KPMG

# SMITHSONIAN INSTITUTION

Financial Statements

September 30, 2010

(With Independent Auditors' Report Thereon)

**KPMG LLP**
2001 M Street, NW
Washington, DC 20036-3389

## Independent Auditors' Report

The Board of Regents
Smithsonian Institution:

We have audited the accompanying statement of financial position of the Smithsonian Institution (Smithsonian) as of September 30, 2010 and the related statements of financial activity and cash flows for the year then ended. These financial statements are the responsibility of the Smithsonian's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Smithsonian's 2009 financial statements, and, in our report dated January 29, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Smithsonian's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Smithsonian Institution as of September 30, 2010 and its changes in net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 4, 2011

**SMITHSONIAN INSTITUTION**

Statement of Financial Position

September 30, 2010
(with summarized financial information as of September 30, 2009)

(Dollars in millions)

| | | Trust funds | Federal funds | Total funds 2010 | Total funds 2009 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash, cash equivalents and balances with the U.S. Treasury | $ | 111.4 | 327.5 | 438.9 | 397.2 |
| Receivables and advances | | 213.6 | 0.4 | 214.0 | 205.9 |
| Prepaid and deferred expenses | | 22.7 | 0.8 | 23.5 | 29.0 |
| Inventory | | 10.0 | — | 10.0 | 9.7 |
| Investments | | 1,101.6 | — | 1,101.6 | 1,030.5 |
| Property and equipment, net | | 563.5 | 1,063.9 | 1,627.4 | 1,535.9 |
| Total assets | $ | 2,022.8 | 1,392.6 | 3,415.4 | 3,208.2 |
| Liabilities: | | | | | |
| Accounts payable and accrued expenses | $ | 140.5 | 122.8 | 263.3 | 275.8 |
| Deferred revenue | | 51.6 | — | 51.6 | 51.4 |
| Deferred gain on sale of real estate | | 39.5 | — | 39.5 | 43.4 |
| Unexpended federal appropriations | | — | 274.4 | 274.4 | 253.9 |
| Long-term debt | | 111.2 | — | 111.2 | 110.9 |
| Total liabilities | | 342.8 | 397.2 | 740.0 | 735.4 |
| Net assets: | | | | | |
| Unrestricted: | | | | | |
| Funds functioning as endowment | | 582.5 | — | 582.5 | 542.2 |
| Operational balances | | 336.0 | 995.4 | 1,331.4 | 1,262.9 |
| Total unrestricted net assets | | 918.5 | 995.4 | 1,913.9 | 1,805.1 |
| Temporarily restricted: | | | | | |
| Funds functioning as endowment | | 154.6 | — | 154.6 | 137.3 |
| Donor contributions for facilities | | 167.7 | — | 167.7 | 149.0 |
| Donor contributions for programs | | 141.4 | — | 141.4 | 144.0 |
| Total temporarily restricted net assets | | 463.7 | — | 463.7 | 430.3 |
| Permanently restricted: | | | | | |
| True endowments | | 253.8 | — | 253.8 | 203.9 |
| Donor endowment receivables | | 26.4 | — | 26.4 | 18.3 |
| Interest in perpetual and other trusts | | 17.6 | — | 17.6 | 15.2 |
| Total permanently restricted net assets | | 297.8 | — | 297.8 | 237.4 |
| Total net assets | | 1,680.0 | 995.4 | 2,675.4 | 2,472.8 |
| Commitments and contingencies | | | | | |
| Total liabilities and net assets | $ | 2,022.8 | 1,392.6 | 3,415.4 | 3,208.2 |

See accompanying notes to financial statements.

**SMITHSONIAN INSTITUTION**

Statement of Financial Activity

Year ended September 30, 2010
(with summarized financial information for the year ended September 30, 2009)

(Dollars in millions)

| | Unrestricted | | | Temporarily | Permanently | Total | |
|---|---|---|---|---|---|---|---|
| | **Trust funds** | **Federal funds** | **Total** | **restricted trust funds** | **restricted trust funds** | **2010** | **2009** |
| Operating revenues and other additions: | | | | | | | |
| Government revenue: | | | | | | | |
| Federal appropriations | $ — | 737.6 | 737.6 | — | — | 737.6 | 744.2 |
| Government grants and contracts | 112.4 | — | 112.4 | — | — | 112.4 | 110.6 |
| Total government revenue | 112.4 | 737.6 | 850.0 | — | — | 850.0 | 854.8 |
| Contributions: | | | | | | | |
| Program support | 40.0 | — | 40.0 | 33.9 | 56.9 | 130.8 | 100.0 |
| Construction of facilities | — | — | — | 30.1 | — | 30.1 | 20.7 |
| Total contributions | 40.0 | — | 40.0 | 64.0 | 56.9 | 160.9 | 120.7 |
| Business activities and other: | | | | | | | |
| Business activities | 172.0 | — | 172.0 | — | — | 172.0 | 181.3 |
| Short-term investment income | 4.4 | — | 4.4 | — | — | 4.4 | 6.1 |
| Endowment payout | 31.7 | — | 31.7 | 17.6 | 1.2 | 50.5 | 48.5 |
| Private grants | 5.7 | — | 5.7 | — | — | 5.7 | 5.9 |
| Rentals, fees, commissions, and other | 20.0 | 11.4 | 31.4 | — | — | 31.4 | 19.4 |
| Gain on sale of real estate | 3.9 | — | 3.9 | — | — | 3.9 | 3.9 |
| Total business activities and other | 237.7 | 11.4 | 249.1 | 17.6 | 1.2 | 267.9 | 265.1 |
| Total operating revenues | 390.1 | 749.0 | 1,139.1 | 81.6 | 58.1 | 1,278.8 | 1,240.6 |
| Net assets released from restrictions | 64.8 | — | 64.8 | (64.8) | — | — | — |
| Total operating revenues and other additions | 454.9 | 749.0 | 1,203.9 | 16.8 | 58.1 | 1,278.8 | 1,240.6 |
| Expenses: | | | | | | | |
| Program activities: | | | | | | | |
| Research | 132.3 | 144.9 | 277.2 | — | — | 277.2 | 271.0 |
| Collections management | 17.7 | 121.2 | 138.9 | — | — | 138.9 | 133.2 |
| Education, public programs, and exhibitions | 68.1 | 175.6 | 243.7 | — | — | 243.7 | 257.1 |
| Business activities | 140.2 | — | 140.2 | — | — | 140.2 | 148.8 |
| Total program activities | 358.3 | 441.7 | 800.0 | — | — | 800.0 | 810.1 |
| Supporting activities: | | | | | | | |
| Administration | 55.4 | 232.6 | 288.0 | | | 288.0 | 264.2 |
| Advancement | 28.4 | 4.2 | 32.6 | | | 32.6 | 30.2 |
| Total supporting activities | 83.8 | 236.8 | 320.6 | — | — | 320.6 | 294.4 |
| Total expenses | 442.1 | 678.5 | 1,120.6 | — | — | 1,120.6 | 1,104.5 |
| Change in net assets from operations | 12.8 | 70.5 | 83.3 | 16.8 | 58.1 | 158.2 | 136.1 |
| Nonoperating activities: | | | | | | | |
| Nonoperating investment return | 31.4 | — | 31.4 | 19.4 | 2.3 | 53.1 | (49.7) |
| Change in interest in net assets of related organizations | — | — | — | (2.8) | — | (2.8) | 1.2 |
| Change in net assets related to collection items not capitalized: | | | | | | | |
| Proceeds from sales | 0.2 | — | 0.2 | — | — | 0.2 | 1.5 |
| Collection items purchased | (2.8) | (3.3) | (6.1) | — | — | (6.1) | (10.5) |
| Change in net assets | 41.6 | 67.2 | 108.8 | 33.4 | 60.4 | 202.6 | 78.6 |
| Net assets, beginning of year | 876.9 | 928.2 | 1,805.1 | 430.3 | 237.4 | 2,472.8 | 2,394.2 |
| Net assets, end of year | $ 918.5 | 995.4 | 1,913.9 | 463.7 | 297.8 | 2,675.4 | 2,472.8 |

See accompanying notes to financial statements.

**SMITHSONIAN INSTITUTION**

Statement of Cash Flows

Year ended September 30, 2010
(with summarized financial information for the year ended September 30, 2009)

(Dollars in millions)

| | | Trust funds | Federal funds | Total 2010 | Total 2009 |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Change in net assets | $ | 135.4 | 67.2 | 202.6 | 78.6 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | | | |
| Proceeds from sales of collection items | | (0.2) | — | (0.2) | (1.5) |
| Collection items purchased | | 2.8 | 3.3 | 6.1 | 10.5 |
| Depreciation | | 31.8 | 70.0 | 101.8 | 106.3 |
| Loss on disposition of assets | | — | 0.3 | 0.3 | 0.6 |
| Contributions for permanent endowment | | (48.6) | — | (48.6) | (14.9) |
| Contributions for construction of facilities | | (11.3) | — | (11.3) | (23.8) |
| Appropriations for repair, restoration, and construction | | — | (125.0) | (125.0) | (123.0) |
| Investment income restricted for long-term purposes | | (1.4) | — | (1.4) | (1.1) |
| Net investment (gain) / loss | | (101.8) | — | (101.8) | 2.8 |
| Decrease (increase) in assets: | | | | | |
| Receivables and advances | | (7.9) | (0.2) | (8.1) | 26.8 |
| Prepaid and deferred expenses | | 5.8 | (0.3) | 5.5 | 2.4 |
| Inventory | | (0.3) | — | (0.3) | 3.5 |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable and accrued expenses | | (1.6) | (1.8) | (3.4) | 1.0 |
| Deferred revenue and deferred gain on sale of real estate | | (3.7) | | (3.7) | (9.1) |
| Unexpended federal appropriations | | — | 20.5 | 20.5 | 12.3 |
| Net cash provided by operating activities | | (1.0) | 34.0 | 33.0 | 71.4 |
| Cash flows from investing activities: | | | | | |
| Proceeds from sales of collection items | | 0.2 | — | 0.2 | 1.5 |
| Collection items purchased | | (2.8) | (3.3) | (6.1) | (10.5) |
| Purchases of property and equipment | | (57.2) | (145.5) | (202.7) | (201.5) |
| Purchases of investment securities | | (645.6) | — | (645.6) | (644.2) |
| Proceeds from sales/maturities of investment securities | | 676.3 | — | 676.3 | 671.7 |
| Net cash used in investing activities | | (29.1) | (148.8) | (177.9) | (183.0) |
| Cash flows from financing activities: | | | | | |
| Contributions for permanent endowment | | 48.6 | — | 48.6 | 14.9 |
| Contributions for construction of facilities | | 11.3 | — | 11.3 | 23.8 |
| Appropriations for repair, restoration, and construction | | | 125.0 | 125.0 | 123.0 |
| Investment income restricted for long-term purposes | | 1.4 | — | 1.4 | 1.1 |
| Principal payments on long-term debt | | 0.3 | — | 0.3 | (1.0) |
| Repayments of bonds | | (33.6) | — | (33.6) | — |
| Proceeds from bond issuance | | 33.6 | — | 33.6 | — |
| Net cash provided by financing activities | | 61.6 | 125.0 | 186.6 | 161.8 |
| Net change in cash, cash equivalents and balances with U.S. Treasury | | 31.5 | 10.2 | 41.7 | 50.2 |
| Cash, cash equivalents and balances with U.S. Treasury: | | | | | |
| Beginning of year | | 79.9 | 317.3 | 397.2 | 347.0 |
| End of year | $ | 111.4 | 327.5 | 438.9 | 397.2 |
| Noncash investing activities: | | | | | |
| Construction cost accruals | $ | 5.2 | 14.7 | 19.9 | 28.8 |

Cash paid for interest during fiscal years 2010 and 2009 was approximately $1.8 and $2.4, respectively.

See accompanying notes to financial statements.

## (1) Organization

The Smithsonian Institution (Smithsonian) was created by 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 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, D.C., and two museums in New York City. Additional facilities and programs are operated in five states and Panama. Research is carried out in the Smithsonian's museums and in other facilities throughout the world. During fiscal year 2010, 30 million individuals visited Smithsonian museums and other facilities.

The Smithsonian describes its collections by the following categories: works of art, historical artifacts, natural and physical science specimens (living and nonliving), archival holdings, and library holdings.

At September 30, 2010, the Smithsonian's extensive collection contained approximately 137.1 million objects as follows: works of art (0.3 million), historical artifacts (10.2 million), and natural and physical science specimens (126.6 million). In addition, 98,100 cubic feet of archives and 1.8 million library volumes are maintained by the Smithsonian. Acquisitions and disposals of collection items during fiscal year 2010 were nominal in each category of collection items, except for the disposal of approximately 0.1 million natural and physical science specimens.

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

In addition to federal appropriations, the Smithsonian receives private support, government grants and contracts, and earns income from investments and its various business activities. Business activities include Smithsonian magazines and other publications, a mail-order catalog, and museum shops and food services.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Presentation*

The financial statements present the financial position, financial activity, and cash flows of the Smithsonian on the accrual basis of accounting. Funds received from direct federal appropriations and related transactions are reported as federal funds. All other funds and related transactions are reported as trust funds.

The statement of financial activity includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Smithsonian's financial statements for the year ended September 30, 2009, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the current year presentation.

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.

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. The most significant estimates affecting the Smithsonian's financial statements relate to determination of the fair value of nonmarketable investments, allocation of functional expenses, and the allowance for uncollectible contributions.

### *(b) Federal Funds*

Federal appropriations revenues are classified as unrestricted and recognized as exchange transactions as expenditures are incurred. The net assets of federal funds consist primarily of the Smithsonian's net investment in property and equipment purchased with or constructed using federal funds less unfunded liabilities for annual leave and estimated liabilities under the Federal Employees' Compensation Act (FECA) for workers compensation claims.

The Smithsonian was appropriated $636.2 for operations and $155.0 for construction or repair and restoration of facilities net of recissions of $29.8 in fiscal year 2010. Federal appropriations for operations are generally available for obligation only in the year received. In accordance with Public Law 110-161, these appropriations are maintained by the Smithsonian for five years following the year of appropriation, after which the appropriation account is closed and any unexpended balances are returned to the U.S. Treasury. During fiscal year 2010, the Smithsonian returned $2.4 to the U.S. Treasury, which represented the unexpended balance of appropriations for operations for fiscal year 2005. Federal appropriations for construction or repair and restoration of facilities are generally available for obligation until expended.

### *(c) Trust Funds*

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

**Unrestricted**

Net assets that are not subject to any donor-imposed or other legal stipulations on the use of the funds. Funds functioning as endowment in this category represent unrestricted assets that have been designated by the Board for long-term investment.

**Temporarily Restricted**

Net assets subject to donor-imposed stipulations that may be met by actions of the Smithsonian and/or the passage of time. Funds functioning as endowment in this category represent donor-restricted contributions that have been designated for long-term investment. Expiration of temporary restrictions on net assets (i.e., the donor stipulation has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

**Permanently Restricted**

Net assets subject to donor-imposed stipulations that the principal be maintained permanently by the Smithsonian. Generally, the donors of these assets permit the Smithsonian to use all or part of the income earned on investment of the assets for either general or donor-specified purposes.

Trust fund revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Losses on investments that reduce the assets of donor-restricted endowment funds below the level required by donor stipulations or by law are generally classified as reductions of unrestricted net assets and reported as nonoperating losses in the statement of financial activity. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets and reported as nonoperating gains in the statement of financial activity.

***(d) Cash Equivalents***

The Smithsonian considers all highly liquid investments purchased with an average maturity of three months or less to be cash equivalents. At September 30, 2010, cash equivalents consisted of funds held by the U.S. Treasury of $327.5 and investments with maturity dates of three months or less of $95.5 which are not held by the investment custodian in the investment portfolio.

***(e) Trade Account Receivables***

The Smithsonian's trade account receivables balance generally consists of accounts receivables related to magazine advertising and certain concession agreements. As of September 30, 2010, trade accounts receivable totaled $12.3.

***(f) Working Capital***

The Smithsonian has adopted a working capital policy to meet immediate and long-term cash needs of the organization using high quality investments (minimum of AAA rated securities). At September 30, 2010, the fund is comprised of cash equivalents with maturity dates of three months or less of $95.5 and short-term investments which include U.S. Government agency bonds of $112.6. The total working capital fund as of September 30, 2010 is $208.1.



(Continued)

***(g) Contributions***

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that items contributed and held as part of the Smithsonian's collections are not capitalized. Contributions restricted to the acquisition of long-lived assets are recorded as temporarily restricted revenue in the period received. The donor's restrictions are considered met and the net assets are released from restriction when the related asset is placed in service.

Contributions receivable are reported net of estimated uncollectible amounts determined based on management's judgment and analysis of the creditworthiness of donors, past collection experience, and other relevant factors. Estimated collectible contributions to be received after one year are discounted using a risk-adjusted rate for the expected period of collection. Amortization of the discount is recorded as additional contribution revenue.

In-kind contributions of goods and services totaling $13.3 were received in fiscal year 2010 and recognized as program support revenues and expenses in the statement of financial activity. In-kind contributions include donated space, equipment, and various other items.

A substantial number of volunteers also make significant contributions of time to the Smithsonian, enhancing its activities and programs. In fiscal year 2010, approximately 6,600 volunteers contributed approximately 582,000 hours of service to the Smithsonian. In accordance with applicable guidance, the value of these contributions is not recognized in the financial statements.

***(h) Deferred Revenues and Expenses***

Revenues from subscriptions to Smithsonian and Air and Space/Smithsonian magazines are deferred and recognized ratably over the period of the subscription, generally one year.

Promotion production expenses are recognized when related advertising materials are released. Direct-response advertising relating to the magazines is deferred and amortized over one year. At September 30, 2010, prepaid and deferred expenses included $5.3 of deferred promotion costs, related primarily to Smithsonian magazine. Advertising expense, including direct response advertising of $1.0, totaled $14.6 in fiscal year 2010 and is included in business activities expenses in the statement of financial activity.

***(i) Inventories***

Inventories are reported at the lower of cost or market, and consist primarily of merchandise and books. Cost is determined using the first-in, first-out method.

***(j) Investments***

Smithsonian employs an investment strategy which incorporates equities, hedge funds, private equity, real assets, U.S. government agency bonds, corporate bonds and cash and cash equivalents.

 (Continued)

For detailed descriptions of investment assets and the valuation methods and assumptions applied to determine fair value, please refer to footnote 6, *Investments and Fair Value Measurements.* Investments are exposed to various risks including interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that significant changes in the values of investments could occur in the near term.

Changes in fair value are recognized in the statement of financial activity. Purchases and sales of investments are recorded on the trade date using average costs. Investment income is recorded when earned.

### *(k) Split Interest Agreements and Perpetual Trusts*

Split interest agreements with donors consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, and perpetual trusts. For the charitable remainder trusts, the assets are included in receivables. The related contribution revenues are recognized at the dates the trusts are established based on the net present value of the estimated future payments to be made to the donors and/or other beneficiaries. For the charitable gift annuities, assets are recognized at fair value at the dates of the annuity agreements. An annuity liability is recognized for the present value of future cash flows expected to be paid to the donor and contribution revenues are recognized equal to the difference between the assets and the annuity liability. Liabilities are adjusted during the terms of the annuities for payments to donors, accretion of discounts and changes in the life expectancies of the donors.

The Smithsonian is also the beneficiary of certain perpetual trusts held and administered by others. The fair values of the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the assets are adjusted for changes in the fair value of the trust assets.

### *(l) Property and Equipment*

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 their estimated fair value at the date of the gift. These assets are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 30 years |
| Major renovations | 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.

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

Certain lands occupied by the Smithsonian's buildings, primarily located 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 these lands for as long as they are used to carry out its mission. These lands are titled in the name of the U.S. government and are not included in the accompanying financial statements.

***(m) Collections – Stewardship Assets***

The Smithsonian acquires its collections by purchase (using federal or trust funds) or by donation. All 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 unrestricted net assets in the period of acquisition. Proceeds from deaccessions or insurance recoveries for lost or destroyed collection items are recognized as increases in the appropriate net asset class and are generally designated for future collection acquisitions.

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.

***(n) Annual Leave***

The Smithsonian's federal and trust employees earn annual leave in accordance with federal laws and regulations and internal policies, respectively. Annual leave for all employees is recognized as expense when earned. The liability for unused annual leave is included in accounts payable and accrued expenses in the statement of financial position.

***(o) Sponsored Projects***

The Smithsonian receives grants and enters into contracts with the U.S. government and state and local governments which generally provide for cost reimbursement to the Smithsonian. Revenues under these agreements are recognized as reimbursable expenditures are incurred. These revenues include recoveries of facilities and administrative costs that are generally determined as a negotiated or agreed-upon percentage of direct costs, with certain exclusions.

***(p) Advancement***

The Smithsonian raises private financial support from individual donors, corporations, and foundations to fund programs and other initiatives. Financial support is also generated through numerous membership programs. Fundraising costs are expensed as incurred and reported as advancement expenses in the statement of financial activity. Fundraising expenses for fiscal year 2010 were $32.6.

(Dollars in millions)

### *(q) Related Organizations*

The Smithsonian recognizes its interest in the net assets of organizations that are financially interrelated and the changes in its interest using a method similar to the equity method of accounting. The principal financially interrelated organization is The Friends of the National Zoo (FONZ), which raises funds for the benefit of the Smithsonian's National Zoological Park.

### *(r) Measure of Operations*

The Smithsonian considers operations to include all changes in net assets exclusive of investment income not used for operations, change in the interest in net assets of related organizations, and changes in net assets related to collection items. Investment income not used for operations is calculated as the difference between the total return on the endowment (i.e., dividends, interest and net gain or loss) and the annual payout for the endowment funds.

### *(s) Recently Issued Accounting Pronouncements*

Effective September 30, 2009, the Smithsonian applied the guidance in FASB Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to its investments including certain global equities, hedge funds, private equity and certain real assets. This guidance permits, as a practical expedient, the fair values of investments within its scope to be estimated using net asset value per share or its equivalent. Effective September 30, 2010, the Smithsonian applied the disclosure guidance from ASU 2009-12 which includes disclosure of the nature of any restrictions on the Smithsonian's ability to redeem its investments at the measurement date, any unfunded commitments, and investment strategies of the funds.

## (3) Receivables and Advances

Receivables and advances consisted of the following at September 30, 2010:

| | | Trust | Federal | Total |
|---|---|---|---|---|
| Trade receivables, net of $1.2 in allowances | $ | 11.9 | 0.4 | 12.3 |
| Contributions receivable, net | | 156.0 | — | 156.0 |
| Grants and contracts | | 19.4 | — | 19.4 |
| Accrued interest and dividends | | 8.1 | — | 8.1 |
| Advance payments | | (0.1) | — | (0.1) |
| Charitable trusts | | 18.3 | — | 18.3 |
| Total receivables and advances | $ | 213.6 | 0.4 | 214.0 |

(Dollars in millions)

Contributions receivable, net, are summarized as follows at September 30, 2010:

| | | |
|---|---|---|
| Due within: | | |
| Less than 1 year | $ | 67.7 |
| 1 to 5 years | | 87.8 |
| More than 5 years | | 6.8 |
| | | 162.3 |
| Less: | | |
| Allowance for uncollectible contributions | | (1.0) |
| Unamortized discount (at rates ranging from 1.27% to 2.33%) | | (5.3) |
| Contributions receivable, net | $ | 156.0 |

At September 30, 2010, gross contributions receivable included approximately $45.9 due from one donor for construction of facilities.

## (4) Federal Appropriations

Federal appropriation revenues recognized in fiscal year 2010 are reconciled to the federal appropriations for fiscal year 2010 as follows:

| | | Salaries and expenses | Repair and restoration and construction | Total |
|---|---|---|---|---|
| Federal appropriation revenue | $ | 612.4 | 125.2 | 737.6 |
| Unexpended 2010 appropriation | | 74.4 | 98.8 | 173.2 |
| Amounts expended from prior years | | (50.6) | (98.8) | (149.4) |
| Fiscal year 2010 federal appropriation | $ | 636.2 | 125.2 | 761.4 |

(Dollars in millions)

Federal expenses recognized in fiscal year 2010 are reconciled to the federal appropriations for fiscal year 2010 as follows:

| | | Salaries and expenses | Repair and Restoration and construction | Total |
|---|---|---|---|---|
| Federal appropriation expense | $ | 615.5 | 63.0 | 678.5 |
| Unexpended 2010 appropriation | | 74.4 | 98.8 | 173.2 |
| Depreciation | | (15.0) | (55.0) | (70.0) |
| Loss on disposition of assets | | (0.4) | — | (0.4) |
| Unfunded annual leave and FECA costs | | 1.6 | — | 1.6 |
| Amounts expended from prior years | | (50.6) | (98.8) | (149.4) |
| Capital expenditures | | 18.1 | 117.2 | 135.3 |
| Foreign currency and related costs | | (1.0) | — | (1.0) |
| Collection items purchased | | 3.3 | — | 3.3 |
| Other funding | | (9.7) | — | (9.7) |
| Fiscal year 2010 federal appropriations | $ | 636.2 | 125.2 | 761.4 |

Unexpended appropriations for all fiscal years total $274.4 at September 30, 2010 and consist of $105.9 in unexpended operating funds and $168.5 in unexpended construction funds. Unexpended operating funds represent amounts appropriated for Smithsonian operations. Unexpended construction funds represent amounts appropriated for new facilities or renovations.

## (5) Accessions and Deaccessions

For fiscal year 2010, $2.8 of trust funds and $3.3 of federal funds were spent to acquire collection items. For fiscal year 2010, sales of collection items were $0.2 of trust funds. At September 30, 2010, accumulated proceeds and related earnings from deaccessions amounted to $10.1.

Noncash deaccessions result from the exchange, donation, or destruction of collection items, and occur because objects deteriorate, are outside the scope of a museum's mission, or are duplicative. During fiscal year 2010 the Smithsonian's noncash deaccessions included works of art, animals, historical objects, and natural specimens. Contributed items held for sale, which are included in other assets, were $1.7 at September 30, 2010.

## (6) Investments and Fair Value Measurements

The Smithsonian has adopted investment policies for its endowment, including board designated funds, which attempt to provide a predictable stream of funding in support of the operating budget, while seeking to preserve the real value of the endowment assets over time. 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 allocation. The Board's Investment Committee is responsible for determining the long-term asset allocation for the endowment.

As of September 30, 2010, the carrying values of the Smithsonian's cash, cash equivalents and balances with the U.S. Treasury, U.S. government sponsored bonds and other fixed income holdings, receivables and advances, prepaid and deferred expenses, accounts payable and accrued expenses, deferred revenues and certain other liabilities approximate their fair values because of the terms and relatively short maturity of these assets and liabilities.

The fair value of debt is determined based on quoted market prices for publicly traded issues and on the discounted future payments to be made for other issues. The discount rates used approximate current market rates for loans of similar maturities and credit quality. The carrying value of long-term debt obligations in the financial statements is less than their fair value by approximately $2.4 at September 30, 2010.

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 prices in active markets for identical assets or liabilities, as of the reporting date. Level 1 assets include certain global equities and U.S. governmental agency bonds held in the name of the Smithsonian and other investment assets that have daily liquidity.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities. Level 2 assets include investments in certain global equities and hedge funds that have bi-weekly liquidity and/or are redeemable in 90 days.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. 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. The Smithsonian's Level 3 assets include certain global equities, certain hedge funds, private equity and certain real assets that may have long lock-up periods or are redeemable at maturity only.

(Dollars in millions)

The following table presents information relating to the fair value measurements for assets that are measured at fair value on a recurring basis at September 30, 2010:

| | Fair Value at September 30, 2010 | Level 1 | Level 2 | Level 3 | Redemption or Liquidation | Days Notice |
|---|---|---|---|---|---|---|
| Short-term investments | | | | | | |
| Cash and equivalents | $ 5.0 | 5.0 | - | - | Daily | none |
| U.S. Government agency bonds | 102.6 | 102.6 | - | - | Daily | none |
| Corporate bonds | 5.0 | 5.0 | - | - | Daily | none |
| Total short-term investments | 112.6 | 112.6 | - | - | | |
| Endowment and similar investments | | | | | | |
| Pooled investments | | | | | | |
| Global Equity | | | | | | |
| Global developed equity | 249.3 | 94.5 | 81.0 | 73.8 | Daily to annually, some subject to a 3-year lockup | 1-120 |
| Emerging markets equity | 105.7 | - | 37.1 | 68.6 | Semi-monthly to semi-annually, some subject to a 2.25-year lockup | 2-60 |
| Hedge funds | | | | | | |
| Long/short equity funds | 98.5 | - | 32.0 | 66.5 | Quarterly to semi-annually, some subject to 1-2 year lockup | 45-90 |
| Credit and distressed funds | 127.3 | - | - | 127.3 | Quarterly to annually, some subject to 3-year lockup and some eligible for redemption at maturity only | 45-90 |
| Multi-strategy funds | 104.9 | - | - | 104.9 | Monthly to annually, up to 1-year lockup | 60-65 |
| Private Equity | 63.4 | - | - | 63.4 | At maturity | n/a |
| Real Assets | | | | | | |
| Natural resource equities | 86.3 | 66.2 | - | 20.1 | Daily to semi-annually | 1-45 |
| Real estate | 9.4 | - | - | 9.4 | At maturity | n/a |
| U.S. Government agency bonds | 41.9 | 41.9 | - | - | Daily | none |
| Cash and equivalents | 83.0 | 83.0 | - | - | Daily | none |
| Total pooled investments | 969.7 | 285.6 | 150.1 | 534.0 | | |
| Nonpooled investments | | | | | | |
| Deposits with U.S. Treasury | 1.0 | 1.0 | - | - | Daily | none |
| Total endowment and similar investments | 970.7 | 286.6 | 150.1 | 534.0 | | |
| Gift annuity program | 18.3 | 18.3 | - | - | Daily | none |
| Total investments | 1,101.6 | 417.5 | 150.1 | 534.0 | | |
| Charitable trusts | 18.3 | - | - | 18.3 | | |
| Total | $ 1,119.9 | 417.5 | 150.1 | 552.3 | | |

Investments in U.S. government agency bonds, corporate bonds, certain global equities, certain real assets, cash and equivalents, deposits with U.S. treasury, and gift annuity program investments are reported at fair value, which are determined primarily based on quoted market prices. Investments in certain global equity, hedge funds, private equity, certain real assets, and charitable trusts, are reported at estimated fair values as determined by management and are generally recorded based on the manager reported net asset value (NAV). No adjustments to NAV were considered necessary by management. The following presents the nature and risk of the major categories reported as of September 30, 2010.

*U.S. Government Agency Bonds and Corporate Bonds*

U.S. Government Agency Bonds are generally comprised of AAA U.S. Treasury or government sponsored entity (Fannie Mae, Freddie Mac, etc.) bonds. Corporate bonds consist of one AAA international development bond.

*Global Equity*

Investments primarily in global developed and emerging markets publicly listed equities and funds that invest in publicly listed equities.

*Hedge Funds*

Investments in a broad array of securities and strategies aimed to reduce volatility. Smithsonian's hedge funds are broadly defined as long/short equity, credit and distressed and multi-strategy.

*Private Equity*

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 investment strategies in leveraged buyouts, venture capital, growth capital and distressed investments.

*Real Assets*

Comprised of publicly traded and privately held real estate, energy and natural resources, and Treasury Inflation-Protected Securities (TIPS). Real estate investments are held in private limited partnerships. Energy and natural resources investments are publicly traded securities in the natural resources sector, private oil and gas partnerships and commodity futures funds.

*Cash and Equivalents*

High quality, highly liquid, short duration commercial paper, and money market funds.

*Deposits with U.S. Treasury*

The Smithsonian maintains U.S. Treasury investments totaling $1.0 relating in part to the original gift from James Smithson.

*Gift Annuity Program Investments*

Publicly traded mutual funds in equities, bonds and money market funds.

(Dollars in millions)

*Charitable Trusts*

Receivables related to interests in irrevocable charitable remainder trusts and certain perpetual trusts held and administered by others.

The following table summarizes activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for fiscal year 2010:

| | | Global equity | Hedge funds | Private Equity | Real Assets | Charitable trusts | Total |
|---|---|---|---|---|---|---|---|
| Beginning value at September 30, 2009 | $ | 100.4 | 306.0 | 42.2 | 20.4 | 16.0 | 485.0 |
| Dividends and income | | - | - | 0.3 | 0.3 | - | 0.6 |
| Realized gains (losses) | | 0.8 | 7.6 | 1.2 | (1.5) | - | 8.1 |
| Unrealized gains / losses | | 16.9 | 35.5 | 9.9 | 3.1 | 3.0 | 68.4 |
| Purchases and acquisitions | | 25.1 | 9.8 | 12.2 | 14.3 | - | 61.4 |
| Sales and redemptions | | (0.8) | (60.2) | (2.4) | (7.1) | (0.7) | (71.2) |
| Net transfers in (out) of Level 3 | | - | - | - | - | - | - |
| Ending value at September 30, 2010 | $ | 142.4 | 298.7 | 63.4 | 29.5 | 18.3 | 552.3 |

The Smithsonian is obligated under the terms of certain limited partnership agreements to remit additional funding periodically as capital calls are exercised. At September 30, 2010, the Smithsonian had uncalled commitments of approximately $48.8 for private equity and $12.4 in private real estate investments. Such commitments are generally callable over the next 5 years and the related agreements contain fixed expiration dates or other termination clauses. The average remaining life of Smithsonian's investments in certain credit and distressed hedge funds, private equity, and real estate partnership investments are between 7 to 8 years to maturity.

Investment return consisted of the following for fiscal year 2010:

| | | |
|---|---|---|
| Dividend and interest income | $ | 6.2 |
| Net investment gain | | 102.5 |
| Investment management fees | | (0.7) |
| Investment return | $ | 108.0 |

Investment return is classified in the statement of financial activity as follows for fiscal year 2010:

| | | |
|---|---|---|
| Short-term investment income | $ | 4.4 |
| Endowment payout | | 50.5 |
| Nonoperating investment gain | | 53.1 |
| Investment return | $ | 108.0 |

## (7) Endowment Funds

The Smithsonian endowment consists of approximately 500 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. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The District of Columbia adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in January 2008. The Smithsonian has determined that it is not required to follow the District of Columbia's version of UPMIFA as a matter of law, but it may choose to implement the standards of UPMIFA in a future period. The Smithsonian continues to follow the guidance in the Uniform Management of Institutional Funds Act of 1972 (UMIFA) which focuses on the prudent spending of the net appreciation of a fund. The Smithsonian has interpreted UMIFA as requiring the preservation of the original gift of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Smithsonian classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Subject to the intent of the donor, as approved by the Board, the Smithsonian manages and invests the individual endowment funds considering the requirements in UMIFA. Substantially all of the investments of the endowment are pooled, with 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. At September 30, 2010, the market value of the pool equated to seven hundred thirty eight dollars and eighty-five cents per unit.

Each fund participating in the investment pool receives an annual appropriation based on the number of units owned. The annual appropriation is determined in the context of the Smithsonian's spending rate policy. The current policy which is based on a long-term investment return assumption as well as an estimated inflation factor, targets the appropriation to be 5% of the prior five years' average value of the endowment. The payout for fiscal year 2010 was thirty-eight dollars and seventy-two cents per unit or 5% of the average per unit market value of the endowment over the prior five years.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Smithsonian to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $5.9 as of September 30, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board.



(Continued)

(Dollars in millions)

Endowment net assets (excluding contributions receivable) consist of the following at September 30, 2010:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 71.8 | 148.4 | 253.8 | 474.0 |
| Board-designated endowment funds | 510.7 | 6.2 | — | 516.9 |
| Total endowment net assets | $ 582.5 | 154.6 | 253.8 | 990.9 |

At September 30, 2010, the endowment assets include $970.7 of investments, $7.2 of net unsettled trades and accrued income, and $13.0 of uninvested cash.

Changes in endowment net assets for fiscal year 2010 are as follows:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Balance, beginning of year | $ 542.2 | 137.3 | 203.9 | 883.4 |
| Investment return: | | | | |
| Investment income | 0.9 | — | 1.3 | 2.2 |
| Net appreciation (realized and unrealized) | 66.3 | 32.7 | — | 99.0 |
| Total investment return | 67.2 | 32.7 | 1.3 | 101.2 |
| Contributions | — | — | 48.6 | 48.6 |
| Appropriation for expenditure | (31.7) | (17.6) | — | (49.3) |
| Transfers to Board-designated endowment funds | 4.8 | 2.2 | — | 7.0 |
| Balance, end of year | $ 582.5 | 154.6 | 253.8 | 990.9 |


(Continued)

(Dollars in millions)

## (8) Property and Equipment

Property and equipment consisted of the following at September 30, 2010:

| | | Trust | Federal | Total |
|---|---|---|---|---|
| Land | $ | 12.5 | — | 12.5 |
| Buildings and capital improvements | | 678.7 | 1,946.1 | 2,624.8 |
| Equipment and software | | 55.0 | 163.1 | 218.1 |
| Leasehold improvements | | 92.7 | 21.4 | 114.1 |
| | | 838.9 | 2,130.6 | 2,969.5 |
| Accumulated depreciation | | (275.4) | (1,066.7) | (1,342.1) |
| Total property and equipment | $ | 563.5 | 1,063.9 | 1,627.4 |

At September 30, 2010, buildings and capital improvements included $95.1 and $269.7 of construction in progress within trust and federal funds, respectively. Depreciation expense for fiscal year 2010 totaled $31.8 in trust funds and $70.0 in federal funds.

During fiscal year 2006, the Smithsonian completed the sale of the Victor Building, located in Washington, D.C., and entered into short-term and long-term (15 years) leases for portions of the property (approximately 32% of the building). As a result of this leaseback, the Smithsonian deferred the full gain at the date of sale ($62.9) and is recognizing the gain over the term of the leases. In fiscal year 2010, $3.9 of the deferred gain was recognized.

## (9) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following at September 30, 2010:

| | | Trust | Federal | Total |
|---|---|---|---|---|
| Accounts payable | $ | 19.6 | 29.0 | 48.6 |
| Accrued salaries and benefits | | 37.0 | 90.1 | 127.1 |
| Deferred rent liability | | 66.2 | — | 66.2 |
| Gift annuity liabilities | | 10.8 | — | 10.8 |
| Other accrued liabilities | | 6.9 | 3.7 | 10.6 |
| Total accounts payable and accrued expenses | $ | 140.5 | 122.8 | 263.3 |

Accrued salaries and benefits include estimated FECA liabilities of $4.2 for trust employees and $42.7 for federal employees at September 30, 2010.

(Dollars in millions)

## (10) Long-Term Debt

The Smithsonian is obligated with respect to the following issues of long-term debt at September 30, 2010:

| | | |
|---|---|---|
| Series 2010 Revenue Bonds, Serial, principal amounts ranging from $1.2 to $1.7, interest rates, 2.00% to 5.25%, due February 1, 2011 through 2021 | $ | 15.8 |
| Series 2010 Revenue Bonds, Term: | | |
| Interest rate 5.25%, due February 1, 2022 | | 1.8 |
| Interest rate 5.25%, due February 1, 2023 | | 1.9 |
| Interest rate 5.25%, due February 1, 2024 | | 2.0 |
| Interest rate 5.25%, due February 1, 2025 | | 2.1 |
| Interest rate 5.25%, due February 1, 2026 | | 2.2 |
| Interest rate 5.25%, due February 1, 2027 | | 2.3 |
| Interest rate 5.25%, due February 1, 2028 | | 2.4 |
| Series 2003 Revenue Bonds, Series A: | | |
| Variable interest rate, due December 1, 2033 | | 52.5 |
| Series 2003 Revenue Bonds, Series B: | | |
| Variable interest rate, due December 1, 2033 | | 25.0 |
| Plus unamortized bond premium | | 3.2 |
| Total long-term debt | $ | 111.2 |

The individual debt components at September 30, 2010 are described as follows:

***Series 2010 Revenue Bonds***

The Series 2010 bonds represent a refunding of the series 1997 bonds issued by the District of Columbia on behalf of the Smithsonian. The Series 2010 term and serial revenue bonds were issued by the District of Columbia on behalf of the Smithsonian and represent unsecured general obligations of the Smithsonian. Interest is payable semiannually every August 1 and February 1. Principal and interest payments are funded solely by trust funds.

The serial bond matures yearly beginning February 1, 2011 through February 1, 2021. Payments for the serial bond begins on that date and principal repayments range from $1.2 to $1.7 per year. The term bonds maturing on February 1, 2028 are subject to mandatory redemption by sinking fund installments. Installment payments for the term bond maturing February 1, 2028 begin on February 1, 2022 and range from $1.8 to $2.4 per year through the maturity date.

***Series 2003 Revenue Bonds***

The Series 2003 revenue bonds were issued by the Fairfax County Economic Development Authority (Virginia) on behalf of the Smithsonian. The bonds were issued to finance a portion of the costs of the Steven F. Udvar-Hazy Center, an extension of the National Air and Space Museum, and are due on December 1, 2033, subject to earlier redemption at the option of the Smithsonian. The bonds are unsecured, and bear interest, payable monthly, at a variable interest rate determined in accordance with the Indenture (0.23% at September 30, 2010). Principal and interest payments are funded solely by trust funds.

(Dollars in millions)

Interest expense on long-term debt for fiscal year 2010 totaled $2.1.

The annual maturities of long-term debt for the five fiscal years subsequent to fiscal year 2010 and thereafter are as follows: 2011, $1.6; 2012, $1.2; 2013, $1.2; 2014, $1.3 2015, $1.3; and thereafter, $101.4.

## (11) Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2010:

| | | |
|---|---|---|
| Museums and general support | $ | 104.1 |
| Education, public programs and exhibitions | | 88.9 |
| Research | | 51.1 |
| Acquisitions and collections | | 51.9 |
| Facilities | | 167.7 |
| | $ | 463.7 |

Net assets released from donor restrictions due to the passage of time or by incurring expenses satisfying the restricted purpose specified by the donors were as follows for the year ended September 30, 2010:

| | | |
|---|---|---|
| Program support and other | $ | 39.2 |
| Facilities | | 11.5 |
| Research | | 14.1 |
| | $ | 64.8 |

Permanently restricted net assets are restricted for the following purposes at September 30, 2010:

| | | |
|---|---|---|
| Museums and general support | $ | 60.6 |
| Education, public programs and exhibitions | | 132.3 |
| Research | | 66.1 |
| Acquisitions and collections | | 29.8 |
| Facilities | | 1.5 |
| Other | | 7.5 |
| | $ | 297.8 |

(Dollars in millions)

## (12) Employee Benefit Plans

The federal employees of the Smithsonian are covered by either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). The terms of these plans are defined in federal regulations. Under both systems, the Smithsonian withholds a specified percentage from each federal employee's salary. The Smithsonian also contributes specified percentages of employees' salaries. The Smithsonian's expense for these plans for fiscal year 2010 was $29.5.

The Smithsonian has a separate defined-contribution retirement plan for trust fund employees in which substantially all such employees are eligible to participate. Under the plan, the Smithsonian contributes specified percentages of employees' salaries that are used to purchase individual annuities, the rights to which are immediately vested with the employees. Employees can make voluntary contributions, subject to certain limitations. The Smithsonian's expense for this plan for fiscal year 2010 was $15.2.

In addition to the Smithsonian's retirement plans, the Smithsonian makes available certain health care and life insurance benefits 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 September 30, 2010, the accrued benefit obligation under this plan was $14.8 and is included in accounts payable and accrued expenses in the statement of financial position.

## (13) Income Taxes

The Smithsonian is recognized as exempt from income taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code. Organizations described in that Section are taxable only on their unrelated business income. Periodical advertising sales are the principal source of unrelated business income for the Smithsonian. The provision for income taxes was not material for fiscal year 2010.

The Smithsonian recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Smithsonian does not believe its financial statements include any uncertain tax positions.

## (14) Business Activities

A summary of business activities revenues and expenses for fiscal year 2010 is as follows:

| | | Revenues | Expenses | Net |
|---|---|---|---|---|
| Smithsonian business enterprises | $ | 146.5 | (118.7) | 27.8 |
| Unit auxilliary activities | | 25.5 | (21.5) | 4.0 |
| Total business activities | $ | 172.0 | (140.2) | 31.8 |

(Dollars in millions)

## (15) Commitments and Contingencies

### *(a) Leasing Activities*

The Smithsonian leases office and warehouse space under long-term operating leases expiring at various dates to 2023. These leases generally provide for rent escalations for increases in property taxes or operating expenses attributable to the leased properties or based on increases in the Consumer Price Index. The Smithsonian has the authority to enter into leases for up to 30 years using federal funds.

Annual minimum lease payments due under operating leases in effect at September 30, 2010 are summarized as follows:

| | | |
|---|---|---|
| 2011 | $ | 38.4 |
| 2012 | | 38.3 |
| 2013 | | 36.5 |
| 2014 | | 35.3 |
| 2015 | | 36.2 |
| Thereafter | | 234.0 |
| | $ | 418.7 |

Rental expense under operating leases, including executory costs such as maintenance, insurance and taxes, totaled $40.6 for fiscal year 2010.

### *(b) Government Grants and Contracts*

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*

The Smithsonian has various construction projects in process throughout its museums with significant projects at the Steven F. Udvar-Hazy Center of the National Air and Space Museum. Commitments under related contracts aggregated $6.1 at September 30, 2010.

### *(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.

## (16) Subsequent Events

Management has performed an evaluation of subsequent events through March 4, 2011, which is the date that the financial statements are available to be issued, noting no events which affect the financial statements as of September 30, 2010.