



Smithsonian Institution

Office of the Inspector General

Memo

Date: March 23, 2022

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

Cc: Ron Cortez, Under Secretary for Finance and Administration
Meroe S. Park, Deputy Under Secretary and Chief Operating Officer
Janice Lambert, Chief Financial Officer
Jennifer Case, Controller, Office of Finance and Accounting
Porter N. Wilkinson, Chief of Staff to the Board of Regents
Greg Bettwy, Chief of Staff, Office of the Secretary
Karen Otiji, Acting Director, Office of Sponsored Projects
Charles Alcock, Director, Smithsonian Astrophysical Observatory

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-22-04)*

This memorandum transmits the second and final report of the fiscal year 2021 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 two major federal programs, research and development and the U.S. Postal Museum. 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.

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 T. 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, 2021

(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 the Secretary
Smithsonian Institution:

Report on the Financial Statements

We have audited the accompanying financial statements of Smithsonian Institution, which comprise the statements of financial position as of September 30, 2021 and 2020, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in Note 2(t) to the financial statements, in fiscal year 2021, Smithsonian Institution adopted new accounting guidance Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information regarding the presentation of Trust and Federal on the statements of financial position as of September 30, 2021 and 2020, the related statements of financial activities and cash flows for the years then ended, and the related notes to the financial statements is supplementary information for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2022 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 Institution's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smithsonian Institution's internal control over financial reporting and compliance.

KPMG LLP

Washington, District of Columbia
January 26, 2022

SMITHSONIAN INSTITUTION

Statements of Financial Position

September 30, 2021 and 2020

(Dollars in millions)

	2021			2020		
	Trust	Federal	Total Funds	Trust	Federal	Total Funds
Assets:						
Cash, cash equivalents, and U.S. Treasury balances	\$ 149.6	758.6	908.2	173.8	713.0	886.8
Accounts receivable and other assets, net	51.8	3.0	54.8	65.8	1.8	67.6
Pledges receivable, net	369.1	—	369.1	179.1	—	179.1
Investments	2,834.7	—	2,834.7	2,179.1	—	2,179.1
Property and equipment, net	962.3	1,806.0	2,768.3	981.6	1,759.1	2,740.7
Operating lease right-of-use assets	110.4	—	110.4	—	—	—
Total assets	\$ 4,477.9	2,567.6	7,045.5	3,579.4	2,473.9	6,053.3
Liabilities:						
Accounts payable and accrued expenses	\$ 99.8	174.4	274.2	117.8	177.1	294.9
Operating lease liabilities	133.4	—	133.4	—	—	—
Deferred revenue	49.3	0.5	49.8	55.8	0.8	56.6
Unexpended federal appropriations	—	666.6	666.6	—	621.4	621.4
Deferred gain on sale of real estate	—	—	—	0.4	—	0.4
Environmental remediation obligations	—	46.6	46.6	—	51.7	51.7
Long-term debt	378.9	—	378.9	391.3	—	391.3
Total liabilities	661.4	888.1	1,549.5	565.3	851.0	1,416.3
Net assets:						
Without donor restriction						
Board designated	1,048.5	—	1,048.5	804.7	—	804.7
Undesignated	603.8	1,152.9	1,756.7	641.4	1,209.8	1,851.2
Net assets without donor restriction	1,652.3	1,152.9	2,805.2	1,446.1	1,209.8	2,655.9
With donor restriction						
Purpose and time restrictions	1,529.4	526.6	2,056.0	973.0	413.1	1,386.1
Endowments	634.8	—	634.8	595.0	—	595.0
Net assets with donor restriction	2,164.2	526.6	2,690.8	1,568.0	413.1	1,981.1
Total net assets	3,816.5	1,679.5	5,496.0	3,014.1	1,622.9	4,637.0
Total liabilities and net assets	\$ 4,477.9	2,567.6	7,045.5	3,579.4	2,473.9	6,053.3

See accompanying notes to financial statements.

SMITHSONIAN INSTITUTION

Statements of Financial Activities

Year ended September 30, 2021

(Dollars in millions)

	2021								
	Without Donor Restriction			With Donor Restriction			Total Funds		
	Trust	Federal	Total	Trust	Federal	Total	Trust	Federal	Total
Operating:									
Support and revenues:									
Federal appropriations	\$ —	773.9	773.9	—	—	—	—	773.9	773.9
Contributions	60.0	—	60.0	220.2	—	220.2	280.2	—	280.2
Grants and contracts	81.0	—	81.0	64.8	—	64.8	145.8	—	145.8
Business activities	86.0	—	86.0	—	—	—	86.0	—	86.0
Endowment payout	42.2	—	42.2	40.6	—	40.6	82.8	—	82.8
Imputed benefit revenue	—	107.1	107.1	—	—	—	—	107.1	107.1
Short-term investment income and other revenue	16.2	10.6	26.8	0.7	—	0.7	16.9	10.6	27.5
Total operating revenues	285.4	891.6	1,177.0	326.3	—	326.3	611.7	891.6	1,503.3
Net assets released from restrictions	148.1	58.0	206.1	(148.1)	(58.0)	(206.1)	—	—	—
Total support and revenues	433.5	949.6	1,383.1	178.2	(58.0)	120.2	611.7	891.6	1,503.3
Expenses:									
Program activities:									
Research	141.6	189.0	330.6	—	—	—	141.6	189.0	330.6
Collections management	18.8	252.0	270.8	—	—	—	18.8	252.0	270.8
Education, public programs, and exhibitions	69.7	288.3	358.0	—	—	—	69.7	288.3	358.0
Business activities	75.5	—	75.5	—	—	—	75.5	—	75.5
Total program activities	305.6	729.3	1,034.9	—	—	—	305.6	729.3	1,034.9
Supporting activities:									
Administration	51.7	204.5	256.2	—	—	—	51.7	204.5	256.2
Advancement	63.1	0.7	63.8	—	—	—	63.1	0.7	63.8
Total supporting activities	114.8	205.2	320.0	—	—	—	114.8	205.2	320.0
Total expenses	420.4	934.5	1,354.9	—	—	—	420.4	934.5	1,354.9
Change in net assets before depreciation and amortization	13.1	15.1	28.2	178.2	(58.0)	120.2	191.3	(42.9)	148.4
Depreciation, amortization, and changes in environmental remediation obligations	58.9	109.6	168.5	—	—	—	58.9	109.6	168.5
Change in net assets from operating activities	(45.8)	(94.5)	(140.3)	178.2	(58.0)	120.2	132.4	(152.5)	(20.1)
Nonoperating activities:									
Federal capital appropriations	—	—	—	—	213.3	213.3	—	213.3	213.3
Endowment gifts	—	—	—	37.3	—	37.3	37.3	—	37.3
Gifts for construction projects	—	—	—	79.9	—	79.9	79.9	—	79.9
Investment return, net of endowment payout	243.9	—	243.9	314.2	—	314.2	558.1	—	558.1
Gain on sale of real estate	0.4	—	0.4	—	—	—	0.4	—	0.4
Rent revenue	7.2	—	7.2	—	—	—	7.2	—	7.2
Unrelated income tax expense	0.1	—	0.1	—	—	—	0.1	—	0.1
Change in net assets of related organization and other	(4.8)	—	(4.8)	(2.2)	—	(2.2)	(7.0)	—	(7.0)
Losses on disposition of assets	(0.3)	(0.8)	(1.1)	—	—	—	(0.3)	(0.8)	(1.1)
Collection items not capitalized:									
Collection items purchased	(7.1)	(3.4)	(10.5)	—	—	—	(7.1)	(3.4)	(10.5)
Collection items sold	1.4	—	1.4	—	—	—	1.4	—	1.4
Net assets released from restrictions	11.2	41.8	53.0	(11.2)	(41.8)	(53.0)	—	—	—
Change in net assets from nonoperating activities	252.0	37.6	289.6	418.0	171.5	589.5	670.0	209.1	879.1
Change in net assets	206.2	(56.9)	149.3	596.2	113.5	709.7	802.4	56.6	859.0
Net assets, beginning of year	1,446.1	1,209.8	2,655.9	1,588.0	413.1	1,981.1	3,014.1	1,622.9	4,637.0
Net assets, end of year	\$ 1,652.3	1,152.9	2,805.2	2,164.2	526.6	2,690.8	3,816.5	1,679.5	5,496.0

See accompanying notes to financial statements.

SMITHSONIAN INSTITUTION

Statements of Financial Activities

Year ended September 30, 2020

(Dollars in millions)

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

See accompanying notes to financial statements.

SMITHSONIAN INSTITUTION

Statements of Cash Flows

September 30, 2021 and 2020

(Dollars in millions)

	2021			2020		
	Trust	Federal	Total	Trust	Federal	Total
Cash flows from operating activities:						
Change in net assets	\$ 802.4	56.6	859.0	232.3	70.5	302.8
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:						
Gain / loss on disposition of assets and other	0.3	8.1	8.4	—	—	—
Collection items purchased	7.1	3.4	10.5	8.7	2.3	11.0
Proceeds from sales of collection items	(1.4)	—	(1.4)	(0.6)	—	(0.6)
Depreciation, amortization, and changes in environmental remediation obligations	58.9	109.6	168.5	58.9	118.0	176.9
Amortization of operating lease right-of-use assets	23.5	—	23.5	—	—	—
Present value discount and accretion	(0.1)	1.1	1.0	(1.4)	1.1	(0.3)
Contributions for endowments	(37.3)	—	(37.3)	(16.8)	—	(16.8)
Contributions for construction of facilities	(79.9)	—	(79.9)	(7.8)	—	(7.8)
Appropriations for repair, restoration, and construction	—	(213.3)	(213.3)	—	(197.5)	(197.5)
Net investment gains	(638.4)	—	(638.4)	(259.1)	—	(259.1)
Decrease (increase) in assets:						
Accounts receivables and other assets	14.0	(1.2)	12.8	13.2	1.4	14.6
Pledges receivable, net	(105.8)	—	(105.8)	(16.7)	—	(16.7)
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	6.0	(9.4)	(3.4)	(10.8)	1.3	(9.5)
Operating lease liabilities	(25.2)	—	(25.2)	—	—	—
Deferred revenue	(6.5)	(0.3)	(6.8)	—	0.8	0.8
Unexpended federal appropriations	—	44.0	44.0	—	34.7	34.7
Deferred gain on sale of real estate	(0.4)	—	(0.4)	(3.9)	—	(3.9)
Net cash provided by (used in) operating activities	17.2	(1.4)	15.8	(4.0)	32.6	28.6
Cash flows from investing activities:						
Purchases of property and equipment	(39.3)	(164.1)	(203.4)	(304.9)	(216.3)	(521.2)
Purchases of investment securities	(563.0)	—	(563.0)	(645.4)	—	(645.4)
Proceeds from sales/maturities of investment securities	545.8	—	545.8	671.6	—	671.6
Collection items purchased	(7.1)	(3.4)	(10.5)	(8.7)	(2.3)	(11.0)
Proceeds from sales of collection items	1.4	—	1.4	0.6	—	0.6
Net cash used in investing activities	(62.2)	(167.5)	(229.7)	(286.8)	(218.6)	(505.4)
Cash flows from financing activities:						
Appropriations for repair, restoration, and construction	—	214.5	214.5	—	253.7	253.7
Contributions for endowments	28.7	—	28.7	22.2	—	22.2
Contributions for construction of facilities	4.4	—	4.4	7.4	—	7.4
Principal from bond issuance, net	—	—	—	298.9	—	298.9
Principal payments on long-term debt	(12.3)	—	(12.3)	(3.8)	—	(3.8)
Net cash provided by financing activities	20.8	214.5	235.3	324.7	253.7	578.4
Net change in cash, cash equivalents and U.S. Treasury balances	(24.2)	45.6	21.4	33.9	67.7	101.6
Cash, cash equivalents and U.S. Treasury balances:						
Beginning of year	173.8	713.0	886.8	139.9	645.3	785.2
End of year	\$ 149.6	\$ 758.6	\$ 908.2	\$ 173.8	\$ 713.0	\$ 886.8
Noncash investing activities:						
Construction cost accruals	\$ 6.6	38.5	45.1	6.0	31.8	37.8
Cash paid for interest	\$ 7.1	—	7.1	2.8	—	2.8

See accompanying notes to financial statements.

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2021 and 2020

(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 19 museums and the National Zoological Park in Washington, DC, and two museums in New York City. Additional facilities and programs are operated in five states and Panama. Research is carried out at nine research centers, in the museums and other facilities throughout the world. Millions of individuals visit Smithsonian museums and other facilities annually: 3.1 million in fiscal year 2021 and 7.7 million in fiscal year 2020.

As of September 30, 2021, the Smithsonian’s extensive collection contained approximately 157.1 million objects: 0.4 million works of arts, 8.7 million historical artifacts, and 148.0 million natural and physical science specimens (living and nonliving). The Smithsonian also maintained 144,600 cubic feet of archival holdings and 2.2 million library volumes. During fiscal year 2021, 1.6 million collection items were acquired, and 6,598 items were deaccessioned.

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

A substantial portion of the Smithsonian’s operations is funded by annual Federal appropriations from the U.S. Congress to cover its core programs. 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 constructed with a combination of Federal and private funds. All monies, related activities, and balances from Federal appropriations are referred to herein as “Federal”.

In addition to Federal appropriations, the Smithsonian receives private support in the form of contributions, grants, and contracts, and earns income from investments and various business activities to support current operations. Business activities include Smithsonian magazines, the Smithsonian channel in partnership with Viacom/CBS, other publications, online catalogs, and retail operations located in its museums and centers. All other monies, related activities, and balances not considered Federal are referred to herein as “trust”, including all operating right-of-use assets and operating lease liabilities, regardless of whether the rent payments are paid from Federal appropriations.

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2021 and 2020

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(2) Summary of Significant Accounting Policies

(a) General

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

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.

(b) Measure of Operations

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

The Board approves a portion of the Smithsonian's cumulative investment return for support of current operations. The remainder is retained to support operations in future years and to offset potential market declines. The amount is computed under the Smithsonian's spending policy and is allocated for use based on the underlying donor-imposed restrictions (see notes 12, 13 and 14). The annual allocation is referred to as the "endowment payout."

(c) Net Assets

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

Without donor restrictions – Net assets without donor restrictions consist of the Smithsonian's net investment in 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 fulfillment of the donor's stipulations. Unconditional contributions restricted to the acquisition or construction of long-lived assets are recorded as nonoperating revenue with donor restrictions in the period received. Donor restrictions are generally considered met and the net assets released from restriction when the related long-lived asset is placed in service.

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

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

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

U.S. Treasury balances of \$758.6 at September 30, 2021 and \$713.0 at September 30, 2020 consist of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments of the Smithsonian. U.S. Treasury balances are carried forward until such time as goods or services are received and payments made, or until the funds are returned to the U.S. Treasury.

(e) Contracts with Customers and Accounts Receivable

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

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

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

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

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

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

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(g) Investments and Trusts Held by Others

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

Investments are generally reported at fair value. Publicly traded fixed income, global equities, natural resources, and cash and cash equivalents are reported and valued using readily determinable market prices. Nearly all the valuations reported by marketable alternative investments and public equities held in commingled funds rely upon third party administrators to objectively value positions and calculate net asset value (NAV) based on the funds' net asset value 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 value, 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. At September 30, 2021 and 2020, the Smithsonian had no plans or intentions to sell investments at amounts different from NAV. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant.

Equity hedge is an exchange traded option that seeks to reduce potential downside equity risk. Option contracts require payment of premiums in exchange for the right to purchase or sell underlying investments at a contracted strike price and maturity. The equity hedge is a put option with a notional value of \$180 million, expiring on 1/21/2022, and is classified as level 2 in the fair value hierarchy.

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

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

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

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

(h) Property and Equipment

Certain land occupied by Smithsonian buildings, located primarily in the District of Columbia, Maryland, and Virginia, were appropriated and reserved by Congress for the Smithsonian's use. The Smithsonian

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serves as trustee of the land for as long as they are used to carry out its mission. The land is titled in the name of the U.S. government and no value has been assigned in the accompanying financial statements.

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

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

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

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

(i) Collections – Stewardship Assets

The Smithsonian acquires its collections by purchase or 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.

(j) Federal Appropriations and Funds

Federal appropriations are provided by the U.S. Federal Government to support the general operations of the Smithsonian and the construction, repair, and restoration of its facilities. Appropriated funds are to be spent in accordance with applicable law and revenue is recognized ratably over the fiscal year as

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the qualifying expenses are incurred. Unexpended appropriation balances are classified as a liability in the statements of financial position.

Federal appropriations for general operations are recognized as operating revenue without donor restrictions, as qualifying expenses are incurred, and generally available for two years. The portion of these appropriations which are not obligated or expended are retained by the Smithsonian in accordance with Federal guidelines and returned to the U.S. Department of Treasury five years after the expiration of the obligation period. During fiscal year 2021, \$0.6 related to the fiscal year 2015 appropriation was returned. During fiscal year 2020, \$0.8 related to the fiscal year 2014 appropriation was returned.

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

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

(k) Annual Leave

Annual leave is accrued as it is earned by employees and is included in compensation and benefit costs. The liability for unused annual leave of \$59.6 at September 30, 2021 and \$56.8 at September 30, 2020 is included in accounts payable and accrued expenses within the statements of financial position.

(l) Employee Benefit Plans

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

Federal Funded Pension, Health and Life Insurance Benefits, including Imputed Benefits

Federal employees hired after January 1, 1984, participate in the Federal Employees' Retirement System (FERS). Federal employees hired prior to January 1, 1984, had the option of remaining under the Civil Service Retirement System (CSRS) or electing FERS. The terms of both these plans are defined in Federal regulations. Under both systems, a specified percentage is withheld from each Federal employee's salary. The Smithsonian also contributes specified percentages of employees' salaries. The Smithsonian's expenses for these plans were \$53.2 for fiscal year 2021 and \$48.3 for fiscal year 2020, respectively.

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Additional costs associated with these plans are borne by the U.S. government, and are recorded as imputed benefit revenue and expense in the statements of financial activities. The Smithsonian recognized \$107.1 in fiscal year 2021 and \$87.2 in fiscal year 2020, respectively.

The Smithsonian's current year contributions to the pension plans are recognized in the statement of financial activities using rates established by the Office of Personnel Management (OPM), the agency with U.S. government-wide responsibility for the oversight and administration of the plans. Consistent with reporting under 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. Expense recognized for the TSP was \$14.2 and \$13.7 in fiscal year 2021 and 2020, respectively, in the statements of financial activities.

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. Expense recognized for the FEGLI was \$0.7 and \$0.6 in fiscal year 2021 and 2020, respectively, in the statements of financial activities.

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 \$21.5 for fiscal year 2021 and \$21.4 for fiscal year 2020, within the statements of financial activities.

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 year-end, the accrued benefit obligation under this plan was \$20.6 and \$19.2 as of September 30, 2021 and 2020,

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respectively, 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.

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 calculated 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. Expense recognized for the FECA was \$2.7 and \$3.0 in fiscal year 2021 and 2020, respectively, in the statements of financial activities.

(m) Contributed Services and Donated Assets

Each year volunteers make significant contributions of time to the Smithsonian, enhancing its programs and activities in the museums and with its collections. The services provided do not meet the criteria for recognition of contributed services, and accordingly, are not reflected in the statements 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 \$10.4 in fiscal year 2021 and \$11.8 in fiscal year 2020, and are recognized as program support revenues (within other revenue) and program activities expenses in the statements of financial activities.

(n) Functional Allocation of Expenses

The cost of providing various programs and other activities summarized on a functional and natural basis is shown in note 17.

- Research includes 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 of managing the collections.

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- Education, public programs and exhibitions includes costs 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 personnel, cost of goods sold and related expenses.
- Administration includes costs for executive management, financial administration, human resources, and legal services.
- Advancement includes costs associated with individual and corporate gifts and grants, annual appeals and other fund-raising efforts.

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

(o) Related Organizations

The Smithsonian recognizes its interest in the net assets of organizations that are financially interrelated and the changes in its interest as other nonoperating activities. During fiscal year 2021 the Smithsonian and the Friends of the National Zoo, as well as the UK Charitable Trust, were dissolved. The net asset balances were written-off and the losses are reflected in nonoperating activities within the statements of financial activities. There are no other related organizations of the Smithsonian.

(p) Income Taxes

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

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

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

(q) Use of Estimates

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

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(r) Risks and Uncertainties

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

(s) COVID-19 Pandemic

On March 13, 2020, the President of the United States declared a national emergency with respect to COVID-19, a respiratory disease declared to be a pandemic by the World Health Organization (Pandemic). The Pandemic is affecting the capital markets and the economy, and the museum, research and education sectors. The threat from the Pandemic is being addressed on the national, Federal, state and local levels in various forms, including executive orders, state and local orders, and legislative actions.

The United States Congress enacted several COVID-19-related bills, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, which provided over \$2 trillion of direct financial aid to American families, payroll and operating expense support for small businesses, and loan assistance for distressed industries, as well as providing funds to and directing the Federal Reserve System to support the capital markets. In fiscal year 2020, the CARES Act provided the Smithsonian with \$ 7.5 million in direct support to respond to the Pandemic.

The Pandemic is an ongoing situation. The Smithsonian's museums and galleries in the District of Columbia and New York and the Smithsonian's National Zoo were closed in March 2020 to support the effort to contain the spread of COVID-19. Select museums, galleries, and the National Zoo were reopened in a phased approach over the summer of 2020. However, due to the resurgence of COVID-19, they were closed again in November 2020. Starting in the summer of 2021, all museums have opened again, although with reduced capacity.

All business activities of the Smithsonian were negatively affected by the Pandemic. Due primarily to the decline in visitors at the museums and other facilities, significant declines in revenues from retail, concessions, theaters, in-person classes and parking operations occurred. The continued impact of the Pandemic on the Smithsonian's operating results and financial condition are uncertain.

(t) Recently Adopted Accounting Pronouncements

Leases

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended, which, along with related amendments, replaced existing capital and operating lease reporting and disclosure requirements.

ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the statement of financial position through both a right-of-use asset and a corresponding lease liability, and additional qualitative and quantitative disclosures. The Smithsonian adopted Topic 842 using a modified retrospective transition approach effective October 1, 2020, which

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resulted in the recognition of operating lease liabilities and right-of-use assets of approximately \$110.4. As a result, there was no cumulative effect adjustment recognized.

The Smithsonian elected to adopt the package of transition practical expedients and, therefore, did not reassess (1) whether existing or expired contracts contained a lease, (2) lease classification for existing or expired leases, or (3) the accounting for initial direct costs that were previously capitalized. Additionally, the Smithsonian has adopted the lease-related disclosures in note 8.

Collections

In March 2019 FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The FASB issued this ASU to modify one of the three criteria in the GAAP definition of the term collection that required an entity to have an organizational policy that requires the proceeds from collection items that are sold to be used to acquire collection items. This criterion has been expanded to permit the proceeds to also be used for direct care of existing collections. The ASU also requires that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. If an entity permits that proceeds be used for direct care, an entity must disclose how it defines direct care.

The Smithsonian updated its collected policy on October 1, 2020 to allow proceeds from deaccessioned collection items to be used for direct care. The adoption of ASU 2019-03 did not have a material impact on the Smithsonian's financial statements.

(u) Recent Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, Not-For-Profit Entities (Topic 958)*. This ASU is expected to increase transparency around contributed nonfinancial assets (also known as "gifts-in-kind") received by not-for-profit (organizations, including transparency on how those assets are used and how they are valued. It also addresses presentation and disclosure of contributed nonfinancial assets. ASU 2020-07 is effective for the Smithsonian in fiscal year 2022 and is not expected to have a material impact on its financial statements.

(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.

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. At September 30, 2021, the working capital investment fund totals \$338.7 and is comprised of cash equivalents of \$63.7 and short-term investments of \$275.0. At September 30, 2020, the working capital investment fund totals \$321.6 and is comprised of cash equivalents of \$103.0 and short-term investments of \$218.6.

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The Smithsonian had a \$50.0 line of credit available to provide additional resources if needed. Borrowings under the line bear annual interest at LIBOR plus 0.55%. The line expired on October 31, 2020 and was not renewed. There were no outstanding borrowings at September 30, 2021 and 2020.

Financial assets available for general expenditures (operating expenses, capital and debt service), without donor or other restrictions limiting their use, consist of the following at September 30:

	2021			2020		
	Trust	Federal	Total	Trust	Federal	Total
Financial assets available within one year:						
Cash, cash equivalents, and U.S.						
Treasury balances	\$ 149.6	758.6	908.2	173.8	713.0	886.8
Accounts receivable and other assets	26.4	2.7	29.1	24.2	1.6	25.8
Pledges receivable, net	165.7	—	165.7	94.8	—	94.8
Investments	275.0	—	275.0	218.6	—	218.6
Total financial assets	616.7	761.3	1,378.0	511.4	714.6	1,226.0
Plus endowment payout approved for for fiscal years 2022 and 2021	79.7	—	79.7	80.4	—	80.4
	<u>\$ 696.4</u>	<u>761.3</u>	<u>1,457.7</u>	<u>591.8</u>	<u>714.6</u>	<u>1,306.4</u>

Quasi-endowment assets include funds without donor restrictions designated by the Board to function as endowment funds supporting the Smithsonian's programs and operations, including the directors of certain museums and centers and various operating costs. Although the Smithsonian does not intend to spend from its board designated endowment funds, other than amounts approved, these funds could be made available, if necessary (see note 13).

(4) Accounts Receivable and Other Assets

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

	2021			2020		
	Trust	Federal	Total	Trust	Federal	Total
Grants and contracts	\$ 12.4	2.7	15.1	11.9	1.6	13.5
Trade accounts, net of allowance for doubtful accounts of \$0.3 in 2021 and \$0.4 in 2020	14.0	—	14.0	17.7	—	17.7
Inventory	10.6	0.3	10.9	12.0	0.2	12.2
Deferred expenses	5.4	—	5.4	7.8	—	7.8
Accrued interest and dividends receivable	0.2	—	0.2	0.1	—	0.1
Other assets	9.2	—	9.2	16.3	—	16.3
Total receivables and other assets	<u>\$ 51.8</u>	<u>3.0</u>	<u>54.8</u>	<u>65.8</u>	<u>1.8</u>	<u>67.6</u>

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(5) Pledges Receivable

Pledges receivable consist of the following as of September 30:

	<u>2021</u>	<u>2020</u>
Due within:		
Less than 1 year	\$ 165.7	94.8
1 to 5 years	186.3	72.9
5 years and beyond	<u>10.4</u>	<u>0.7</u>
	362.4	168.4
Less:		
Allowance for uncollectible contributions	(5.6)	(2.6)
Unamortized discount (at rates ranging from 1.1% to 2.9%)	<u>(7.7)</u>	<u>(2.9)</u>
Contributions receivable, net	349.1	162.9
Charitable remainder trusts	<u>20.0</u>	<u>16.2</u>
Pledges receivable, net	<u>\$ 369.1</u>	<u>179.1</u>

(6) Investments and Fair Value Measurements

Investments are comprised of the following at September 30:

	<u>2021</u>	<u>2020</u>
Endowment, including Board designated funds	\$ 2,532.5	1,937.8
Working capital short-term investments	275.0	218.6
Charitable gift annuity investments	<u>27.2</u>	<u>22.7</u>
Total investments	<u>\$ 2,834.7</u>	<u>2,179.1</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.

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The following summarizes Smithsonian's investments at fair value as of September 30, 2021 and 2020:

	2021				
	Total	Level 1	Level 2	Level 3	NAV ⁽¹⁾
Endowment investments:					
Global equities:					
Developed markets	\$ 452.1	58.6	-	-	393.5
Emerging markets	147.3	-	-	-	147.3
Marketable alternatives	357.2	-	-	-	357.2
Private equity:					
Private equity	225.1	-	-	-	225.1
Venture capital	936.5	27.2	-	-	909.3
Real assets:					
Energy and natural resources	92.1	-	-	-	92.1
Real estate funds	182.6	20.8	-	-	161.8
Equity hedge	5.5	-	5.5	-	-
Fixed income	23.0	-	-	-	23.0
Cash and equivalents	110.1	110.1	-	-	-
	2,531.5	216.7	5.5	-	2,309.3
Pooled investments	1.0	1.0	-	-	-
U.S. Treasury deposits	2,532.5	217.7	5.5	-	2,309.3
Total endowment	2,532.5	217.7	5.5	-	2,309.3
Fixed income (working capital fund)	275.0	275.0	-	-	-
Gift annuities, primarily equities	27.2	27.2	-	-	-
Total investments	2,834.7	519.9	5.5	-	2,309.3
Charitable remainder trusts	20.0	-	-	20.0	-
	<u>\$ 2,854.7</u>	<u>519.9</u>	<u>5.5</u>	<u>20.0</u>	<u>2,309.3</u>

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

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(Dollars in millions)

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

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

The changes in Level 3 assets, charitable remainder trusts held by others, relate to valuation changes of the underlying assets. There were no transfers between levels during fiscal year 2021 or 2020.

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

	<u>2021</u>	<u>2020</u>
Fair value of Level 3 assets, beginning of the year	\$ 16.2	17.9
Unrealized gains (losses)	4.1	(1.4)
Proceeds from distributions	<u>(0.3)</u>	<u>(0.3)</u>
Fair value of Level 3 assets, end of the year	<u>\$ 20.0</u>	<u>16.2</u>

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

		<u>2021</u>			
		<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption terms</u>	<u>Notice Period (Days)</u>
Global equity:	(a)				
Developed markets		\$ 393.5	-	Weekly to annually	9 - 90
Emerging markets		147.3	-	Monthly to semi-annually	14 - 90
Marketable alternatives	(b)	357.2	48.2	Monthly to at maturity	45 - N/A
Private equity:	(c)				
Private equity		225.1	64.3	N/A	N/A
Venture capital		909.3	122.8	N/A	N/A
Real assets:	(d)				
Energy and natural resources		92.1	25.2	N/A	N/A
Real estate funds		161.8	117.2	Quarterly to at maturity	60 - N/A
Fixed income	(e)	<u>23.0</u>	<u>-</u>	Quarterly	90
		<u>\$ 2,309.3</u>	<u>377.7</u>		

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		2020			
		NAV	Unfunded Commitments	Redemption terms	Notice Period (Days)
Global equity:	(a)				
Developed markets		\$ 301.4	-	Weekly to annually	6 - 90
Emerging markets		123.3	-	Monthly to semi-annually	14 - 90
Marketable alternatives	(b)	355.3	4.3	Monthly to at maturity	45 - N/A
Private equity:	(c)				
Private equity		186.4	77.3	N/A	N/A
Venture capital		547.3	118.4	N/A	N/A
Real assets:	(d)				
Energy and natural resources		79.7	28.6	N/A	N/A
Real estate funds		135.7	109.5	Quarterly to at maturity	60 - N/A
Fixed income	(e)	22.1	-	Quarterly	90
		<u>\$ 1,751.2</u>	<u>338.1</u>		

- (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 long/short equity, credit and distressed, multi-strategy funds. Some of the funds are subject to soft and hard lock-ups and other funds are not eligible for redemption.
- (c) Private equity consists of limited partnerships that are organized to invest primarily in shares of operating companies that are not listed on a publicly traded stock exchange. Private equity strategies include investments in leveraged buyouts, growth capital and distressed investments. Venture capital strategies invest in start-ups and businesses with perceived long-term growth potential. Distributions to limited partners are made as soon as feasible and, in accordance with the limited partnership agreement, when realizations (sales of portfolio companies) are made, or when interest payments, dividends, or recapitalizations are generated. Certain investments are commitment based and not eligible for withdrawal through the life of the fund. Timing of liquidation of funds is unknown.
- (d) Real assets include real estate energy and natural resources investments that are made mostly in private limited partnerships as well as publicly traded securities funds. Distributions to limited partners are made as soon as feasible and, in accordance with the limited partnership agreement, when realizations (sales of portfolio companies) are made, or when interest payments, dividends, or recapitalizations are generated. Certain investments are commitment based and not eligible for withdrawal through the life of the fund. Timing of liquidation of funds is unknown.
- (e) Fixed income includes funds that invest in U.S. government, agency and municipal bonds, and other interest-bearing products.

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The Smithsonian is obligated under the terms of certain limited partnership agreements to remit additional funding periodically as capital calls are exercised. 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 statements of financial activities for the years ended September 30:

	<u>2021</u>	<u>2020</u>
Dividend and interest income, net of expenses	\$ 7.3	6.4
Net realized and unrealized gains	<u>634.8</u>	<u>259.1</u>
Total investment return	<u><u>642.1</u></u>	<u><u>265.5</u></u>
Endowment payout allocated for operations	82.8	76.9
Short term investment income	1.2	4.9
Investment return, net of endowment payout	<u>558.1</u>	<u>183.7</u>
Total investment return	\$ <u><u>642.1</u></u>	<u><u>265.5</u></u>

(7) Property and Equipment

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

	<u>2021</u>		
	<u>Trust</u>	<u>Federal</u>	<u>Total</u>
Land	\$ 32.8	—	32.8
Construction in progress	98.8	531.2	630.0
Buildings and capital improvements	1,211.7	3,070.8	4,282.5
Equipment and software	199.6	258.1	457.7
Leasehold improvements	<u>104.0</u>	<u>29.0</u>	<u>133.0</u>
	1,646.9	3,889.1	5,536.0
Accumulated depreciation	<u>(684.6)</u>	<u>(2,083.1)</u>	<u>(2,767.7)</u>
Total property and equipment, net	\$ <u><u>962.3</u></u>	<u><u>1,806.0</u></u>	<u><u>2,768.3</u></u>
Depreciation expense	\$ <u><u>58.9</u></u>	<u><u>115.8</u></u>	<u><u>174.7</u></u>

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Notes to Financial Statements

September 30, 2021 and 2020

(Dollars in millions)

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

(8) Leases

Accounting for Leases as Lessee

The Smithsonian leases office and warehouse space as well as equipment under long-term operating leases expiring at various dates to 2032.

Operating leases as a lessee are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the statements of financial position (see note 2t). Rent expense under operating leases that provide for scheduled rent increases over their terms is recognized on a straight-line basis.

Right-of-use assets represent the right to use an underlying asset for the lease term, if the expected lease term is greater than 12 months. The Smithsonian elected a policy to not recognize ROU assets and lease liabilities for short-term leases, generally comprised of leases for office and communication equipment.

Lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and related liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate (5-Year yield established by the Department of Treasury). The commencement date is when the Smithsonian takes possession of the asset, or in the case of real estate leases, when the landlord makes the building available for use. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option.

Variable lease payments for leases are generally provided for as rent escalations based on increases in property taxes, operating expenses attributable to the leased properties. Changes in variable lease payments, other than those attributed to indexed rates estimates are recognized in the period in which they occur.

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The following table presents the various components of lease expense as of September 30, 2021:

Operating lease expense	\$	25.5
Variable lease expense		9.8
Short-term lease expense		<u>3.1</u>
	\$	<u><u>38.4</u></u>

The following table presents supplemental information relating to the cash flows arising from lease transactions as of September 30, 2021. Cash payments related to variable lease costs and short-term leases are not included in the measurement of ROU assets and operating lease liabilities, as such, are excluded from the amounts below.

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash outflows from operating leases	\$	21.9
Non-cash right-of-use assets for lease liabilities		
At adoption of ASC-Topic 842		89.5
In exchange for new lease liabilities		44.5
Accumulated amortization, ROU assets		(23.6)

The weighted-average lease term and discount rate for Smithsonian leases as of September 30, 2021 is 5 years and 7 months and 0.55%, respectively.

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 that were executed prior to the enactment of the Federal Acquisition Streamlining Act. The table below presents a maturity analysis of expected undiscounted cash flows for leases on an annual basis for the next five years and thereafter.

2022	\$	30.1
2023		28.6
2024		22.8
2025		22.6
2026		12.0
Thereafter		<u>19.4</u>
Undiscounted cash flows for leases		135.5
Less: discount		<u>(2.1)</u>
Operating lease liabilities	\$	<u><u>133.4</u></u>

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Prior to the adoption of the new lease guidance on October 1, 2020, ROU assets and lease liabilities for operating leases were not recognized in the statements of financial position. The following table depicts annual minimum lease payments under operating leases in effect as of September 30, 2020:

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

Accounting for Leases as a Lessor

The Smithsonian leases certain office space to the existing tenants that were residing in the headquarters building when purchased in fiscal year 2020. Lease payments due to the Smithsonian are generally fixed and paid over the term of the lease. In general, the Smithsonian does not consider renewal periods to be reasonably certain of being exercised. Leases provided by the Smithsonian do not contain variable payments that are based on an index or rate. Variable payments are recognized as revenue as earned. The Smithsonian leases do not contain residual value guarantees or purchase options.

Rent income included in the statement of financial activities for the year ended September 30, 2021 was \$7.2.

Future undiscounted lease payments due to the Smithsonian on operating leases are as follows:

2022	\$	3.6
2023		2.6
2024		2.4
2025		2.3
2026		2.3
Thereafter		<u>12.0</u>
	\$	<u><u>25.2</u></u>

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(9) Accounts Payable and Accrued Expenses

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

	2021		
	Trust	Federal	Total
Accounts payable	\$ 26.8	71.8	98.6
Accrued salaries	14.5	25.4	39.9
Accrued annual leave	19.8	39.8	59.6
Workers' compensation (FECA)	2.3	31.0	33.3
Post retirement benefits	20.6	—	20.6
Other accrued personnel benefits	0.5	6.1	6.6
Deferred rent	0.9	—	0.9
Charitable gift annuity liabilities	13.0	—	13.0
Other accrued liabilities	1.4	0.3	1.7
Total accounts payable and accrued expenses	\$ 99.8	174.4	274.2

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

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

(10) Environmental Remediation Obligations

The Smithsonian has unfunded environmental remediation obligations that are estimated based on third party studies, contractor bids and internal estimates derived from recently completed remediation projects for similar facilities and other information for similar projects. The present value of the obligation is calculated using an inflation rate of 3.0% and 1.5%, as well as a discount rate of 1.8% and 2.2% as of September 30, 2021 and 2020, respectively. Each period the obligation is accreted to its present value. Because the related properties are fully depreciated, changes in the estimated obligation are expensed. Any difference between the estimated obligation and the actual cost of remediation is also expensed.

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The following summarizes activity in the unfunded environmental remediation obligation for the years ended September 30:

	<u>2021</u>	<u>2020</u>
Balance, beginning of the year	\$ 51.7	61.4
Accretion	1.1	1.1
Remediation costs	(8.0)	-
Change in estimate	<u>1.8</u>	<u>(10.8)</u>
Balance, end of the year	\$ <u>46.6</u>	<u>51.7</u>

(11) Long-term Debt

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

	<u>2021</u>	<u>2020</u>
Series 2020 General Obligation Bonds, variable interest rate of 0.8% to 2.1%, principal ranging \$10.7 to \$13.0, due September 1, 2022 through 2034	\$ 151.2	161.8
Series 2020 General Obligations Bonds, term, principal amounts ranging \$13.2 to \$14.8, interest rate 2.645%, due September 1, 2035 through 2039	70.0	70.0
Series 2020 General Obligation Bonds, term, principal amounts ranging \$15.1 to \$16.5, interest rate 2.695%, due September 1, 2040 through 2044	66.0	66.0
Series 2010 Revenue Bonds, serial, principal amount \$1.7, interest rate 5.0%, due February 1, 2021	—	1.7
Series 2010 Revenue Bonds, term, principal amounts ranging \$1.8 to \$2.4, interest rate 5.25%, due February 1, 2022 through 2028	14.7	14.7
Series 2003 Revenue Bonds, variable interest rate of 0.05% to 0.12%, due December 1, 2033		
Series A	52.5	52.5
Series B	<u>25.0</u>	<u>25.0</u>
	379.4	391.7
Less: Unamortized bond issuance cost (2020 bond)	(0.3)	(0.3)
Less: Unamortized underwriter's discount (2020 bond)	(0.7)	(0.8)
Plus: Unamortized bond premium (2010 bond)	<u>0.5</u>	<u>0.7</u>
	\$ <u>378.9</u>	<u>391.3</u>

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Series 2020 Revenue Bonds

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

The serial bonds mature annually through September 1, 2034, with principal repayments ranging from \$10.7 to \$13.0 per year. The term bonds maturing September 1, 2034 through 2039 have a fixed interest rate of 2.645%, and the term bonds maturing September 1, 2040 through 2044 have a fixed interest rate of 2.695%.

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 term bonds maturing on February 1, 2028 are subject to mandatory redemption by sinking fund installments, which begin on February 1, 2022 and range from \$1.8 to \$2.4 per year through the maturity date.

Series 2003 Revenue Bonds

The tax-exempt Series 2003 Revenue Bonds were issued by the Fairfax County Economic Development Authority (Virginia) on behalf of the Smithsonian to finance a portion of the Steven F. Udvar-Hazy Center, an extension of the National Air and Space Museum. The bonds are subject to early redemption at the option of the Smithsonian. Interest is payable monthly at a variable interest rate determined in accordance with the Indenture. Interest rates for Series A and Series B were 0.05%, as of September 30, 2021 and 0.12%, as of September 30, 2020.

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 6, 2022.

Interest expense was \$6.9 in fiscal year 2021 and \$3.1 in fiscal year 2020.

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

2022	\$	12.5
2023		12.7
2024		12.9
2025		13.1
2026		13.3
Thereafter		<u>314.9</u>
	\$	<u><u>379.4</u></u>

(12) Net Assets

Net assets consist of the following as of September 30:

	<u>2021</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment investment fund	\$ —	1,484.1	1,484.1
Board designated quasi endowment funds	<u>1,048.5</u>	<u>—</u>	<u>1,048.5</u>
Total net assets subject to payout spending policy	1,048.5	1,484.1	2,532.6
Net assets with donor restrictions available for:			
Programs and operations	—	403.7	403.7
Capital repairs, renovation, and construction	—	237.1	237.1
Endowment contributions receivable and other	—	20.6	20.6
Net investment in property and equipment	1,847.4	542.0	2,389.4
Unfunded federal liabilities	(117.7)	—	(117.7)
Undesignated, including time restrictions	<u>27.0</u>	<u>3.3</u>	<u>30.3</u>
	<u>\$ 2,805.2</u>	<u>2,690.8</u>	<u>5,496.0</u>

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

Donor restricted endowment funds include accumulated appreciation of \$845.7 as of September 30, 2021 and \$530.5 as of September 30, 2020. Future-funded Federal liabilities include environmental remediation obligations and accrued annual leave, workers compensation, and litigation liabilities.

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

	2021			2020		
	Subject to purpose restriction			Subject to purpose restriction		
	Endowments at historical cost	and time	Total	Endowments at historical cost	and time	Total
Museums and general support	\$ 172.3	346.7	519.0	158.5	258.5	417.0
Education, public programs, exhibitions	299.7	580.2	879.9	279.9	324.1	604.0
Research	100.1	190.3	290.4	95.0	117.9	212.9
Acquisitions and collections	61.0	144.3	205.3	60.0	111.6	171.6
Facilities and capital	1.7	794.5	796.2	1.6	574.0	575.6
	<u>\$ 634.8</u>	<u>2,056.0</u>	<u>2,690.8</u>	<u>595.0</u>	<u>1,386.1</u>	<u>1,981.1</u>

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

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(13) Endowment Funds

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

Interpretation of Relevant Law

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

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

Substantially all the assets of individual endowment funds are pooled and invested. Individual funds buying or disposing of units on the basis of the per unit market value at the beginning of the month in which the transaction takes place. Each fund participating in the investment pool receives an annual payout based on the number of units owned. The Smithsonian's spending policy is based on an annual endowment spending rate of 5% of the prior 20 quarters' average endowment value. This spending rate constitutes the Board's annual allocation for spending endowment earnings to support programs and operations. The Board authorized an additional allocation of up to 0.5% for fiscal year 2021 and 2020 for eligible funds to support the advancement priorities.

SMITHSONIAN INSTITUTION

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

	<u>2021</u>	<u>2020</u>
Market value of fund per unit:		
Beginning of the year	\$ <u>1,104.32</u>	<u>996.12</u>
End of the year	\$ <u>1,414.37</u>	<u>1,104.32</u>
Payout per unit:		
Program and operations support	\$ <u>45.05</u>	<u>43.91</u>
Advancement	\$ <u>3.94</u>	<u>0.81</u>

The following table summarizes the change in endowment funds during fiscal year 2021 and 2020:

	<u>2021</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets at beginning of the year	\$ 804.7	1,133.1	1,937.8
Additional designation of quasi endowments and reinvestments	16.3	9.7	26.0
Uninvested cash	1.6	—	1.6
Contributions received	—	23.2	23.2
Investment return	268.0	358.7	626.7
Allocation of endowment assets for expenditure	<u>(42.1)</u>	<u>(40.6)</u>	<u>(82.7)</u>
Endowment net assets at end of year	\$ <u>1,048.5</u>	<u>1,484.1</u>	<u>2,532.6</u>
		<u>2020</u>	
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets at beginning of the year	\$ 717.4	1,002.2	1,719.6
Additional designation of quasi endowments and reinvestments	14.5	2.8	17.3
Uninvested cash	1.7	—	1.7
Contributions received	—	16.8	16.8
Investment return	110.2	149.1	259.3
Allocation of endowment assets for expenditure	<u>(39.1)</u>	<u>(37.8)</u>	<u>(76.9)</u>
Endowment net assets at end of year	\$ <u>804.7</u>	<u>1,133.1</u>	<u>1,937.8</u>

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Notes to Financial Statements

September 30, 2021 and 2020

(Dollars in millions)

Endowment funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level required to be maintained in perpetuity or the applicable donor gift document, creating an “underwater” endowment fund. Such deficiencies are generally the result of unfavorable market fluctuations and continuing the allocations for various programs is generally deemed prudent by the Board. At September 30, 2021 and 2020, there are no significant underwater endowment funds.

(14) 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, and were as follows for fiscal years 2021 and 2020:

	2021		
	<u>Trust</u>	<u>Federal</u>	<u>Total</u>
<u>Operating releases:</u>			
Purpose restricted gifts released for:			
Museums and general support	\$ 27.8	—	27.8
Education, public programs and exhibitions	64.4	—	64.4
Research	45.7	—	45.7
Acquisitions and collections	9.4	—	9.4
Facilities	<u>0.8</u>	<u>58.0</u>	<u>58.8</u>
Total operating releases	148.1	58.0	206.1
<u>Nonoperating releases:</u>			
Assets placed in service and released from:			
Capital appropriation	—	41.8	41.8
Capital contributions	<u>11.2</u>	<u>—</u>	<u>11.2</u>
Total nonoperating releases	<u>11.2</u>	<u>41.8</u>	<u>53.0</u>
Total releases	<u>\$ 159.3</u>	<u>99.8</u>	<u>259.1</u>

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September 30, 2021 and 2020

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

(15) Federal Appropriations

The Federal appropriation received in fiscal year 2021 is reconciled to Federal appropriation revenue recognized, which includes the remaining amounts recognized from fiscal year 2020 appropriation for COVID-19 expenses from the Cares Act, as follows:

	<u>2021</u>		
	<u>Salaries and expenses</u>	<u>Repair, restoration, and construction</u>	<u>Total</u>
Federal appropriations received	\$ 818.2	214.5	1,032.7
Unexpended appropriations	(163.0)	(187.2)	(350.2)
Amounts expended from prior years' appropriations	118.7	186.0	304.7
	<u>\$ 773.9</u>	<u>213.3</u>	<u>987.2</u>
Without donor restrictions (operating)	\$ 773.9	—	773.9
With donor restrictions (nonoperating)	—	213.3	213.3
	<u>\$ 773.9</u>	<u>213.3</u>	<u>987.2</u>
Federal appropriation revenue	<u>\$ 773.9</u>	<u>213.3</u>	<u>987.2</u>

SMITHSONIAN INSTITUTION

Notes to Financial Statements

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The Federal appropriation received in fiscal year 2020, which includes \$7.5 million for COVID-19 from the Cares Act, is reconciled to Federal appropriation revenue recognized as follows:

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

(16) Business Activities

The following summarizes business activities for the years ended September 30:

	<u>2021</u>			<u>2020</u>		
	<u>Revenue</u>	<u>Operating expenses</u>	<u>Net operating gain</u>	<u>Revenue</u>	<u>Operating expenses</u>	<u>Net operating gain</u>
Smithsonian Enterprises	\$ 70.7	66.0	4.7	92.9	91.3	1.6
Unit activities	15.3	11.5	3.8	15.7	9.3	6.4
	<u>\$ 86.0</u>	<u>77.5</u>	<u>8.5</u>	<u>108.6</u>	<u>100.6</u>	<u>8.0</u>

Revenue is further detailed as follows for the years ended September 30:

	<u>2021</u>	<u>2020</u>
Merchandise sales	\$ 12.0	27.9
Media	28.0	37.2
Concessions, licensing, and other	46.0	43.5
	<u>\$ 86.0</u>	<u>108.6</u>

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Notes to Financial Statements

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(17) Functional Classification of Expenses

Operating expenses by functional and natural classification are presented for the year ended September 30, 2021 as follows:

	Program Activities				Supporting Activities		Total
	Research	Collections management	Education, public programs and exhibitions	Business activities	Administrative	Advancement	
Trust							
Compensation and benefits	\$ 78.2	13.7	40.5	46.1	30.4	38.3	247.2
Rent, utilities, services, and supplies	60.3	4.0	27.0	12.4	14.8	21.9	140.4
Cost of sales	—	—	0.1	27.2	—	2.5	29.8
Travel and transportation	0.5	0.5	1.2	—	0.1	(0.1)	2.2
Other	2.6	0.6	0.9	(10.2)	6.4	0.5	0.8
Total before depr & amort	141.6	18.8	69.7	75.5	51.7	63.1	420.4
Depreciation, amortization, and changes in environmental remediation obligations	6.8	20.4	19.8	2.0	9.8	0.1	58.9
Total operating expenses	\$ 148.4	39.2	89.5	77.5	61.5	63.2	479.3
Federal							
Compensation and benefits	\$ 128.8	157.4	177.4	—	131.6	0.3	595.5
Rent, utilities, services, and supplies	52.7	78.7	94.7	—	65.4	0.3	291.8
Cost of sales	—	—	—	—	0.1	—	0.1
Travel and transportation	0.3	0.5	0.4	—	0.1	—	1.3
Other	7.2	15.4	15.8	—	7.3	0.1	45.8
Total before depr & amort	189.0	252.0	288.3	—	204.5	0.7	934.5
Depreciation, amortization, and changes in environmental remediation obligations	12.6	37.9	40.7	—	18.2	0.2	109.6
Total operating expenses	\$ 201.6	289.9	329.0	—	222.7	0.9	1,044.1
Total Operating Expenses							
Compensation and benefits	\$ 207.0	171.1	217.9	46.1	162.0	38.6	842.7
Rent, utilities, services, and supplies	113.0	82.7	121.7	12.4	80.2	22.2	432.2
Cost of sales	—	—	0.1	27.2	0.1	2.5	29.9
Travel and transportation	0.8	1.0	1.6	—	0.2	(0.1)	3.5
Other	9.8	16.0	16.7	(10.2)	13.7	0.6	46.6
Total before depr & amort	330.6	270.8	358.0	75.5	256.2	63.8	1,354.9
Depreciation, amortization, and changes in environmental remediation obligations	19.4	58.3	60.5	2.0	28.0	0.3	168.5
Total operating expenses	\$ 350.0	329.1	418.5	77.5	284.2	64.1	1,523.4

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Notes to Financial Statements
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Operating expenses by functional and natural classification are presented for the year ended September 30, 2020 as follows:

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

Collections items purchased included in nonoperating activities are collections management activities.

SMITHSONIAN INSTITUTION

Notes to Financial Statements

September 30, 2021 and 2020

(Dollars in millions)

(18) Commitments and Contingencies

(a) Government Awards

The Smithsonian receives significant amounts of Federal funding in the form of 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.

(b) Construction

As of September 30, 2021, the Smithsonian has commitments of approximately \$448.6 related to construction in progress at several of its locations, the largest related to projects at the National Air and Space Museum of \$252.6.

(c) 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.

(d) Subsequent Events

Subsequent to September 30, 2021, the Smithsonian committed capital of \$101.3 to 15 funds and redeemed \$52.7 from its existing fund managers. Management has evaluated subsequent events from September 30, 2021 through January 26, 2022, 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, 2021

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Research and Development Cluster					
United States Department of Agriculture (USDA)					
Agriculture and Food Research Initiative	Direct		10.310	\$ 76,063	6,082
Agriculture and Food Research Initiative	University of North Carolina	#201800062	10.310	7,495	-
Agriculture and Food Research Initiative	University of North Carolina	#20200019.3	10.310	4,549	-
Subtotal Agriculture and Food Research Initiative (CFDA 10.310)				<u>88,106</u>	<u>6,082</u>
Environmental Quality Incentives Program	Virginia Polytechnic Institute	423512-19985	10.912	11,606	-
Total United States Department of Agriculture				<u>99,712</u>	<u>6,082</u>
United States Department of Commerce (DOC)					
Integrated Ocean Observing System	Rutgers, State University of New Jersey	#820540, PO #936286	11.012	55,372	-
Integrated Ocean Observing System	Rutgers, State University of New Jersey	Award #826562, PO #1374684	11.012	16,495	-
Subtotal Integrated Ocean Observing System (CFDA 11.012)				<u>71,867</u>	<u>-</u>
Broad Agency Announcement	Direct		11.015	3,208	-
Sea Grant Support	University of Maryland	SA75281870-Q (R/FISH-111b)	11.417	20,136	-
Sea Grant Support	University of Maryland	SA75281870-N (R/EH-3)	11.417	26,986	8,042
Sea Grant Support	University of California at Davis	A18-0384-S001	11.417	10,022	-
Subtotal Sea Grant Support (CFDA 11.417)				<u>57,145</u>	<u>8,042</u>
Climate and Atmospheric Research	Direct		11.431	50,473	-
Pacific Fisheries Data Program	Pacific States Marine Fisheries	20-11G	11.437	6,327	-
Chesapeake Bay Studies	Direct		11.457	65,685	-
Habitat Conservation	State of California	#18-005	11.463	47,488	-
Center for Sponsored Coastal Ocean Research	University of Florida	UFDSP00012282/NA18NOS4780170	11.478	40,054	-
Center for Sponsored Coastal Ocean Research	Lehigh University	543829-78001	11.478	42,423	-
Subtotal Center for Sponsored Coastal Ocean Research (CFDA 11.478)				<u>82,476</u>	<u>-</u>
Coral Reef Conservation Program	Direct		11.482	9,866	-
Total United States Department of Commerce				<u>394,534</u>	<u>8,042</u>
United States Department of Defense (DOD)					
Basic and Applied Scientific Research	Naval Research Laboratory	N00173-14-1-G908	12.300	(3,612)	-
Basic, Applied, and Advanced Research in Science and Engineering	Direct		12.630	90,169	37,400
Research and Technology Development	Johns Hopkins University	160146	12.910	366,122	-
Total United States Department of Defense				<u>452,679</u>	<u>37,400</u>
United States Department of the Interior (DOI)					
Fish and Wildlife Management Assistance	Direct		15.608	22,446	-
Great Apes Conservation Fund	Direct		15.629	75,995	21,600
Endangered Species Conservation Recovery Implementation Funds	Direct		15.657	15,210	-
National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	0600.19.067700	15.663	47,591	8,744
National Fish and Wildlife Foundation	University of Maryland	SA75282000-E PO81444	15.663	5,885	-
Subtotal National Fish and Wildlife Foundation (CFDA 15.663)				<u>53,476</u>	<u>8,744</u>
Total United States Department of the Interior				<u>167,127</u>	<u>30,344</u>
United States Department of State (DOS)					
Investing in People in the Middle East and North Africa	Direct		19.021	122,349	-
U.S. Ambassadors Fund for Cultural Preservation	Direct		19.025	3,909	-
Public Diplomacy Programs	Direct		19.040	115,115	-
Total United States Department of State				<u>241,372</u>	<u>-</u>

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Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
United States Department of Transportation (DOT)					
West Virginia DOT	West Virginia DOT	X142-H/38.99 07	20.RD	25,881	-
Ballast Water Treatment Technologies	University of Maryland	SA0725776 PO 54121	20.819	26,820	-
Total United States Department of Transportation				<u>52,701</u>	<u>-</u>
National Aeronautics and Space Administration (NASA)					
National Aeronautics and Space Administration	Direct		43.RD	31,160	-
National Aeronautics and Space Administration	California Institute of Technology	S394030	43.RD	7,954	-
National Aeronautics and Space Administration	University of Maryland	46039-Z6110001	43.RD	2,166,115	-
National Aeronautics and Space Administration	Arizona State University	12-875	43.RD	111,599	-
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1546619	43.RD	94,186	84,470
National Aeronautics and Space Administration	Jet Propulsion Laboratory	1456630	43.RD	8,063	-
National Aeronautics and Space Administration	University of Arizona	Y603259	43.RD	95,475	-
National Aeronautics and Space Administration	University of Arizona	Y432801	43.RD	40,786	-
National Aeronautics and Space Administration	California Institute of Technology	Caltech S446472	43.RD	408,180	-
National Aeronautics and Space Administration	Cornell University	Cornell Subaward No. 88833-11281	43.RD	5,558	-
National Aeronautics and Space Administration	Space Telescope Science Institute	HST-GO-15685.006-A	43.RD	34,394	-
NASA Headquarters	Direct		43.RD	1,666,899	143,961
NASA - Goddard Space Flight Center	Direct		43.RD	925,049	23,354
Subtotal National Aeronautics and Space Administration (CFDA 43.RD)				<u>5,595,418</u>	<u>251,785</u>
Science	Direct		43.001	77,004,931	15,250,700
Science	University of Hawaii at Manoa	MA1305	43.001	96,291	-
Science	Lockheed Martin Shared Services	SP02H1701R	43.001	210,249	-
Science	Lockheed Martin Shared Services	8100002705	43.001	688,651	-
Science	Johns Hopkins University	975569	43.001	3,062,562	1,775,167
Science	University of New Hampshire	11-108	43.001	46,657	-
Science	Massachusetts Institute of Technology	5710003554	43.001	2,259,863	764,039
Science	Harvard University	131457-5097592	43.001	67,564	-
Science	The Pennsylvania State University	5585-SAO-NASA-B07G	43.001	73,696	-
Science	University of Michigan	3004519489	43.001	19,552	-
Science	New Jersey Institute of Technology	996790	43.001	37,727	-
Science	University of Arizona	438111	43.001	71,181	-
Science	New Jersey Institute of Technology	997022	43.001	41,402	-
Science	University of Colorado	CSU Subaward 1555192	43.001	1,494	-
Science	Seti Institute	SETI SC3439	43.001	98,675	-
Science	Johns Hopkins Applied Physics Labor	JHU/APL 141773	43.001	79,977	-
Science	Johns Hopkins Applied Physics Labor	157252 - NSSC19K0891	43.001	1,429	-
Science	University of Notre Dame	203769SMI	43.001	1,420	-
Science	Princeton University	0000319	43.001	3,602	-
Science	Stanford University	62364172-145590	43.001	40,092	-
Science	Predictive Science, Inc.	2018A1129	43.001	36,183	-
Science	University of Colorado Boulder Alumni AS	PO/Reference No: 1001441856	43.001	135,971	-
Science	Bay Area Environmental Research Institute	BAERI	43.001	60,376	-
Science	Bay Area Environmental Research Institute	BAERI 07-21-2020	43.001	38,006	-
Science	Columbia University	Columbia Subward G14612	43.001	61,426	-
Science	New Jersey Institute of Technology	NJIT (NP) Subcontract 997415	43.001	4,707	-
Science	The Pennsylvania State University	PSU S001535-NASA	43.001	57,947	-
Science	University of Arizona	600691	43.001	19,860	-
Science	Space Telescope Science Institute	GO-13754.001-A	43.001	45,184	-
Science	Space Telescope Science Institute	HST-GO-14847.001-A	43.001	23,193	-
Science	Space Telescope Science Institute	HST-GO-15189.002-A	43.001	9,620	-
Science	Space Telescope Science Institute	HST-GO-15440.002-A	43.001	9,418	-
Science	Space Telescope Science Institute	HST-GO-16208.001-A	43.001	1,039	-
Science	Space Telescope Science Institute	HST-AR-16132.004-A	43.001	29,915	-
Science	Space Telescope Science Institute	HST-GO-16421.001-A	43.001	15,396	-
Science	Space Telescope Science Institute	HST-GO-16173.001-A	43.001	5,103	-

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Science	Space Telescope Science Institute	HST-GO-15991.002-A	43.001	21,290	-
Science	Space Telescope Science Institute	HST-GO-14096.003-A	43.001	6,500	-
Science	Space Telescope Science Institute	HST-GO-14272.011-A	43.001	537	-
Science	Space Telescope Science Institute	HST-GO-14767.002-A	43.001	157,904	-
Science	Space Telescope Science Institute	HST-GO-15350.001-A	43.001	52,270	-
Science	Space Telescope Science Institute	HST-GO-15245.015-A	43.001	16,590	-
Science	Space Telescope Science Institute	HST-GO-15351.001-A	43.001	42,283	-
Science	Space Telescope Science Institute	HST-GO-15239.005-A	43.001	2,931	-
Science	Space Telescope Science Institute	HST-GO-15609.001-A	43.001	23,849	-
Science	Space Telescope Science Institute	HST-GO-15179.003-A	43.001	13,969	-
Science	Space Telescope Science Institute	HST-GO-15376.002-A	43.001	(1,691)	-
Science	Space Telescope Science Institute	HST-GO-15285.001-A	43.001	27,017	-
Science	Space Telescope Science Institute	HST-HF2-51413.001-A	43.001	74,198	-
Science	Space Telescope Science Institute	JWST-ERS-01366.033-A	43.001	7,855	-
Science	Space Telescope Science Institute	HST-GO-15610.001-A	43.001	11,796	-
Science	Space Telescope Science Institute	HST-GO-15641.001-A	43.001	329	-
Science	Space Telescope Science Institute	HST-GO-15861.001-A	43.001	14,005	-
Science	Space Telescope Science Institute	HST-AR-15793.001-A	43.001	33,550	-
Science	Space Telescope Science Institute	HST-HF2-51430.002-A	43.001	100,552	-
Science	Space Telescope Science Institute	HST-GO-15902.026-A	43.001	10,695	-
Science	Harvard University	131581-5116910	43.001	14,375	-
Subtotal Science (CFDA 43.001)				<u>85,091,163</u>	<u>17,789,906</u>
Education	Direct		43.008	152,994	-
Education	Space Telescope Science Institute	STScI-509913	43.008	1,508,756	411,420
Subtotal Education (CFDA 43.008)				<u>1,661,750</u>	<u>411,420</u>
Total National Aeronautics and Space Administration				<u>92,348,331</u>	<u>18,453,110</u>
National Science Foundation (NSF)					
National Science Foundation	Direct		47.RD	175,333	-
National Science Foundation	Giant Magellan Telescope Organization	GMT-CON-01759-FEDERAL SUPPLEMENT	47.RD	974,887	-
National Science Foundation	Giant Magellan Telescope Organization	GMT-CON-03145-FEDERAL SUPPLEMENT	47.RD	99,107	-
Subtotal National Science Foundation (CFDA 47.RD)				<u>1,249,328</u>	<u>-</u>
Mathematical and Physical Sciences	Direct		47.049	5,756,384	1,942,176
Mathematical and Physical Sciences	Harvard University	131433-5091001	47.049	266,437	-
Mathematical and Physical Sciences	Massachusetts Institute of Technology	S5386 - PO Number 594243	47.049	90,742	-
Mathematical and Physical Sciences	University of Arizona	436724	47.049	332,955	-
Mathematical and Physical Sciences	University of California	UCSB KK1873	47.049	36,599	-
Mathematical and Physical Sciences	Barnard College	SAO-1828168	47.049	154	-
Subtotal Mathematical and Physical Sciences (CFDA 47.049)				<u>6,483,270</u>	<u>1,942,176</u>
Geosciences	Direct		47.050	731,496	-
Biological Sciences					
Biological Sciences	Direct		47.074	713,976	-
Biological Sciences	College of Charleston	521345-SI/1929293	47.074	13,725	-
Biological Sciences	North Carolina State University	2018-0424-01	47.074	76,190	-
Biological Sciences	Towson University	000-9029	47.074	99,899	-
Biological Sciences	Colorado State University	G-92041-01/DEB 1754821	47.074	43,593	-
Biological Sciences	University of Notre Dame	203171SMITH	47.074	25,426	-
Biological Sciences	Bryn Mawr College	TIDE 40695-1	47.074	19,128	-
Biological Sciences	Arizona State University	18-299	47.074	2,034	-
Biological Sciences	University of Texas	Subaward 12610062661	47.074	24,563	-
Biological Sciences	University of Louisville	ULRF-17-01-2701/DEB1655346	47.074	7,569	-
Biological Sciences	Iowa State University	420-71-40A \ DEB 1556853	47.074	95,174	-
Biological Sciences	The City College of New York	40F60-A	47.074	5,021	-
Biological Sciences	Cornell University	75822-10652	47.074	8,482	-

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
Biological Sciences	Salisbury University	SI-528021	47.074	28,538	-
Biological Sciences	Amherst College	NSF-SI-DEB-1353783	47.074	12,665	-
Biological Sciences	Arizona State University	17-185	47.074	(2,400)	-
Biological Sciences	Rutgers, State University of New Jersey	PID 827183/PO 1271632/Sub No.1288	47.074	72,447	-
Biological Sciences	University of Florida	SUB00002050	47.074	9,013	-
Biological Sciences	University of Florida	SUB00002768	47.074	7,691	-
Biological Sciences	Utah State University	203051-710	47.074	32,532	-
Biological Sciences	Kansas State University	A21-0332-S004	47.074	4,260	-
Biological Sciences	Bryn Mawr College	46535A	47.074	22,694	-
Subtotal Biological Sciences (CFDA 47.074)				<u>1,322,218</u>	<u>-</u>
Social, Behavioral, and Economic Sciences	Direct		47.075	46,816	-
Education and Human Resources	Direct		47.076	468,812	48,747
Education and Human Resources	Twin Cities Public Television, Inc.	TPTSA-21395-01	47.076	(13,253)	-
Education and Human Resources	COSI Center for Research	2021-001	47.076	10,224	-
Education and Human Resources	Mote Marine Laboratory	109-545-5/HRD-1922351	47.076	2,520	-
Education and Human Resources	Harvard University	131579-5115540	47.076	61,605	-
Education and Human Resources	Harvard University	131577-5118758	47.076	21,939	-
Education and Human Resources	Harvard University	131460-5110471	47.076	83,763	-
Subtotal Education and Human Resources (CFDA 47.076)				<u>635,610</u>	<u>48,747</u>
Polar Programs	Direct		47.078	2,330	-
Office of International and Integrative Activities	Direct		47.079	23,238	13,336
Total National Science Foundation				<u>10,494,307</u>	<u>2,004,260</u>
United States Environmental Protection Agency (EPA)					
Surveys, Studies, Investigations, Demonstrations, and Training Grants	Georgia Institute of Technology	PO 5065663/AWD-00503-G1	66.436	935	-
National Estuary Program	University of Central Florida	24037A07-02	66.456	9,153	-
National Estuary Program	IRL Council	IRL2020-09 GL02-1739	66.456	25,001	-
Subtotal National Estuary Program (CFDA 66.456)				<u>34,154</u>	<u>-</u>
Total United States Environmental Protection Agency				<u>35,089</u>	<u>-</u>
United States Department of Energy (DOE)					
United States Department of Energy	Lawrence Berkeley National Laboratory	7200512	81.RD	107,784	-
United States Department of Energy	Lawrence Berkeley National Laboratory	7542093	81.RD	263,652	-
United States Department of Energy	Lawrence Livermore National Laboratory	7602190	81.RD	14,873	-
United States Department of Energy	Lawrence Livermore National Laboratory	LLNL B641031	81.RD	27,606	-
United States Department of Energy	Lawrence Livermore National Laboratory	LLNL B646105	81.RD	164,142	-
Subtotal United States Department of Energy (CFDA 81.RD)				<u>578,057</u>	<u>-</u>
Office of Science Financial Assistance Program	Direct		81.049	616,615	53,352
Office of Science Financial Assistance Program	Electroformed Nickel, Inc	EIN 6.21.18 DE-SC0017098 Subaward	81.049	57,404	-
Subtotal Office of Science Financial Assistance Program (CFDA 81.049)				<u>674,018</u>	<u>53,352</u>
Total United States Department of Energy				<u>1,252,075</u>	<u>53,352</u>
United States Department of Education (ED)					
English Language Acquisition State Grants	University of Memphis	PO 281772	84.365	27,188	-
Education Innovation and Research	Direct		84.411	945,294	-
Total United States Department of Education				<u>972,481</u>	<u>-</u>

SMITHSONIAN INSTITUTION

Schedule of Expenditures of Federal Awards

Year ended September 30, 2021

Federal Grantors/pass-through grantors/agencies or cluster title	Direct award or pass through entity	Pass-through entity award number	Federal CFDA number	Federal expenditures	Amounts provided to subrecipients
United States Department of Health and Human Services (HHS)					
Maternal and Child Health Federal Consolidated Programs	University of Washington	UWSC10383 (BPO30487)	93.110	17,024	-
Maternal and Child Health Federal Consolidated Programs	University of Washington	UWSC12185 (BPO 51175)	93.110	66,874	-
Maternal and Child Health Federal Consolidated Programs	University of Washington	UWSC12185 (BPO51175)	93.110	870	-
Subtotal Maternal and Child Health Federal Consolidated Programs (CFDA 93.110)				<u>84,768</u>	<u>-</u>
Research Infrastructure Programs	Direct		93.351	494,844	54,361
Research Infrastructure Programs	Texas Biomedical Research Institute	PO#40027/19-04583-004	93.351	23,310	-
Subtotal Research Infrastructure Programs (CFDA 93.351)				<u>518,155</u>	<u>54,361</u>
Cancer Treatment Research	University of Florida	SUB00002004	93.395	54,093	-
Child Health and Human Development Extramural Research	Direct		93.865	53,398	-
Aging Research	Texas Biomedical Research Institute	20-04848-201	93.866	19,385	-
Total United States Department of Health and Human Services				<u>729,799</u>	<u>54,361</u>
United States Agency for International Development (USAID)					
USAID Foreign Assistance for Programs Overseas	University of California	201403200-05	98.001	(3,522)	-
USAID Foreign Assistance for Programs Overseas	The Bridge Fund	AID-486-A14-0000	98.001	43,718	-
USAID Foreign Assistance for Programs Overseas	University of California - Davis	A20-1412-S012	98.001	61,277	-
Total United States Agency for International Development				<u>101,473</u>	<u>-</u>
Total Research and Development Cluster				<u>107,341,682</u>	<u>20,646,951</u>
United States Postal Service	Direct		99.000	3,332,301	-
Total Expenditures of Federal Awards				<u>\$ 110,673,983</u>	<u>\$ 20,646,951</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, 2021

(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 Smithsonian Institution (Smithsonian) under grants and contracts programs of the federal government for the year ended September 30, 2021. 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 and Federal Acquisition Regulations. 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, 2021 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.



KPMG LLP
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Washington, DC 20006

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 the Secretary
Smithsonian Institution:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Smithsonian Institution, which comprise the statement of financial position as of September 30, 2021, 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 26, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



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 Institution's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smithsonian Institution's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, District of Columbia
January 26, 2022



KPMG LLP
Suite 12000
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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 the Secretary
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 programs for the year ended September 30, 2021. Smithsonian's major federal programs are 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 programs 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 each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control Over Compliance

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



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

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

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

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

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

We have audited the financial statements of Smithsonian Institution as of and for the year ended September 30, 2021, and have issued our report thereon dated January 26, 2022, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Washington, District of Columbia
March 23, 2022

SMITHSONIAN INSTITUTION
Schedule of Findings and Questioned Costs
Year ended September 30, 2021

(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: **None**
 - Significant deficiencies: **None reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **None**
 - Significant deficiencies: **None reported**
- e. Type of report issued on compliance for each major program: **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
 - United States Postal Museum – CFDA # 99.000
- 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*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None