


Date: March 19, 2021

To: Audit and Review Committee, Board of Regents
Lonnie G. Bunch III, Secretary

Cc: Meroe S. Park, Deputy Under Secretary and Chief Operating Officer
Mike McCarthy, Under Secretary for Administration
Janice Lambert, Chief Financial Officer
Greg Bettwy, Chief of Staff, Office of the Secretary
Porter Wilkinson, Chief of Staff to the Regents
Karen Otiji, Acting Director, Office of Sponsored Projects
Charles Alcock, Director, Smithsonian Astrophysical Observatory
Vincent DeVito, Interim Director, Office of Finance and Accounting

From: Cathy L. Helm, Inspector General 

Subject: *Audit of Federal Awards Performed in Accordance with Title 2 U.S. Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (OIG-A-20-04)*

This memorandum transmits the second and final report of the fiscal year 2020 financial statement audits of the Smithsonian Institution (Smithsonian) performed by the independent public accounting firm of KPMG LLP (KPMG). KPMG expressed two unmodified opinions in this report. First, KPMG opined that the Smithsonian complied, in all material respects, with the compliance requirements of the Smithsonian's major federal program, research and development. Second, KPMG opined that the Smithsonian's expenditures of federal awards were fairly stated in all material respects in relation to the financial statements as a whole.

For fiscal year 2020, KPMG reported a significant deficiency in controls over the reconciliation and review of the construction in progress balance. To address the significant deficiency, KPMG recommends that Smithsonian establish reconciliation and review protocols to enhance the precision and follow up over construction in progress balances.

The Office of the Inspector General serves as the Contracting Officer's Technical Representative in overseeing KPMG's work. As part of our oversight activities, we reviewed KPMG's audit report and documentation and interviewed its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with the American Institute of Certified Public Accountants' generally accepted auditing standards and the U.S. Government Accountability Office's *Government Auditing Standards*.

If you have any questions, please do not hesitate to contact me or Joan Mockeridge, Assistant Inspector General for Audits, at 202.633.7050.

Attachment



SMITHSONIAN INSTITUTION

Audit of Federal Awards Performed in Accordance with
Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative
Requirements, Cost Principles, and Audit Requirements for Federal Awards*

September 30, 2020

(With Independent Auditors' Reports Thereon)

SMITHSONIAN INSTITUTION

Audit of Federal Awards Performed in Accordance with
Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative
Requirements, Cost Principles, and Audit Requirements for Federal Awards*

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Office of the Inspector General, Audit and Review
Committee of the Board of Regents, and Secretary Bunch
Smithsonian Institution:

Report on the Financial Statements

We have audited the accompanying financial statements of Smithsonian Institution, which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of financial activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smithsonian Institution as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying trust and federal supplementary information are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021 on our consideration of Smithsonian Institution's (the Institution) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institution's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institution's internal control over financial reporting and compliance.

KPMG LLP

Washington, District of Columbia
January 29, 2021

SMITHSONIAN INSTITUTION

Statements of Financial Position

September 30, 2020 and 2019

(Dollars in millions)

	2020			2019		
	Trust	Federal	Total Funds	Trust	Federal	Total Funds
Assets:						
Cash, cash equivalents, and U.S. Treasury balances	\$ 173.8	713.0	886.8	139.9	645.3	785.2
Accounts receivable and other assets, net	65.8	1.8	67.6	77.3	3.2	80.5
Pledges receivable, net	179.1	—	179.1	167.9	—	167.9
Investments	2,179.1	—	2,179.1	1,946.2	—	1,946.2
Property and equipment, net	981.6	1,759.1	2,740.7	730.6	1,710.3	2,440.9
Collections	—	—	—	—	—	—
Total assets	\$ 3,579.4	2,473.9	6,053.3	3,061.9	2,358.8	5,420.7
Liabilities:						
Accounts payable and accrued expenses	\$ 117.8	177.1	294.9	123.6	214.5	338.1
Deferred revenue	55.8	0.8	56.6	55.8	—	55.8
Unexpended federal appropriations	—	621.4	621.4	—	530.5	530.5
Deferred gain on sale of real estate	0.4	—	0.4	4.3	—	4.3
Environmental remediation obligations	—	51.7	51.7	—	61.4	61.4
Long-term debt	391.3	—	391.3	96.4	—	96.4
Total liabilities	565.3	851.0	1,416.3	280.1	806.4	1,086.5
Net assets:						
Without donor restriction:						
Board designated	804.7	—	804.7	717.4	—	717.4
Undesignated	641.4	1,209.8	1,851.2	694.3	1,187.5	1,881.8
Net assets without donor restriction	1,446.1	1,209.8	2,655.9	1,411.7	1,187.5	2,599.2
With donor restriction:						
Purpose and time restrictions	973.0	413.1	1,386.1	794.2	364.9	1,159.1
Endowments	595.0	—	595.0	575.9	—	575.9
Net assets with donor restriction	1,568.0	413.1	1,981.1	1,370.1	364.9	1,735.0
Total net assets	3,014.1	1,622.9	4,637.0	2,781.8	1,552.4	4,334.2
Total liabilities and net assets	\$ 3,579.4	2,473.9	6,053.3	3,061.9	2,358.8	5,420.7

See accompanying notes to financial statements

SMITHSONIAN INSTITUTION

Statement of Financial Activities

Year ended September 30, 2020

(Dollars in millions)

	2020								
	Without Donor Restriction			With Donor Restriction			Total Funds		
	Trust	Federal	Total	Trust	Federal	Total	Trust	Federal	Total
Operating:									
Support and revenues:									
Federal appropriations	\$ —	765.7	765.7	—	—	—	—	765.7	765.7
Contributions	47.7	—	47.7	134.7	—	134.7	182.4	—	182.4
Grants and contracts	78.0	—	78.0	57.8	—	57.8	135.8	—	135.8
Business activities	108.6	—	108.6	—	—	—	108.6	—	108.6
Endowment payout	39.1	—	39.1	37.8	—	37.8	76.9	—	76.9
Imputed benefit revenue	—	87.2	87.2	—	—	—	—	87.2	87.2
Short-term investment income and other revenue	21.0	10.7	31.7	0.8	—	0.8	21.8	10.7	32.5
Total operating revenues	294.4	863.6	1,158.0	231.1	—	231.1	525.5	863.6	1,389.1
Net assets released from restrictions	155.1	23.5	178.6	(155.1)	(23.5)	(178.6)	—	—	—
Total support and revenues	449.5	887.1	1,336.6	76.0	(23.5)	52.5	525.5	863.6	1,389.1
Expenses:									
Program activities:									
Research	140.6	182.9	323.5	—	—	—	140.6	182.9	323.5
Collections management	17.0	241.8	258.8	—	—	—	17.0	241.8	258.8
Education, public programs, and exhibitions	81.1	269.4	350.5	—	—	—	81.1	269.4	350.5
Business activities	98.6	—	98.6	—	—	—	98.6	—	98.6
Total program activities	337.3	694.1	1,031.4	—	—	—	337.3	694.1	1,031.4
Supporting activities:									
Administration	35.7	175.6	211.3	—	—	—	35.7	175.6	211.3
Advancement	66.7	0.5	67.2	—	—	—	66.7	0.5	67.2
Total supporting activities	102.4	176.1	278.5	—	—	—	102.4	176.1	278.5
Total expenses	439.7	870.2	1,309.9	—	—	—	439.7	870.2	1,309.9
Change in net assets before depreciation, amortization, and changes in environmental remediation obligations	9.8	16.9	26.7	76.0	(23.5)	52.5	85.8	(6.6)	79.2
Depreciation, amortization, and changes in environmental remediation obligations	58.9	118.0	176.9	—	—	—	58.9	118.0	176.9
Change in net assets from operating activities	(49.1)	(101.1)	(150.2)	76.0	(23.5)	52.5	26.9	(124.6)	(97.7)
Nonoperating activities:									
Federal capital appropriations	—	—	—	—	197.5	197.5	—	197.5	197.5
Endowment gifts	—	—	—	16.8	—	16.8	16.8	—	16.8
Gifts for construction projects	—	—	—	7.8	—	7.8	7.8	—	7.8
Investment return, net of endowment payout	73.3	—	73.3	110.4	—	110.4	183.7	—	183.7
Gain on sale of real estate	3.9	—	3.9	—	—	—	3.9	—	3.9
Rent revenue	2.9	—	2.9	—	—	—	2.9	—	2.9
Change in net assets of related organization and other	(1.3)	—	(1.3)	0.2	—	0.2	(1.1)	—	(1.1)
Losses on disposition of assets	(0.5)	(0.1)	(0.6)	—	—	—	(0.5)	(0.1)	(0.6)
Collection items not capitalized:									
Collection items purchased	(8.7)	(2.3)	(11.0)	—	—	—	(8.7)	(2.3)	(11.0)
Collection items sold	0.6	—	0.6	—	—	—	0.6	—	0.6
Net assets released from restrictions	13.3	125.8	139.1	(13.3)	(125.8)	(139.1)	—	—	—
Change in net assets from nonoperating activities	83.5	123.4	206.9	121.9	71.7	193.6	205.4	195.1	400.5
Change in net assets	34.4	22.3	56.7	197.9	48.2	246.1	232.3	70.5	302.8
Net assets, beginning of year	1,411.7	1,187.5	2,599.2	1,370.1	364.9	1,735.0	2,781.8	1,552.4	4,334.2
Net assets, end of year	\$ 1,446.1	1,209.8	2,655.9	1,568.0	413.1	1,981.1	3,014.1	1,622.9	4,637.0

See accompanying notes to financial statements

SMITHSONIAN INSTITUTION

Statement of Financial Activities

Year ended September 30, 2019

(Dollars in millions)

	2019								
	Without Donor Restriction			With Donor Restriction			Total Funds		
	Trust	Federal	Total	Trust	Federal	Total	Trust	Federal	Total
Operating:									
Support and revenues:									
Federal appropriations	\$ —	734.2	734.2	—	—	—	—	734.2	734.2
Contributions	39.8	—	39.8	84.6	—	84.6	124.4	—	124.4
Grants and contracts	86.2	—	86.2	61.1	—	61.1	147.3	—	147.3
Business activities	167.3	—	167.3	—	—	—	167.3	—	167.3
Endowment payout	40.4	—	40.4	35.5	—	35.5	75.9	—	75.9
Imputed benefit revenue	—	86.3	86.3	—	—	—	—	86.3	86.3
Short-term investment income and other revenue	29.2	10.6	39.8	0.5	—	0.5	29.7	10.6	40.3
Total operating revenues	362.9	831.1	1,194.0	181.7	—	181.7	544.6	831.1	1,375.7
Net assets released from restrictions	167.4	25.2	192.6	(167.4)	(25.2)	(192.6)	—	—	—
Total support and revenues	530.3	856.3	1,386.6	14.3	(25.2)	(10.9)	544.6	831.1	1,375.7
Expenses:									
Program activities:									
Research	154.7	175.9	330.6	—	—	—	154.7	175.9	330.6
Collections management	16.5	236.1	252.6	—	—	—	16.5	236.1	252.6
Education, public programs, and exhibitions	106.1	258.7	364.8	—	—	—	106.1	258.7	364.8
Business activities	126.0	—	126.0	—	—	—	126.0	—	126.0
Total program activities	403.3	670.7	1,074.0	—	—	—	403.3	670.7	1,074.0
Supporting activities:									
Administration	31.9	169.3	201.2	—	—	—	31.9	169.3	201.2
Advancement	67.0	0.9	67.9	—	—	—	67.0	0.9	67.9
Total supporting activities	98.9	170.2	269.1	—	—	—	98.9	170.2	269.1
Total expenses	502.2	840.9	1,343.1	—	—	—	502.2	840.9	1,343.1
Change in net assets before depreciation, amortization, and changes in environmental remediation obligations	28.1	15.4	43.5	14.3	(25.2)	(10.9)	42.4	(9.8)	32.6
Depreciation, amortization, and changes in environmental remediation obligations	50.6	126.2	176.8	—	—	—	50.6	126.2	176.8
Change in net assets from operating activities	(22.5)	(110.8)	(133.3)	14.3	(25.2)	(10.9)	(8.2)	(136.0)	(144.2)
Nonoperating activities:									
Federal capital appropriations	—	—	—	—	239.1	239.1	—	239.1	239.1
Endowment gifts	—	—	—	29.2	—	29.2	29.2	—	29.2
Gifts for construction projects	—	—	—	17.6	—	17.6	17.6	—	17.6
Investment return, net of endowment payout	10.6	—	10.6	26.1	—	26.1	36.7	—	36.7
Gain on sale of real estate	3.9	—	3.9	—	—	—	3.9	—	3.9
Rent revenue	—	—	—	—	—	—	—	—	—
Gain on sale of Smithsonian Network equity	9.9	—	9.9	—	—	—	9.9	—	9.9
Unrelated income tax expense	(0.5)	—	(0.5)	—	—	—	(0.5)	—	(0.5)
Change in net assets of related organization and other	1.0	—	1.0	—	—	—	1.0	—	1.0
Losses on disposition of assets	(0.1)	(0.2)	(0.3)	—	—	—	(0.1)	(0.2)	(0.3)
Collection items not capitalized:									
Collection items purchased	(8.9)	(3.5)	(12.4)	—	—	—	(8.9)	(3.5)	(12.4)
Net assets released from restrictions	35.9	100.2	136.1	(35.9)	(100.2)	(136.1)	—	—	—
Change in net assets from nonoperating activities	51.8	96.5	148.3	37.0	138.9	175.9	88.8	235.4	324.2
Change in net assets	29.3	(14.3)	15.0	51.3	113.7	165.0	80.6	99.4	180.0
Net assets, beginning of year	1,389.2	1,201.8	2,591.0	1,318.8	251.2	1,570.0	2,708.0	1,453.0	4,161.0
Cumulative effect of accounting change	(6.8)	—	(6.8)	—	—	—	(6.8)	—	(6.8)
Net assets, end of year	\$ 1,411.7	1,187.5	2,599.2	1,370.1	364.9	1,735.0	2,781.8	1,552.4	4,334.2

See accompanying notes to financial statements

SMITHSONIAN INSTITUTION

Statements of Cash Flows

Years ended September 30, 2020 and 2019

(Dollars in millions)

	2020			2019		
	Trust	Federal	Total	Trust	Federal	Total
Cash flows from operating activities:						
Change in net assets	\$ 232.3	70.5	302.8	80.6	99.4	180.0
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:						
Gain / loss on disposition of assets	—	—	—	—	0.2	0.2
Collection items purchased	8.7	2.3	11.0	8.9	3.5	12.4
Proceeds from sales of collection items	(0.6)	—	(0.6)	—	—	—
Depreciation, amortization, and changes in environmental remediation obligations	58.9	118.0	176.9	50.6	126.2	176.8
Present value discount and accretion	(1.4)	1.1	(0.3)	(1.5)	1.0	(0.5)
Contributions for endowments	(16.8)	—	(16.8)	(29.2)	—	(29.2)
Contributions for construction of facilities	(7.8)	—	(7.8)	(17.6)	—	(17.6)
Appropriations for repair, restoration, and construction	—	(197.5)	(197.5)	—	(239.1)	(239.1)
Net investment gains	(259.1)	—	(259.1)	(105.4)	—	(105.4)
Gain on partial sale of Smithsonian Network	—	—	—	(9.9)	—	(9.9)
Decrease (increase) in assets:						
Accounts receivables and other assets	13.2	1.4	14.6	0.9	0.2	1.1
Pledges receivable, net	(16.7)	—	(16.7)	47.8	—	47.8
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	(10.8)	1.3	(9.5)	0.6	(7.0)	(6.4)
Deferred revenue	—	0.8	0.8	(3.4)	—	(3.4)
Unexpended federal appropriations	—	34.7	34.7	—	4.9	4.9
Deferred gain on sale of real estate	(3.9)	—	(3.9)	(3.9)	—	(3.9)
Net cash provided by (used in) operating activities	(4.0)	32.6	28.6	18.5	(10.7)	7.8
Cash flows from investing activities:						
Purchases of property and equipment	(304.9)	(216.3)	(521.2)	(36.2)	(168.7)	(204.9)
Purchases of investment securities	(645.4)	—	(645.4)	(557.7)	—	(557.7)
Proceeds from sales/maturities of investment securities	671.6	—	671.6	597.5	—	597.5
Proceeds from sale of Smithsonian Network	—	—	—	25.5	—	25.5
Collection items purchased	(8.7)	(2.3)	(11.0)	(8.9)	(3.5)	(12.4)
Proceeds from sales of collection items	0.6	—	0.6	—	—	—
Net cash provided by (used in) investing activities	(286.8)	(218.6)	(505.4)	20.2	(172.2)	(152.0)
Cash flows from financing activities:						
Appropriations for repair, restoration, and construction	—	253.7	253.7	—	303.6	303.6
Contributions for endowments	22.2	—	22.2	28.8	—	28.8
Contributions for construction of facilities	7.4	—	7.4	14.4	—	14.4
Principal from bond issuance, net	298.9	—	298.9	—	—	—
Principal payments on long-term debt	(3.8)	—	(3.8)	(51.4)	—	(51.4)
Net cash provided by (used in) financing activities	324.7	253.7	578.4	(8.2)	303.6	295.4
Net change in cash, cash equivalents and U.S. Treasury balances	33.9	67.7	101.6	30.5	120.7	151.2
Cash, cash equivalents and U.S. Treasury balances:						
Beginning of year	139.9	645.3	785.2	109.4	524.6	634.0
End of year	\$ 173.8	713.0	886.8	139.9	645.3	785.2
Noncash investing activities:						
Construction cost accruals	\$ 6.0	31.8	37.8	1.0	70.5	71.5
Cash paid for interest	\$ 2.8	—	2.8	2.9	—	2.9

See accompanying notes to financial statements

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2020 and 2019

(Dollars in millions)

(1) Organization

The Smithsonian Institution (Smithsonian) was created by an act of Congress in 1846 in accordance with the terms of the will of James Smithson of England, who, in 1826, bequeathed property to the United States of America “to found at Washington, under the name of the Smithsonian Institution, an establishment for the increase and diffusion of knowledge among men.” Congress established the Smithsonian as a trust of the United States of America and vested responsibility for its administration in the Smithsonian Board of Regents (Board).

The Smithsonian is a museum and an education and research complex consisting of 17 museums and the National Zoological Park in Washington, DC, and two museums in New York City. Additional facilities and programs are operated in five states and Panama. Research is carried out at nine research centers, in the museums and other facilities throughout the world. Millions of individuals visit Smithsonian museums and other facilities annually: 7.7 million in fiscal year 2020 and 23.2 million in fiscal year 2019.

As of September 30, 2020, the Smithsonian’s extensive collection contained approximately 155.6 million objects: 0.4 million works of arts, 8.8 million historical artifacts, and 146.4 million natural and physical science specimens (living and nonliving). The Smithsonian also maintained 164,800 cubic feet of archival holdings and 2.4 million library volumes. During fiscal year 2020, 61,386 collection items were acquired, and 5,643 items were deaccessioned.

By comparison, as of September 30, 2019, the Smithsonian’s extensive collection contained approximately 155.5 million objects: 0.4 million works of arts, 8.8 million historical artifacts, and 146.3 million natural and physical science specimens (living and nonliving). The Smithsonian also maintained 164,593 cubic feet and 0.7 million items of archival holdings and 2.3 million library volumes. During fiscal year 2019, 123,301 collection items were acquired, and 3,788 items were deaccessioned.

A substantial portion of the Smithsonian’s operations is funded by annual federal appropriations. The Smithsonian also receives federal appropriations for the construction or repair and restoration of its facilities. Certain facilities have been constructed entirely by federal appropriations, while others have been constructed with a combination of federal and private funds.

In addition to federal appropriations, the Smithsonian receives private support in the form of contributions, grants, and contracts, and earns income from investments and various business activities. Business activities include Smithsonian magazines, the Smithsonian channel in partnership with Viacom/CBS, other publications, online catalogs, and retail operations located in its museums and centers.

(2) Summary of Significant Accounting Policies

(a) General

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP) under Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 958, Not-For-Profit Presentation of Financial Statements*.

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2020 and 2019

(Dollars in millions)

These financial statements do not include the accounts of the National Gallery of Art, the John F. Kennedy Center for the Performing Arts, or the Woodrow Wilson International Center for Scholars, which were established by Congress within the Smithsonian, but are governed by independent boards of trustees and not controlled by the Smithsonian.

The Smithsonian receives annual federal appropriations to cover its core programs and renovation of its facilities as part of the budget approved annually by Congress and signed by the President. This is supplemented with income generated by business activities and endowment income designated for current operating expenses as well as gifts and grants designated by donors for other specific expenses. All monies, related activities, and balances from federal appropriations are referred to herein as "federal." While all other monies, related activities, and balances are referred to as "trust."

(b) Measure of Operations

The Smithsonian includes in its measure of operations federal and trust support and revenues and expenses that are integral to its core programs services: research; collections management; education, public programs, and exhibitions; and business activities. The measure of operations excludes certain nonoperating activities, including grants and contributions (federal capital appropriations, gifts for capital projects, and endowment gifts), investment return in excess of amounts designated for operations, collection proceeds and acquisitions, and other nonrecurring items.

The Board approves a portion of the Smithsonian's cumulative investment return for support of current operations. The remainder is retained to support operations in future years and to offset potential market declines. The amount is computed under the Smithsonian's spending policy and is allocated for use based on the underlying donor-imposed restrictions (see notes 11, 12, and 13). The annual allocation is referred to as the "endowment payout."

(c) Net Assets

The Smithsonian's net assets, support and revenues, expenses, and gains and losses are classified and reported based on the existence or absence of donor-imposed restrictions as follows:

Without donor restrictions – Net assets without donor restrictions consist of the Smithsonian's net investment in completed property and equipment less any unfunded liabilities and all other sources which are not subject to donor-imposed restrictions or other legal stipulations. At the discretion of the Smithsonian's Board of Regents, trust funds which are not expended for operating activities may be set aside in designated purposes.

With donor restrictions – Net assets with donor restrictions carry specific donor-imposed stipulations on the use of the contributed funds, including federal appropriations received for specific capital projects. Donor-imposed restrictions may expire by the passage of time or as a result of fulfillment of the donor's stipulations. Unconditional contributions restricted to the acquisition or construction of long-lived assets are recorded as nonoperating revenue with donor restrictions in the period received. Donor restrictions are generally considered met and the net assets released from restriction when the related long-lived asset is placed in service.

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Other net assets with donor restrictions include net assets with stipulations that require the corpus of the gift be maintained with only the income to be used to support operations or other specified purpose.

(d) Cash, Cash Equivalents, Cash Equivalents, and U.S. Treasury Balances

Cash, cash equivalents, and U.S. Treasury balances include interest-bearing demand deposits and appropriated amounts yet to be disbursed remaining on deposit with the U.S. Department of Treasury (U.S. Treasury). The Smithsonian considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents, except where such cash equivalents are held as part of a long-term investment strategy (see note 6). For purposes of the statements of cash flow, cash equivalents held within the investments are excluded from cash and cash equivalents in beginning and ending cash and cash equivalents thereon.

U.S. Treasury balances of \$713.0 at September 30, 2020 and \$645.3 at September 30, 2019 consist of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments of the Smithsonian. U.S. Treasury balances are carried forward until such time as goods or services are received and payments made, or until the funds are returned to the U.S. Treasury.

(e) Contracts with Customers and Accounts Receivable

Business activities, including advertising, subscriptions, licensing, and other revenues are generally recognized as the services are provided over the period of performance. Revenues from magazines and long-term contracts are deferred and recognized ratably over the period of the underlying agreement. Concessions and retail sales are recognized when goods or services are sold at a point in time.

Customer receivables are invoiced based upon contractual terms. The Smithsonian maintains allowances for doubtful accounts to reflect management's best estimate of probable losses inherent in receivable balances. Management determines the allowances for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence.

(f) Contributions, including Government Grants and Contracts, and Pledges Receivable

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give are recognized initially at fair value with consideration given to anticipated future cash receipts and discounting such amounts at a risk-adjusted rate. Amortization of the discount is included in contributions revenue. Conditional promises to give are not recognized until they become unconditional, that is, when the barriers on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Allowance is made, if necessary, for uncollectible contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

The Smithsonian conducts sponsored program activity with various sponsors, including agencies and departments of the federal government, local government entities, and foundations. Such grants and contracts revenue are recognized as the related qualifying expenses are incurred.

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(g) Investments and Trusts Held by Others

Smithsonian employs an investment strategy that is designed to achieve returns that support Smithsonian's mission and fulfill its fiduciary responsibility to its donors and constituents.

Investments are generally reported at fair value. Publicly traded fixed income, global equities, natural resources and cash and cash equivalents, including gift annuity program investments are reported and valued using readily determinable market prices. Nearly all the valuations reported by marketable alternative investments and public equities held in commingled funds rely upon third-party administrators to objectively value positions and calculate net asset value (NAV) based on the funds' net asset values as a practical expedient. Investments in private equity structured funds (private equity, venture capital, real estate, natural resources) (collectively, nonmarketable investments) are valued at estimated fair value based on the funds' net asset values, or their equivalents, as a practical expedient, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of September 30, 2020, the Smithsonian had no plans or intentions to sell investments at amounts different from NAV. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant.

Purchases and sales of investments are reflected on the trade-date basis using average historical cost. Dividend and interest income are recorded when earned on an accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflect in the statement of financial activities (see note 6).

The Smithsonian is also party to various split interest agreements with donors consisting primarily of irrevocable charitable remainder trusts and gift annuities.

Charitable remainder trusts held by others – Assets are reflected in pledges receivable, net with contribution revenues recognized at the date the trust is established based on the net present value of the estimated future payments to be made to the donors and/or other beneficiaries. Income distributions from these trusts are recorded as investment income and changes in the fair value of these trusts are recorded as unrealized gains or losses in the statement of financial activities.

Charitable gift annuities – Assets are included in investments and recognized at fair value at the date of the annuity agreement. An annuity liability is also recognized for the present value of future cash flows expected to be paid to the donor. Contribution revenue recognized is equal to the difference between the assets and the annuity liabilities. The annuity liabilities are adjusted during the term of the annuity for payments to donors, accretion of discounts, and changes in the life expectancies of the donors.

(h) Property and Equipment

Certain land occupied by Smithsonian buildings, located primarily in the District of Columbia, Maryland, and Virginia, were appropriated and reserved by Congress for the Smithsonian's use. The Smithsonian serves as trustee of the land for as long as they are used to carry out its mission. The land is titled in the name of the U.S. government and no value has been assigned in the accompanying financial statements.

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Property and equipment purchased with federal or trust funds are recorded at cost. Property and equipment acquired through transfers from government agencies are recorded at net book value or fair value at the date of transfer, whichever is more readily determinable. Property and equipment acquired through donation are recorded at estimated fair value at the date of the gift.

Property and equipment assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	30 years
Capital improvements	15 years
Equipment and software	3–7 years
Exhibit costs	10 years

Leasehold improvements are amortized over the shorter of the lease term or their useful lives.

Rent expense under operating leases that provide for scheduled rent increases over their terms is recognized on a straight-line basis.

(i) Collections – Stewardship Assets

The Smithsonian acquires its collections by purchase or by donation. Collections are held for public exhibition, education, or research. The Smithsonian's collections management policy includes guidance on the preservation, care, and maintenance of the collections and procedures relating to the accession/deaccession of collection items.

In conformity with the practice generally followed by museums, no value is assigned to the collections in the statement of financial position. Purchases of collection items are recognized as reductions in the appropriate net asset class in the period of acquisition. Proceeds from deaccessions or insurance recoveries for lost or destroyed collection items are recognized as increases in net assets without donor restrictions and designated for future collection acquisitions.

Noncash deaccessions of collection items result from the exchange, donation, or destruction due to deterioration, a lack of mission relation, or duplicate other objects. During the fiscal year, noncash deaccessions included works of art, animals, historical objects, and natural specimens.

Items that are acquired with the intent to sell, exchange, or otherwise be used for financial gain are not considered collection items and are recorded as other assets at their fair value at the date of acquisition. Contributed items held for sale, amounting to \$0.9 for fiscal year 2020 and \$0.9 for fiscal year 2019, are included in other assets.

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(j) Federal Appropriations and Funds

Federal appropriations are provided by the U.S. Federal Government to support the general operations of the Smithsonian and the construction, repair, and restoration of its facilities. Funds are to be spent in accordance with applicable law and revenue is recognized ratably over the fiscal year as the qualifying expenses are incurred and funds are expended. Unexpended appropriation balances are classified as a liability on the statement of financial position.

Federal appropriations for general operations are recognized as operating revenue without donor restrictions, as qualifying expenses are incurred, and generally available for two years. The portion of these appropriations which are not obligated or expended are retained by the Smithsonian in accordance with federal guidelines and returned to the U.S. Department of Treasury five years after the expiration of the obligation period. During fiscal year 2020, \$0.8 related to the fiscal 2014 appropriation was returned. During fiscal year 2019, \$0.9 related to the fiscal year 2013 appropriation was returned.

Amounts appropriated for construction or repair and restoration of facilities are recognized as nonoperating revenues with donor restrictions as capital is expended and generally available for obligation until expended. Such amounts remain purpose restricted until the capital project is completed and placed in service, at which time the net assets are released from restrictions.

Net assets of federal funds without donor restrictions consist primarily of cash held at U.S. Treasury and net investment in property and equipment acquired or constructed with federal funds less unfunded liabilities for environmental remediation obligations, annual leave, and estimated Federal Employees Compensation Act liabilities for workers' compensation claims. Net assets of federal funds with donor restrictions consist of U.S. Treasury cash balances and construction in progress.

(k) Annual Leave

Annual leave is accrued as it is earned by employees and is included in compensation and benefit costs. The liability for unused annual leave totaling \$56.8 as of September 30, 2020 and \$45.9 as of September 30, 2019 is included in accounts payable and accrued expenses.

(l) Employee Benefit Plans

The Smithsonian offers its employees a comprehensive set of benefits including pension, health and life insurance, and workers' compensation for injuries sustained on the job. The Smithsonian's current year contributions to the retirement, health, and life insurance plans described below are recognized in the statement of financial activities.

Federal funded pension, health and life insurance benefits, including imputed benefits

Federal employees hired after January 1, 1984, participate in the Federal Employees' Retirement System (FERS). Federal employees hired prior to January 1, 1984, had the option of remaining under the Civil Service Retirement System (CSRS) or electing FERS. The terms of both these plans are defined in federal regulations. Under both systems, a specified percentage is withheld from each federal employee's salary. The Smithsonian also contributes specified percentages of employees' salaries. Additional costs associated with these plans are borne by the U.S. government. The Smithsonian recognizes its share of these additional costs as imputed benefits revenue and expense in

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the statement of financial activities. Imputed benefits totaled \$87.2 in fiscal year 2020 and \$86.3 in fiscal year 2019. Smithsonian's direct expense for these plans amounted to \$48.3 for fiscal year 2020 and \$40.8 for fiscal year 2019.

The Smithsonian's current-year contributions to the pension plans are recognized in the statement of financial activities using rates established by the Office of Personnel Management (OPM), the agency with U.S. government-wide responsibility for the oversight and administration of the plans. Consistent with reporting under multiemployer pension plans, the Smithsonian does not report CFRS and FERS assets, accumulated plan benefits, or future liabilities, if any, applicable to its covered employees. This data is reported for plan participants by OPM.

Federal employees covered by CSRS or FERS are eligible to contribute to the Thrift Savings Plan (TSP), a defined contribution plan similar to a 401(k). The TSP is administered by the Federal Retirement Thrift Investment Board, an independent agency of the U.S. government. For FERS-covered employees, the Smithsonian is required to match contributions of specified percentages of base pay. No matching contributions are made for CSRS-covered employees.

Most federal employees are also eligible to participate in the Federal Employees Group Life Insurance (FEGLI) Program. Participating employees can obtain basic term life insurance, with the employee paying two-thirds of the cost and the Smithsonian paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities.

Most federal employees are eligible to enroll in the Federal Employees Health Benefit (FEHB) Program, which provides postretirement health benefits if certain conditions are met. OPM administers this plan and Smithsonian is not obligated under this plan.

Trust funded pension, health and life insurance benefits

Substantially all trust fund employees are eligible to participate in defined contribution retirement plan under which the Smithsonian contributes specified percentages of employees' salaries. Such contributions are used to purchase individual annuities, the rights to which are immediately vested with the employees. Employees may also make voluntary contributions, subject to certain limitations. The Smithsonian's expense for this plan was \$21.4 for fiscal year 2020 and \$21.0 for fiscal year 2019.

In addition to the retirement plans, certain healthcare and life insurance benefits are made available to active and retired trust fund employees. The plan is contributory for retirees and requires payment of premiums and deductibles. Retiree contributions for premiums are established by an insurance carrier based on the average per capita cost of benefit coverage for all participants. At year-end, the accrued benefit obligation under this plan was \$19.2 for fiscal year 2020 and \$16.1 for fiscal year 2019 and is included in accounts payable and accrued expenses in the statement of financial position.

Workers' compensation

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to Smithsonian employees injured on the job, who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related or occupational diseases.

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The FECA program is administered by the U.S. Department of Labor (DOL) which pays claims and subsequently seeks reimbursement from the Smithsonian.

FECA expense is recognized based on amounts invoiced or expected to be invoiced by DOL and changes in the actuarially determined value of expected future benefits. The actuarially determined FECA liability represents the liability for expected future benefits for death, disability, medical, and miscellaneous costs for approved cases. The actuarial liability is determined by DOL and evaluated by Smithsonian management annually, as of September 30, using a method utilizing historical benefit patterns related to specific incurred period, wage inflation factors, medical inflation factors and other variables. This liability constitutes an extended future estimate of cost which will not be obligated against budgetary resources until the fiscal year in which DOL bills the cost to the Smithsonian. The payment associated with this liability cannot be met by the Smithsonian without continued annual federal appropriation.

(m) Contributed Services and Donated Assets

Volunteers make significant contributions of time to the Smithsonian, enhancing its activities and programs. During fiscal year 2020, about 5,100 volunteers contributed around 293,000 hours of service and another 31,656 digital volunteers transcribed about 161,100 pages. During fiscal year 2019, about 6,900 volunteers contributed around 508,700 hours of service and another 13,600 digital volunteers transcribed about 91,300 pages. The services provided do not meet the criteria for recognition of contributed services, and accordingly, are not reflected in the statement of financial activities.

Donated assets, other than donations of cash or collection items, are recorded at estimated fair value at the date of gift.

In-kind contributions such as donated space, equipment, services, and various other items totaled \$11.8 in fiscal year 2020 and \$11.6 in fiscal year 2019 and recognized as program support revenues (within other revenues) and program activities expenses in the statement of financial activities.

(n) Functional Allocation of Expenses

The cost of providing various programs and other activities summarized on a functional and natural basis is shown in note 16.

- Included in research are personnel, travel, and other costs associated with the Smithsonian's worldwide research programs.
- Collections management includes the care, storage, transportation, digitization, and other costs.
- Education, public programs and exhibitions includes the cost of providing a wide array of programing and outreach to academia and the general public as well as costs to display, manage, and transport exhibits.
- Business activities includes the cost of sales and related expenses.
- Administrative expenses include costs for executive management, financial administration, human resources, and legal services.

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- Advancement expenses include those costs associated with individual and corporate gifts and grants, annual appeals and other fundraising efforts.

Costs that benefit more than one program, such as security, facilities, depreciation, and amortization, are allocated across programs based on relative square, or direct costs as a percentage of total costs, before allocations.

(o) Related Organizations

The Smithsonian recognizes its interest in the net assets of organizations that are financially interrelated and the changes in its interest as other nonoperating activities. Such organizations included the Friends of the National Zoo.

(p) Income Taxes

The Smithsonian is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code). As such, the Smithsonian is generally exempt from Federal income taxes to the extent provided under Section 501 of the Code, except for unrelated business income, principally advertising sales.

The Tax Cuts and Jobs Act (the Act) was enacted in December 2017. Among other things, the Act imposes new taxes and established new rules for calculating unrelated business taxable income. The Smithsonian has reflected an estimate in its financial statements for unrelated trade or business income tax using the current proposed regulatory guidance and will continue to evaluate the impact of the Act on current and future tax positions.

The Smithsonian accounts for uncertain tax positions, when applicable. The tax years that remain subject to examination by the major tax jurisdictions under the statute are from the year 2016 and forward.

(q) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Risks and Uncertainties

The Smithsonian invests in a variety of investment securities. Investment securities are exposed to such risks as interest rate, market, and credit risks. As a result, changes in the values of investment securities may occur that could materially affect the value of the Smithsonian's investments and its financial position.

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(s) COVID-19 Pandemic

Certain external events, such as pandemics, natural disasters, severe weather, technological emergencies, riots, acts of war or terrorism or other circumstances, could potentially disrupt the Smithsonian's ability to conduct its business. A prolonged disruption in the Smithsonian's operations could have an adverse effect on the Smithsonian's financial condition and results of operations. To plan for and mitigate the impact such an event may have on its operations, the Smithsonian has developed a Contingency Plan for a Lapse in Appropriations Team (Plan) and an Emergency Response Team (Response) to deal with other types of emergencies. The Plan and Response Teams are designed to (i) provide for the continued execution of the mission-essential functions of the Smithsonian and minimize disruption if a lapse in federal appropriations (due, for example, to a government shutdown) or another type of emergency threatens, interrupts or incapacitates the Smithsonian's operations; and (ii) provide the Smithsonian's leadership with timely direction, control, and coordination before, during, and after a lapse in federal appropriations or another type of emergency. The Smithsonian is presently developing a plan, similar to its contingency plan to deal specifically with a lapse in appropriations, to facilitate the return to normal operating conditions as soon as practical based on the circumstances surrounding any other given emergency. No assurances can be given that the Smithsonian's efforts to mitigate the effects of any given emergency or other event will be successful in preventing any and all disruptions to its operations in the event of such an emergency.

One such external event is the recent global outbreak of the novel coronavirus (COVID-19), a respiratory disease declared to be a pandemic by the World Health Organization (Pandemic), which is affecting the capital markets and the economy, and the museum, research, and education sectors. The threat from the Pandemic is being addressed on the national, federal, state, and local levels in various forms, including executive orders, state and local orders, and legislative actions.

On March 13, 2020, the President of the United States declared a national emergency with respect to the Pandemic. In addition, the United States Congress enacted several COVID-19-related bills, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, which provided over \$2 trillion of direct financial aid to American families, payroll and operating expense support for small businesses, and loan assistance for distressed industries, as well as providing funds to and directing the Federal Reserve System to support the capital markets.

The Pandemic is an ongoing situation. The Smithsonian's museums and galleries in the District of Columbia and New York and the Smithsonian's National Zoo were closed in March 2020 to support the effort to contain the spread of COVID-19. Where feasible, the Smithsonian transitioned its employees to telework. The Smithsonian continues to seek and receive philanthropic donations and to conduct, to the extent possible, certain business activities that do not take place within its museums, galleries, and National Zoo. Select museums, galleries, and the National Zoo were reopened in a phased approach over the summer. However due to the resurgence of COVID-19, they were closed again in November 2020. Adverse consequences of the Pandemic specific to the Smithsonian's activities, included but were not limited to, declines in revenues from retail, concessions, theaters, in-person classes, payments by affiliate museums, and parking operations; special events held at Smithsonian facilities; and Smithsonian programs that involve travel. In addition, the Pandemic and its continued impact on economies and financial markets may materially adversely affect the returns on and value of the Smithsonian's investment portfolio.

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In responding to the Pandemic, the Smithsonian has support unavailable to most cultural institutions. Over two-thirds of its overall budget come from Federal appropriations unaffected by the Pandemic. The CARES Act provided the Smithsonian with \$ 7.5 million in direct support to respond to the Pandemic of which \$4.5 million was utilized by September 30, 2020. The Smithsonian's free admission model, coupled with this federal support, makes the Smithsonian less vulnerable to the financial impact of public closures than much of the cultural sector.

(t) Recently Adopted Accounting Pronouncements

Cash Flows

During fiscal year 2020, the Smithsonian adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update addressed eight cash flow classifications issues that have created diversity in practice, providing definitive guidance on classification of certain cash receipts and payments. The Smithsonian also adopted ASU 2016-15, *Statement of Cash Flows (Topic 230): Restricted Cash*. This update requires that amounts described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning and end-of-period total amounts shown on the statements of cash flows. The adoption of these standards had no material impact on the financial statements.

Contributions Made and Received

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to reduce diversity in reporting by clarifying (1) whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and (2) whether a contribution is conditional. The Smithsonian implemented the contributions made portion of the standard during fiscal year 2020. The adoption of this standard had no material impact on the financial statements. The Smithsonian implemented the contributions received portion of the standard in fiscal year 2019.

Revenue Recognition

The Smithsonian implemented ASU 2014-09, *Revenue from Contracts with Customers*, as amended effective October 1, 2018, and recognized a cumulative effect to beginning net assets without donor restrictions of \$6.8.

(u) Recent Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02, as amended, requires the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under the ASC *Topic 840 – Leases*. The accounting applied by the lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. ASU 2016-02 is effective for the Smithsonian in fiscal year 2021.

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In March 2019, the FASB issued ASU No. 2019-03, *Updating the Definition of Collections, Not-For-Profit Entities* (Topic 958). This ASU modifies the term "Collections" which in turn may change collection recognition policies and add certain disclosure requirements. ASU 2019-03 is effective for the Smithsonian in fiscal year 2021.

(3) Financial Assets and Liquidity Resources

Federal appropriations provide a significant funding for the Smithsonian's various programs and general operating costs, in addition to capital support for the repair, renovation and construction of its facilities. At the date of appropriation, an equal amount of cash is deposited and held by the U.S. Treasury on Smithsonian's behalf until expended. As of September 30, the U.S. Treasury held cash of \$713.0 in 2020 and \$645.3 in 2019 which represents the balance of the operating and capital appropriations not yet expended.

Private donor gifts and grants, government grants and contracts, and other revenue sources, such as business activities and rentals, provide funding for nonappropriated program and operating activities as well as for the repair, renovation, and construction of facilities not funded through appropriation.

To meet immediate and longer-term cash needs, the Smithsonian has a working capital investment policy. The policy requires excess funds be invested in short-term, high-quality instruments allowing for required liquidity and providing a maximum return within defined risk constraints. As of September 30, 2020, the working capital investment fund totals \$321.6 and is comprised of cash equivalents of \$103.0 and short-term investments of \$218.6. As of September 30, 2019, the working capital investment fund totals \$260.3 and is comprised of cash equivalents of \$50.5 and short-term investments of \$209.8.

The Smithsonian also had available a \$50.0 line of credit available to provide additional resources if necessary. Borrowings under the line bear annual interest at LIBOR (London Interbank Offered Rate) Daily Floating Rate plus 0.55%. Beginning in fiscal year 2020, an annual availability fee of 0.04% on the unused balance was required. The line expired on October 31, 2020 and was not renewed.

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The following reconciles total financial assets at September 30, 2020 and 2019 to financial assets available to meet cash needs for general expenditures (operating expenses, capital, and debt service) within one year.

	2020		
	<u>Trust</u>	<u>Federal</u>	<u>Total</u>
Financial assets:			
Cash, cash equivalents, and U.S. Treasury balances	\$ 173.8	713.0	886.8
Accounts receivable and other assets	65.8	1.8	67.6
Pledges receivable, net	179.1	—	179.1
Investments	<u>2,179.1</u>	<u>—</u>	<u>2,179.1</u>
Total financial assets	2,597.8	714.8	3,312.6
Plus endowment payout approved for fiscal year 2021	80.4	—	80.4
Less financial assets unavailable for general expenditures within one year:			
Endowments	(1,937.8)	—	(1,937.8)
Pledges due beyond one year	(73.6)	—	(73.6)
Charitable remainder trusts	(16.2)	—	(16.2)
Gift annuity assets	(22.7)	—	(22.7)
Inventory	(12.0)	(0.2)	(12.2)
Deferred expenses	(7.8)	—	(7.8)
Other assets	<u>(16.3)</u>	<u>—</u>	<u>(16.3)</u>
	<u>\$ 591.8</u>	<u>714.6</u>	<u>1,306.4</u>

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	2019		
	<u>Trust</u>	<u>Federal</u>	<u>Total</u>
Financial assets:			
Cash, cash equivalents, and U.S. Treasury balances	\$ 139.9	645.3	785.2
Accounts receivable and other assets	77.3	3.2	80.5
Pledges receivable, net	167.9	—	167.9
Investments	<u>1,946.2</u>	<u>—</u>	<u>1,946.2</u>
Total financial assets	2,331.3	648.5	2,979.8
Plus endowment payout approved for fiscal year 2020	69.6	—	69.6
Less financial assets unavailable for general expenditures within one year:			
Endowments	(1,713.2)	—	(1,713.2)
Pledges due beyond one year	(59.7)	—	(59.7)
Charitable remainder trusts	(17.9)	—	(17.9)
Gift annuity assets	(23.2)	—	(23.2)
Inventory	(13.1)	—	(13.1)
Deferred expenses	(8.6)	—	(8.6)
Other assets	<u>(18.1)</u>	<u>—</u>	<u>(18.1)</u>
	<u>\$ 547.1</u>	<u>648.5</u>	<u>1,195.6</u>

Quasi-endowment assets include funds without donor restrictions designated by the Board to function as endowment funds supporting the Smithsonian's programs and operations, including the directors of certain museums and centers and various operating costs. Although the Smithsonian does not intend to spend from its board designated endowment funds, other than amounts approved, these funds could be made available, if necessary (see note 12).

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(4) Accounts Receivable and Other Assets

Accounts receivable and other assets consist of the following as of September 30:

	2020			2019		
	Trust	Federal	Total	Trust	Federal	Total
Grants and contracts	\$ 11.9	1.6	13.5	17.3	2.7	20.0
Trade accounts, net of \$0.4 for 2020 and \$0.3 for 2019 allowances	17.7	—	17.7	18.4	0.1	18.5
Inventory	12.0	0.2	12.2	12.8	0.3	13.1
Deferred expenses	7.8	—	7.8	8.6	0.1	8.7
Accrued interest and dividends receivable	0.1	—	0.1	2.1	—	2.1
Other assets	16.3	—	16.3	18.1	—	18.1
Total receivables and other assets	\$ <u>65.8</u>	<u>1.8</u>	<u>67.6</u>	<u>77.3</u>	<u>3.2</u>	<u>80.5</u>

(5) Pledges Receivable

Pledges receivable consist of the following as of September 30:

	2020	2019
Due within:		
Less than 1 year	\$ 94.8	90.3
1 to 5 years	72.9	66.9
5 years or beyond	0.7	0.3
	168.4	157.5
Less:		
Allowance for uncollectible contributions	(2.6)	(3.4)
Unamortized discount (at rates ranging from 1.1% to 2.9%)	(2.9)	(4.1)
	162.9	150.0
Contributions receivable, net	162.9	150.0
Charitable remainder trusts	16.2	17.9
	179.1	167.9
Pledges receivable, net	\$ <u>179.1</u>	<u>167.9</u>

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(6) Investments and Fair Value Measurements

Investments are comprised of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Endowment, including Board designated funds	\$ 1,937.8	1,713.2
Working capital short-term investments	218.6	209.8
Charitable gift annuity investments	<u>22.7</u>	<u>23.2</u>
Total investments	<u>\$ 2,179.1</u>	<u>1,946.2</u>

The three levels of the fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- Level 1 – Quoted or published prices in active markets for identical assets or liabilities, as of the reporting date.
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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The following summarizes Smithsonian's investments at fair value which are determined primarily based on quoted market prices as of September 30, 2020 and 2019:

	2020			
	Total	Level 1	Level 3	NAV⁽¹⁾
Endowment investments:				
Global equities:				
Developed markets	\$ 344.1	42.7	—	301.4
Emerging markets	123.3	—	—	123.3
Marketable alternatives	355.3	—	—	355.3
Private equity:				
Private equity	186.4	—	—	186.4
Venture capital	551.6	4.3	—	547.3
Real assets:				
Energy and natural resources	86.5	6.8	—	79.7
Real estate funds	135.7	—	—	135.7
Fixed income	22.1	—	—	22.1
Cash and equivalents	131.8	131.8	—	—
Pooled investments	1,936.8	185.6	—	1,751.2
U.S. Treasury deposits	1.0	1.0	—	—
Total endowment	1,937.8	186.6	—	1,751.2
Fixed income (working capital fund)	218.6	218.6	—	—
Gift annuities, primarily equities	22.7	22.7	—	—
Total investments	2,179.1	427.9	—	1,751.2
Charitable remainder trusts	16.2	—	16.2	—
	<u>\$ 2,195.3</u>	<u>427.9</u>	<u>16.2</u>	<u>1,751.2</u>

⁽¹⁾ Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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	2019			
	Total	Level 1	Level 3	NAV⁽¹⁾
Endowment investments:				
Global equities:				
Developed markets	\$ 313.7	54.8	—	258.9
Emerging markets	114.4	2.9	—	111.5
Marketable alternatives	273.9	—	—	273.9
Private equity:				
Private equity	159.1	—	—	159.1
Venture capital	420.7	2.9	—	417.8
Real assets:				
Energy and natural resources	110.8	9.8	—	101.0
Real estate funds	134.8	—	—	134.8
Fixed income	82.7	53.9	—	28.8
Cash and equivalents	102.1	102.1	—	—
Pooled investments	1,712.2	226.4	—	1,485.8
U.S. Treasury deposits	1.0	1.0	—	—
Total endowment	1,713.2	227.4	—	1,485.8
Fixed income (working capital fund)	209.8	209.8	—	—
Gift annuities, primarily equities	23.2	23.2	—	—
Total investments	1,946.2	460.4	—	1,485.8
Charitable remainder trusts	17.9	—	17.9	—
	<u>\$ 1,964.1</u>	<u>460.4</u>	<u>17.9</u>	<u>1,485.8</u>

⁽¹⁾ Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been categorized within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following table summarizes the changes in Level 3 assets, charitable remainder trusts held by others, measured at fair value on a recurring basis for the years ended September 30:

	2020	2019
Fair value of Level 3 assets, beginning of the year	\$ 17.9	19.3
Unrealized losses	(1.4)	(1.1)
Proceeds from distributions	(0.3)	(0.3)
Fair value of Level 3 assets, end of the year	<u>\$ 16.2</u>	<u>17.9</u>

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The following summarizes information relating to the investments, which are stated at NAV as practical expedient for fair value and includes information about the nature, strategies, and risks of these major classes of nonmarketable investments as of September 30:

		2020			
		NAV	Unfunded Commitments	Redemption terms	Notice Period (Days)
Global equity:	(a)				
Developed markets		\$ 301.4	—	Weekly to annually	6 - 90
Emerging markets		123.3	—	Monthly to semi-annually	14 - 90
Marketable alternatives:	(b)	355.3	4.3	Monthly to at maturity	45 - N/A
Private equity:	(c)				
Private equity		186.4	77.3	N/A	N/A
Venture capital		547.3	118.4	N/A	N/A
Real assets:	(d)				
Energy and natural resources		79.7	28.6	N/A	N/A
Real estate funds		135.7	109.5	Quarterly to at maturity	60 - N/A
Fixed income	(e)	22.1	—	Quarterly	90
		<u>\$ 1,751.2</u>	<u>338.1</u>		
		2019			
		NAV	Unfunded Commitments	Redemption terms	Notice Period (Days)
Global equity:	(a)				
Developed markets		\$ 258.9	—	Weekly to annually	6 - 91
Emerging markets		111.5	2.0	Monthly to semi-annually	14 - 90
Marketable alternatives:	(b)	273.9	39.9	Monthly to at maturity	30 - N/A
Private equity:	(c)				
Private equity		159.1	85.2	N/A	N/A
Venture capital		417.8	76.5	N/A	N/A
Real assets:	(d)				
Energy and natural resources		101.0	36.6	N/A	N/A
Real estate funds		134.8	108.9	Quarterly	60
Fixed income	(e)	28.8	—	Quarterly	90
		<u>\$ 1,485.8</u>	<u>349.1</u>		

(a) Global equity is comprised of investments in funds and strategies invested in publicly listed equity securities in the global developed and emerging markets. Some of the funds are subject to lock-ups.

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- (b) Marketable alternatives consist of investments in a broad array of securities and strategies aimed to reduce volatility and enhance returns. Smithsonian's marketable alternatives managers may follow certain investment strategies including, but not limited, to long/short equity, credit and distressed, multistrategy funds. Some of the funds are subject to soft and hard lock-ups and other funds are not eligible for redemption.
- (c) Private equity consists of limited partnerships that are organized to invest primarily in shares of operating companies that are not listed on a publicly traded stock exchange. Private equity strategies include investments in leveraged buyouts, growth capital and distressed investments. Venture capital strategies invest in start-ups and businesses with perceived long-term growth potential. Distributions to limited partners are made as soon as feasible and, in accordance with the limited partnership agreement, when realizations (sales of portfolio companies) are made, or when interest payments, dividends, or recapitalizations are generated.
- (d) Real assets include real estate energy and natural resources investments that are made mostly in private limited partnerships as well as publicly traded securities funds. Distributions to limited partners are made as soon as feasible and, in accordance with the limited partnership agreement, when realizations (sales of portfolio companies) are made, or when interest payments, dividends, or recapitalizations are generated.
- (e) Fixed income includes funds that invest in U.S. government, agency and municipal bonds, and other interest-bearing products.

The Smithsonian is obligated under the terms of certain limited partnership agreements to remit additional funding periodically as capital calls are exercised. The Smithsonian had uncalled commitments totaling approximately \$338.1 as of September 30, 2020 and \$349.1 as of September 30, 2019. Such commitments are callable over the fund investment period, generally the first five years of the funds. The standard life of Smithsonian's investments in these private partnerships are between 8 and 10 years with possible one to two one-year extension periods and/or other termination clauses.

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The following summarizes the investment return, net of expenses, and its classification in the statement of financial activities for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Dividend and interest income, net of expenses	\$ 6.4	15.1
Net realized and unrealized gains	<u>259.1</u>	<u>105.4</u>
Total investment return	\$ <u>265.5</u>	<u>120.5</u>
Endowment payout allocated for operations	\$ 76.9	75.9
Short term investment income	4.9	7.9
Investment return, net of endowment payout	<u>183.7</u>	<u>36.7</u>
Total investment return	\$ <u>265.5</u>	<u>120.5</u>

(7) Property and Equipment

Property and equipment consist of the following as of September 30:

	<u>2020</u>		
	<u>Trust</u>	<u>Federal</u>	<u>Total</u>
Land	\$ 32.3	—	32.3
Construction in progress	80.1	416.4	496.5
Buildings and capital improvements	1,226.5	3,035.7	4,262.2
Equipment and software	196.2	247.7	443.9
Leasehold improvements	<u>106.0</u>	<u>25.6</u>	<u>131.6</u>
	1,641.1	3,725.4	5,366.5
Accumulated depreciation	<u>(659.5)</u>	<u>(1,966.3)</u>	<u>(2,625.8)</u>
Total property and equipment	\$ <u>981.6</u>	<u>1,759.1</u>	<u>2,740.7</u>
Depreciation expense	\$ <u>58.9</u>	<u>128.8</u>	<u>187.7</u>

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	2019		
	Trust	Federal	Total
Land	\$ 12.6	—	12.6
Construction in progress	49.8	364.3	414.1
Buildings and capital improvements	988.5	2,917.6	3,906.1
Equipment and software	190.7	251.3	442.0
Leasehold improvements	105.7	37.7	143.4
	<u>1,347.3</u>	<u>3,570.9</u>	<u>4,918.2</u>
Accumulated depreciation	<u>(616.7)</u>	<u>(1,860.6)</u>	<u>(2,477.3)</u>
Total property and equipment	<u>\$ 730.6</u>	<u>1,710.3</u>	<u>2,440.9</u>
Depreciation expense	<u>\$ 50.6</u>	<u>115.6</u>	<u>166.2</u>

(8) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consists of the following as of September 30:

	2020		
	Trust	Federal	Total
Accounts payable	\$ 24.2	73.2	97.4
Accrued salaries	14.2	23.2	37.4
Accrued annual leave	18.6	38.2	56.8
Workers' compensation (FECA)	2.3	32.1	34.4
Post retirement benefits	19.2	—	19.2
Other accrued personnel benefits	0.3	6.6	6.9
Deferred rent	23.1	—	23.1
Charitable gift annuity liabilities	13.2	—	13.2
Other accrued liabilities	2.7	3.8	6.5
Total accounts payable and accrued expenses	<u>\$ 117.8</u>	<u>177.1</u>	<u>294.9</u>

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	2019		
	Trust	Federal	Total
Accounts payable	\$ 31.8	101.7	133.5
Accrued salaries	12.4	18.7	31.1
Accrued annual leave	15.6	30.3	45.9
Workers' compensation (FECA)	2.7	43.7	46.4
Post retirement benefits	16.1	—	16.1
Other accrued personnel benefits	0.3	6.7	7.0
Deferred rent	14.3	—	14.3
Charitable gift annuity liabilities	13.4	—	13.4
Other accrued liabilities	17.0	13.4	30.4
Total accounts payable and accrued expenses	\$ <u>123.6</u>	<u>214.5</u>	<u>338.1</u>

Federal accrued annual leave, FECA, and other accrued liabilities are unfunded and cannot be met by the Smithsonian without continued annual federal appropriation.

(9) Environmental Remediation Obligations

The Smithsonian has unfunded environmental remediation obligations that are estimated based on third-party studies, contractor bids and internal estimates derived from recently completed remediation projects for similar facilities and other information for similar projects. The present value of the obligation is calculated using an inflation rate of 1.5 % and 1.9%, and a discount rate of 2.2% and 2.3% as of September 30, 2020 and 2019, respectively. Each period the obligation is accreted to its present value. Because the related properties are fully depreciated, changes in the estimated obligation are expensed. Any difference between the estimated obligation and the actual cost of remediation is also expensed.

Fiscal year activity in the unfunded environmental remediation obligation follows:

	2020	2019
Balance, beginning of year	\$ 61.4	49.8
Accretion	1.1	1.0
Change in estimate	(10.8)	10.6
Balance, end of period	\$ <u>51.7</u>	<u>61.4</u>

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(10) Long-term Debt

The Smithsonian's long-term debt is unsecured and funded solely through trust funds without donor restrictions. Long-term debt is comprised of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Series 2020 General Obligation Bonds, variable interest rate, principal amounts ranging \$10.6 to \$13.0, due September 1, 2021 through 2034	\$ 161.8	—
Series 2020 General Obligation Bonds, term, principal amounts ranging \$13.2 to \$14.8, interest rate 2.645%, due September 1, 2035 through 2039	70.0	—
Series 2020 General Obligation Bonds, term, principal amounts ranging \$15.1 to \$16.5, interest rate 2.695%, due September 1, 2040 through 2044	66.0	—
Series 2010 Revenue Bonds, serial, principal amounts ranging \$1.6 to \$1.7, interest rates 5.00% to 5.25%, due February 1, 2020 through 2021	1.7	3.3
Series 2010 Revenue Bonds, term, principal amounts ranging \$1.8 to \$2.4, interest rate 5.25%, due February 1, 2022 through 2028	14.7	14.7
Series 2003 Revenue Bonds, variable interest rate, due December 1, 2033:		
Series A	52.5	52.5
Series B	25.0	25.0
	<u>391.7</u>	<u>95.5</u>
Less: Unamortized bond issuance cost (2020 bond)	(0.3)	—
Less: Unamortized underwriter's discount (2020 bond)	(0.8)	—
Plus: Unamortized bond premium (2010 bond)	0.7	0.9
	<u>391.3</u>	<u>96.4</u>
Total long-term debt	\$ <u>391.3</u>	<u>96.4</u>

Series 2020 Revenue Bonds

The general obligation Series 2020 Federally taxable bonds were issued on June 18, 2020 to finance the costs of acquiring the Smithsonian's consolidated administrative headquarters building located at 600 Maryland Avenue, SW, of Washington, DC. Interest is payable semiannually on March 1 and September 1. The bonds are subject to optional and mandatory redemption prior to their stated maturity.

The serial bonds mature annually through September 1, 2034, with principal repayments ranging from \$10.6 to \$13.0 per year. The term bonds maturing on September 1, 2034 through 2039 with a fixed interest rate of 2.645%. The second term bonds maturing on September 1, 2040 through 2044 with fixed interest rate of 2.695%.

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Series 2010 Revenue Bonds

The tax-exempt Series 2010 Revenue Bonds were issued by the District of Columbia on behalf of the Smithsonian to finance capital and other projects. Interest is payable semiannually on August 1 and February 1.

The serial bonds' final payment due date is February 1, 2021, with principal repayment of \$1.7. The term bonds maturing on February 1, 2028 are subject to mandatory redemption by sinking fund installments, which begin on February 1, 2022 and range from \$1.8 to \$2.4 per year through the maturity date.

Series 2003 Revenue Bonds

The tax-exempt Series 2003 Revenue Bonds were issued by the Fairfax County Economic Development Authority (Virginia) on behalf of the Smithsonian to finance a portion of the Steven F. Udvar-Hazy Center, an extension of the National Air and Space Museum. The bonds are subject to early redemption at the option of the Smithsonian. Interest is payable monthly at a variable interest rate determined in accordance with the Indenture. Interest rates for Series A and Series B were 0.12%, as of September 30, 2020 and 1.5%, as of September 30, 2019.

The bonds are supported by a standby bond purchase agreement for both the Series A and Series B (collectively, the 2003 Liquidity Facility) with Wells Fargo (Trustee) and Northern Trust Company (Liquidity Facility provider). The 2003 Liquidity Facility provides liquidity support when the bonds are bearing interest at a daily or weekly rate and expires September 7, 2021.

Interest expense was \$3.1 in fiscal year 2020 and \$2.6 in fiscal year 2019.

Future annual maturities of long-term debt are as follows:

2021	\$	12.3
2022		12.5
2023		12.7
2024		12.9
2025		13.1
Thereafter		<u>328.2</u>
	\$	<u><u>391.7</u></u>

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(11) Net Assets

Net assets consist of the following as of September 30:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investment fund	\$ —	1,133.1	1,133.1
Board designated quasi endowment funds	804.7	—	804.7
Total net assets subject to payout spending policy	804.7	1,133.1	1,937.8
Net assets with donor restrictions available for:			
Programs and operations	—	273.8	273.8
Capital repairs, renovation, and construction	—	124.6	124.6
Endowment contributions receivable and other	—	10.3	10.3
Net investment in property and equipment	1,913.8	435.6	2,349.4
Unfunded federal liabilities	(125.8)	—	(125.8)
Undesignated, including time restrictions	63.2	3.7	66.9
	<u>\$ 2,655.9</u>	<u>1,981.1</u>	<u>4,637.0</u>
2019			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investment fund	\$ —	1,002.2	1,002.2
Board designated quasi endowment funds	717.4	—	717.4
Total net assets subject to payout spending policy	717.4	1,002.2	1,719.6
Net assets with donor restrictions available for:			
Programs and operations	—	191.9	191.9
Capital repairs, renovation, and construction	—	114.2	114.2
Endowment contributions receivable and other	—	28.9	28.9
Net investment in property and equipment	1,954.6	389.9	2,344.5
Unfunded federal liabilities	(148.8)	—	(148.8)
Undesignated, including time restrictions	76.0	7.9	83.9
	<u>\$ 2,599.2</u>	<u>1,735.0</u>	<u>4,334.2</u>

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Donor restricted endowment funds include accumulated appreciation of \$530.5 as of September 30, 2020 and \$416.0 as of September 30, 2019. Future-funded federal liabilities include environmental remediation obligations and accrued annual leave, workers compensation, and litigation liabilities.

Net assets with donor restrictions are available for the following purposes as of September 30:

	2020			2019		
	Endowments at historical cost	Subject to purpose restriction and time	Total	Endowments at historical cost	Subject to purpose restriction and time	Total
Museums and general support	\$ 158.5	258.5	417.0	146.1	219.2	365.3
Education, public programs, and exhibitions	279.9	324.1	604.0	276.6	231.4	508.0
Research	95.0	117.9	212.9	93.9	114.0	207.9
Acquisitions and collections	60.0	111.6	171.6	57.7	88.6	146.3
Facilities and capital	1.6	574.0	575.6	1.6	505.9	507.5
	<u>\$ 595.0</u>	<u>1,386.1</u>	<u>1,981.1</u>	<u>575.9</u>	<u>1,159.1</u>	<u>1,735.0</u>

Endowments at historical costs above includes charitable remainder trusts and endowment pledge receivables.

(12) Endowment Funds

The Smithsonian endowment consists of approximately 700 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments supporting the Smithsonian's programs and operations. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Management has resolved to be guided by the standards of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in the management, investment, and expenditure of endowment funds although it is not required to do so as a matter of law. Management has interpreted UPMIFA, as allowing the Smithsonian to allocate for expenditure or accumulate so much of an endowment fund as it determines to be prudent for the uses, purposes, and durations for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless otherwise stated in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until allocated for expenditure. The corpus of the Smithsonian's endowment funds consist of (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) changes to the permanent endowment made in accordance with the direction of the donor gift instrument. Earnings and accumulated appreciation of the endowment fund remain restricted until allocated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA the following factors are considered when making a determination to allocate or accumulate

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donor-restricted funds: duration and preservation of the fund; purpose of board designated or donor-restricted fund; general economic conditions; possible impact of inflation and deflation; expected return from income and appreciation of investments; other available resources; and the Smithsonian's investment guidelines.

The Smithsonian has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of funding for programs and operations while maintaining the purchasing power of the endowment. Under the investment policy, as approved by the Board, endowment assets are invested in a manner that reduces risk through diversification while obtaining a competitive rate of return. To satisfy its long-term rate of return, the Smithsonian relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends), targeting a diversified asset portfolio that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints. The Board's Investment Committee reviews the long-term asset strategy for the investment pool.

Substantially all the assets of individual endowment funds are pooled and invested. Individual funds buying or disposing of units on the basis of the per unit market value at the beginning of the month in which the transaction takes place. Each fund participating in the investment pool receives an annual payout based on the number of units owned. The Smithsonian's spending policy is based on an annual endowment spending rate of 5% of the prior five years' average endowment value. This spending rate constitutes the Board's annual allocation for spending endowment earnings to support programs and operations. The Board authorized an additional allocation of up to 0.5% for fiscal year 2020 and 0.75% for fiscal year 2019 for eligible funds to support the advancement priorities.

The following summarizes certain per endowment unit information, in whole dollars.

	<u>2020</u>	<u>2019</u>
Market value of fund per unit:		
Beginning of the year	\$ <u>996.12</u>	<u>974.68</u>
End of the year	\$ <u>1,104.32</u>	<u>996.12</u>
Payout per unit		
Program and operations support	\$ <u>43.91</u>	<u>42.53</u>
Advancement	\$ <u>0.81</u>	<u>4.53</u>

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The following table summarizes the change in endowment funds during fiscal year 2020 and 2019:

	2020		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets at beginning of the year	\$ 717.4	1,002.2	1,719.6
Additional designation of quasi endowments and reinvestments	14.5	2.8	17.3
Uninvested cash	1.7	—	1.7
Contributions received	—	16.8	16.8
Investment return	110.2	149.1	259.3
Allocation of endowment assets for expenditure	(39.1)	(37.8)	(76.9)
Endowment net assets at end of year	<u>\$ 804.7</u>	<u>1,133.1</u>	<u>1,937.8</u>
	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets at beginning of the year	\$ 707.7	937.6	1,645.3
Additional designation of quasi endowments and reinvestments	1.7	5.4	7.1
Contributions received	—	29.2	29.2
Investment return	48.4	65.5	113.9
Allocation of endowment assets for expenditure	(40.4)	(35.5)	(75.9)
Endowment net assets at end of year	<u>\$ 717.4</u>	<u>1,002.2</u>	1,719.6
Uninvested cash and receivables			(6.4)
Endowment investments (Note 6)		\$	<u>1,713.2</u>

Endowment funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level required to be maintained in perpetuity or the applicable donor gift document, creating an “underwater” endowment fund. Such deficiencies are generally the result of unfavorable market fluctuations and continuing the allocations for various programs is generally deemed prudent by the Board. At September 30, 2020 and 2019, there are no significant underwater endowment funds.

SMITHSONIAN INSTITUTION

Notes to Financial Statements

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(Dollars in millions)

(13) Net Assets Released From Restriction

Net assets are released from donor restrictions due to the passage of time, assets placed in service, or by incurring expenses satisfying the restricted purpose specified by the donors were as follows for fiscal years 2020 and 2019:

	2020		
	Trust	Federal	Total
<u>Operating releases:</u>			
Purpose restricted gifts released for:			
Museums and general support	\$ 26.4	—	26.4
Education, public programs and exhibitions	72.4	—	72.4
Research	44.0	—	44.0
Acquisitions and collections	9.8	—	9.8
Facilities	2.5	23.5	26.0
	<hr/>	<hr/>	<hr/>
Total operating releases	155.1	23.5	178.6
<u>Nonoperating releases:</u>			
Assets placed in service and released from:			
Research	0.3	—	0.3
Capital appropriation	—	125.8	125.8
Capital contributions	13.0	—	13.0
	<hr/>	<hr/>	<hr/>
Total nonoperating releases	13.3	125.8	139.1
	<hr/>	<hr/>	<hr/>
Total releases	\$ 168.4	149.3	317.7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2020 and 2019

(Dollars in millions)

	2019		
	Trust	Federal	Total
<u>Operating releases:</u>			
Purpose restricted gifts released for:			
Museums and general support	\$ 34.3	—	34.3
Education, public programs and exhibitions	72.3	—	72.3
Research	48.7	—	48.7
Acquisitions and collections	10.7	—	10.7
Facilities	1.4	25.2	26.6
	<u>167.4</u>	<u>25.2</u>	<u>192.6</u>
<u>Nonoperating releases:</u>			
Assets placed inservice and released from:			
Capital appropriation	—	100.2	100.2
Capital contributions	35.9	—	35.9
	<u>35.9</u>	<u>100.2</u>	<u>136.1</u>
Total nonoperating releases	<u>35.9</u>	<u>100.2</u>	<u>136.1</u>
Total releases	<u>\$ 203.3</u>	<u>125.4</u>	<u>328.7</u>

(14) Federal Appropriations

A substantial portion of the Smithsonian is funded primarily by two Congressional appropriations: one appropriation covers salaries, benefits and expenses and the second appropriation provides funding for the repair, restoration, and construction of Smithsonian properties. The appropriation for salaries, benefits, and expenses is a two-year appropriation that must be obligated by the end of the second fiscal year. The appropriation for repair, restoration, and construction is available until expended.

The federal appropriation received in fiscal year 2020, which included \$7.5 for COVID-19 expenses from CARES Act is reconciled to federal appropriation revenue recognized as follows:

	2020		
	Salaries and expenses	Repair, restoration, and construction	Total
Endowment appropriations received	\$ 801.1	253.8	1,054.9
Unexpended appropriations	(128.7)	(338.9)	(467.6)
Amounts expended from prior years' appropriations	93.3	282.6	375.9
Federal appropriation revenue	<u>\$ 765.7</u>	<u>197.5</u>	<u>963.2</u>
Without donor restrictions (operating)	\$ 765.7	—	765.7
With donor restrictions (nonoperating)	—	197.5	197.5
Federal appropriation revenue	<u>\$ 765.7</u>	<u>197.5</u>	<u>963.2</u>

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2020 and 2019

(Dollars in millions)

The federal appropriation received in fiscal year 2019 is reconciled to federal appropriation revenue recognized as follows:

	2019		
	Salaries and expenses	Repair, restoration, and construction	Total
Endowment appropriations received	\$ 740.0	303.5	1,043.5
Unexpended appropriations	(96.3)	(278.1)	(374.4)
Amounts expended from prior years' appropriations	90.5	213.7	304.2
Federal appropriation revenue	<u>\$ 734.2</u>	<u>239.1</u>	<u>973.3</u>
Without donor restrictions (operating)	\$ 734.2	—	734.2
With donor restrictions (nonoperating)	—	239.1	239.1
Federal appropriation revenue	<u>\$ 734.2</u>	<u>239.1</u>	<u>973.3</u>

(15) Business Activities

The following summarizes business activities for fiscal years 2020 and 2019:

	2020			2019		
	Revenues	Operating expenses	Net operating gain	Revenues	Operating expenses	Net operating gain
Smithsonian Enterprise	\$ 92.9	91.3	1.6	147.5	114.8	32.7
Auxillary Activities	15.7	9.3	6.4	19.8	13.0	6.8
	<u>\$ 108.6</u>	<u>100.6</u>	<u>8.0</u>	<u>167.3</u>	<u>127.8</u>	<u>39.5</u>

Revenue is further detailed as follows for fiscal year 2020 and 2019.

	2020	2019
Merchandise sales	\$ 27.9	60.1
Media	37.2	38.6
Concessions, licensing, and other	43.5	68.6
	<u>\$ 108.6</u>	<u>167.3</u>

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2020 and 2019

(Dollars in millions)

(16) Functional Classification of Expenses

Expenses by functional and natural classification are shown for fiscal year 2020:

	Program Activities				Supporting Activities		Total
	Research	Collections Management	Education, public programs and Exhibitions	Business Activities	Administration	Advancement	
Trust							
Compensation and benefits	\$ 76.7	13.4	42.0	53.0	35.0	38.3	258.4
Rent, utilities, services, and supplies	60.1	4.3	34.5	14.7	(1.2)	24.5	136.9
Cost of sales	—	—	0.1	40.9	—	2.7	43.7
Travel and transportation	2.4	0.4	3.1	0.2	0.3	0.7	7.1
Other	1.4	(1.1)	1.4	(10.2)	1.6	0.5	(6.4)
Total before depr & amort	140.6	17.0	81.1	98.6	35.7	66.7	439.7
Depreciation, amortization, and changes in environmental remediation obligations	6.8	20.3	19.9	2.0	9.8	0.1	58.9
Total operating expenses	\$ 147.4	37.3	101.0	100.6	45.5	66.8	498.6
Federal							
Compensation and benefits	\$ 124.5	155.9	170.7	—	126.0	0.3	577.4
Rent, utilities, services, and supplies	50.9	78.4	92.3	—	46.0	0.2	267.8
Cost of sales	—	—	0.1	—	0.1	—	0.2
Travel and transportation	1.1	0.8	0.8	—	0.2	—	2.9
Other	6.4	6.7	5.5	—	3.3	—	21.9
Total before depr & amort	182.9	241.8	269.4	—	175.6	0.5	870.2
Depreciation, amortization, and changes in environmental remediation obligations	13.6	40.8	43.8	—	19.6	0.2	118.0
Total operating expenses	\$ 196.5	282.6	313.2	—	195.2	0.7	988.2
Total Operating Expenses							
Compensation and benefits	\$ 201.2	169.3	212.7	53.0	161.0	38.6	835.8
Rent, utilities, services, and supplies	111.0	82.7	126.8	14.7	44.8	24.7	404.7
Cost of sales	—	—	0.2	40.9	0.1	2.7	43.9
Travel and transportation	3.5	1.2	3.9	0.2	0.5	0.7	10.0
Other	7.8	5.6	6.9	(10.2)	4.9	0.5	15.5
Total before depr & amort	323.5	258.8	350.5	98.6	211.3	67.2	1,309.9
Depreciation, amortization, and changes in environmental remediation obligations	20.4	61.1	63.7	2.0	29.4	0.3	176.9
Total operating expenses	\$ 343.9	319.9	414.2	100.6	240.7	67.5	1,486.8

SMITHSONIAN INSTITUTION
Notes to Financial Statements
September 30, 2020 and 2019
(Dollars in millions)

Expenses by functional and natural classification are shown for fiscal year 2019:

	Program Activities				Supporting Activities		Total
	Research	Collections Management	Education, public programs and exhibitions	Business activities	Administration	Advancement	
Trust							
Compensation and benefits	\$ 74.3	12.2	42.0	57.8	28.0	35.9	250.2
Rent, utilities, services, and supplies	70.9	4.2	57.9	18.8	2.8	27.1	181.7
Cost of sales	—	—	0.3	58.7	—	1.6	60.6
Travel and transportation	6.3	0.9	5.3	0.5	0.5	1.8	15.3
Other	3.2	(0.8)	0.6	(9.8)	0.6	0.6	(5.6)
Total before depr & amort	154.7	16.5	106.1	126.0	31.9	67.0	502.2
Depreciation, amortization, and changes in environmental remediation obligations	5.8	17.5	17.0	1.8	8.4	0.1	50.6
Total operating expenses	\$ 160.5	34.0	123.1	127.8	40.3	67.1	552.8
Federal							
Compensation and benefits	\$ 121.3	156.2	169.1	—	104.1	0.5	551.2
Rent, utilities, services, and supplies	49.7	76.0	85.5	—	60.8	0.4	272.4
Cost of sales	—	—	0.1	—	0.1	—	0.2
Travel and transportation	2.9	1.6	2.2	—	0.6	—	7.3
Other	1.9	2.4	1.8	—	3.7	—	9.8
Total before depr & amort	175.8	236.2	258.7	—	169.3	0.9	840.9
Depreciation, amortization, and changes in environmental remediation obligations	14.4	43.8	47.0	—	20.8	0.2	126.2
Total operating expenses	\$ 190.2	280.0	305.7	—	190.1	1.1	967.1
Total Operating Expenses							
Compensation and benefits	\$ 195.6	168.4	211.1	57.8	132.1	36.4	801.4
Rent, utilities, services, and supplies	120.6	80.2	143.4	18.8	63.6	27.5	454.1
Cost of sales	—	—	0.4	58.7	0.1	1.6	60.8
Travel and transportation	9.2	2.5	7.5	0.5	1.1	1.8	22.6
Other	5.1	1.6	2.4	(9.8)	4.3	0.6	4.2
Total before depr & amort	330.5	252.7	364.8	126.0	201.2	67.9	1,343.1
Depreciation, amortization, and changes in environmental remediation obligations	20.2	61.3	64.0	1.8	29.2	0.3	176.8
Total operating expenses	\$ 350.7	314.0	428.8	127.8	230.4	68.2	1,519.9

Collections items purchases, not capitalized included in nonoperating activities are collections management activities.

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2020 and 2019

(Dollars in millions)

(17) Commitments and Contingencies

(a) Leasing Activities

The Smithsonian leases office and warehouse space under long-term operating leases expiring at various dates to 2032. These leases generally provide for rent escalations based on increases in the Consumer Price Index or changes in property taxes or operating expenses attributable to the leased properties. The Smithsonian currently limits leases using federal funds to five years under the five-year contracting authority of the Federal Acquisition Streamlining Act. The Smithsonian still has legacy leases exceeding the current five-year authority.

Annual minimum lease payments due under operating leases in effect as of September 30, 2020 are as follows:

2021	\$	26.8
2022		26.5
2023		24.1
2024		14.0
2025		13.6
Thereafter		<u>10.3</u>
	\$	<u><u>115.3</u></u>

Rent expense under operating leases, including executory costs such as maintenance, insurance, and taxes, totaled \$52.7 for fiscal year 2020 and \$62.3 for fiscal year 2019, which includes \$7.8 in fiscal year 2020 and \$7.6 in fiscal year 2019 for office space received in-kind.

(b) Government Awards

The Smithsonian receives significant amounts of federal funding in the form of appropriations, grants, and contracts. These awards are subject to audit by federal agencies. Management is of the opinion that no material disallowances of costs or expenses are likely.

(c) Construction

As of September 30, 2020, the Smithsonian has commitments approximating \$450.0 related to construction in process at several of its locations. The most significant of these relate to projects at the National Air and Space Museum (\$324.1) and the National Zoological Park (\$23.7).

(d) Litigation

The Smithsonian is a party to various litigation arising out of the normal conduct of its operations. In the opinion of the Smithsonian's general counsel, the ultimate resolution of these matters will not have a significant effect on the Smithsonian's financial position or future results of operations.

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2020 and 2019

(Dollars in millions)

(e) *Subsequent Events*

Subsequent to September 30, 2020, the Smithsonian committed capital of \$95.7 to 12 funds. Management has evaluated subsequent events from September 30, 2020 through January 29, 2021, which is the date that the financial statements are available to be issued and determined that there are no adjustments to or other items to disclose.

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2020

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Research and Development Cluster					
United States Department of Agriculture (USDA)					
Agricultural Research Basic and Applied Research	Direct		10.001	\$ 11,711	\$ -
Agriculture and Food Research Initiative	Direct		10.310	55,772	12,296
Agriculture and Food Research Initiative	University of North Carolina	#201800062	10.310	6,353	-
Subtotal Agriculture and Food Research Initiative (CFDA 10.310)				<u>62,124</u>	<u>12,296</u>
Total United States Department of Agriculture				<u>73,835</u>	<u>12,296</u>
United States Department of Commerce (DOC)					
Integrated Ocean Observing System	Rutgers, State University of New Jersey	#820540, PO #936286	11.012	74,988	-
Sea Grant Support	University of Maryland	SA75281870-Q (R/FISH-111b)	11.417	358	-
Sea Grant Support	University of Maryland	SA75281870-N (R/EH-3)	11.417	39,538	11,325
Sea Grant Support	University of California at Davis	A18-0384-S001	11.417	39,182	-
Subtotal Sea Grant Support (CFDA 11.417)				<u>79,077</u>	<u>11,325</u>
Coastal Zone Management Estuarine Research Reserves	Elkhorn Slough Foundation	NSC Oyster Network	11.420	(657)	-
Climate and Atmospheric Research	Direct		11.431	217,288	-
Pacific Fisheries Data Program	Direct		11.437	42,338	-
Chesapeake Bay Studies	Direct		11.457	90,128	-
Habitat Conservation	State of California	#18-005	11.463	72,329	-
Center for Sponsored Coastal Ocean Research	University of Florida	UFDSP00012282/NA18NOS4780170	11.478	33,764	-
Center for Sponsored Coastal Ocean Research	Lehigh University	543829-78001	11.478	4,074	-
Subtotal Center for Sponsored Coastal Ocean Research (CFDA 11.478)				<u>37,838</u>	<u>-</u>
Coral Reef Conservation Program	Direct		11.482	5,801	-
Measurement and Engineering Research and Standards	Direct		11.609	72,006	-
Total United States Department of Commerce				<u>691,137</u>	<u>11,325</u>
United States Department of Defense (DOD)					
United States Department of Defense	University of California - Berkeley	UCB-SAO Subaward 10065	12.RD	26,507	-
Basic Scientific Research	Harvard University	134062-5100373	12.431	78,319	-
Air Force Defense Research Sciences Program	UCAR	Z15-12504	12.800	11,333	-
Research and Technology Development	Johns Hopkins University	160146	12.910	344,518	-
Total United States Department of Defense				<u>460,677</u>	<u>-</u>
United States Department of the Interior (DOI)					
Fish and Wildlife Management Assistance	Direct				
Wildlife Conservation and Restoration	Direct		15.608	(14,224)	-
Great Apes Conservation Fund	Direct		15.625	13,170	-
	Direct		15.629	48,249	40,500
National Fish and Wildlife Foundation	Direct		15.663	22,337	-
National Fish and Wildlife Foundation	University of Maryland	SA75282000-E PO81444	15.663	1,865	-
Subtotal National Fish and Wildlife Foundation (CFDA 15.663)				<u>24,202</u>	<u>-</u>
Total United States Department of the Interior				<u>71,396</u>	<u>40,500</u>
United States Department of Justice (DOJ)					
National Institute of Justice Research	Des Moines University	04-18-05 sub 1	16.560	5,167	-
Total United States Department of Justice				<u>5,167</u>	<u>-</u>

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2020

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
United States Department of State (DOS)					
Public Diplomacy Programs	Direct		19.040	\$ 2,680	\$ -
Trans-National Crime	Direct		19.705	7,136	-
Total United States Department of State				<u>9,817</u>	<u>-</u>
United States Department of Transportation (DOT)					
West Virginia DOT	West Virginia DOT	X142-H/38.99 07	20.RD	20,476	-
Ballast Water Treatment Technologies	University of Maryland	SA0725776 PO 54121	20.819	11,351	-
Total United States Department of Transportation				<u>31,827</u>	<u>-</u>
National Aeronautics and Space Administration (NASA)					
National Aeronautics and Space Administration	Direct		43.RD	109,689	-
National Aeronautics and Space Administration	California Institute of Technology	S394030	43.RD	194,836	-
National Aeronautics and Space Administration	University of Maryland	46039-Z6110001	43.RD	1,999,119	-
National Aeronautics and Space Administration	Arizona State University	17-255	43.RD	(2,250)	-
National Aeronautics and Space Administration	Arizona State University	12-875	43.RD	91,645	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1546619	43.RD	45,767	38,302
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1535002	43.RD	4,270	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1456630	43.RD	15,978	-
National Aeronautics and Space Administration	University of Arizona	Y603259	43.RD	105,737	-
National Aeronautics and Space Administration	University of Arizona	Y432801	43.RD	70,738	-
National Aeronautics and Space Administration	Johns Hopkins Applied Physics Labor	161411	43.RD	(3)	-
National Aeronautics and Space Administration	University of Hawaii	MA1397	43.RD	8,215	-
National Aeronautics and Space Administration	California Institute of Technology	Caltech S446472	43.RD	57,391	-
National Aeronautics and Space Administration	Cornell University	Cornell Subaward No. 88833-11281	43.RD	1,366	-
NASA Headquarters	Direct		43.RD	1,247,788	128,970
NASA - Goddard Space Flight Center	Direct		43.RD	871,213	-
Subtotal National Aeronautics and Space Administration (CFDA 43.RD)				<u>4,821,497</u>	<u>167,272</u>
Science	Direct		43.001	73,305,451	13,897,960
Science	University of Hawaii at Manoa	MA1305	43.001	112,352	-
Science	Yale University	GR102115 (CON-80001156)	43.001	12,828	-
Science	University of Virginia	GP10188 154023	43.001	(4,810)	-
Science	Lockheed Martin Shared Services	SP02H1701R	43.001	206,029	-
Science	Lockheed Martin Shared Services	8100002705	43.001	537,233	-
Science	Johns Hopkins University	975569	43.001	2,724,805	1,655,228
Science	University of New Hampshire	11-108	43.001	33,993	-
Science	Massachusetts Institute of Technology	5710003554	43.001	2,053,769	691,943
Science	Northern Arizona University	10026901-01	43.001	9,650	-
Science	Harvard University	131443-5099614	43.001	2,614	-
Science	Harvard University	131457-5097592	43.001	17,051	-
Science	The Pennsylvania State University	5585-SAO-NASA-B07G	43.001	94,399	-
Science	University of New Hampshire	UNH 16-073	43.001	30,004	-
Science	New Jersey Institute of Technology	NJIT PO Nos. P1710176 & P1710177	43.001	36,730	-
Science	University of Michigan	3004519489	43.001	53,956	-
Science	New Jersey Institute of Technology	996790	43.001	98,657	-
Science	University of Arizona	438111	43.001	68,651	-
Science	Jet Propulsion Laboratory	1602576	43.001	9,185	-
Science	New Jersey Institute of Technology	997022	43.001	55,565	-
Science	University of Colorado	CSU Subaward 1555192	43.001	15,774	-
Science	Seti Institute	SETI SC3439	43.001	43,472	-
Science	Johns Hopkins Applied Physics Labor	JHU/APL 141773	43.001	88,391	-
Science	Johns Hopkins Applied Physics Labor	157252 - NSSC19K0891	43.001	1,773	-
Science	University of Notre Dame	203769SMI	43.001	2,031	-
Science	Lockheed Martin Shared Services	4500157837	43.001	44,232	-

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2020

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Science	Princeton University	0000319	43.001	\$ 6,828	\$ -
Science	Harvard University	131559-5112738	43.001	6,621	-
Science	University of Colorado Boulder Alumni AS	ESCAPE-Colorado Risk Auth 05.01.20	43.001	108,836	-
Science	Stanford University	62364172-145590	43.001	9,307	-
Science	Space Telescope Science Institute	JWST-ERS-01366.033-A	43.001	1,687	-
Science	Princeton University	S014981	43.001	40,046	-
Science	Lawrence Livermore National Laboratory	B626800	43.001	(517)	-
Science	Space Telescope Science Institute	GO-13754.001-A	43.001	49,207	-
Science	Space Telescope Science Institute	HST-HF2-51381.001-A	43.001	2,088	-
Science	Space Telescope Science Institute	HST-GO-14757.004-A	43.001	(743)	-
Science	Space Telescope Science Institute	HST-GO-14888.004-A	43.001	6,750	-
Science	Space Telescope Science Institute	HST-GO-14615.003-A	43.001	1,082	-
Science	Space Telescope Science Institute	HST-GO-14758.003-A	43.001	2,284	-
Science	Space Telescope Science Institute	HST-HF2-51402.001-A	43.001	71,190	-
Science	Space Telescope Science Institute	HST-GO-14847.001-A	43.001	6,410	-
Science	Space Telescope Science Institute	HST-GO-15179.003-A	43.001	18,664	-
Science	Space Telescope Science Institute	HST-GO-15376.002-A	43.001	10,000	-
Science	Space Telescope Science Institute	HST-GO-15411.002-A	43.001	14,057	-
Science	Space Telescope Science Institute	HST-GO-15285.001-A	43.001	18,807	-
Science	Space Telescope Science Institute	HST-GO-15440.002-A	43.001	1,560	-
Science	Space Telescope Science Institute	HST-HF2-51413.001-A	43.001	87,469	-
Science	Space Telescope Science Institute	HST-GO-15610.001-A	43.001	4,130	-
Science	Space Telescope Science Institute	HST-GO-15641.001-A	43.001	14,699	-
Science	Space Telescope Science Institute	HST-GO-15615.003-A	43.001	239	-
Science	Space Telescope Science Institute	HST-GO-15333.017-A	43.001	3,106	-
Science	Space Telescope Science Institute	HST-GO-15109.006-A	43.001	1,498	-
Science	Space Telescope Science Institute	HST-AR-15793.001-A	43.001	25,600	-
Science	Space Telescope Science Institute	HST-GO-15991.002-A	43.001	20,589	-
Science	Space Telescope Science Institute	HST-HF2-51430.002-A	43.001	14,489	-
Science	Space Telescope Science Institute	HST-GO-14162.002-A	43.001	879	-
Science	Space Telescope Science Institute	HST-GO-14096.003-A	43.001	18,222	-
Science	Space Telescope Science Institute	HST-GO-14272.011-A	43.001	29,576	-
Science	Space Telescope Science Institute	HST-GO-14767.002-A	43.001	175,301	-
Science	Space Telescope Science Institute	HST-GO-15350.001-A	43.001	71,957	-
Science	Space Telescope Science Institute	HST-GO-15245.015-A	43.001	28,860	-
Science	Space Telescope Science Institute	HST-GO-15351.001-A	43.001	8,312	-
Science	Space Telescope Science Institute	HST-GO-15299.001-A	43.001	6,893	-
Science	Space Telescope Science Institute	HST-GO-15326.010-A	43.001	1,821	-
Science	Space Telescope Science Institute	HST-GO-15239.005-A	43.001	5,137	-
Science	Space Telescope Science Institute	HST-GO-15604.001-A	43.001	(6,251)	-
Science	Space Telescope Science Institute	HST-GO-15609.001-A	43.001	12,150	-
	Subtotal Science (CFDA 43.001)			<u>80,552,623</u>	<u>16,245,132</u>
Education	Direct		43.008	175,289	-
Education	Space Telescope Science Institute	STSci-509913	43.008	1,534,187	375,411
	Subtotal Education (CFDA 43.008)			<u>1,709,476</u>	<u>375,411</u>
	Total National Aeronautics and Space Administration			<u>87,083,597</u>	<u>16,787,815</u>
National Science Foundation (NSF)					
National Science Foundation	Direct		47.RD	23,762	-

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2020

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Mathematical and Physical Sciences	Direct		47.049	\$ 4,605,491	\$ 1,720,246
Mathematical and Physical Sciences	Harvard University	131433-5091001	47.049	245,456	-
Mathematical and Physical Sciences	National Radio Astronomy Observatory	352403	47.049	(4,377)	(4,148)
Mathematical and Physical Sciences	National Radio Astronomy Observatory	365407	47.049	10,000	-
Mathematical and Physical Sciences	University of Arizona	436724	47.049	150,024	-
Mathematical and Physical Sciences	University of California	UCSB KK1873	47.049	15,653	-
Mathematical and Physical Sciences	Barnard College	SAO-1828168	47.049	6,417	-
Subtotal Mathematical and Physical Sciences (CFDA 47.049)				<u>5,028,664</u>	<u>1,716,098</u>
Geosciences	Direct		47.050	510,301	-
Geosciences	Columbia University	79-GG009393/NSF OCE1450528	47.050	2,805	-
Geosciences	Georgia State University	SP00011663-01	47.050	2,938	-
Geosciences	The George Washington University	16-S21-EAR-1636753	47.050	238	-
Subtotal Geosciences (CFDA 47.050)				<u>516,282</u>	<u>-</u>
Computer and Information Science and Engineering	Direct		47.070	37,751	20,178
Biological Sciences	Direct		47.074	672,834	-
Biological Sciences	College of Charleston	521345-SI/1929293	47.074	1,517	-
Biological Sciences	North Carolina State University	2018-0424-01	47.074	31,373	-
Biological Sciences	Towson University	000-9029	47.074	61,345	-
Biological Sciences	Colorado State University	G-92041-01/DEB 1754821	47.074	70,590	-
Biological Sciences	University of Notre Dame	203171SMITH	47.074	85,364	-
Biological Sciences	Bryn Mawr College	TIDE 40695-1	47.074	8,864	-
Biological Sciences	Arizona State University	18-299	47.074	32,098	-
Biological Sciences	University of Texas	Subaward 12610062661	47.074	93,993	-
Biological Sciences	University of Louisville	ULRF-17-01-2701/DEB1655346	47.074	18,259	-
Biological Sciences	Rutgers, State University of New Jersey	PID 827183 / PO 1271632	47.074	198,076	-
Biological Sciences	Iowa State University	420-71-40A \ DEB 1556853	47.074	37,834	-
Biological Sciences	The City College of New York	40F60-A	47.074	3,663	-
Biological Sciences	Cornell University	75822-10652	47.074	44,351	-
Biological Sciences	Salisbury University	SI-528021	47.074	12,993	-
Biological Sciences	Amherst College	NSF-SI-DEB-1353783	47.074	5,687	-
Subtotal Biological Sciences (CFDA 47.074)				<u>1,378,841</u>	<u>-</u>
Social, Behavioral, and Economic Sciences	Direct		47.075	116,084	-
Education and Human Resources	Direct		47.076	518,873	66,056
Education and Human Resources	Harvard University	131407-5091340	47.076	3	-
Education and Human Resources	Harvard University	131403-5094253	47.076	(158)	-
Education and Human Resources	Harvard University	131460-5110471	47.076	73,745	-
Subtotal Education and Human Resources (CFDA 47.076)				<u>592,463</u>	<u>66,056</u>
Polar Programs	Direct		47.078	2,707	-
Office of International and Integrative Activities	San Diego State University Research	SA0000202	47.079	87,963	-
Total National Science Foundation				<u>7,784,518</u>	<u>1,802,331</u>
United States Environmental Protection Agency (EPA)					
Regional Wetland Program Development Grants	University of Florida	UFDSP00012060	66.461	(721)	-
Surveys, Studies, Investigations, Demonstrations, and Training Grants	Georgia Institute of Technology	PO 5065663/AWD-00503-G1	66.436	1,340	-
National Estuary Program	IRL Council	IRL2019-25 / GL 01-1735	66.456	24,720	-
Total United States Environmental Protection Agency				<u>25,340</u>	<u>-</u>

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2020

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
United States Department of Energy (DOE)					
United States Department of Energy	Direct		81.RD	\$ 4	\$ -
United States Department of Energy	Lawrence Berkeley National Laboratory	7200512	81.RD	369,475	-
United States Department of Energy	Lawrence Livermore National Laboratory	LLNL B641031	81.RD	38,259	-
United States Department of Energy	Lawrence Livermore National Laboratory	B634668	81.RD	3,635	-
Subtotal United States Department of Energy (CFDA 81.RD)				<u>411,374</u>	<u>-</u>
Office of Science Financial Assistance Program	Direct		81.049	548,662	50,379
Office of Science Financial Assistance Program	Duke University	#323-0151	81.049	(1,271)	-
Office of Science Financial Assistance Program	Electroformed Nickel, Inc	EIN 6.21.18 DE-SC0017098 Subaward	81.049	127,637	-
Subtotal Office of Science Financial Assistance Program (CFDA 81.049)				<u>675,029</u>	<u>50,379</u>
Total United States Department of Energy				<u>1,086,402</u>	<u>50,379</u>
United States Department of Education (ED)					
English Language Acquisition State Grants	University of Memphis	PO 203136	84.365	102,798	-
Total United States Department of Education				<u>102,798</u>	<u>-</u>
United States Department of Health and Human Services (HHS)					
Maternal and Child Health Federal Consolidated Programs	University of Washington	UWSC10383	93.110	(2,879)	-
Maternal and Child Health Federal Consolidated Programs	University of Washington	UWSC10383 (BPO30487)	93.110	103,426	-
Subtotal Maternal and Child Health Federal Consolidated Programs (CFDA 93.110)				<u>100,546</u>	<u>-</u>
NIEHS Hazardous Substances Basic Research and Education	University of Maryland, Baltimore College	HHS00018-01	93.143	29,653	-
NIEHS Hazardous Substances Basic Research and Education	University of Maryland, Baltimore College	HHS00038-01	93.143	31,737	-
NIEHS Hazardous Substances Basic Research and Education	University of Maryland, Baltimore College	0000015350	93.143	375	-
Subtotal NIEHS Hazardous Substances Basic Research and Education (CFDA 93.143)				<u>61,765</u>	<u>-</u>
Research Infrastructure Programs	Direct		93.351	490,605	76,988
Research Infrastructure Programs	Texas Biomedical Research Institute	16-04583-004	93.351	10,377	-
Subtotal Research Infrastructure Programs (CFDA 93.351)				<u>500,982</u>	<u>76,988</u>
Cancer Treatment Research	University of Florida	SUB00002004	93.395	34,971	-
International Research and Research Training	Direct		93.989	(300)	-
Total United States Department of Health and Human Services				<u>697,965</u>	<u>76,988</u>
United States Agency for International Development (USAID)					
USAID Foreign Assistance for Programs Overseas	University of California	201403200-05	98.001	166,849	(809)
Total United States Agency for International Development				<u>166,849</u>	<u>(809)</u>
Other Federal Agencies					
Universities Space Research Association	Universities Space Research Association	7600-035	00.UNK	2,483	-
Finnish Meteorological Institute	Finnish Meteorological Institute	KNMI LTR 1/23/0	00.UNK	25	-
Finnish Meteorological Institute	Finnish Meteorological Institute	EMAIL 6/18/03	00.UNK	(19)	-
Total Other Federal Agencies				<u>2,490</u>	<u>-</u>
Total Research and Development Cluster				<u>98,293,814</u>	<u>18,780,824</u>

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2020

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
United States Postal Service	Direct		99.000	\$ 3,278,134	\$ -
Other Programs					
United States Department of State (DOS)					
Investing in People in the Middle East and North Africa	Direct		19.021	1,214	-
U.S. Ambassadors Fund for Cultural Preservation	Direct		19.025	22,451	-
Public Diplomacy Programs	Direct		19.040	227,279	-
Total United States Department of State				<u>250,944</u>	<u>-</u>
National Aeronautics and Space Administration (NASA)					
Education	Space Telescope Science Institute	STScI-509913	43.008	19,266	-
Total National Aeronautics and Space Administration				<u>19,266</u>	<u>-</u>
National Science Foundation (NSF)					
Geosciences	Direct		47.050	27,108	-
Social, Behavioral, and Economic Sciences	Direct		47.075	19,836	-
Education and Human Resources	Twin Cities Public Television, Inc.	TPTSA-21395-01	47.076	72,619	-
Education and Human Resources	The University of Rhode Island	0005471/102216	47.076	6,041	-
Subtotal Education and Human Resources (CFDA 47.076)				<u>78,660</u>	<u>-</u>
Total National Science Foundation				<u>125,604</u>	<u>-</u>
United States Department of Education (ED)					
Education Innovation and Research	Direct		84.411	252,813	-
Total United States Department of Education				<u>252,813</u>	<u>-</u>
United States Department of Health and Human Services (HHS)					
Child Health and Human Development Extramural Research	Direct		93.865	64,156	-
Total United States Department of Health and Human Services				<u>64,156</u>	<u>-</u>
United States Agency for International Development (USAID)					
USAID Foreign Assistance for Programs Overseas	The Bridge Fund	AID-486-A14-0000	98.001	(2,330)	-
Total United States Agency for International Development				<u>(2,330)</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 102,282,401</u>	<u>\$ 18,780,824</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

SMITHSONIAN INSTITUTION

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2020

(1) Basis of Presentation and Description of Major Program

The accompanying schedule of expenditures of federal awards (the schedule) is prepared in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The purpose of the schedule is to present information relating to expenditures of the Smithsonian Institution (Smithsonian) under programs of the federal government for the year ended September 30, 2020. The schedule presents only a selected portion of the operations of Smithsonian, and is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Smithsonian.

The schedule does not include expenditures funded by the Smithsonian's federal appropriations, which are not subject to the Uniform Guidance.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is prepared using the accrual method of accounting. Such expenditures are recognized as incurred using the cost accounting principles contained in the Uniform Guidance. Under the guidance, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures include costs that can be identified with specific projects (e.g., salaries and fringe benefits, travel, and materials) plus allocations of the applicable indirect costs (e.g., grant and contract administration, general administration, operating overhead, material burden, and engineering services). Negative amounts on the schedule of expenditures of federal awards, if any, represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Cost

The indirect cost rates applied are negotiated percentages of direct expenses. The indirect cost rate allocation bases exclude capital expenditures and other items. Indirect cost rates applied to awards for the year ended September 30, 2020 were negotiated with the cognizant agency, the National Aeronautics and Space Administration. Because the Smithsonian has received a negotiated indirect cost rate, it is not eligible for and has not elected to use the 10-percent de minimus indirect cost rate under the Uniform Guidance.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Office of the Inspector General, Audit and Review
Committee of the Board of Regents, and Secretary Bunch
Smithsonian Institution:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Smithsonian Institution, which comprise the statement of financial position as of September 30, 2020, and the related statements of financial activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Smithsonian Institution's (the Institution) internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institution's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institution's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Smithsonian Institution's Response to Finding

The Institution's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institution's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institution's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institution's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, District of Columbia
January 29, 2021



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Office of the Inspector General, Audit and Review
Committee of the Board of Regents, and Secretary Bunch
Smithsonian Institution:

Report on Compliance for Each Major Federal Program

We have audited the Smithsonian Institution's (Smithsonian) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Smithsonian's major federal program for the year ended September 30, 2020. Smithsonian's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Smithsonian's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Smithsonian's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Smithsonian's compliance.

Opinion on Each Major Federal Program

In our opinion, Smithsonian complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of Smithsonian is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Smithsonian's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing



procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Smithsonian's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Smithsonian as of and for the year ended September 30, 2020, and have issued our report thereon dated January 29, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Washington, District of Columbia
March 19, 2021

SMITHSONIAN INSTITUTION
Schedule of Findings and Questioned Costs
Year ended September 30, 2020

(1) Summary of Auditors' Results

- a. Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **Yes, 2020-001**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- g. Major program:
 - **Research and Development Cluster – various CFDA numbers**
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2020-001

Criteria

Smithsonian Institution (the Institution) has a responsibility for adopting sound accounting policies and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements.

Condition

Management's reconciliation and review controls over construction in progress, including cutoff accruals and the related federal capital appropriation, were not designed with the appropriate level of precision and did not operate effectively during the year ended September 30, 2020.

Cause

The Institution experienced turnover in its Office of Finance and Accounting (OFA) in fiscal year 2019 and 2020, which impacted management's ability to execute appropriate reconciliations, with the appropriate level of review, including the underlying supporting reports.

SMITHSONIAN INSTITUTION
Schedule of Findings and Questioned Costs
Year ended September 30, 2020

Effect

During our audit, we identified an adjustment to the financial statements related to the fiscal year ended September 30, 2020, which the Institution's internal controls over year-end financial reporting did not prevent.

Recommendation

We recommend OFA enhance its training of key employees and establish reconciliation and review protocols, with enhanced precision and appropriate follow up over construction in progress, including cutoff accruals. In addition, we recommend formal analytical review procedures be implemented during its quarterly closing to assist in the evaluation of fluctuations, and the basis for such fluctuations.

Views of Responsible Officials

Management agrees with the comment. The process for developing the annual construction in progress accrual will be revised and an analytical review will be added to evaluate reasonableness.

(3) Findings and Questioned Costs Relating to Federal Awards

None