SMITHSONIAN INSTITUTION

Financial Statements

September 30, 2014

(With Independent Auditors' Report Thereon)

KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Regents
Smithsonian Institution:

Report on the Financial Statements

We have audited the accompanying financial statements of the Smithsonian Institution (Smithsonian), which comprise the statement of financial position as of September 30, 2014, and the related statements of financial activity and cash flows for the year 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 audit. 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 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 Smithsonian'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 Smithsonian'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 the Smithsonian as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Smithsonian 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 18, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

January 15, 2015

SMITHSONIAN INSTITUTION

Statement of Financial Position

September 30, 2014
(with summarized financial information as of September 30, 2013)

(Dollars in millions)

	Trust funds	Federal funds	Total funds 2014	Total funds 2013
Assets:				
Cash, cash equivalents and balances with the U.S. Treasury	$ 253.4	267.3	520.7	498.2
Receivables and advances	320.6	1.3	321.9	298.2
Inventory	12.2	0.7	12.9	10.6
Deferred expenses and other assets	47.4	—	47.4	38.1
Investments	1,446.4	—	1,446.4	1,314.9
Property and equipment, net	581.4	1,469.0	2,050.4	1,886.2
Total assets	$ 2,661.4	1,738.3	4,399.7	4,046.2
Liabilities:				
Accounts payable and accrued expenses	$ 148.8	145.2	294.0	287.8
Deferred revenue	47.0	—	47.0	49.1
Unexpended federal appropriations	—	197.0	197.0	264.9
Deferred gain on sale of real estate	23.8	—	23.8	27.8
Environmental remediation obligation	—	45.3	45.3	69.2
Long-term debt	204.7	—	204.7	106.3
Total liabilities	424.3	387.5	811.8	805.1
Net assets:				
Unrestricted:				
Funds functioning as endowment	619.6	—	619.6	579.8
Operational balances	406.9	1,350.8	1,757.7	1,584.3
Total unrestricted net assets	1,026.5	1,350.8	2,377.3	2,164.1
Temporarily restricted:				
Funds functioning as endowment	310.1	—	310.1	277.0
Donor contributions for facilities	222.4	—	222.4	196.3
Donor contributions for programs	236.9	—	236.9	210.6
Total temporarily restricted net assets	769.4	—	769.4	683.9
Permanently restricted:				
True endowments	369.5	—	369.5	334.3
Donor endowment receivables	53.5	—	53.5	40.8
Interest in perpetual and other trusts	18.2	—	18.2	18.0
Total permanently restricted net assets	441.2	—	441.2	393.1
Total net assets	2,237.1	1,350.8	3,587.9	3,241.1
Commitments and contingencies				
Total liabilities and net assets	$ 2,661.4	1,738.3	4,399.7	4,046.2

See accompanying notes to financial statements.

SMITHSONIAN INSTITUTION

Statement of Financial Activity

Year ended September 30, 2014
(with summarized financial information for year ended September 30, 2013)

(Dollars in millions)

	Unrestricted			Temporarily restricted trust funds	Permanently restricted trust funds	Total	
	Trust funds	Federal funds	Total			2014	2013
Operating revenues and other additions:							
Government revenue:							
Federal appropriations	$ —	870.2	870.2	—	—	870.2	795.3
Government grants and contracts	124.2	—	124.2	—	—	124.2	121.6
Total government revenue	124.2	870.2	994.4	—	—	994.4	916.9
Contributions:							
Program support	28.3	—	28.3	87.0	46.1	161.4	173.0
Construction of facilities	—	—	—	28.6	—	28.6	22.8
Total contributions	28.3	—	28.3	115.6	46.1	190.0	195.8
Business activities and other:							
Business activities	165.8	—	165.8	—	—	165.8	167.6
Short-term investment income	3.8	—	3.8	—	—	3.8	2.3
Endowment payout	38.1	—	38.1	24.3	1.2	63.6	62.1
Private grants	7.6	—	7.6	—	—	7.6	6.3
Rentals, fees, commissions, and other	20.7	6.5	27.2	—	—	27.2	27.6
Gain on sale of real estate	3.9	—	3.9	—	—	3.9	3.9
Imputed benefit revenue	—	32.9	32.9	—	—	32.9	29.7
Total business activities and other	239.9	39.4	279.3	24.3	1.2	304.8	299.5
Total operating revenues	392.4	909.6	1,302.0	139.9	47.3	1,489.2	1,412.2
Net assets released from restrictions	92.0	—	92.0	(92.0)	—	—	—
Total operating revenues and other additions	484.4	909.6	1,394.0	47.9	47.3	1,489.2	1,412.2
Expenses:							
Program activities:							
Research	128.8	128.0	256.8	—	—	256.8	255.1
Collections management	23.9	213.8	237.7	—	—	237.7	235.1
Education, public programs, and exhibitions	78.2	215.1	293.3	—	—	293.3	297.8
Business activities	134.4	—	134.4	—	—	134.4	134.2
Total program activities	365.3	556.9	922.2	—	—	922.2	922.2
Supporting activities:							
Administration:							
Centrally managed	22.1	92.0	114.1	—	—	114.1	114.2
Unit managed	48.9	94.3	143.2	—	—	143.2	134.8
Advancement	41.5	5.1	46.6	—	—	46.6	47.6
Total supporting activities	112.5	191.4	303.9	—	—	303.9	296.6
Total expenses	477.8	748.3	1,226.1	—	—	1,226.1	1,218.8
Change in net assets from operations	6.6	161.3	167.9	47.9	47.3	263.1	193.4
Nonoperating activities:							
Environmental remediation gain (cost)	—	23.9	23.9	—	—	23.9	(69.2)
Nonoperating investment gain (loss)	29.7	—	29.7	37.1	(1.1)	65.7	76.6
Matching and other reclassifications	(1.9)	—	(1.9)	—	1.9	—	—
Change in interest in net assets of related organizations and other	2.4	—	2.4	0.5	—	2.9	5.0
Change in net assets related to collection items not capitalized:							
Proceeds from sales	—	—	—	—	—	—	4.3
Collection items purchased	(5.2)	(3.6)	(8.8)	—	—	(8.8)	(8.1)
Change in net assets	31.6	181.6	213.2	85.5	48.1	346.8	202.0
Net assets, beginning of year	994.9	1,169.2	2,164.1	683.9	393.1	3,241.1	3,039.1
Net assets, end of year	$ 1,026.5	1,350.8	2,377.3	769.4	441.2	3,587.9	3,241.1

See accompanying notes to financial statements.

SMITHSONIAN INSTITUTION

Statement of Cash Flows

Year ended September 30, 2014
(with summarized financial information for year ended of September 30, 2013)

(Dollars in millions)

	Trust funds	Federal funds	Total 2014	Total 2013
Cash flows from operating activities:				
Change in net assets	$ 165.2	181.6	346.8	202.0
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Proceeds from sales of collection items	—	—	—	(4.3)
Collection items purchased	5.2	3.6	8.8	8.1
Depreciation	37.5	89.4	126.9	124.6
Contributions for permanent endowment	(32.2)	—	(32.2)	(28.0)
Contributions for construction of facilities	(27.2)	—	(27.2)	(29.5)
Appropriations for repair, restoration, and construction	—	(158.0)	(158.0)	(165.6)
Investment income restricted for long-term purposes	(1.2)	—	(1.2)	(1.3)
Net investment gain	(112.5)	—	(112.5)	(133.3)
Decrease (increase) in assets:				
Receivables and advances	(22.2)	0.5	(21.7)	(29.1)
Deferred expenses and other assets	(9.3)	—	(9.3)	(7.2)
Inventory	(2.3)	—	(2.3)	(1.2)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	(4.9)	11.8	6.9	(2.1)
Environmental remediation obligation	—	(23.9)	(23.9)	69.2
Deferred revenue and deferred gain on sale of real estate	(6.0)	—	(6.0)	(6.6)
Unexpended federal appropriations	—	(67.9)	(67.9)	(24.5)
Net cash provided by (used in) operating activities	(9.9)	37.1	27.2	(28.8)
Cash flows from investing activities:				
Proceeds from sales of collection items	—	—	—	4.3
Collection items purchased	(5.2)	(3.6)	(8.8)	(8.1)
Purchases of property and equipment	(44.4)	(247.4)	(291.8)	(207.6)
Purchases of investment securities	(253.9)	—	(253.9)	(789.6)
Proceeds from sales/maturities of investment securities	233.0	—	233.0	774.9
Net cash (used in) investing activities	(70.5)	(251.0)	(321.5)	(226.1)
Cash flows from financing activities:				
Contributions for permanent endowment	32.2	—	32.2	28.0
Contributions for construction of facilities	27.2	—	27.2	29.5
Appropriations for repair, restoration, and construction	—	158.0	158.0	165.6
Investment income restricted for long-term purposes	1.2	—	1.2	1.3
Proceeds from issuance of bonds	99.5	—	99.5	—
Principal payments on long-term debt	(1.3)	—	(1.3)	(1.5)
Net cash provided by financing activities	158.8	158.0	316.8	222.9
Net change in cash, cash equivalents and balances with U.S. Treasury	78.4	(55.9)	22.5	(32.0)
Cash, cash equivalents and balances with U.S. Treasury:				
Beginning of year	175.0	323.2	498.2	530.2
End of year	$ 253.4	267.3	520.7	498.2
Noncash investing activities:				
Construction cost accruals	$ 12.7	37.2	49.9	40.5

Cash paid for interest during fiscal years 2014 and 2013 was approximately $2.7 and $1.4, 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 2014, nearly 26.8 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, 2014, the Smithsonian's extensive collection contained approximately 137.2 million collection items as follows: works of art (0.3 million) historical artifacts (8.7 million), and natural and physical science specimens (128.1 million). In addition, 139,000 cubic feet of archives and 2.0 million library volumes are maintained by the Smithsonian. The disposal of natural and physical science specimens was approximately (23,000).

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, 2013, from which the summarized information was derived.

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.

Expenses are presented on a functional basis in the statement of financial activity. Programs include research, collections management, education, public programs and exhibitions, and business activities. Supporting services include administration and advancement. Administration includes centrally managed services, which directly report to the Office of Under Secretary for Finance and Administration and unit managed, which are part of museums and centers across Smithsonian. Depreciation, security, and other operating costs that are general and benefit more than one program are allocated across programs and services based on a square footage methodology.

(b) 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. The most significant estimates affecting the Smithsonian's financial statements relate to the determination of the fair value of nonmarketable investments, allocation of functional expenses, Federal Employees' Compensation Act (FECA) liability, environmental liability, imputed benefit cost/revenue, and the allowance and discount for contributions.

(c) 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 FECA for workers compensation claims.

The Smithsonian was appropriated $647.0 for operations and $158.0 for construction or repair and restoration of facilities in fiscal year 2014. Federal appropriations for operations are generally available for two years. 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 2014, the Smithsonian returned $3.0 to the U.S. Treasury, which represented the unexpended balance of appropriations for operations for fiscal year 2009. Federal appropriations for construction or repair and restoration of facilities are generally available for obligation until expended.

(d) Trust Funds

The Smithsonian's net assets, revenues, expenses 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:

(Continued)

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, assets placed in service, 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.

(e) 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, 2014, cash equivalents consisted of funds held by the U.S. Treasury of $267.3 and investments with maturity dates of three months or less of $219.3 which are invested in institutional money market funds.

(f) 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, 2014, trade accounts receivable totaled $15.4 (see note 3).

(g) 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. The working capital investment policy requires that Smithsonian funds should be invested in short-term instruments that will allow for required liquidity and provide a maximum interest return within defined risk constraints. At September 30, 2014, the fund is comprised of cash equivalents with maturity dates of three months or less of $219.3 and short-term investments of $134.8 reported in investments (see note 6). The total working capital fund as of September 30, 2014 is $354.1.

(h) 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. Generally, 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. These inputs represent Level 3 inputs in the fair value hierarchy.

In-kind contributions of goods and services totaling $8.9 were received in fiscal year 2014 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 2014, approximately 5,541 volunteers contributed approximately 475,000 hours of service to the Smithsonian. In accordance with applicable guidance, the value of these contributions is not recognized in the financial statements.

(i) 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, 2014, deferred expenses and other assets included $5.6 of deferred promotion costs, related primarily to Smithsonian magazine. Advertising expense, including direct response advertising of $1.4, totaled $13.5 in fiscal year 2014 and is included in business activities expenses in the statement of financial activity.

(j) 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.

(Continued)

(k) Investments

Smithsonian employs an investment strategy which utilizes equities, marketable alternatives, private equity, natural resources and real estate, U.S. government agency bonds, and cash and cash equivalents.

For detailed descriptions of investment assets and the valuation methods and assumptions applied to determine fair value, please refer to note 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.

(l) 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.

(m) 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.

During fiscal year 2013, the Smithsonian recognized approximately $69.2 in unfunded expenses and a related liability for environmental remediation obligations under Financial Accounting Standards Board (FASB) ASC 410-20, *Asset Retirement Obligations*. During fiscal year 2014 the liability was reduced to $45.3 as Smithsonian refined its estimates of the underlying cost. The associated assets consist of various Smithsonian museum buildings and other facilities. The obligation is calculated using an inflation rate of 1.7% and a discount rate of 3.4% based on third party environmental remediation studies, contractor bids and internal estimates derived from recently completed remediation projects for similar Smithsonian facilities and other information for similar projects, and are considered Level 3 inputs in the fair value hierarchy. The liability is accreted to its present value each period while the change in the estimated obligation is expensed because the related properties are fully depreciated. Any difference between the estimated obligation and the actual cost of remediation is expensed.

(n) 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.

(o) 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 an expense when earned. The liability for unused annual leave is included in accounts payable and accrued expenses in the statement of financial position.

(Dollars in millions)

(p) 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.

(q) 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 2014 were $46.6.

(r) 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 organizations are The Friends of the National Zoo (FONZ), which raises funds for the benefit of the Smithsonian's National Zoological Park, and the Smithsonian Network.

(s) 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, asset retirement obligation, 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.

(3) Receivables and Advances

Receivables and advances consisted of the following at September 30, 2014:

		Trust	Federal	Total
Trade receivables, net of $0.8 in allowances	$	14.1	1.3	15.4
Contributions receivable, net		248.3	—	248.3
Grants and contracts		22.6	—	22.6
Accrued interest and dividends		15.9	—	15.9
Charitable trusts		19.2	—	19.2
Advances		0.5	—	0.5
Total receivables and advances	$	320.6	1.3	321.9

(Dollars in millions)

Contributions receivable, net, are summarized as follows at September 30, 2014:

Due within:		
Less than 1 year	$	78.3
1 to 5 years		173.5
More than 5 years		18.4
		270.2
Less:		
Allowance for uncollectible contributions		(4.6)
Unamortized discount (at rates ranging from 0.62% to 5.78%)		(17.3)
Contributions receivable, net	$	248.3

At September 30, 2014, gross contributions receivable included approximately $45.7 due from one donor for construction of facilities.

(4) Federal Appropriations

Federal appropriation revenues recognized in fiscal year 2014 are reconciled to the federal appropriations for fiscal year 2014 as follows:

		Salaries and expenses	**Repair and restoration and construction**	**Total**
Federal appropriation revenue	$	631.0	239.2	870.2
Unexpended 2014 appropriation		88.7	68.4	157.1
Amounts expended from prior years		(72.7)	(149.6)	(222.3)
Fiscal year 2014 federal appropriation	$	647.0	158.0	805.0

(Dollars in millions)

Federal expenses recognized in fiscal year 2014 are reconciled to the federal appropriations for fiscal year 2014 as follows:

		Salaries and expenses	Repair and Restoration and construction	Total
Federal appropriation expense	$	664.7	83.6	748.3
Unexpended 2014 appropriation		88.7	68.4	157.1
Depreciation		(14.3)	(75.1)	(89.4)
Imputed benefit costs		(32.9)	—	(32.9)
Collection items purchased		3.6	—	3.6
Amounts expended from prior years		(72.7)	(149.6)	(222.3)
Capital expenditures		15.9	230.7	246.6
Unfunded Expenses - FICA, Annual leave		0.6	—	0.6
Other funding		(6.6)	—	(6.6)
Fiscal year 2014 federal appropriations	$	647.0	158.0	805.0

Unexpended appropriations for all fiscal years total $197.0 at September 30, 2014 and consist of $107.0 in unexpended operating funds and $90.0 in unexpended construction funds. Unexpended operating and construction funds represent amounts appropriated for Smithsonian's operations and new facilities or renovations, respectively.

(5) Accessions and Deaccessions

For fiscal year 2014, $5.2 of trust funds and $3.6 of federal funds were spent to acquire collection items. For fiscal year 2014, there was $22,000 (in dollars) in proceeds from sales of collection items. At September 30, 2014, accumulated proceeds and related earnings from deaccessions amounted to $2.5.

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 2014 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 $1.2 at September 30, 2014.

(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, 2014, the carrying values of the Smithsonian's cash, cash equivalents and balances with the U.S. Treasury, U.S. government agency bonds and other fixed income holdings, receivables and advances, 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, as determined using Level 2 inputs, by approximately $4.1 at September 30, 2014.

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 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets that have weekly liquidity and/or redeemable within 90 days whose valuations are reported at NAV in accordance with the practical expedient, ASC 820 Classifications (as reported by the investment manager).
- 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.

(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, 2014:

	Fair Value at September 30, 2014	Level 1	Level 2	Level 3	Redemption Frequency	Days of
U.S. government agency bonds	134.8	134.8	—	—		
Total Short-term investments	134.8	134.8	—	—		
Endowment						
Pooled Investments						
Global equity						
Global developed equity	377.6	80.2	185.4	112.1	Daily to annually	0 - 91
Emerging market equity	140.7	63.7	77.0	—	Daily to quarterly	0 - 90
Marketable Alternatives						
Long/short equity	56.4	—	23.0	33.4	Quarterly to annually	30-90
Credit and distressed	66.8	—		66.8	Annually to at maturity	90 - n/a
Multi-strategy	131.5	—	49.3	82.2	Quarterly to annually	60 - 90
Global Marco	90.1	—	36.7	53.4	Monthly to semi-annually	2 - 90
Private equity						
Private equity	75.2	—	—	75.2	n/a	n/a
Venture capital	104.5	—	—	104.5	n/a	n/a
Real Assets						
Energy and natural resources	78.4	23.8	—	54.6	Daily to at maturity	0 - n/a
Real estate funds	79.4	—	—	79.4	Quarterly to at maturity	60 - n/a
Fixed Income	63.2	52.3	—	10.8	Daily to quarterly	0 - 90
Cash and equivalent	21.8	21.8	—	—		
Total Pooled Investments	1,285.6	241.8	371.4	672.4		
Nonpooled investments						
Deposits with U.S. Treasury	1.0	1.0	—	—		
Endowment Total	1,286.6	242.8	371.3	672.4		
Gift annuity program	25.0	25.0	—	—		
Total investments	1,446.4	402.6	371.3	672.4		
Charitable trusts	19.2	—	—	19.2		
Grand Total	1,465.6	402.6	371.3	691.6		

Investments in U.S. government agency bonds, certain global equities, publicly traded natural resources and 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, marketable alternatives, private equity and venture capital, natural resources and real estate, 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). For alternative investments that include marketable alternatives, private equity and real assets, the NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. Fair value reporting requires investment managers to make estimates and assumptions about the effects of matters that are inherently uncertain. The most recent NAV reported is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through September 30, 2014. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed. There are no transfers and reclassifications of assets between Level 1 and Level 2. The following presents the nature and risk of the major categories reported as of September 30, 2014.

(a) Short term investments

Short term investments are comprised of U.S. government agency (Federal Home Loan Bank and Federal National Mortgage Association) bonds.

(b) Global Equity

Investments in U.S. publicly listed equity securities and funds invested in global developed and emerging markets strategies. Certain Level 3 funds are subject to lock-ups of up to 3 years.

(c) Marketable Alternatives

Investments in a broad array of securities and strategies aimed to reduce volatility and enhance returns. Smithsonian's marketable alternatives are broadly defined as long/short equity, credit and distressed, multi-strategy, and global macro funds. Long/short equity funds invest in long equity positions that are expected to increase in value and short equity positions in stocks that are expected to decrease in value. Credit and distressed funds generally invest in corporate fixed income and debt securities of companies that are experiencing financial or operational difficulties. Multi-strategy funds invest across different strategies to diversify risks and reduce volatility. Global macro funds invest in strategies to profit from macroeconomic events that may include changes in interest rates, currency movements and stock market performance. Certain Level 3 funds are subject to soft and hard lock-ups of up to 2 years and other funds are not eligible for redemption.

(d) 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 investments in leveraged buyouts, growth capital and distressed investments. Venture capital strategies invest in start-ups and small businesses with perceived long-term growth potential. All partnerships are not eligible for redemption.

(e) Real Assets

Real estate and energy and natural resources investments are made mostly in private limited partnerships as well as publicly traded securities funds. None of the partnerships are eligible for redemption.

(f) Fixed Income

Funds that invest in U.S. government, agency and municipal bonds, and other interest bearing products.

(g) Cash and Cash Equivalents

High quality, highly liquid money market funds.

(Dollars in millions)

(h) 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.

(i) Gift Annuity Program Assets

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

(j) Charitable Trusts

Receivables related to interests in irrevocable charitable remainder trusts and certain perpetual trusts held and administered by others. Charitable trusts are not eligible for redemption.

The following table summarizes activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for fiscal year 2014:

Asset subclass	September 30, 2013	Income	Expenses	Realized gain/loss	Unrealized gain/loss	Purchases	Redemptions	Transfer in/out	Accrued Adjustment	September 30, 2014
Global developed equity	$ 103.9	—	—	18.0	(11.3)	57.5	(7.8)	(43.2)	(5.1)	112.0
Emerging market equity	48.4	—	—	—	0.2	—	—	(48.6)	—	—
Long/short equity	19.7	—	—	—	3.6	10.0	—	—	0.1	33.4
Credit and distressed	73.1	10.1	—	7.4	(4.3)	2.0	(21.5)	—	—	66.8
Multi-strategy	97.3	—	—	5.0	1.6	—	(21.3)	—	(0.3)	82.3
Global macro	49.4	—	—	(1.3)	3.1	10.0	(18.0)	10.2	(0.1)	53.3
Private equity	65.5	1.2	—	9.2	1.9	15.1	(21.8)	—	4.1	75.2
Venture capital	59.1	—	—	10.2	18.3	25.4	(12.3)	—	3.8	104.5
Energy and natural resources	46.8	1.8	—	(1.8)	4.2	22.0	(18.3)	—	—	54.7
Real estate funds	60.1	0.7	(0.2)	4.0	2.7	53.5	(44.2)	—	2.8	79.4
Fixed income	—	—	—	—	0.8	10.0	—	—	—	10.8
Charitable Trust	19.0	—	—	—	(0.9)	1.5	(0.4)	—	—	19.2
Total	$ 642.3	13.8	(0.2)	50.7	19.9	207.0	(165.6)	(81.6)	5.3	691.6

In the event that changes in the inputs used in the fair value measurement results in a transfer of the fair value to a different categorization (e.g. from Level 3 to Level 2), such transfers between fair value categories are recognized at the beginning of the reporting period. For the year ended September 30, 2014, $81.6 was transferred from Level 3 to Level 2 due to expiration of lock-ups, changes in redeemable terms and the liquidity of underlying assets. There were no transfers between Level 1 and Level 2 in fiscal year 2014.

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, 2014, the Smithsonian had uncalled commitments of approximately $42.9 for private equity, $59.9 for venture capital, $59.4 for private real estate investments, and $36.6 for energy and natural resources. Such commitments are generally callable over the first 5 years of the funds and the related agreements contain fixed expiration dates or other termination clauses. The average life of Smithsonian’s investments in these private partnerships are between 7 to 10 years.

(Dollars in millions)

Investment return consisted of the following for fiscal year 2014:

Dividend and interest income	$	22.5
Net investment gain		112.5
Investment management fees		(1.9)
	$	133.1

Investment return is classified in the statement of financial activity as follows for fiscal year 2014:

Short-term investment income	$	3.8
Endowment payout		63.6
Nonoperating investment gain		65.7
Investment return	$	133.1

(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 determined that it was not required to follow the District of Columbia's version of UPMIFA as a matter of law. Absent a federal statutory prudence standard, however, the Smithsonian chose to implement the standards of UPMIFA because they represent best practices for investing and spending charitable endowments in most states and the District of Columbia. In practice, many of the Smithsonian's endowment investment and management standards already aligned with UPMIFA.

The Smithsonian's adoption of UPMIFA standards became effective October 1, 2010. Prior to that date, the Smithsonian's management and investment of donor-restricted endowment funds conformed with the provisions of the Uniform Management of Institutional Funds Act of 1972 (UMIFA).

Based on the Smithsonian's interpretation of the provisions of UPMIFA, the organization is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor-restricted endowment funds. As a result of this interpretation, the Smithsonian classifies as permanently restricted net assets, the original value of gifts donated to the permanent endowment. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

(Dollars in millions)

The Smithsonian manages and invests the individual endowment funds considering UPMIFA standards. 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, 2014, the market value of the pool equated to $856.56 (in dollars) 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 light of UPMIFA standards including and the investment policy of the institution which targets a long-term investment return assumption, an estimated inflation factor, and the investment policy of the institution which targets an appropriation to be 5% of the prior five years' average value of the endowment. The payout for fiscal year 2014 was $37.20 (in dollars) per unit or 5% of the average per unit market value of the endowment over the prior five years. An additional payout of $7.44 (in dollars) per eligible unit was authorized and made to support the fundraising campaign.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of gifts donated to the permanent endowment. The Smithsonian reports deficiencies of this nature in unrestricted net assets. As of September 30, 2014, the fair value of permanent endowment gifts fell $0.7 below the original value of the gifts. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board.

Endowment net assets (excluding contributions receivable) consist of the following at September 30, 2014:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (0.7)	301.0	369.5	669.8
Board-designated endowment funds	620.3	9.1	—	629.4
Total endowment net assets	$ 619.6	310.1	369.5	1,299.2
Uninvested cash				$ (4.4)
Accrued realized and unrealized gain				(12.5)
Others				4.3
Total endowment assets under management				$ 1,286.6

(Dollars in millions)

Changes in endowment net assets for fiscal year 2014 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance, beginning of year	$	579.8	277.0	334.3	1,191.1
Investment return:					
Investment income		11.4	6.6	1.2	19.2
Net appreciation (realized and unrealized)		56.3	54.9	—	111.2
Total investment return		67.7	61.5	1.2	130.4
Contributions		—	0.1	32.1	32.2
Appropriated for expenditure		(32.6)	(27.6)	—	(60.2)
Deficiency reclassification (net)		0.9	(0.9)	—	—
Transfer to Board-designated endowment funds		3.8	—	—	3.8
Matching and other reclassifications		—	—	1.9	1.9
Balance, end of year	$	619.6	310.1	369.5	1,299.2

(8) Property and Equipment

Property and equipment consisted of the following at September 30, 2014:

		Trust	Federal	Total
Land	$	12.5	—	12.5
Buildings and capital improvements		800.2	2,618.9	3,419.1
Equipment and software		61.5	200.4	261.9
Leasehold improvements		91.1	28.6	119.7
		965.3	2,847.9	3,813.2
Accumulated depreciation		(383.9)	(1,378.9)	(1,762.8)
Total property and equipment	$	581.4	1,469.0	2,050.4

At September 30, 2014, buildings and capital improvements included $91.7 and $504.5 of construction in progress within trust and federal funds, respectively. Depreciation expense for fiscal year 2014 totaled $37.5 in trust funds and $89.4 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 of $62.9 at the date of sale and is recognizing the gain over the term of the leases. In fiscal year 2014, $3.9 of the deferred gain was recognized.

(Dollars in millions)

(9) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following at September 30, 2014:

		Trust	Federal	Total
Accounts payable	$	43.0	61.7	104.7
Accrued salaries and benefits		36.3	83.3	119.6
Deferred rent liability		22.7	—	22.7
Gift annuity liabilities		11.7	—	11.7
Other accrued liabilities		35.1	0.2	35.3
Total accounts payable and accrued expenses	$	148.8	145.2	294.0

Accrued salaries and benefits include estimated FECA liabilities of $3.5 for trust employees and $45.5 for federal employees at September 30, 2014.

(10) Long-Term Debt

The Smithsonian is obligated with respect to the following issues of long-term debt at September 30, 2014:

Series 2013 Taxable Bonds, Series A: Interest rate 3.434%, due September 1, 2023	$	50.0
Series 2013 Taxable Bonds, Series B: Variable interest rate, due September 1, 2018		50.0
Series 2010 Revenue Bonds, serial, principal amounts ranging from $1.3 to $1.7, interest rates, 3.00% to 5.25%, due February 1, 2015 through 2021		10.5
Series 2010 Revenue Bonds, term, principal amounts ranging from $1.8 to $2.4, interest rate, 5.25%, due February 1, 2022 through 2028		14.7
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		2.0
Total long-term debt	$	204.7

The individual debt components at September 30, 2014 are described as follows:

Series 2013 A and B Taxable Bonds

The Series 2013 A and B taxable bonds were issued in November 2013 to finance capital and other projects. The bonds are unsecured obligations with principal and interest payments funded solely through unrestricted trust funds.

Series A Bonds are due September 1, 2023, with interest payable semiannually every March 1 and September 1. Series B bonds are due September 1, 2018, with interest payable monthly at a variable interest rate determined in accordance with the Indenture (0.09% at September 30, 2014).

In connection with the Series B offering, the Smithsonian entered into a second Standby Bond Purchase agreement with Wells Fargo (Trustee) and Northern Trust Company (Liquidity Facility Provider), for the creation of the 2013 Liquidity Facility. The 2013 Liquidity Facility secures only the payment of the purchase price of the Series B bonds tendered for purchase and does not otherwise secure payment of the principal or interest on the Bonds

Series 2010 Revenue Bonds

The tax exempt Series 2010 Revenue 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 also 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 bonds mature yearly beginning February 1, 2011 through February 1, 2021. Payments for the serial bonds began on February 1, 2011 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 tax exempt 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. Interest rates for Series A and Series B were 0.04% and 0.05%, respectively, at September 30, 2014. Principal and interest payments are funded solely by trust funds. Pursuant to the terms of the Trust Indenture dated December 1, 2003, the Bonds were subject to mandatory tender for purchase on September 13, 2012 (the Mandatory Tender Date). The bonds are supported by a standby bond purchase agreement-series A and a standby purchase agreement-series B (collectively 2012 Liquidity Facility). The Northern Trust acts as the liquidity facility provider but does not guarantee principal or interest on the Bonds and does not provide liquidity support for the bonds except while bearing interest at a daily or weekly rate. The 2012 Liquidity Facility which was due to expire September 13, 2014 was extended for additional three years.

(Dollars in millions)

Interest expense on total long-term debt for fiscal year 2014 totaled $2.6.

The annual maturities of long-term debt for the five fiscal years subsequent to fiscal year 2014 and thereafter are as follows:

2015	$	1.3
2016		1.4
2017		1.4
2018		51.5
2019		1.6
Thereafter		145.5
	$	202.7

(11) Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2014:

Museums and general support	$	211.0
Education, public programs and exhibitions		165.7
Research		90.5
Acquisitions and collections		79.8
Facilities		222.4
	$	769.4

Net assets 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 the year ended September 30, 2014:

Program support and other	$	65.1
Facilities		21.3
Research		5.6
	$	92.0

(Dollars in millions)

Earnings from permanently restricted net assets are restricted for the following purposes at September 30, 2014:

Museums and general support	$	113.3
Education, public programs and exhibitions		209.6
Research		81.4
Acquisitions and collections		35.1
Facilities		1.5
Other		0.3
	$	441.2

(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 2014 was $31.9. The Smithsonian also recognizes revenues and expenses equal to the imputed costs of $32.9 assumed on their behalf by the U.S. government.

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 2014 was $16.3.

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, 2014, the accrued benefit obligation under this plan was $14.2 and is included in accounts payable and accrued expenses in the statement of financial position.

Most federal employees are eligible to enroll in the Federal Employees Health Benefit (FEHB) Program, which provides post-retirement health benefits if certain conditions are met. The Office of Personnel Management (OPM) administers this plan.

(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 2014.

(Continued)

(Dollars in millions)

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 2014 is as follows:

	Revenues	Expenses	Net
Smithsonian business enterprises	$ 147.2	(115.8)	31.4
Unit auxiliary activities	18.6	(18.6)	—
Total business activities	$ 165.8	(134.4)	31.4

(15) 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 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, 2014 are summarized as follows:

2015	$ 42.1
2016	39.9
2017	38.6
2018	38.7
2019	38.4
Thereafter	100.6
	$ 298.3

The Smithsonian has one cancellable lease, which renews annually at approximately $2.0. Rental expense under operating leases, including executory costs such as maintenance, insurance and taxes, totaled $53.0 for fiscal year 2014, which includes $6.8 in office space received in-kind.

(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 commitments related to construction projects in process at a variety of its various locations. The most significant construction contracts are $444.3 for the National Museum of African American History and Culture, $44.1 for the Art and Industry Building, $43.9 for the Smithsonian Environmental Research Center, and $39.9 for the National Museum of American History. Remaining commitments under these contracts total approximately aggregated $213.7 as of September 30, 2014.

(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 evaluated subsequent events from September 30, 2014 through January 15, 2015, which is the date that the financial statements are available to be issued, and determined that there are no other items to disclose.