



Date: January 16, 2026

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

Cc: Meroe S. Park, Deputy Secretary and Chief Operating Officer
Ron Cortez, Under Secretary for Finance and Administration and Chief Financial Officer
Carol LeBlanc, President, Smithsonian Enterprises
Suzanne Paletti, Controller, Smithsonian Enterprises
John Lynskey, Deputy Chief Financial Officer and Controller, Office of Finance and Accounting
Greg Bettwy, Chief of Staff, Office of the Secretary
Jennifer McIntyre, Chief Legal Officer, Office of the General Counsel
Porter Wilkinson, Chief of Staff to the Board of Regents, Office of the Regents
Kate Forester, Deputy Chief of Staff, Office of the Regents

From: Nicole Angarella, Inspector General

A handwritten signature in black ink, appearing to read "Nicole Angarella".

Subject: *Independent Accountant's Review Report on the Smithsonian Enterprises Net Gain for Fiscal Year 2025* (OIG-A-26-01)

This memorandum transmits the first report of the fiscal year 2025 financial statements audit of the Smithsonian Institution and provides results of the Smithsonian Enterprise's Net Gain review for fiscal year 2025 performed by the independent public accounting firm of KPMG LLP (KPMG). On January 16, 2026, KPMG issued its independent accountants' review report on the Smithsonian Enterprises Statement of Net Gain, as of September 27, 2025. KPMG concluded that no material modifications need be made to the Statement of Net Gain to be in accordance with U.S. Generally Accepted Accounting Principles.

As part of our oversight activities, we reviewed KPMG's report and documentation and interviewed its representatives. Our review of KPMG's fiscal year 2025 work disclosed no instances where KPMG did not comply, in all material respects, with the American Institute of Certified Public Accountants' Statement on Standards for Accounting and Review Services.

If you have any questions, please do not hesitate to contact me or Joan Mockridge, Assistant Inspector General for Audits, Inspections, and Evaluations.

Attachments



SMITHSONIAN ENTERPRISES

Statement of Net Gain

For the year ended September 27, 2025

(With Independent Accountants' Review Report Thereon)



KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

Independent Accountants' Review Report

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

We have reviewed the accompanying statement of net gain (as described in note 2) and the related notes to the statement of net gain of Smithsonian Enterprises, an unincorporated operating division of the Smithsonian Institution, for the year ended September 27, 2025. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Smithsonian Enterprises management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the statement of net gain as a whole. Accordingly, we do not express such an opinion.

As discussed in note 1, Smithsonian Enterprises is an unincorporated operating division of the Smithsonian Institution. The accompanying statement of net gain may not be indicative of the net gain that would have been achieved if Smithsonian Enterprises was an unaffiliated entity.

Management's Responsibility for the Statement of Net Gain

Management is responsible for the preparation and fair presentation of the statement of net gain 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 the statement of net gain that is free from material misstatement, whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the statement of net gain for it to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Smithsonian Enterprises and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying statement of net gain in order for it to be in accordance with U.S. generally accepted accounting principles.



Other Matters

Our review was conducted over the statement of net gain. The accompanying supplementary information included in the supplemental schedule of net gain by lines of business is presented for purposes of additional analysis and is not a required part of the statement of net gain. 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 statement of net gain. The supplementary information has been subjected to the review procedures applied in our review of the statement of net gain. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and accordingly, do not express an opinion on such information.

KPMG LLP

McLean, Virginia
January 16, 2026

SMITHSONIAN ENTERPRISES

Statement of Net Gain

For the year ended September 27, 2025

(Dollars in thousands)

Operating revenues:	
Merchandise sales	\$ 76,833
Media	25,971
Concessions, licensing, and other	<u>63,905</u>
Total operating revenues	166,709
Sales discounts	<u>(334)</u>
Total operating revenues, net	<u>166,375</u>
Operating expenses:	
Cost of goods sold	33,306
Production costs	12,195
Circulation costs	6,152
Selling, general, and administrative costs	65,330
Depreciation and amortization	<u>2,933</u>
Total operating expenses	<u>119,916</u>
Net gain – operating results	46,459
Unrelated business income taxes	(247)
Contributed support from Smithsonian	1,130
Non-operating expenses	<u>(1,130)</u>
Net gain – after adjustments	<u><u>\$ 46,212</u></u>

See accompanying notes to the statement of net gain and accountants' review report.

SMITHSONIAN ENTERPRISES

Notes to Statement of Net Gain

For the year ended September 27, 2025

(Dollars in thousands)

(1) Organization

Smithsonian Enterprises (SE) was established as an unincorporated operating division within the Smithsonian Institution (Smithsonian) in August 1999. 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.

SE consists of various revenue producing business activities such as magazine publications, theater sales, museum stores and concessions, E-Commerce, product development and licensing, Journey's travel tours, book publication, and supporting offices.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

Net gain is an operating measure used by management of Smithsonian and SE to assess the operating results of SE. Net gain includes all revenues and expenses related to SE's business activities, including certain expenses allocated to SE by Smithsonian.

The statement of net gain is presented using the accrual basis of accounting. The period presented in the statement of net gain and the supporting schedule of net gain by lines of business is from September 29, 2024 through September 27, 2025 (Fiscal Year 2025). SE's accounting year ends on the last Saturday of September.

The preparation of the statement of net gain 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 statement of net gain and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In Fiscal Year 2025, Smithsonian agreed to provide resources to SE for new strategic business initiatives in the amount of \$1,130. These initiatives included E-Commerce improvements and business development. The initiatives are non-operating in nature. The related revenues are recognized in contributed support from Smithsonian, and the related expenses are recognized in non-operating expenses.

(b) Revenue Recognition

Revenues from magazine subscriptions are deferred and recognized ratably over the subscription period. Revenues from magazine retail sales are recognized as revenue, net of estimated returns, when publications are on sale. Revenue from advertising is recognized, net of agency commissions and discounts, when publications are on sale.

Revenue from the sale of merchandise is recognized at the time merchandise is sold. Returns are recorded when they are processed. Revenue from the sale of merchandise to be sent to customers is

SMITHSONIAN ENTERPRISES

Notes to Statement of Net Gain

For the year ended September 27, 2025

(Dollars in thousands)

recognized when products are shipped, and anticipated returns are estimated and recorded at year end.

Guaranteed revenues from concessions agreements are recognized on a straight-line basis over the term of the agreement. Concession revenue based on the contracted percentage of gross sales is recognized as earned when sales are reported by concession vendors.

Guaranteed revenues from licensing agreements are recognized upon delivery and acceptance by the distributor. Minimum guarantees are recognized on a straight-line basis over the term of the agreement. Royalties in excess of minimum guarantees are recognized when sales are reported by third-party distributors.

Journey's tour revenue is recognized in the period in which the tour returns, and tour insurance revenue is recognized when sold.

Amounts received from customers and contractors in advance of revenue recognition are included in the deferred revenue accounts and recognized as they are earned.

(c) *Deferred Revenues and Expense Recognition*

Revenues from subscriptions to *Smithsonian* magazine are deferred and recognized ratably over the period of the subscription, generally one year.

Promotion production and direct response advertising expenses are recognized when related advertising materials are released. Such expenses amounted to \$6,304 for Fiscal Year 2025, and is included in production, circulation, and selling, general and administrative costs.

(d) *Inventories*

Inventories are reported at the lower of cost or market and consist primarily of merchandise and books. Cost of retail and E-Commerce inventories are determined using the weighted average method.

(e) *Property and Equipment*

Property and equipment owned by Smithsonian and used by SE in its operations are allocated to SE and stated at cost. These assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings and improvements	30 years
Major renovations	15 years
Equipment and software	3-10 years

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

SMITHSONIAN ENTERPRISES

Notes to Statement of Net Gain

For the year ended September 27, 2025

(Dollars in thousands)

(f) Shipping and Handling Fees and Costs

Shipping and handling fees of \$1,251 billed to customers are included in merchandise sales. Shipping and handling cost associated with inbound freight are included in cost of goods sold. Shipping and handling costs associated with outbound freight of \$1,160 not billed to customers are included in selling, general and administrative costs.

(g) 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). Organizations described in that section are generally exempt from Federal income taxes, except for unrelated business income. SE's advertising sales are Smithsonian's principal source of 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 establishes new rules for calculating unrelated business taxable income.

The statement of net gain includes an estimate for unrelated trade or business income tax based on the current proposed regulatory guidance. Smithsonian will continue to evaluate the impact of the Act on current and future tax positions.

Smithsonian recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. SE does not believe the statement of net gain includes any uncertain tax positions.

(3) Employee Benefit Plans

Substantially all SE employees are eligible to participate in the Smithsonian's defined-contribution retirement plan. Under the plan, Smithsonian contributes specified percentages of employees' salaries to purchase individual annuities, the rights to which are immediately vested with the employees. Employees can make voluntary contributions, subject to certain limitations. During Fiscal Year 2025, SE's contribution expense under this plan amounted to \$3,394.

(4) Commitments and Contingencies

(a) Food Services Agreement

Under an agreement expiring in March 2026, a third party (Restaurant Associates, LLC) agreed to assist in the design, construction, and operation of food services at several Smithsonian museums and provided \$7,250 to fund capital improvements for the Food & Beverage Operations in the museums. This agreement was amended in April 2021 to extend the initial term for NMNH by adding the first of two 5-year arm agreements and to provide an additional \$1,000 in funding. The capital improvement projects selected are at the discretion of Smithsonian. The funding is recognized over the term of the agreement. Should the agreement be terminated, the agreement provides for the repayment of the capital improvement costs based on the passage of time.

SMITHSONIAN ENTERPRISES

Notes to Statement of Net Gain

For the year ended September 27, 2025

(Dollars in thousands)

An additional agreement with Restaurant Associates, LLC was signed in October 2020 for a 13-year term to build out Shake Shack at the Smithsonian's Steven F. Udvar-Hazy Center in Chantilly, VA that allowed for Key Money Investment of \$325. The fee is recognized on a monthly straight-line basis beginning upon opening in July 2022. SE recorded \$25 in Fiscal Year 2025.

An amendment with Restaurant Associates, LLC was signed in January 2021 to build out Launchpad Café at NASM to provide food service for ten years from the commencement date. The additional Key Money Investment is \$100, which is recognized on a monthly straight-line basis beginning upon opening in October 2022. SE recorded \$10 revenue in Fiscal Year 2025.

Concessions Revenue recognized under the Restaurant Associates, LLC agreements and its amendment in Fiscal Year 2025 was \$8,372.

The exclusive beverage sponsorship agreement with the Coca-Cola company was signed in June 2023 for a \$1,750 Sponsorship Fee over a 5-year term effective October 1, 2022. SE recorded \$350 in Sponsorship Fee revenue for Fiscal Year 2025 based on straight-line revenue recognition.

(b) Outsourcing Agreements

SE subcontracts infrastructure, transaction management services and systems support for its E-Commerce business with fees based on services performed. Total fees paid for such services in Fiscal Year 2025 amounted to \$1,442 and are included in selling, general, and administrative costs.

SE also subcontracts fulfillment services for its magazine circulation with fees based on the quantity of circulation. Such fees amounted to \$1,321 during Fiscal Year 2025 and are included in circulation costs.

During Fiscal Year 2025, SE engaged a third party to operate a distribution center for all merchandise sold in SE museum stores. Fees vary based on the actual functions and transactions completed by the vendor and amounted to \$1,889 during Fiscal Year 2025. Such fees are included in selling, general, and administrative costs.

(5) Subsequent Events

Management has evaluated subsequent events from September 27, 2025 through January 16, 2026, which is the date that the statement of net gain is available to be issued and determined that there are no adjustments to or other items to disclose.

Supplemental Schedule

SMITHSONIAN ENTERPRISES

Schedule of Net Gain by Lines of Business

For the year ended September 27, 2025

(Dollars in thousands)

	Retail / E-Commerce	Media	Consumer and Education Products	Corporate	Total
Operating revenues:					
Merchandise sales	\$ 76,464	369	—	—	76,833
Media	—	25,971	—	—	25,971
Concessions, licensing, and other	29,082	12,554	19,758	2,511	63,905
Total operating revenues	105,546	38,894	19,758	2,511	166,709
Sales discounts	(48)	—	(286)	—	(334)
Total operating revenues, net	105,498	38,894	19,472	2,511	166,375
Operating expenses:					
Cost of goods sold	30,636	85	1,755	830	33,306
Production costs	2,491	6,494	3,210	—	12,195
Circulation costs	46	5,329	777	—	6,152
Selling, general, and administrative costs	38,253	11,684	4,409	10,984	65,330
Depreciation and amortization	1,796	146	45	946	2,933
Total operating expenses	73,222	23,738	10,196	12,760	119,916
Net gain (loss) – operating results	32,276	15,156	9,276	(10,249)	46,459
Unrelated business income taxes	(14)	(46)	(187)	—	(247)
Contributed support from Smithsonian	1,130	—	—	—	1,130
Non-operating expenses	(1,130)	—	—	—	(1,130)
Net gain (loss) – after adjustments	\$ 32,262	15,110	9,089	(10,249)	46,212

See accompanying notes to the statement of net gain and accountants' review report.