




Date: February 25, 2020

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

Cc: Mike McCarthy, Acting Under Secretary for Finance & Administration  
Porter Wilkinson, Chief of Staff to the Regents  
Greg Bettwy, Chief of Staff, Office of the Secretary  
Tracy Fraser, Director, Office of Sponsored Projects  
Charles Alcock, Director, Smithsonian Astrophysical Observatory  
Vincent DeVito, Interim Director, Office of Finance and Accounting

From: Cathy L. Helm, Inspector General 

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

This memorandum transmits the second and final report of the fiscal year 2019 financial statement audits of the Smithsonian Institution (Smithsonian) performed by the independent public accounting firm of KPMG LLP (KPMG). KPMG expressed two unmodified opinions in this report. First, KPMG opined that the Smithsonian complied, in all material respects, with the compliance requirements of the Smithsonian's major federal program, research and development. Second, KPMG opined that the Smithsonian's expenditures of federal awards were fairly stated in all material respects in relation to the financial statements as a whole.

For fiscal year 2019, KPMG reported a significant deficiency in management's review of certain financial statement disclosures. To address the significant deficiency, KPMG recommends that Smithsonian establish a standard accounting manual that would inform all employees of operating procedures and policies. KPMG also recommends that Smithsonian evaluate its process to review external financial reporting and enhance the level of review and precision.

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

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

Attachment



## **SMITHSONIAN INSTITUTION**

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

September 30, 2019

(With Independent Auditors' Reports Thereon)

## SMITHSONIAN INSTITUTION

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

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

## Independent Auditors' Report

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

We have audited the accompanying financial statements of Smithsonian Institution (Smithsonian), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smithsonian Institution as of September 30, 2019, 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.

### *Emphasis of Matters*

As discussed in Note 2(t) to the financial statements, in fiscal year 2019, Smithsonian Institution adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*,



as amended, and ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

*Report on Summarized Comparative Information*

We have previously audited Smithsonian's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 8, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-14. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 2(t) that were applied to adopt ASU 2016-14 retrospectively in the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020 on our consideration of Smithsonian Institution's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Smithsonian's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smithsonian's internal control over financial reporting and compliance.

KPMG LLP

Washington, District of Columbia  
January 24, 2020

**SMITHSONIAN INSTITUTION**

Statement of Financial Position

September 30, 2019

(with summarized financial information as of September 30, 2018)

(Dollars in millions)

	<u>2019</u>	<u>2018</u>
Assets:		
Cash, cash equivalents, and U.S. Treasury balances	\$ 785.2	634.0
Accounts receivable and other assets, net	80.5	102.6
Pledges receivable, net	167.9	212.2
Investments	1,946.2	1,880.6
Property and equipment, net	2,440.9	2,347.1
Collections	—	—
	<u>5,420.7</u>	<u>5,176.5</u>
<b>Total assets</b>	<b>\$ 5,420.7</b>	<b>5,176.5</b>
Liabilities:		
Accounts payable and accrued expenses	\$ 338.1	289.2
Deferred revenue	60.1	67.4
Unexpended federal appropriations	530.5	461.1
Environmental remediation obligation	61.4	49.8
Long-term debt	96.4	148.0
	<u>1,086.5</u>	<u>1,015.5</u>
<b>Total liabilities</b>	<b>1,086.5</b>	<b>1,015.5</b>
Net assets:		
Without donor restriction:		
Board designated	717.4	707.7
Undesignated	1,881.8	1,883.3
	<u>2,599.2</u>	<u>2,591.0</u>
<b>Net assets without donor restriction</b>	<b>2,599.2</b>	<b>2,591.0</b>
With donor restriction:		
Purpose and time restrictions	1,159.1	1,023.8
Endowments at historical cost	575.9	546.2
	<u>1,735.0</u>	<u>1,570.0</u>
<b>Net assets with donor restriction</b>	<b>1,735.0</b>	<b>1,570.0</b>
<b>Total net assets</b>	<b>4,334.2</b>	<b>4,161.0</b>
Commitments and contingencies		
<b>Total liabilities and net assets</b>	<b>\$ 5,420.7</b>	<b>5,176.5</b>

See accompanying notes to financial statements.

**SMITHSONIAN INSTITUTION**

Statement of Financial Activities

Year ended September 30, 2019

(with summarized financial information for year ended September 30, 2018)

(Dollars in millions)

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	
			<u>2019</u>	<u>2018</u>
Operating:				
Support and revenue:				
Appropriations for salaries and expenses	\$ 734.2	—	734.2	733.8
Contributions and grants	126.0	145.7	271.7	272.3
Business activities	167.3	—	167.3	183.2
Endowment payout	40.4	35.5	75.9	76.5
Imputed benefit revenue	86.3	—	86.3	71.3
Short-term investment income and other revenue	39.8	0.5	40.3	36.5
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Total operation revenues	1,194.0	181.7	1,375.7	1,373.6
Net assets released from restrictions	192.6	(192.6)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total support and revenue	1,386.6	(10.9)	1,375.7	1,373.6
Expenses:				
Program activities:				
Research	350.7	—	350.7	342.4
Collections management	314.0	—	314.0	291.9
Education, public programs, and exhibitions	428.8	—	428.8	410.9
Business activities	127.8	—	127.8	141.7
	<hr/>	<hr/>	<hr/>	<hr/>
Total program activities	1,221.3	—	1,221.3	1,186.9
Supporting activities:				
Administration	230.4	—	230.4	221.5
Development	68.2	—	68.2	70.3
	<hr/>	<hr/>	<hr/>	<hr/>
Total supporting activities	298.6	—	298.6	291.8
Total expenses	1,519.9	—	1,519.9	1,478.7
Change in net assets from operating activities	(133.3)	(10.9)	(144.2)	(105.1)
Nonoperating activities:				
Appropriations for repair, restoration, and construction	—	239.1	239.1	136.6
Contributions for endowments	—	29.2	29.2	18.8
Contributions for construction	—	17.6	17.6	30.6
Investment return, net of endowment payout	10.6	26.1	36.7	93.3
Gain on sale of Smithsonian Network	9.9	—	9.9	12.4
Other, net	4.1	—	4.1	6.8
Collection items purchased, not capitalized	(12.4)	—	(12.4)	(16.4)
Net assets released from restrictions	136.1	(136.1)	—	—
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Change in net assets from nonoperating activities	148.3	175.9	324.2	282.1
Increase in net assets	15.0	165.0	180.0	177.0
Net assets, beginning of year	2,591.0	1,570.0	4,161.0	3,984.0
Cumulative effect of accounting change	(6.8)	—	(6.8)	—
Net assets, end of year	\$ <u>2,599.2</u>	<u>1,735.0</u>	<u>4,334.2</u>	<u>4,161.0</u>

See accompanying notes to financial statements.

**SMITHSONIAN INSTITUTION**

Statement of Cash Flows

Year ended September 30, 2019

(with summarized financial information for year ended September 30, 2018)

(Dollars in millions)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 180.0	177.0
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	176.8	162.1
Net investment gains	(105.4)	(155.2)
Gain on sale of Smithsonian Network	(9.9)	(12.4)
Present value discount and accretion	(0.5)	0.8
Gain/loss on disposition of assets	0.2	(0.2)
Collection items purchased	12.4	16.4
Appropriations for repair, restoration, and construction	(239.1)	(136.6)
Contributions for endowments	(29.2)	(18.8)
Contributions for construction	(17.6)	(7.1)
Decrease (increase) in assets:		
Accounts receivable and other assets, net	1.1	(2.3)
Pledges receivable, net	47.8	(14.1)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(6.4)	(10.7)
Deferred revenue	(7.3)	(3.8)
Unexpended federal appropriations	4.9	(3.8)
Net cash provided by (used in) operating activities	<u>7.8</u>	<u>(8.7)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(204.9)	(164.7)
Purchases of investment securities	(557.7)	(586.3)
Proceeds from sales/maturities of investment securities	597.5	613.9
Proceeds from sale of Smithsonian Network	25.5	24.2
Collection items purchased	(12.4)	(16.4)
Proceeds from loan receivable	—	2.7
Net cash used in investing activities	<u>(152.0)</u>	<u>(126.6)</u>
Cash flows from financing activities:		
Appropriations for repair, restoration, and construction	303.6	312.5
Contributions for endowments	28.8	24.2
Contributions for construction	14.4	43.9
Principal payments on long-term debt	(51.4)	(51.5)
Net cash provided by financing activities	<u>295.4</u>	<u>329.1</u>
Net change in cash and cash equivalents	151.2	193.8
Cash, cash equivalents, and U.S. Treasury balances:		
Beginning of year	<u>634.0</u>	<u>440.2</u>
End of year	\$ <u><u>785.2</u></u>	\$ <u><u>634.0</u></u>
Noncash investing activities:		
Construction cost accruals	\$ 71.5	16.2
Cash paid for interest	\$ 2.9	4.2

See accompanying notes to financial statements.



# SMITHSONIAN INSTITUTION

## Notes to Financial Statements

September 30, 2019  
(Dollars in millions)

### (1) Organization

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

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

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

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

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

### (2) Summary of Significant Accounting Policies

#### (a) General

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

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

## SMITHSONIAN INSTITUTION

### Notes to Financial Statements

September 30, 2019

(Dollars in millions)

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

#### **(b) Measure of Operations**

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

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

#### **(c) Summarized Financial Information**

The financial statements include certain summarized prior-year information in total only. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Smithsonian’s financial statements as of and for the year ended September 30, 2018, from which the summarized information was derived, before the adjustments to adopt Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*.

#### **(d) Net Assets**

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

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

*With donor restrictions* – Net assets with donor restrictions carry specific donor-imposed stipulations on the use of the contributed funds, including federal appropriations received for specific capital projects. Donor-imposed restrictions may expire by the passage of time or as a result of fulfillment of the donor’s stipulations. Unconditional contributions restricted to the acquisition or construction of long-lived assets are recorded as non-operating revenue with donor

## SMITHSONIAN INSTITUTION

### Notes to Financial Statements

September 30, 2019

(Dollars in millions)

restrictions in the period received. Donor restrictions are generally considered met and the net assets released from restriction when the related long-lived asset is placed in service.

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

#### **(e) Cash, Cash Equivalents and U.S. Treasury Balances**

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

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

#### **(f) Contracts with Customers and Accounts Receivable**

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

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

#### **(g) Contributions, including Government Grants and Contracts, and Pledges Receivable**

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

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

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

## SMITHSONIAN INSTITUTION

### Notes to Financial Statements

September 30, 2019

(Dollars in millions)

#### **(h) Investments and Trusts Held by Others**

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

Investments are generally reported at fair value. Publicly traded fixed income, global equities, natural resources and cash and cash equivalents, including gift annuity program investments are reported and valued using readily determinable market prices. Nearly all of the valuations reported by marketable alternative investments and public equities held in commingled funds rely upon third party administrators to objectively value positions and calculate net asset value (NAV) as a practical expedient. Investments in private equity structured funds (private equity, venture capital, real estate, natural resources) (collectively, nonmarketable investments) are valued at estimated fair value based on the funds' net asset values or their equivalents, as a practical expedient, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of September 30, 2019, the Smithsonian had no plans or intentions to sell investments at amounts different from NAV. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant.

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

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

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

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

#### **(i) Property and Equipment**

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

## SMITHSONIAN INSTITUTION

### Notes to Financial Statements

September 30, 2019  
(Dollars in millions)

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

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

Buildings	30 years
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.

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

#### **(j) Collections – Stewardship Assets**

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

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

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

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

#### **(k) Federal Appropriations and Funds**

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

## SMITHSONIAN INSTITUTION

### Notes to Financial Statements

September 30, 2019  
(Dollars in millions)

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

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

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

#### **(l) Annual Leave**

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

#### **(m) Employee Benefit Plans**

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

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

Federal employees hired subsequent to January 1, 1984, participate in the Federal Employees' Retirement System (FERS). Federal employees hired prior to January 1, 1984, had the option of remaining under the Civil Service Retirement System (CSRS) or electing FERS. The terms of both these plans are defined in federal regulations. Under both systems, a specified percentage is withheld from each federal employee's salary. The Smithsonian also contributes specified percentages of employees' salaries. Additional costs associated with these plans are borne by the U.S. government. The Smithsonian recognizes its share of these additional costs as imputed benefits revenue and expense in the financial statements. Imputed benefits totaled \$86.3 in fiscal 2019. Smithsonian's direct expense for these plans amounted to \$40.8 for fiscal 2019.

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

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

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

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

#### Trust funded pension, health and life insurance benefits:

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

In addition to the retirement plans, certain health care and life insurance benefits are made available to active and retired trust fund employees. The plan is contributory for retirees and requires payment of premiums and deductibles. Retiree contributions for premiums are established by an insurance carrier based on the average per capita cost of benefit coverage for all participants. At September 30, 2019, the accrued benefit obligation under this plan was \$16.1 and is included in accounts payable and accrued expenses in the statement of financial position.

#### Workers compensation:

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to Smithsonian employees injured on the job, who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL) which pays claims and subsequently seeks reimbursement from the Smithsonian.

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

#### **(n) Contributed Services and Donated Assets**

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

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

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

#### **(o) Functional Allocation of Expenses**

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

- Included in research are personnel, travel, and other costs associated with the Smithsonian's world-wide research programs.
- Collections management includes the care, storage, transportation, digitization, and other costs.
- Education, public programs and exhibits includes the cost of providing a wide array of programming and outreach to academia and the general public as well as costs to display, manage, and transport exhibits.
- Business activities includes the cost of goods sold and related expenses.
- General and administrative expenses include costs for executive management, financial administration, human resources, and legal services.
- Development expenses include those costs associated with individual and corporate gifts and grants, annual appeals and other fund-raising efforts.



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

#### **(p) Related Organizations**

The Smithsonian recognizes its interest in the net assets of organizations that are financially interrelated and the changes in its interest as other non-operating activities. Such organizations included the Smithsonian Network and Friends of the National Zoo. During fiscal year 2019, the Smithsonian sold its remaining interest in the Smithsonian Network recognizing a nonoperating gain of \$9.9.

#### **(q) Income Taxes**

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

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

The Smithsonian accounts for uncertain tax positions, when applicable. The tax years that remain subject to examination by the major tax jurisdictions under the statute are from the year 2015 and forward.

#### **(r) 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.

#### **(s) Risks and Uncertainties**

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

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### (t) **Recently Adopted Accounting Pronouncements**

#### *Not-for-Profit Financial Statement Presentation*

During 2019 the Smithsonian retroactively adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 reduces the number of net asset categories to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. The ASU also requires that net assets with donor restrictions associated with capital projects (including capital appropriations) be released upon placing the related capital asset into service. Previously the Smithsonian accounted for its federal capital appropriations as unrestricted. Accordingly, the Smithsonian reclassified \$251.2 of net assets from previously reported unrestricted net assets to net assets with donor restrictions as of the beginning of fiscal 2019. The guidance also requires enhanced disclosures for board designated amounts, composition of net assets without donor restrictions (note 11), liquidity (note 3), and the presentation of expenses by both their natural and functional classification (note 16).

#### *Revenue Recognition*

In May 2014, FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which, along with related amendments, replaces existing revenue recognition requirements. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange. In addition, Topic 606 requires disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to reduce diversity in reporting by clarifying (1) whether transactions should be accounted for as contributions or as exchange transactions subject to other guidance and (2) whether a contribution is conditional.

The Smithsonian implemented ASU 2014-09, as amended, and ASU 2018-08 (Standards) effective October 1, 2018, on a modified retrospective basis. As a result of the application of the new standards, the Smithsonian elected to combine government grants and contracts with contributions on its statement of financial activities in fiscal year 2019 and conformed fiscal year 2018 presentation. Other revenue reclassifications required by the Standards were not significant.

The Standards also require that costs associated with the preparation of long-lived materials, such as catalogs and campaigns to secure new subscribers be expensed at the date such materials are first issued. Previously, the Smithsonian amortized such costs over the estimated useful life of such items. This resulted in a cumulative effect adjustment to reduce beginning net assets without donor restrictions by \$6.8.

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#### *Summary impact*

The following summarizes the impact on beginning net assets of adopting ASU 2016-14 and the Standards.

	<b>As Previously Presented</b>	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>Total</b>
Net assets:				
Unrestricted	\$ 2,842.2	\$ 2,842.2	—	2,842.2
Temporarily restricted	772.6	—	772.6	772.6
Permanently restricted	546.2	—	546.2	546.2
Total net assets	\$ 4,161.0	2,842.2	1,318.8	4,161.0
Federal capital appropriations, ASU 2018-08		(251.2)	251.2	—
Net assets as of September 30, 2018 under ASU 2016-14		2,591.0	1,570.0	4,161.0
Cumulative effect of Topic 606		(6.8)	—	(6.8)
Net assets as of October 1, 2018, as presented		\$ 2,584.2	1,570.0	4,154.2

#### **(u) Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 requires the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under the Accounting Standards Codification (ASC) Topic 840 – Leases. The accounting applied by the lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. ASU 2016-02 is effective for the Smithsonian in fiscal year 2020.

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

#### **(3) Financial Assets and Liquidity Resources**

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

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

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

The Smithsonian also has available a \$50.0 line of credit available to provide additional resources if necessary. Borrowings under the line bear annual interest at LIBOR (London Interbank Offered Rate) Daily Floating Rate plus 0.55%. Beginning in fiscal year 2020, an annual availability fee of 0.04% on the unused balance is required. The line is due to expire October 31, 2020.

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

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

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

#### (4) Accounts Receivable and Other Assets

Accounts receivable and other assets consist of the following:

Grants and contracts	\$	20.6
Trade accounts, net of \$0.3 allowance		18.0
Inventory		13.1
Deferred expenses		8.6
Accrued interest and dividend receivable		2.1
Other assets		<u>18.1</u>
Total receivables and other assets	\$	<u><u>80.5</u></u>

#### (5) Pledges Receivable

Pledges receivable consist of the following:

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

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#### (6) Investments and Fair Value Measurements

Investments are comprised of the following:

Endowment investments, including Board designated funds	\$	1,713.2
Working capital short-term investments		209.8
Charitable gift annuity investments		<u>23.2</u>
Total investments	\$	<u>1,946.2</u>

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

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

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

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

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

The following table summarizes the changes in Level 3 assets, Charitable trusts held by other, measured at fair value on a recurring basis:

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

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

		NAV	Unfunded Commitments	Redemption terms	Days of notices
Global equity:	(a)				
Developed markets		\$ 258.9	-	Weekly to annually	6 - 91
Emerging markets		111.5	2.0	Monthly to semi-annually	14 - 90
Marketable alternatives:	(b)	273.9	39.9	Monthly to at maturity	30 - N/A
Private equity:	(c)				
Private equity		159.1	85.2	N/A	N/A
Venture capital		417.8	76.5	N/A	N/A
Real assets:	(d)				
Energy and natural resources		101.0	36.6	N/A	N/A
Real estate funds		134.8	108.9	Quarterly to at maturity	60 - N/A
Fixed income	(e)	28.8	-	Quarterly to at maturity	90 - N/A
		<u>\$ 1,485.8</u>	<u>349.1</u>		

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



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- (e) Fixed income includes funds that invest in U.S. government, agency and municipal bonds, and other interest bearing products.

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

The following summarizes the investment return, net of expenses, and its classification in the statement of activities:

Dividend and interest, net of expenses	\$	15.1
Net realized and unrealized gains		<u>105.4</u>
Total investment return		120.5
Endowment payout appropriated for operations		(75.9)
Short term investment income		<u>(7.9)</u>
Nonoperating investment return	\$	<u><u>36.7</u></u>

### (7) Property and Equipment

Property and equipment consists of the following:

Land	\$	12.6
Construction in progress		414.1
Buildings and capital improvements		3,906.1
Equipment and software		442.0
Leasehold improvements		<u>143.4</u>
		4,918.2
Accumulated depreciation		<u>(2,477.3)</u>
Total property and equipment	\$	<u><u>2,440.9</u></u>
Depreciation expense	\$	<u><u>166.2</u></u>

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**(8) Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consists of the following:

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

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

**(9) Environmental Remediation Obligations**

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

Fiscal year 2019 activity in the unfunded environmental remediation obligation follows:

Balance, beginning of the year	\$ 49.8
Accretion	1.0
Change in estimate	<u>10.6</u>
Balance, end of the year	\$ <u>61.4</u>

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**(10) Long-term Debt**

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

Series 2010 Revenue Bonds, serial, principal amounts ranging from \$1.6 to \$1.7, interest rates 5.00% to 5.25%, due February 1, 2020 through 2021	\$ 3.3
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, variable interest rate, due December 1, 2033:	
Series A	52.5
Series B	25.0
	95.5
Plus unamortized bond premium	0.9
Total long-term debt	\$ 96.4

**Series 2010 Revenue Bonds**

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

The serial bonds mature annually through February 1, 2021, with principal repayments ranging from \$1.6 to \$1.7 per year. The term bonds maturing on February 1, 2028 are subject to mandatory redemption by sinking fund installments, which begin on February 1, 2022 and range from \$1.8 to \$2.4 per year through the maturity date.

**Series 2003 Revenue Bonds**

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

The bonds are supported by a standby bond purchase agreement for both the Series A and Series B (collectively, the 2003 Liquidity Facility) with Wells Fargo (Trustee) and Northern Trust Company (Liquidity Facility provider). The 2003 Liquidity Facility provides liquidity support when the bonds are bearing interest at a daily or weekly rate and expires September 8, 2020.

On October 25, 2018, the Smithsonian redeemed the remaining of its outstanding Series 2013 Taxable Bonds, Series A for \$50.8, including accrued interest of \$0.3.

Interest expense was \$2.6 in fiscal year 2019.

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

2020	\$	1.6
2021		1.7
2022		1.8
2023		1.9
2024		2.0
Thereafter		<u>86.5</u>
	\$	<u><u>95.5</u></u>

**(11) Net Assets**

Net assets consist of the following:

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

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

**SMITHSONIAN INSTITUTION**

Notes to Financial Statements

September 30, 2019

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Net assets with donor restrictions are available for the following purposes:

	<b>Endowments at historical cost</b>	<b>Subject to purpose restriction and time</b>	<b>Total</b>
Museums and general support	\$ 146.1	219.2	365.3
Education, public programs and exhibitions	276.6	231.4	508.0
Research	93.9	114.0	207.9
Acquisitions and collections	57.7	88.6	146.3
Facilities and capital	1.6	505.9	507.5
	<u>\$ 575.9</u>	<u>1,159.1</u>	<u>1,735.0</u>

**(12) Endowment Funds**

The Smithsonian endowment consists of over 660 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments supporting the Smithsonian's programs and operations. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law*

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

- Duration and preservation of the fund
- Purpose of board designated or donor-restricted fund
- General economic conditions

# SMITHSONIAN INSTITUTION

## Notes to Financial Statements

September 30, 2019  
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- Possible impact of inflation and deflation
- Expected return from income and appreciation of investments
- Other available resources
- The Smithsonian's investment policies

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

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

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

Market value of fund per unit:	
Beginning of the year	\$ <u>974.68</u>
End of the year	\$ <u>996.12</u>
Payout per unit	
Program and operations support	\$ <u>42.53</u>
Development	\$ <u>4.53</u>

**SMITHSONIAN INSTITUTION**

Notes to Financial Statements

September 30, 2019  
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The following table summarizes the change in endowment funds during fiscal year 2019:

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets at beginning of the year	\$ 707.7	937.6	1,645.3
Additional designation of quasi endowment funds*	1.7	5.4	7.1
Contributions received	—	29.2	29.2
Investment return	48.4	65.5	113.9
Appropriation of endowment assts for expenditure	<u>(40.4)</u>	<u>(35.5)</u>	<u>(75.9)</u>
Endowment net assets at end of year	\$ <u>717.4</u>	<u>1,002.2</u>	1,719.6
Uninvested cash and receivables			<u>(6.4)</u>
Endowment investments (Note 6)		\$	<u>1,713.2</u>

\* Includes transfers to quasi endowments with donor restrictions

*Endowment funds with deficiencies*

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

## SMITHSONIAN INSTITUTION

### Notes to Financial Statements

September 30, 2019  
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#### (13) Net Assets Released From Restriction

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

Operating releases:

Purpose restricted gifts released for:

Museums and general support	\$	34.3
Education, public programs and exhibitions		72.3
Research		48.7
Acquisitions and collections		10.7
Facilities		26.6
Total operating releases		<u>192.6</u>

Non-operating releases:

Assets placed in service and released from:

Capital appropriation		100.2
Capital contributions		35.9
Total nonoperating releases		<u>136.1</u>
Total releases	\$	<u><u>328.7</u></u>

#### (14) Federal Appropriations

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



**SMITHSONIAN INSTITUTION**

Notes to Financial Statements

September 30, 2019

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

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

**(15) Business Activities**

The following summarizes business activities for fiscal year 2019.

	<u>Revenues</u>	<u>Operating expenses</u>	<u>Net operating gain</u>
Smithsonian Enterprises	\$ 147.5	114.8	32.7
Unit activities	<u>19.8</u>	<u>13.0</u>	<u>6.8</u>
	<u>\$ 167.3</u>	<u>127.8</u>	<u>39.5</u>

Revenue is further detailed as follows for fiscal year 2019.

Merchandise sales	\$ 60.1
Media	38.6
Concessions, licensing, and other	<u>68.6</u>
	<u>\$ 167.3</u>

**SMITHSONIAN INSTITUTION**

Notes to Financial Statements

September 30, 2019

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**(16) Functional Classification of Expenses**

Expenses by functional and natural classification are shown below for the year ended September 30, 2019:

	Program Activities				Supporting Activities		Total
	Research	Collections management	Education, public programs and exhibitions	Business activities	General and administrative	Development	
Compensation	\$ 195.6	168.4	211.1	57.8	132.1	36.4	801.4
Occupancy	120.6	80.2	143.4	18.8	63.6	27.5	454.1
Cost of sales	—	—	0.4	58.7	0.1	1.6	60.8
Travel and transportation	9.2	2.5	7.5	0.5	1.1	1.8	22.6
Depreciation and amortization	20.2	61.3	64.0	1.8	29.2	0.3	176.8
Other	5.1	1.6	2.4	(9.8)	4.3	0.6	4.2
Total operating expenses	\$ <u>350.7</u>	<u>314.0</u>	<u>428.8</u>	<u>127.8</u>	<u>230.4</u>	<u>68.2</u>	<u>1,519.9</u>

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

**(17) Commitments and Contingencies**

**(a) Leasing Activities**

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

Annual minimum lease payments due under operating leases in effect as of September 30, 2019 are as follows:

2020	\$ 50.2
2021	35.5
2022	24.0
2023	22.9
2024	13.4
Thereafter	<u>23.9</u>
	\$ <u><u>169.9</u></u>

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

## SMITHSONIAN INSTITUTION

### Notes to Financial Statements

September 30, 2019  
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**(b) Government Awards**

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

**(c) Construction**

As of September 30, 2019, the Smithsonian has commitments approximating \$420.7 related to construction in process at a number of its locations. The most significant of these relate to projects at the National Air and Space Museum (\$301.4) and the National Zoological Park (\$18.3).

**(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.

**(e) Subsequent Events**

Subsequent to September 30, 2019, the Smithsonian committed capital of \$11.1 to 5 funds. Management has evaluated subsequent events from September 30, 2019 through January 24, 2020, which is the date that the financial statements are available to be issued and determined that there are no adjustments to or other items to disclose.

**SMITHSONIAN INSTITUTION**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2019

Federal Grantors/pass-through grantors/agencies or cluster title	Pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
<b>Research and Development Cluster</b>					
<b>Direct Programs</b>					
<b>United States Department of Agriculture (USDA)</b>					
Agricultural Research Basic and Applied Research			10.001	\$ 61,100	\$ -
Agriculture and Food Research Initiative			10.310	2,551	-
Total United States Department of Agriculture				<u>63,651</u>	<u>-</u>
<b>United States Department of Commerce (DOC)</b>					
Climate and Atmospheric Research			11.431	146,340	-
Chesapeake Bay Studies			11.457	192,893	-
Measurement and Engineering Research and Standards			11.609	68,724	-
Total United States Department of Commerce				<u>407,957</u>	<u>-</u>
<b>United States Department of the Interior (DOI)</b>					
Fish and Wildlife Management Assistance			15.608	39,588	-
Wildlife Conservation and Restoration			15.625	11,994	-
National Fish and Wildlife Foundation			15.663	56,351	-
Natural Resource Stewardship			15.944	12,177	-
Total United States Department of the Interior				<u>120,110</u>	<u>-</u>
<b>United States Department of State (DOS)</b>					
United States Department of State			19.RD	(2)	-
Trans-National Crime			19.705	121,780	-
Total United States Department of State				<u>121,778</u>	<u>-</u>
<b>National Aeronautics and Space Administration (NASA)</b>					
National Aeronautics and Space Administration			43.RD	188,810	-
NASA Headquarters			43.RD	1,647,448	40,391
NASA - Goddard Space Flight Center			43.RD	505,214	-
Subtotal National Aeronautics and Space Administration (CFDA 43.RD)				<u>2,341,472</u>	<u>40,391</u>
Science			43.001	80,027,387	15,299,709
Education			43.008	2,847	-
Total National Aeronautics and Space Administration				<u>82,371,706</u>	<u>15,340,100</u>
<b>National Science Foundation (NSF)</b>					
Mathematical and Physical Sciences			47.049	3,707,911	960,738
Geosciences			47.050	612,371	-
Computer and Information Science and Engineering			47.070	118,606	16,949
Biological Sciences			47.074	1,999,539	364,757
Social, Behavioral, and Economic Sciences			47.075	131,318	-
Education and Human Resources			47.076	557,296	31,630
Polar Programs			47.078	34,287	-
Total National Science Foundation				<u>7,161,328</u>	<u>1,374,074</u>
<b>United States Department of Energy (DOE)</b>					
United States Department of Energy			81.RD	86,161	-
Office of Science Financial Assistance Program			81.049	708,413	157,756
Total United States Department of Energy				<u>794,574</u>	<u>157,756</u>

**SMITHSONIAN INSTITUTION**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2019

Federal Grantors/pass-through grantors/agencies or cluster title	Pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
<b>United States Department of Health and Human Services (HHS)</b>					
Trans-NIH Research Support			93.310	11,363	-
Research Infrastructure Programs			93.351	518,615	96,504
Total United States Department of Health and Human Services				<u>529,978</u>	<u>96,504</u>
Total Direct Programs				<u>91,571,082</u>	<u>16,968,434</u>
<b>Indirect Programs</b>					
<b>United States Department of Agriculture (USDA)</b>					
Agriculture and Food Research Initiative	University of North Carolina	#201800062	10.310	5,726	-
Total United States Department of Agriculture				<u>5,726</u>	<u>-</u>
<b>United States Department of Commerce (DOC)</b>					
Integrated Ocean Observing System	Rutgers, State University of New Jersey	#820540, PO #936286	11.012	61,247	-
Sea Grant Support	Maryland Sea Grant College	PO #31890 SA #75281450-P	11.417	(4,010)	-
Sea Grant Support	University of California at Davis	A18-0384-S001	11.417	1,673	-
Subtotal Sea Grant Support (CFDA 11.417)				<u>(2,337)</u>	<u>-</u>
Coastal Zone Management Estuarine Research Reserves	Elkhorn Slough Foundation	NSC Oyster Network	11.420	25,162	-
Pacific Fisheries Data Program	Pacific States Marine Fisheries	19-08G	11.437	24,055	-
Pacific Fisheries Data Program	Pacific States Marine Fisheries	20-11G	11.437	9,530	-
Subtotal Pacific Fisheries Data Program (CFDA 11.437)				<u>33,585</u>	<u>-</u>
Habitat Conservation	State of California	#18-005	11.463	38,299	-
Unallied Science Program	North Pacific Research Board	1621 (NA15NMF4720173)	11.472	84,340	-
Center for Sponsored Coastal Ocean Research	University of Florida	UFDSP00012282/NA18NOS4780170	11.478	77,333	-
Coral Reef Conservation Program	Rare inc.	NFWF subaward	11.482	21,356	-
Total United States Department of Commerce				<u>338,985</u>	<u>-</u>
<b>United States Department of Defense (DOD)</b>					
United States Department of Defense	University of California - Berkeley	UCB-SAO Subaward 10065	12.RD	150,939	-
Basic and Applied Scientific Research	Naval Research Laboratory	N00173-14-1-G908	12.300	3,612	-
Military Medical Research and Development	Spectral Sciences	8304	12.420	53	-
Basic Scientific Research	Harvard University	134062-5100373	12.431	195,337	-
Air Force Defense Research Sciences Program	UCAR	Z15-12504	12.800	66,122	-
Total United States Department of Defense				<u>416,063</u>	<u>-</u>
<b>United States Department of the Interior (DOI)</b>					
Endangered Species Conservation	Rutgers, State University of New Jersey		15.657	34,221	-
Total United States Department of the Interior				<u>34,221</u>	<u>-</u>
<b>United States Department of Justice (DOJ)</b>					
National Institute of Justice Research	Des Moines University	04-18-05 sub 1	16.560	5,168	-
Total United States Department of Justice				<u>5,168</u>	<u>-</u>
<b>United States Department of Transportation (DOT)</b>					
West Virginia DOT	West Virginia DOT	X142-H/38.99 07	20.RD	27,886	-
Ballast Water Treatment Technologies	University of Maryland	SA0725776 PO 54121	20.819	95,509	-
Total United States Department of Transportation				<u>123,395</u>	<u>-</u>

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

Federal Grantors/pass-through grantors/agencies or cluster title	Pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
<b>National Aeronautics and Space Administration (NASA)</b>					
National Aeronautics and Space Administration	California Institute of Technology	S394030	43.RD	191,855	-
National Aeronautics and Space Administration	University of Maryland	46039-Z6110001	43.RD	1,655,914	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1598313	43.RD	1,549	-
National Aeronautics and Space Administration	Johns Hopkins Applied Physics Labor	PCCA dated 9/9/2019	43.RD	81	-
National Aeronautics and Space Administration	Arizona State University	17-255	43.RD	3,737	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1585735	43.RD	104	-
National Aeronautics and Space Administration	Arizona State University	12-875	43.RD	84,972	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1546619	43.RD	25,208	24,169
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1535002	43.RD	38,300	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1456630	43.RD	22,115	-
National Aeronautics and Space Administration	University of Arizona	Y603259	43.RD	125,343	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1442524	43.RD	31,123	-
National Aeronautics and Space Administration	University of Arizona	Y432801	43.RD	19,190	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-HF2-51356.001-A	43.RD	1,082	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-14197.001-A	43.RD	2,608	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-14464.001-A	43.RD	9,492	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-HF2-51381.001-A	43.RD	80,184	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-14757.004-A	43.RD	831	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-HF2-51402.001-A	43.RD	89,895	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-15179.003-A	43.RD	37,499	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-15285.001-A	43.RD	4,261	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-HF2-51413.001-A	43.RD	89,882	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-15610.001-A	43.RD	6,517	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-15641.001-A	43.RD	7,278	-
Subtotal National Aeronautics and Space Administration (CFDA 43.RD)				2,529,020	24,169
Science	Planetary Science Institute	1282 / NNX13AM81G	43.001	8,518	-
Science	University of Maryland	62733-Z6096201	43.001	5,729	-
Science	University of Hawaii at Manoa	MA1305	43.001	91,577	-
Science	Yale University	GR102115 (CON-80001156)	43.001	1,679	-
Science	University of Virginia	GP10188 154023	43.001	11,918	-
Science	Massachusetts Institute of Technology	5710003370	43.001	6,476	-
Science	Jet Propulsion Laboratory	1208973	43.001	436	-
Science	Lockheed Martin Shared Services	SP02H1701R	43.001	204,520	-
Science	Massachusetts Institute of Technology	5700007577	43.001	53	-
Science	Lockheed Martin Shared Services	8100002705	43.001	602,907	-
Science	Johns Hopkins University	975569	43.001	2,903,509	1,916,830
Science	University of New Hampshire	11-108	43.001	6,396	-
Science	Massachusetts Institute of Technology	5710003554	43.001	1,343,500	408,312
Science	University of New Hampshire	14-054	43.001	6,599	-
Science	Harvard University	131414-5084550	43.001	14,088	-
Science	Rice University	R53541	43.001	19,453	-
Science	Northern Arizona University	10026901-01	43.001	18,281	-
Science	University of Alabama	2015-065	43.001	40,825	-
Science	University of Arizona	292962	43.001	12,425	-
Science	Harvard University	131443-5099614	43.001	147,556	-
Science	Harvard University	131457-5097592	43.001	194,869	-
Science	California Institute of Technology	S376256 (44A-1097631)	43.001	71,164	-
Science	The Pennsylvania State University	5585-SAO-NASA-B07G	43.001	215,622	-
Science	University of New Hampshire	UNH 16-073	43.001	4,298	-
Science	New Jersey Institute of Technology	NJIT PO Nos. P1710176 & P1710177	43.001	93,975	-
Science	University of Arkansas	SA1707141	43.001	5,168	-

**SMITHSONIAN INSTITUTION**  
Schedule of Expenditures of Federal Awards  
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Federal Grantors/pass-through grantors/agencies or cluster title	Pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Science	University of Michigan	3004519489	43.001	56,145	-
Science	University of Delaware	Subaward 46622	43.001	31,592	-
Science	New Jersey Institute of Technology	996790	43.001	116,734	-
Science	University of Arizona	438111	43.001	68,251	-
Science	Jet Propulsion Laboratory	1602576	43.001	75,097	-
Science	New Jersey Institute of Technology	997022	43.001	30,596	-
Science	University of Colorado	CSU Subaward 1555192	43.001	7,689	-
Science	Seti Institute	SETI SC3439	43.001	44,539	-
Science	Johns Hopkins Applied Physics Labor	JHU/APL 141773	43.001	64,054	-
Science	Space Telescope Science Institute	GO-13754.001-A	43.001	38,280	-
Science	Space Telescope Science Institute	GO-13741.002-A	43.001	9,927	-
Science	Space Telescope Science Institute	HST-GO-14162.002-A	43.001	12,928	-
Science	Space Telescope Science Institute	HST-GO-14096.003-A	43.001	10,560	-
Science	Space Telescope Science Institute	HST-GO-13330.26-A	43.001	3,985	-
Science	Space Telescope Science Institute	HST-GO-14272.011-A	43.001	34,892	-
Science	Space Telescope Science Institute	HST-GO-14360.001-A	43.001	3,481	-
Science	Space Telescope Science Institute	HST-AR-13240.009-A	43.001	41,555	-
Science	Space Telescope Science Institute	HST-GO-14767.002-A	43.001	166,400	-
Science	Space Telescope Science Institute	HST-GO-15350.001-A	43.001	39,478	-
Science	Space Telescope Science Institute	HST-GO-15245.015-A	43.001	3,144	-
Science	Space Telescope Science Institute	HST-GO-15351.001-A	43.001	2,336	-
Science	Space Telescope Science Institute	HST-GO-15299.001-A	43.001	12,498	-
Science	Space Telescope Science Institute	HST-GO-15326.010-A	43.001	8,649	-
Science	Space Telescope Science Institute	HST-GO-15239.005-A	43.001	2,222	-
Science	Space Telescope Science Institute	HST-GO-15604.001-A	43.001	22,479	-
Science	Space Telescope Science Institute	HST-GO-15609.001-A	43.001	7,694	-
Science	National Science Foundation	AGS-1822314	43.001	471,452	-
	Subtotal Science (CFDA 43.001)			<u>7,418,198</u>	<u>2,325,142</u>
Education	Space Telescope Science Institute	STSci-509913	43.008	1,514,547	321,170
Cross Agency Support	Space Telescope Science Institute	HST-GO-14161.003-A	43.009	6,409	-
Cross Agency Support	Space Telescope Science Institute	HST-GO-14228.001-A	43.009	10,193	-
	Subtotal Cross Agency Support (CFDA 43.009)			<u>16,602</u>	<u>-</u>
	Total National Aeronautics and Space Administration			<u>11,478,367</u>	<u>2,670,481</u>
<b>National Science Foundation (NSF)</b>					
Mathematical and Physical Sciences	Massachusetts Institute of Technology	5710002813	47.049	10	-
Mathematical and Physical Sciences	Harvard University	131433-5091001	47.049	516,663	-
Mathematical and Physical Sciences	National Radio Astronomy Observatory	353038	47.049	2,116	-
Mathematical and Physical Sciences	Harvard University	131455-5097556	47.049	5,566	-
Mathematical and Physical Sciences	National Radio Astronomy Observatory	356441 VLA/17A-156	47.049	12,254	-
Mathematical and Physical Sciences	University of Arizona	436724	47.049	69,030	-
Mathematical and Physical Sciences	University of California	UCSB KK1873	47.049	24,518	-
Mathematical and Physical Sciences	Barnard College	SAO-1828168	47.049	6,990	-
	Subtotal Mathematical and Physical Sciences (CFDA 47.049)			<u>637,147</u>	<u>-</u>
Geosciences	Columbia University	79-GG009393/NSF OCE1450528	47.050	4,101	-
Geosciences	Georgia State University	SP00011663-01	47.050	6,370	-
	Subtotal Geosciences (CFDA 47.050)			<u>10,471</u>	<u>-</u>

**SMITHSONIAN INSTITUTION**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2019

Federal Grantors/pass-through grantors/agencies or cluster title	Pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Biological Sciences	College of Charleston	521345-SI/1929293	47.074	9,639	-
Biological Sciences	North Carolina State University	2018-0424-01	47.074	7,050	-
Biological Sciences	Towson University	000-9029	47.074	1,823	-
Biological Sciences	Colorado State University	G-92041-01/DEB 1754821	47.074	67,307	-
Biological Sciences	University of Notre Dame	203171SMITH	47.074	95,471	-
Biological Sciences	University of Florida	UFDSP00012121	47.074	7,882	-
Biological Sciences	Arizona State University	18-299	47.074	65,895	-
Biological Sciences	University of Texas	Subaward 12610062661	47.074	81,926	-
Biological Sciences	University of Louisville	ULRF-17-01-2701/DEB 165346	47.074	11,642	-
Biological Sciences	Arizona State University	17-185	47.074	12,989	-
Biological Sciences	Iowa State University	420-71-40A \ DEB 1556853	47.074	20,061	-
Biological Sciences	The City College of New York	40F60-A	47.074	99,867	-
Biological Sciences	Cornell University	75822-10652	47.074	35,699	-
Biological Sciences	Yale University	C15D12035(D02105)/DEB-1464886	47.074	(659)	-
Biological Sciences	Amherst College	NSF-SI-DEB-1353783	47.074	805	-
Subtotal Biological Sciences (CFDA 47.074)				517,397	-
Social, Behavioral, and Economic Sciences	Gettysburg College	Prime Award No. BCS-1401178/SI-1	47.075	525	-
Education and Human Resources	Harvard University	131407-5091340	47.076	221,349	-
Education and Human Resources	Harvard University	131403-5094253	47.076	49,789	-
Education and Human Resources	Harvard University	131460-5110471	47.076	8,762	-
Subtotal Education and Human Resources (CFDA 47.076)				279,900	-
Office of International and Integrative Activities	San Diego State University Research	SA0000202	47.079	91,896	-
National Science Foundation	University of Michigan	SubK00009876	47.RD	50,947	-
Total National Science Foundation				1,588,283	-
<b>United States Environmental Protection Agency (EPA)</b>					
Regional Wetland Program Development Grants	University of Florida	UFDSP00012060	66.461	34,211	-
Total United States Environmental Protection Agency				34,211	-
<b>United States Department of Energy (DOE)</b>					
United States Department of Energy	Princeton University	S014981	81.RD	16,204	-
United States Department of Energy	Lawrence Livermore National Laboratory	B626800	81.RD	2,777	-
United States Department of Energy	Lawrence Livermore National Laboratory	B634668	81.RD	157,025	-
Subtotal United States Department of Energy (CFDA 81.RD)				176,006	-
Office of Science Financial Assistance Program	Duke University	#323-0151	81.049	81,271	-
Office of Science Financial Assistance Program	Electroformed Nickel, Inc	EIN 6.21.18 DE-SC0017098 Subaward	81.049	148,873	-
Subtotal Office of Science Financial Assistance Program (CFDA 81.049)				230,144	-
Total United States Department of Energy				406,150	-
<b>United States Department of Education (ED)</b>					
English Language Acquisition State Grants	University of Memphis	PO 203136	84.365	131,281	-
Total United States Department of Education				131,281	-
<b>United States Department of Health and Human Services (HHS)</b>					
Maternal and Child Health Federal Consolidated Programs	University of Washington		93.110	2,040	-
Maternal and Child Health Federal Consolidated Programs	University of Washington	UWSC10383	93.110	173,289	-
Maternal and Child Health Federal Consolidated Programs	University of Washington	7UA6MC31609-01-00	93.110	(4,762)	-
Subtotal Maternal and Child Health Federal Consolidated Programs (CFDA 93.110)				170,567	-



**SMITHSONIAN INSTITUTION**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2019

<u>Federal Grantors/pass-through grantors/agencies or cluster title</u>	<u>Pass through entity</u>	<u>Pass-through entity award number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>	<u>Amounts provided to subrecipients</u>
NIEHS Hazardous Substances Basic Research and Education	University of Maryland, Baltimore College	HHS00018-01	93.143	20,347	-
NIEHS Hazardous Substances Basic Research and Education	University of Maryland, Baltimore College	0000015350	93.143	32,258	-
Subtotal NIEHS Hazardous Substances Basic Research and Education (CFDA 93.143)				<u>52,605</u>	<u>-</u>
Research Infrastructure Programs	Texas Biomedical Research Institute	16-04583-004	93.351	25,842	-
Cancer Treatment Research	University of Florida	UFDSP00010318	93.395	7,462	-
Total United States Department of Health and Human Services				<u>256,476</u>	<u>-</u>
<b>United States Agency for International Development (USAID)</b>					
USAID Foreign Assistance for Programs Overseas	University of California	201403200-05	98.001	761,145	88,426
Total United States Agency for International Development				<u>761,145</u>	<u>88,426</u>
Total Indirect Programs				15,579,471	2,758,907
Total Research and Development Cluster				<u>107,150,553</u>	<u>19,727,341</u>
<b>United States Postal Service</b>			99.000	<u>3,033,561</u>	<u>-</u>
<b>Other Programs</b>					
<b>Direct Programs</b>					
<b>United States Department of State (DOS)</b>					
Investing in People in the Middle East and North Africa			19.021	53,506	-
Public Diplomacy Programs			19.040	298,180	-
Total United States Department of State				<u>351,686</u>	<u>-</u>
<b>National Aeronautics and Space Administration (NASA)</b>					
Education			43.008	(1,291)	-
Total National Aeronautics and Space Administration				<u>(1,291)</u>	<u>-</u>
<b>National Science Foundation (NSF)</b>					
Geosciences			47.050	191,692	-
Social, Behavioral, and Economic Sciences			47.075	118,197	-
Education and Human Resources			47.076	7,563	-
Total National Science Foundation				<u>317,452</u>	<u>-</u>
<b>United States Department of Education (ED)</b>					
United States Department of Education			84.396	961	-
Total United States Department of Education				<u>961</u>	<u>-</u>
<b>United States Department of Health and Human Services (HHS)</b>					
Child Health and Human Development Extramural Research			93.865	60,581	-
Total United States Department of Health and Human Services				<u>60,581</u>	<u>-</u>
Total Direct Programs				<u>729,389</u>	<u>-</u>
<b>Indirect Programs</b>					
<b>United States Department of the Interior (DOI)</b>					
Preservation of Japanese American Confinement Sites	Tides Foundation	TC1114-19-04886	15.933	25,000	-
Total United States Department of the Interior				<u>25,000</u>	<u>-</u>

**SMITHSONIAN INSTITUTION**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2019

<u>Federal Grantors/pass-through grantors/agencies or cluster title</u>	<u>Pass through entity</u>	<u>Pass-through entity award number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>	<u>Amounts provided to subrecipients</u>
<b>United States Department of State (DOS)</b>					
Professional and Cultural Exchange Programs	World Learning	S500-S-ECAGD-16-CA-1106	19.415	1,625	-
Total United States Department of State				<u>1,625</u>	<u>-</u>
<b>National Aeronautics and Space Administration (NASA)</b>					
Education	Space Telescope Science Institute	STScI-509913	43.008	24,283	-
Total National Aeronautics and Space Administration				<u>24,283</u>	<u>-</u>
<b>National Science Foundation (NSF)</b>					
Education and Human Resources	Twin Cities Public Television, Inc.	TPTSA-21395-01	47.076	210,859	-
Education and Human Resources	The University of Rhode Island	0005471/102216	47.076	19,868	-
Total National Science Foundation				<u>230,727</u>	<u>-</u>
<b>United States Department of Education (ED)</b>					
Investing in Innovation	Albemarle County Public Schools	U411C140105	84.411	19,447	-
Total United States Department of Education				<u>19,447</u>	<u>-</u>
<b>United States Agency for International Development (USAID)</b>					
USAID Foreign Assistance for Programs Overseas	The Bridge Fund	AID-486-A14-0000	98.001	175,545	-
Total United States Agency for International Development				<u>175,545</u>	<u>-</u>
Total Indirect Programs				476,627	-
Total Expenditures of Federal Awards				<u>\$ 111,390,130</u>	<u>\$ 19,727,341</u>

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

## SMITHSONIAN INSTITUTION

### Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

#### **(1) Basis of Presentation and Description of Major Program**

The accompanying schedule of expenditures of federal awards (the schedule) is prepared in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The purpose of the schedule is to present information relating to expenditures of the Smithsonian Institution (Smithsonian) under programs of the federal government for the year ended September 30, 2019. The schedule presents only a selected portion of the operations of Smithsonian, and is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Smithsonian.

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

#### **(2) Basis of Accounting**

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

#### **(3) Indirect Cost**

The indirect cost rates applied are negotiated percentages of direct expenses. The indirect cost rate allocation bases exclude capital expenditures and other items. Indirect cost rates applied to awards for the year ended September 30, 2019 were negotiated with the cognizant agency, the National Aeronautics and Space Administration. Because the Smithsonian has received a negotiated indirect cost rate, it is not eligible for and has not elected to use the 10-percent de minimus indirect cost rate under the Uniform Guidance.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Smithsonian Institution (Smithsonian), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2020. Our report contains an emphasis of matters paragraph referring to Smithsonian's adoption of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in fiscal year 2019.

### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.



### **Compliance and Other Matters**

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

### **Smithsonian Institution's Response to Finding**

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

### **Purpose of this Report**

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

**KPMG LLP**

Washington, District of Columbia  
January 24, 2020



KPMG LLP  
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Washington, DC 20006

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

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

### **Report on Compliance for Each Major Federal Program**

We have audited the Smithsonian Institution's (Smithsonian) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Smithsonian's major federal program for the year ended September 30, 2019. Smithsonian's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

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

#### *Auditors' Responsibility*

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

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

#### *Opinion on Each Major Federal Program*

In our opinion, Smithsonian complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

### **Report on Internal Control Over Compliance**

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



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

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

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

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

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

We have audited the financial statements of Smithsonian Institution as of and for the year ended September 30, 2019, and have issued our report thereon dated January 24, 2020, which contained an unmodified opinion on those financial statements. This report contained an emphasis of matter paragraph relating to Smithsonian's adoption of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in fiscal year 2019. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

Washington, D.C.  
February 24, 2020

## SMITHSONIAN INSTITUTION

### Schedule of Findings and Questioned Costs

Year ended September 30, 2019

#### (1) Summary of Auditors' Results

- a. Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **Yes, 2019-001**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- g. Major program:
  - Research and Development Cluster – various CFDA numbers
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

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

##### Finding 2019-001

###### *Criteria*

Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F, Section 200.508(b) states “the auditee must prepare appropriate financial statements, including schedule of expenditure of federal awards in accordance with 200.510 Financial Statements.”

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

###### *Condition*

Management's review control over certain financial statement disclosures was not designed with the appropriate level of precision and did not operate effectively.



## SMITHSONIAN INSTITUTION

### Schedule of Findings and Questioned Costs

Year ended September 30, 2019

#### *Cause*

Smithsonian experienced unexpected turnover in its Office of Finance and Accounting, which limited management's ability to execute appropriate level of review. In addition, Smithsonian does not maintain a standard accounting manual with the policies and procedures for year-end reporting.

#### *Effect*

During our audit, we identified certain presentation and disclosure adjustments to the financial statements related to the fiscal year ended September 30, 2019, which Smithsonian's internal controls over year-end financial reporting did not prevent or detect.

#### *Recommendation*

We recommend Smithsonian establish a standard accounting manual that would inform all employees of operating procedures and policies. Such a manual would serve as an aid in training new employees, monitoring the performance of existing employees and improving internal communications. We also recommend Smithsonian evaluate its process to review its external financial reporting and enhance the level of review and precision.

#### *Views of Responsible Officials*

Management agrees with the comment. Documentation of processes and procedures for developing the financial statements is a high priority in the coming year. Individual components will be compiled into an overall manual to guide preparation of the financial statements. Additionally, we will increase internal review of statements and supporting documents to ensure consistency prior to issuance. This documentation will support the preparation of the financial statements and training existing and new staff.

### **(3) Findings and Questioned Costs Relating to Federal Awards**

None