hole Fund	2,002	5,016	-	539	(216)	5,339
Penzance Foundation Fund	503	1,260	-	136	(54)	1,342
Woods Hole Endowment Fund	971	1,451	-	156	(64)	1,543
Woods Hole Fund	13	45	-	4	(2)	47
Richard King Mellon Foundation Fund	50	212	-	23	(9)	226
	<u>\$ 3,639</u>	<u>\$ 8,274</u>	<u>\$ -</u>	<u>\$ 889</u>	<u>\$ (358)</u>	<u>\$ 8,805</u>
5. PNAS						
Billings Fund	\$ 50	\$ 916	\$ -	\$ 99	\$ -	\$ 1,015
	<u>\$ 50</u>	<u>\$ 916</u>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ 1,015</u>
II. Funds Functioning as Endowment						
A. Unrestricted						
National Academy of Sciences Reserve Fund	\$ 3,176	\$ 3,041	\$ -	\$ 334	\$ (51)	\$ 3,324
IOM Reserve Fund	500	883	-	96	-	979
TRB Reserve Fund	1,500	2,241	-	246	(1)	2,486
Due to (from) National Academy of Sciences	-	300	-	-	(317)	(17)
	<u>\$ 5,176</u>	<u>\$ 6,465</u>	<u>\$ -</u>	<u>\$ 676</u>	<u>\$ (369)</u>	<u>\$ 6,772</u>
B. Restricted for a Specific Purpose						
Henry G. Booker Fellowship Fund	\$ 21	\$ 60	\$ -	\$ 6	\$ -	\$ 66
Marian Koshland Science Museum Fund	22,786	27,422	-	2,895	(1,963)	28,354
Bruce Alberts Fund for the Marian Koshland Science Museum	5,195	6,796	-	736	(203)	7,329
National Science Resources Center Fund	4,987	6,289	507	696	(1,002)	6,490
Proceedings of the National Academy of Sciences Fund	1,000	1,053	-	117	(1)	1,169
Communications Initiative Fund	-	3,927	-	420	(184)	4,163
USNC/IAU	100	176	-	19	-	195
Arnold and Mabel Beckman Fund of the NAS and NAE	11,678	-	11,678	1,125	(1,504)	11,299
	<u>\$ 45,767</u>	<u>\$ 45,723</u>	<u>\$ 12,185</u>	<u>\$ 6,014</u>	<u>\$ (4,857)</u>	<u>\$ 59,065</u>
III. Funds Held on Behalf of Others						
A. The National Academies' Corporation						
Operations Endowment	\$ 8,000	\$ 9,520	\$ -	\$ 966	\$ (1,459)	\$ 9,027
Program Endowment	1,940	2,329	-	238	(371)	2,196
Building Maintenance Reserve	-	-	-	47	534	581
Reserve for Program Expense	-	11,172	-	45	(11,217)	-
	<u>\$ 9,940</u>	<u>\$ 23,021</u>	<u>\$ -</u>	<u>\$ 1,296</u>	<u>\$ (12,513)</u>	<u>\$ 11,804</u>
TOTAL	<u>\$ 171,537</u>	<u>\$ 405,556</u>	<u>\$ 15,376</u>	<u>\$ 43,946</u>	<u>\$ (26,833)</u>	<u>\$ 438,045</u>

***Endowment and Trust Investment Pool –
Asset Allocation as of December 31, 2007***



***Endowment and Trust Investment Pool -
 Change in Valuation and Market Value Summary***

Change in Valuation from 12/31/06 to 12/31/07
 (Dollars in Thousands)

Market Value at 12/31/06	\$ 405,556
Realized Capital Gains	12,635
Unrealized Capital Gains	5,218
Reinvested Income	26,093
Contributions	15,376
Expenditures and Transfers	(26,833)
Market Value at 12/31/07	\$ 438,045

Holdings and Market Value Summary as of 12/31/07

U.S. Large Cap Equities

Berkshire Hathaway A	\$ 32,143
Berkshire Hathaway B	43
Biotech Index	2,397
Vanguard Index 500	34,141
Vanguard Windsor	20,327
Subtotal	\$ 89,051

U.S. Small - Mid Cap Equities

Tamarack Enterprise	\$ 3,346
Third Avenue Value	8,486
Vanguard Extended	4,632
Vanguard Small	3,640
Subtotal	\$ 20,104

Non-U.S. Developed Equities

Dodge & Cox International	\$ 12,274
Driehaus Int'l Discovery	10,599
Templeton Foreign	30,315
Vanguard European	18,509
Vanguard Pacific	10,840
Vanguard Intl. Growth	13,248
Vanguard Intl. Value	13,219
Subtotal	\$ 109,004

Non-U.S. Emerging Equities

Capital International	\$ 27,040
Templeton Emerging	18,659
Morgan Stanley India	966
Subtotal	\$ 46,665

U.S. Fixed Income

PIMCO Funds Total Return	\$ 17,669
Cash Equivalents	22,086
Other	431
Subtotal	\$ 40,186

Non-U.S. Fixed Income

T. Rowe Price International	\$ 3,083
PIMCO Foreign Bond	\$ 32,752
PIMCO Developing	4,494
Subtotal	\$ 40,329

Real Estate

iShares Dow Jones RE Index	\$ 6,887
Third Avenue RE Fund	6,710
Subtotal	\$ 13,597

Hedge Funds

GT Offshore	\$ 10,288
Goldman Sachs Princeton	20,312
Renaissance Equities	34,887
Subtotal	\$ 65,487

Other Alternative Investments	\$ 13,622
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GRAND TOTAL	\$ 438,045
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Christine Guthrie	Wolfgang K. Joklik	Walter and Lois Liggett	Ricardo Miledi
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Charles R. Halpern	Eugenia Kalnay	Gwilym S. Lodwick II	Mark Miller
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	Virginia M. Lee		

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Allan Pitcher	John A. Schellman	Daniel Steinberg	Michael S. Waterman
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William H. Press	Richard M. Schoen	Walther Stoeckenius	Susan R. Wessler
Dean Price	William R. Schowalter	Susanne A. Stoiber	Ann West
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James and Mary Procopis	Josephine Schuda	Robert Straus	Raymond P. White, Jr.
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Mitchell T. Rabkin	Cynthia Schwabacher-Jamplis	Maira Sucharov	Mary N. Wilburn
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Cornelius Rosse	Gerald I. Shulman	Susan Tsutakawa and Ken	Lincoln Wolfenstein
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The Atlantic Philanthropies
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Merck Research Laboratories
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Adelphi University
Advanced Medical Technology Association
Advisor Charitable Gift Fund
Alliance for Science and Technology
Alzheimer's Association
American Academy of Child and Adolescent Psychiatry
American Academy of Family Physicians
American Academy of Pediatrics
American Association for Laboratory Animal Science
American Association of Blood Banks

American Association of Retired Persons
American Astronomical Society
American Cancer Society, Inc.
American Chemical Society
American Chemistry Council
American College of Emergency Physicians
American College of Medical Genetics
American College of Physicians
American College of Surgeons
American Diabetes Association
American Hospital Association

American Mathematical Society
American Medical Association
American Nurses Association
The American Physical Society
American Psychological Association
American Public Transportation Association
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American Society for Engineering Education
American Society for Microbiology
American Society of Clinical Oncology
American Society of Mechanical Engineers
American Sociological Association
American Trucking Association
The American Veterinary Medical Association
Arizona State University
Association for Computing Machinery, Inc.
Association of Academic Chairs of Emergency Medicine
Association of American Medical Colleges
Association of American Railroads
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Baylor University
Boston College
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Bowling Green State University
Brandeis University
The British Society
Brown University
California Institute for Regenerative Medicine
California Institute of Technology
Carnegie Mellon University
Case Western Reserve University
Catholic University
The China Sustainable Energy Program
Claremont Colleges
Clark University
Clarkson University
Clinical Child Psychology
Coevolution Institute
Cold Spring Harbor Laboratory
College of American Pathologists
College Of William and Mary
Colorado State University
Columbia University
Computing Research Association
Cornell University
Council of Emergency Medicine Residency Directors
Dartmouth College
Drew University
Drexel University
Duke University
Duquesne University
Emergency Medicine Residents Association
Emergency Nurses Association
Federal Reserve Bank of New York
Federation of American Societies for Experimental Biology
Fidelity Charitable Gift Fund
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Florida Institute of Technology
Florida International University
Fordham University
George Washington University
Georgetown University
Georgia Institute of Technology
Georgia State University
Georgia Tech Research Corporation
The Glenmede Trust Company
Graduate Theological Union
Harvard University
Hebrew Union College
Helen Wills Neuroscience Institute
Hunt Institute
IEEE
Illinois Institute of Technology
Indiana University at Bloomington
Infectious Diseases Society of America
Institute for Public Health and Water Research
Institute of International Education, Inc.
International Society for Optical Engineering
Iowa State University
James Madison University
Jewish Community Endowment Fund
The Johns Hopkins University
Kansas State University
Kent State University
Loma Linda University
Louisiana State University
Loyola University Chicago
Massachusetts Institute of Technology
Massachusetts Technology Collaborative
Mathematical Association of America
Mayo Foundation for Medical Education and Research
Medical College of Georgia
Merck Institute for Science Education
Miami University of Ohio
Michigan State University
MichiganTech
The Microcirculatory Society, Inc.
Mississippi State University
Montana State University, Bozeman
Morehouse School of Medicine
National Association of Emergency Medical Technicians
National Association of EMS Physicians
National Coalition for Cancer Survivorship
National Geographic Society Education Foundation
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National Society of Genetic Counselors
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New England Journal of Medicine
New Jersey Institute of Technology
New Mexico State University
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Optical Society of America
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Population Reference Bureau
Princeton Theological Seminary
Public Entity Risk Institute
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Rensselaer Polytechnic Institute
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Virginia Commonwealth University
Virginia Tech University
Wake Forest University
Washington State University
Washington University
Wayne State University
West Virginia University
Western Michigan University
Wright State University

III. Financial Condition



NATIONAL ACADEMY OF SCIENCES

THE NATIONAL ACADEMIES

Report of the Auditing Committee of the National Academy of Sciences

June 12, 2008

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, 2007, 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,

JACK HALPERN, Chair
PURNELL W. CHOPPIN
JERRY P. GOLLUB
JEREMIAH P. OSTRICKER
GERALD M. RUBIN
Auditing Committee

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

2101 Constitution Avenue, NW
Washington, DC 20418



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Auditing Committee
National Academy of Sciences:

We have audited the accompanying statements of financial position of the National Academy of Sciences (NAS) as of December 31, 2007 and 2006, 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 audits 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, 2007 and 2006, and its changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

May 28, 2008

NATIONAL ACADEMY OF SCIENCES
Statements of Financial Position
December 31, 2007 and 2006
(Dollars in thousands)

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 3,203	\$ 3,782
Short-term investments (note 3)	46,941	45,785
Contracts receivable – U.S. government (note 11)	45,566	41,304
Contributions and other receivables (note 5)	16,377	16,175
Other current assets	3,813	4,479
Total current assets	<u>115,900</u>	<u>111,525</u>
Other assets (notes 2, 12, 14, and 16)	12,266	11,883
Long-term investments (note 3)	464,908	429,321
Contributions receivable, net (note 5)	37,312	38,017
Property and equipment, net (notes 4 and 15)	129,671	135,415
Einstein Memorial	1,723	1,723
	<u>\$ 761,780</u>	<u>\$ 727,884</u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 30,770	\$ 32,262
Deferred revenue (note 6)	31,414	27,646
Line of credit (note 7)	3,345	3,765
Other current liabilities (note 12)	5,533	8,631
Total current liabilities	<u>71,062</u>	<u>72,304</u>
Bonds payable (note 12)	121,067	122,709
Funds held on behalf of others (note 3)	11,804	23,014
Note payable (note 13)	2,270	3,027
Accrued employee benefits (note 14)	5,879	7,321
Other long-term liabilities (notes 2, 12, and 15)	9,409	3,212
Total liabilities	<u>221,491</u>	<u>231,587</u>
Net assets:		
Unrestricted	191,130	180,569
Temporarily restricted (note 8)	238,325	206,438
Permanently restricted (note 9)	110,834	109,290
Total net assets	<u>540,289</u>	<u>496,297</u>
Commitments and contingencies (notes 3, 11, 12, 14, 17, and 18)		
Total liabilities and net assets	<u>\$ 761,780</u>	<u>\$ 727,884</u>

NATIONAL ACADEMY OF SCIENCES
Statements of Activities
Years ended December 31, 2007 and 2006
(Dollars in thousands)

	2007				2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Totals	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues, gains, and other support:								
Government contracts and grants (note 11)	\$ 178,021	-	-	178,021	\$ 178,926	-	-	178,926
Private contracts and grants	20,071	28,763	-	48,834	20,987	30,544	-	51,531
Other contributions	4,511	12,825	1,544	18,880	3,898	122	3,453	7,473
Fees and publications	19,909	-	-	19,909	19,832	-	-	19,832
Investment income, net (note 3)	23,636	24,290	-	47,926	34,795	33,619	-	68,414
Other income (note 12)	6,944	-	-	6,944	9,311	-	-	9,311
Net assets released from restriction (note 8)	33,991	(33,991)	-	-	48,691	(48,691)	-	-
Total revenues, gains, and other support	287,083	31,887	1,544	320,514	316,440	15,594	3,453	335,487
Expenses (notes 12, 14, and 15):								
Programs (note 10)	225,164	-	-	225,164	221,656	-	-	221,656
Management and general	48,452	-	-	48,452	41,154	-	-	41,154
Fundraising	2,302	-	-	2,302	2,559	-	-	2,559
Total expenses	275,918	-	-	275,918	265,369	-	-	265,369
Change in net assets, before adoption of SFAS No. 158	11,165	31,887	1,544	44,596	51,071	15,594	3,453	70,118
Effect of adoption of SFAS No. 158 (note 14)	(604)	-	-	(604)	-	-	-	-
Change in net assets	10,561	31,887	1,544	43,992	51,071	15,594	3,453	70,118
Net assets at beginning of the year	180,569	206,438	109,290	496,297	129,498	190,844	105,837	426,179
Net assets at end of the year	\$ 191,130	238,325	110,834	540,289	\$ 180,569	206,438	109,290	496,297

See accompanying notes to financial statements.

NATIONAL ACADEMY OF SCIENCES
Statements of Cash Flows
Years ended December 31, 2007 and 2006
(Dollars in thousands)

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 43,992	\$ 70,118
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,571	6,660
Loss on disposal of property and equipment	50	123
Bad debt expense	322	161
Net gain on investments	(20,098)	(48,925)
Net gain on investments held on behalf of others	(562)	(430)
Amounts collected on behalf of others	(5,630)	(4,000)
Amounts remitted on behalf of others	17,402	3,900
Amortization of deferred gain	(430)	(738)
Change in value of interest rate swap	2,325	(708)
Change in value of split-interest agreements	(121)	(87)
Effect of adoption of SFAS No. 158	604	-
Contributions restricted for construction or endowment	(3,997)	(3,635)
(Increase) decrease in assets:		
Other receivables	181	(4,947)
Contracts receivable — U.S. government	(4,262)	4,169
Publications and supplies inventories	401	296
Other assets	(183)	(316)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,492)	3,865
Deferred revenue	3,768	7,651
Other current liabilities	(1,702)	839
Funds held on behalf of others	(11,210)	430
Other long-term liabilities	3,692	(661)
Accrued employee benefits	(2,046)	(292)
Net cash provided by operating activities	<u>28,575</u>	<u>33,473</u>
Cash flows from investing activities:		
Additions to property and equipment	(1,874)	(9,582)
Sales or maturities of investments	294,044	255,416
Purchases of investments	(321,899)	(258,730)
Net cash used in investing activities	<u>(29,729)</u>	<u>(12,896)</u>
Cash flows from financing activities:		
Contributions restricted for construction or endowment	3,997	3,635
Proceeds from line of credit	108,029	109,793
Payments on line of credit	(108,449)	(123,556)
Proceeds from bank note	-	3,027
Payments on bank note	(757)	(10,000)
Proceeds from interest rate swaption	2,150	-
Payments on bond principal	(1,565)	(1,505)
Payments on capital lease liability	(2,830)	(1,829)
Net cash provided by (used in) financing activities	<u>575</u>	<u>(20,435)</u>
Net increase (decrease) in cash and cash equivalents	(579)	142
Cash and cash equivalents, beginning of year	3,782	3,640
Cash and cash equivalents, end of year	<u>\$ 3,203</u>	<u>\$ 3,782</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 6,324	\$ 6,019

NATIONAL ACADEMY OF SCIENCES

Notes to Financial Statements

December 31, 2007 and 2006

(1) ORGANIZATION AND RELATED ENTITIES

(a) National Academy of Sciences

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

(b) National Research Council

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

- Behavioral and Social Sciences and Education
- Earth and Life Studies
- Engineering and Physical Sciences
- Policy and Global Affairs Division
- 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 both independent program activities and activities through the NRC. The results 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. NAS and NAEF are 50 – 50 joint venturers of TNAC, and therefore share control. The financial position and results of TNAC are not consolidated in the NAS financial statements.

In May 2007, NAS began managing the operations of the Beckman Center. TNAC contributed \$851,000 to the NRC for the year ended December 31, 2007, towards the operation of the Beckman Center. In addition, in March 2007, TNAC contributed \$11.7 million to the NRC 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. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national security exchanges. Alternative investments, consisting of hedge funds and private placement equities, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. Management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

Investments in real estate mortgages are recorded at cost, which approximates fair value, and consist of mortgages on certain administrative facilities that NAS occupies.

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 \$4.9 million and \$4.0 million in 2007 and 2006, respectively, on behalf of NAEF. NAS disbursed \$4.9 million and \$3.9 million to NAEF from these collected amounts in 2007 and 2006, 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. Federal sponsors individually providing more than 10% of NAS revenues are summarized below:

Federal agency sponsor	Percentage of NAS revenues	
	2007	2006
Department of Transportation	33%	31%
Department of Health and Human Services	9%	11%

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) Fair Value of Financial Instruments

The carrying value of bonds payable in the financial statements was less than their fair value by approximately \$2.4 million and \$3.2 million on December 31, 2007 and 2006, respectively.

NAS makes limited use of derivative financial instruments for the purpose of managing interest rate risks. Current market pricing models are used to estimate fair values of interest rate swap agreements. The fair market value of all other financial instruments in the financial statements approximates their reported carrying values.

(h) 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.

(i) Property and Equipment

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

- Buildings – 40 to 50 years
- Building and leasehold improvements – lesser of the remaining life of the building or improvement
- Furniture and equipment – 4 to 10 years

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

(j) Split-Interest Agreements

Charitable gift annuity agreements are classified as other assets in the statements of financial position. NAS pays periodically 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 in accordance with the donor's designation. At December 31, 2007 and 2006, NAS had assets of \$3.0 million and \$2.8 million, respectively. NAS has recorded a liability of \$1.4 million and \$1.5 million at December 31, 2007 and 2006, respectively, representing the present value of future cash payments to annuitants based on the annuitant's life expectancy.

(k) 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.

(l) Reclassifications

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

(m) New Accounting Standards

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

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

(3) INVESTMENTS

Investments, which are reported at fair value (except as noted), consisted of the following as of December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
<i>Short-term investments:</i>		
Cash equivalents	\$ 4,570	\$ 7,640
Bonds and notes	29,477	23,540
Equity securities	12,894	14,605
Total short-term investments	<u>\$ 46,941</u>	<u>\$ 45,785</u>
<i>Long-term investments:</i>		
<i>Pooled endowment and trust investments:</i>		
Cash equivalents	\$ 22,086	\$ 19,519
Bonds and notes	58,429	32,772
Equity securities	264,824	252,744
Real estate	13,597	17,726
Hedge funds	65,487	69,197
Private placements	13,622	13,598
	<u>438,045</u>	<u>405,556</u>

<i>(continued)</i>	2007	2006
<i>Other long-term investments:</i>		
Cash equivalents	503	819
Bonds and notes	9,054	8,369
Equity securities	17,306	14,577
	<u>26,863</u>	<u>23,765</u>
Total long-term investments	<u>\$ 464,908</u>	<u>\$ 429,321</u>

NAS received proceeds from the sale and leaseback of the Green/Harris facility of approximately \$36 million in 2000 (see note 12). Remaining proceeds were invested within other long-term investments and were available for payments toward related obligations to the former landlord. These payments concluded in 2007.

Vanguard equity funds comprised approximately \$119 million and \$142 million of the total equity securities funds at December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, real estate investments include shares of real estate investment trusts at fair value. At December 31, 2006, real estate investments also include real estate mortgages at cost.

NAS invests a portion of its endowment in hedge funds. The unrealized gain on these funds, which is included as a component of investment income in the accompanying statements of activities, was approximately \$5.2 million and \$5.5 million for the years ended December 31, 2007 and 2006, respectively.

Private equity investments are comprised of limited partnership interests. NAS had remaining commitments at December 31, 2007 and 2006, to provide approximately \$5.2 million and \$4.1 million, respectively, to these partnerships.

As of December 31, 2007 and 2006, respectively, NAS held alternative investments with fair values of approximately \$79.1 million and \$82.8 million. These fair values were estimated by the general partners of these investment funds in the absence of readily ascertainable values at those dates.

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 \$11.8 million and \$23.0 million as of December 31, 2007 and 2006, 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 \$566,000 and \$472,000 for the years

ended December 31, 2007 and 2006, respectively, and is comprised of the following (dollars in thousands):

	2007	2006
Interest and dividends income	\$ 27,828	\$ 19,489
Net gain on investments	20,098	48,925
Total investment income, net	<u>\$ 47,926</u>	<u>\$ 68,414</u>

(4) PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2007 and 2006, is comprised of the following (dollars in thousands):

	2007	2006
Land	\$ 29,689	\$ 29,689
Furniture and equipment	32,096	31,040
Buildings and improvements	109,063	108,608
Construction in progress	240	776
Leasehold improvements	7,286	6,960
	<u>178,374</u>	<u>177,073</u>
Less accumulated depreciation and amortization	(48,703)	(41,658)
Total property and equipment, net	<u>\$ 129,671</u>	<u>\$ 135,415</u>

(5) CONTRIBUTIONS RECEIVABLE

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

<u>Years ending December 31</u>	
2008	\$ 12,093
2009	5,358
2010	4,551
2011	10,807
2012	5,266
Thereafter	<u>16,779</u>
	54,854
Less discount at rates from 3% to 5% to estimated net present value	(5,449)
Less allowance for uncollectible contributions	<u>(208)</u>
	49,197
Less current portion	<u>(11,885)</u>
Total contributions receivable, long-term	<u>\$ 37,312</u>

At December 31, 2006, the discount on contributions receivable was approximately \$6.8 million at rates ranging from 3% to 5%, and the allowance for uncollectible contributions was approximately \$108,000.

(6) DEFERRED REVENUE

Deferred revenue consisted of the following as of December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
Advances from private grants and contract sponsors	\$24,082	\$21,383
Advances from U.S. government sponsors	2,663	2,604
Publication subscriptions and other	4,669	3,659
Total deferred revenue	<u>\$31,414</u>	<u>\$27,646</u>

(7) LINE OF CREDIT

NAS is party to a \$18 million unsecured line of credit from Bank of America which bears interest at LIBOR plus 0.40% and expires on July 31, 2008. Interest expense related to the line of credit for the years ended December 31, 2007 and 2006, was approximately \$497,000 and \$445,000, respectively.

(8) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
Sponsored research and advisory programs	\$203,182	\$174,650
Prizes and awards	30,088	27,243
Woods Hole facility	5,055	4,545
Total temporarily restricted net assets	<u>\$238,325</u>	<u>\$206,438</u>

Temporarily restricted net assets were released from restriction for the following purposes during the years ended December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
Sponsored research and advisory programs	\$ 32,989	\$ 47,352
Prizes and awards	658	759
Woods Hole facility	344	580
Total temporarily restricted net assets released from restriction	<u>\$ 33,991</u>	<u>\$ 48,691</u>

(9) PERMANENTLY RESTRICTED NET ASSETS

The income generated by permanently restricted net assets is available to support donor-specified programs. As of December 31, 2007 and 2006, NAS held the following permanently restricted net assets, classified by

the purpose for which the income is to be used (dollars in thousands):

	2007	2006
Sponsored research and advisory programs	\$105,720	\$104,177
Prizes and awards	5,114	5,113
Total permanently restricted net assets	<u>\$110,834</u>	<u>\$109,290</u>

(10) PROGRAM EXPENSES

Program expenses for the years ended December 31, 2007 and 2006, are summarized as follows (dollars in thousands):

	2007	2006
Transportation Research Board	\$ 65,179	\$ 59,045
Policy and Global Affairs	55,911	53,625
Institute of Medicine	20,388	23,626
Earth and Life Sciences	19,435	20,247
Engineering and Physical Sciences	18,839	17,318
Behavioral and Social Sciences and Education	13,886	15,876
Proceedings of the National Academy of Sciences	12,280	11,627
National Academy Press	5,479	6,533
National Academy of Engineering	4,950	6,240
Koshland Science Museum	1,932	1,614
NAS and National Sciences Resource Center	6,885	5,905
Total program expenses	<u>\$225,164</u>	<u>\$221,656</u>

(11) RECOVERY OF INDIRECT COSTS

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

NAS bills for indirect cost recovery throughout the year based on negotiated rates. At the end of each year, NAS compares actual expenses incurred in each of its cost pools to the amounts recovered based on its billing rates. The difference is recorded as its indirect cost carryfor-

ward. If NAS overrecovers on its indirect costs during the year, a liability is recorded. If NAS underrecovers, a receivable is recorded.

NAS has a cumulative net underrecovery of approximately \$3.1 million and \$2.4 million as of December 31, 2007 and 2006, respectively, which is included in the contracts receivable balance in the statements of financial position.

(12) BUILDING PROJECT AND FINANCING

(a) Building Project Revenue Bonds

In January 1999, the District of Columbia issued \$130,960,000 of tax-exempt revenue bonds 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.

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

	2007	2006
Series 1999A revenue bonds, serial, interest rate 5%, maturing at various dates from January 1, 2008 through 2012	\$ 9,085	\$ 10,650
Series 1999A revenue bonds, term:		
Interest rate 5%, due January 1, 2019	17,085	17,085
Interest rate 5%, due January 1, 2028	32,545	32,545
Series 1999B revenue bonds, term, at flexible rates (3.62% in 2007 and 3.37% in 2006) due January 1, 2039	32,500	32,500
Series 1999C revenue bonds, term, at variable rates (3.62% in 2007 and 3.52% in 2006) due January 1, 2039	32,500	32,500
Total bonds, at face value	123,715	125,280
Less unamortized discount and premium	(1,003)	(1,006)
Total bonds payable	122,712	124,274
Less current portion (included in other current liabilities)	(1,645)	(1,565)
Bonds payable, long-term	<u>\$121,067</u>	<u>\$122,709</u>

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

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

The term bonds maturing on January 1, 2019, and January 1, 2028, are subject to mandatory redemption by operation of sinking fund installments. The installment

payments for the term bonds maturing January 1, 2019, begin on January 1, 2013, and range from \$2.1 to \$2.8 million per year through the maturity date. Installment payments for the term bond maturing January 1, 2028, begin on January 1, 2020, and range from \$2.9 to \$4.3 million per year through the maturity date.

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

Years ending December 31:	
2008	\$ 1,645
2009	1,725
2010	1,810
2011	1,905
2012	2,000
Thereafter	<u>114,630</u>
	<u>\$ 123,715</u>

Interest expense on the bonds payable for 2007 and 2006 totaled \$5.3 million and \$5.2 million, respectively.

(b) Interest Rate Swaps

In October 1999, NAS entered into a swap agreement, with an effective date of February 1, 2000. This swap agreement related 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 BMA Municipal Swap Index.

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

Conversely, if interest rates decrease, the capital investment incentive recovery decreases. Therefore, NAS entered into a derivative instrument that ties the fixed-rate debt to a variable index to manage fluctuations in cash flows resulting from interest rate risk. By using derivative financial instruments to hedge exposures to changes in interest rates, NAS exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes NAS, which creates credit risk for NAS. When the fair value of a derivative contract is negative, NAS owes the counterparty, and therefore, it

does not possess credit risk. NAS minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

NAS amended the agreement for the 2005-2020 period by agreeing to give up the benefit of any 30-day period during which the BMA 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 a swaption agreement on August 21, 2007, that gives the counterparty the option to require NAS to enter into an additional swap agreement related to the Series 1999A Revenue Bonds. If executed by the counterparty, the swap will be effective on May 1, 2009, and require NAS to pay 5.00% on a notional amount of \$55 million and to receive a floating rate equal to 67% of 1-month LIBOR + 0.41%. The counterparty paid NAS a premium of \$2.2 million in advance to enter into this agreement.

Under Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, the fair value of the swap and swaption must be recorded in the NAS financial statements. Accordingly, for the year ended December 31, 2007, NAS recorded a loss on the change in the fair value of its swap agreement of \$185,000, and for the year ended December 31, 2006, NAS recorded a gain on the change in the fair value of its swap agreement of \$708,000, which is included in other income in the accompanying statements of activities. The fair value of the interest rate swap was \$1.7 million and \$1.9 million as of December 31, 2007 and 2006, respectively, and is included in other assets on the statements of financial position.

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

(c) Sale-Leaseback of Green/Harris Facility

In 1999, under a separate trust agreement, the Trustee, an unrelated third party, held record legal title to the Green/Harris facility that was under lease by NAS for a portion of its operations. This trust agreement would have conveyed title to NAS in 2007. In 2000, NAS entered into a contract with a third party to sell its future interest in the property for approximately \$36 million. NAS simultaneously agreed to lease back the entire facility until 2002 (at

a monthly rate of \$400,000) and a portion of the facility until 2007 (at a monthly rate of \$200,000).

The sale-leaseback transaction resulted in a gain of \$6.8 million, of which \$430,000 was deferred at December 31, 2006, and is reported within other current liabilities in the statements of financial position. The deferred gain was fully recognized during 2007.

At December 31, 2006, NAS had remaining lease payments with a present value of \$2.8 million, which is included within other current liabilities in the statements of financial position. NAS completed remaining lease payments in July 2007, under the original lease agreement with the Trustee.

(13) NOTE PAYABLE

At December 31, 2005, NAS had a loan agreement of \$10 million with Bank of America, with a maturity date of July 31, 2010. Interest on the note was calculated at 30-day LIBOR plus 50 basis points and was payable monthly. In July 2006, NAS chose to repay this loan in full.

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, 2007 and 2006, the principal balance was approximately \$3.0 million and \$3.8 million, respectively. The note bears interest at 30-day LIBOR plus 40 basis points. The interest rate at December 31, 2007, was 5.245%.

(14) EMPLOYEE BENEFITS

(a) Retirement Plans

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

In addition, NAS has a voluntary employee contribution retirement plan that is funded solely by employee contributions made on a pretax salary-reduction basis under Section 403(b) of the Internal Revenue Code. The investment vehicles under this voluntary plan are

retirement annuity contracts issued by TIAA/CREF and mutual funds offered by the Vanguard Group, Inc.

Pension expense for the years ended December 31, 2007 and 2006, amounted to approximately \$9.8 and \$9.4 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 \$4.1 million and \$4.6 million as of December 31, 2007 and 2006, 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 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.

Effective January 1, 2007, NAS increased the life insurance benefit from \$3,000 to \$10,000. This change is

shown as a plan amendment in the 2006 change in benefit obligation.

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

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

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

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

Items not yet recognized as a component of net periodic benefit cost which are reported as effect of adoption of recognition provisions of FASB Statement No. 158 in 2007 are as follows (dollars in thousands):

	2007		
	Life insurance benefits	Health benefits	Total
Net actuarial gain	\$ (715)	\$ (410)	\$ (1,125)
Prior service cost (credit)	(112)	1,674	1,562
Unrecognized net initial obligation	-	167	167
Total	<u>\$ (827)</u>	<u>\$ 1,431</u>	<u>\$ 604</u>

Estimated amounts to be amortized into net periodic benefit cost over the next fiscal year relate to prior service costs, net gain and net initial obligation recognition are \$210,013, \$18,134, and \$25,703, respectively, for the postretirement life insurance and health benefit plan.

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, 2007 (dollars in thousands):

	2007		
	Life insurance benefits	Health benefits	Total
Change in benefits obligations:			
Benefit obligation, January 1	\$ 2,566	\$ 13,959	\$ 16,525
Service cost	48	612	660
Interest cost	142	785	927
Plan participant contributions	-	117	117
Actuarial gain	(137)	(1,015)	(1,152)
Benefits paid	(9)	(607)	(616)
Benefit obligation, December 31	\$ 2,610	\$ 13,851	\$ 16,461
Change in plan assets, combined:			
Fair value of plan assets, January 1	\$ -	\$ 11,920	\$ 11,920
Actual return on plan assets	-	797	797
Employer contributions	2,333	109	2,442
Plan participants contributions	-	117	117
Benefits paid	(9)	(607)	(616)
Fair value of plan assets, December 31	\$ 2,324	\$ 12,336	\$ 14,660
Funded status	\$ (286)	\$ (1,515)	\$ (1,801)
Components of net periodic benefit cost:			
Service cost	\$ 48	\$ 613	\$ 661
Interest cost	142	785	927
Expected return on plan assets	-	(899)	(899)
Recognized prior service cost (credit)	229	(19)	210
Recognized actuarial (gain) loss	(2)	-	(2)
Recognized net initial obligation (asset)	26	-	26
Net periodic cost	\$ 443	\$ 480	\$ 923

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, 2006 (dollars in thousands):

	2006		
	Life insurance benefits	Health benefits	Total
Change in benefits obligations:			
Benefit obligation, January 1	\$ 811	\$ 13,719	\$ 14,530
Service cost	14	664	678
Interest cost	45	772	817
Plan participant contributions	N/A	(104)	(104)
Plan amendments	1,781	N/A	1,781
Actuarial gain	(79)	(524)	(603)
Benefits paid	(6)	(568)	(574)
Benefit obligation, December 31	\$ 2,566	\$ 13,959	\$ 16,525
Change in plan assets, combined:			
Fair value of plan assets, January 1	\$ -	\$ 9,695	\$ 9,695
Actual return on plan assets	-	1,542	1,542
Employer contributions	-	1,153	1,153
Plan participants contributions	-	104	104
Benefits paid	-	(574)	(574)
Fair value of plan assets, December 31	\$ -	\$ 11,920	\$ 11,920
Funded status:			
Unfunded benefit obligation	\$ (2,566)	\$ (2,039)	\$ (4,605)
Unrecognized transition obligation	193	-	193
Unrecognized prior service cost	1,903	(131)	1,772
Unrecognized net actuarial (gain) loss	(275)	198	(77)
Accrued benefit cost	\$ (745)	\$ (1,972)	\$ (2,717)
Components of net periodic benefit cost:			
Service cost	\$ 14	\$ 664	\$ 678
Interest cost	45	772	817
Expected return on plan assets	-	(728)	(728)
Amortization of transition obligation	25	-	25
Amortization of prior service cost	18	(19)	(1)
Amortization of unrecognized (gains) losses	(13)	44	31
Net periodic cost	\$ 89	\$ 733	\$ 822

The assumptions used to determine net periodic benefit cost for years ended December 31, 2007 and 2006, are as follows:

	2007	2006
Discount rate	6.00%	5.75%
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, 2007 and 2006, are as follows:

	2007	2006
Discount rate	6.00%	5.75%

NAS postretirement benefit plan asset allocations at December 31, 2007 and 2006, by asset category are as follows:

	2007	2006
Cash	11%	5%
Bonds and notes	15%	25%
Equity securities	74%	70%
	<u>100%</u>	<u>100%</u>

The investment objective of the Plan is to produce a rate of return over the long term that will provide for some fund growth, curb 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 long-term growth strategy, with a 70% equity guideline.

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

NAS expects to contribute to the Plan the actuarially determined net periodic cost for 2008, which is approximately \$840,000. In addition, in 2008, NAS expects to contribute the outstanding \$1.8 million in postretirement benefit obligation.

The following benefit payments, which reflect future services, are expected to be paid in future years as noted, as of December 31, 2007 (dollars in thousands):

Years ending December 31:	
2008	\$ 840
2009	969
2010	1,039
2011	1,117
2012	1,178
2013-2017	<u>6,584</u>
	<u>\$ 11,727</u>

The measurement date of the plan assets and benefit obligations for 2007 and 2006 is December 31, 2007 and 2006, respectively.

The trend rate for growth in healthcare costs used in calculating the accumulated postretirement benefit obligation was 9.5% during both years ended December 31, 2007 and 2006, declining gradually to 5% in the year 2018. 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, 2007, would have resulted in an estimated \$1.5 million increase or \$1.3 million decrease in the postretirement benefit obligation and an estimated \$203,000 increase or \$167,000 decrease in the 2007 benefit expense.

The effect of a 1% change in the assumed healthcare cost trend rate at December 31, 2006, would have resulted in an estimated \$1.6 million increase or \$1.4 million decrease in the postretirement benefit obligation and an estimated \$211,000 increase or \$174,000 decrease in the 2006 benefit expense.

(15) CONDITIONAL ASSET RETIREMENT OBLIGATION

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

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

(16) RELATED PARTY TRANSACTIONS

The NAS Council has authorized two agreements providing non-interest bearing, collateralized advances to two employees in connection with the purchase of the 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 the individual's employment with NAS, which will not exceed 12 years. The estimated present value of the receivables at December 31, 2007 and 2006, is \$3.5 million and \$2.5 million, respectively, and is included in other assets on the statement of financial position.

(17) COMMITMENTS AND CONTINGENCIES

(a) Leases

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

Year ending December 31:	
2008	\$ 1,910
2009	1,948
2010	1,831
2011	1,643
2012	1,686
Thereafter	6,849
	<u>\$ 15,867</u>

Rental expense amounted to approximately \$2.1 million and \$3.7 million for the years ended December 31, 2007 and 2006, 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, 2004. 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 a defendant or otherwise involved in several lawsuits. While the ultimate outcome of the litigation is uncertain, NAS management believes that it has strong legal positions, intends to vigorously defend its actions, and has concluded that the probable outcomes will not have a material impact on NAS.

(18) RISKS AND UNCERTAINTIES

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

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