This memorandum transmits the third and final report of the fiscal year 2022 financial statements audits of the Smithsonian Institution and provides the results of the Smithsonian Enterprise’s Net Gain review for fiscal year 2022 performed by the independent public accounting firm of KPMG LLP (KPMG). On May 30, 2023, KPMG issued its independent accountants’ report on the Smithsonian Enterprises Statement of Net Gain, as of September 24, 2023. KPMG concluded that no material modifications should 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 2022 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 Mockeridge, Assistant Inspector General for Audits, at (202) 633-7050.

Attachments
SMITHSONIAN ENTERPRISES

Statement of Net Gain

For the year ended September 24, 2022

(With Independent Accountants’ Review Report Thereon)
Independent Accountants' Review Report

The Office of the Inspector General, Audit and Review Committee of the Board of Regents, and the Secretary
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 24, 2022. 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 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 Matter

Our review was conducted over the statement of net gain. The accompany 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.

Washington, District of Columbia
May 30, 2023

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006
KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.
# SMITHSONIAN ENTERPRISES

Statement of Net Gain

For the year ended September 24, 2022

(Dollars in thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues, net:</td>
<td></td>
</tr>
<tr>
<td>Merchandise sales</td>
<td>$ 45,558</td>
</tr>
<tr>
<td>Media</td>
<td>32,855</td>
</tr>
<tr>
<td>Concessions, licensing, and other</td>
<td>40,760</td>
</tr>
<tr>
<td><strong>Total operating revenues, net</strong></td>
<td>119,173</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>20,365</td>
</tr>
<tr>
<td>Production costs</td>
<td>12,163</td>
</tr>
<tr>
<td>Circulation costs</td>
<td>9,656</td>
</tr>
<tr>
<td>Selling, general, and administrative costs</td>
<td>49,232</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,610</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>95,026</td>
</tr>
<tr>
<td>Net gain – operating results</td>
<td>24,147</td>
</tr>
<tr>
<td>Gain on sale of asset</td>
<td>31</td>
</tr>
<tr>
<td>Unrelated business income taxes</td>
<td>(42)</td>
</tr>
<tr>
<td><strong>Net gain – after taxes</strong></td>
<td>$ 24,136</td>
</tr>
</tbody>
</table>

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 24, 2022
(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, mail-order catalogs, product development and licensing, 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 26, 2021 through September 24, 2022 (Fiscal Year 2022). SE’s accounting year ends on the last Saturday of September.

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.

Smithsonian agreed to invest in certain new strategic business initiatives and to exclude them from SE financial management reporting. During Fiscal Year 2022, there were no investments.

(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, net of anticipated returns. Revenue from the sale of merchandise to be sent to customers is recognized when products are shipped.
Guaranteed revenues from concessions agreements are recognized ratably based on the terms of the agreement. Revenues in excess of minimum guarantees are recognized when sales are reported by concessions vendors.

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

Amounts received from customers and contractors in advance of revenue recognition are deferred and included in the deferred revenues account.

(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 $8,271 for Fiscal Year 2022, 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 inventories is determined using the weighted average method. Cost of e-commerce inventories is determined using the first in, first out 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:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>30 years</td>
</tr>
<tr>
<td>Major renovations</td>
<td>15 years</td>
</tr>
<tr>
<td>Equipment and software</td>
<td>3-10 years</td>
</tr>
</tbody>
</table>

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

(f) Shipping and Handling Fees and Costs

Shipping and handling fees of $628 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 $466 not billed to customers are included in selling, general and administrative costs.
SMITHSONIAN ENTERPRISES
Notes to Statement of Net Gain
For the year ended September 24, 2022
(Dollars in thousands)

(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 2022, SE’s contribution expense under this plan amounted to $2,877.

(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. Revenue recognized under the agreement in fiscal year 2022 was $3,815 and is classified as commission revenue.

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 $6 in Fiscal Year 2022.
SMITHSONIAN ENTERPRISES
Notes to Statement of Net Gain
For the year ended September 24, 2022
(Dollars in thousands)

(b) Outsourcing Agreements
SE subcontracts infrastructure, transaction management services and systems support for its catalog business with fees based on services performed. Total fees paid for such services in Fiscal Year 2022 amounted to $859 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 $1,573 during Fiscal Year 2022 and are included in circulation costs.

During fiscal year 2022, 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 $925 during Fiscal Year 2022. Such fees are included in selling, general, and administrative costs.

(5) Gain/Loss from Sale/Other
In Fiscal Year 2022, SE recorded a $31 gain on the sale of SE owned vehicle that was fully depreciated and was sold through auction.

(6) Subsequent Events
Management has evaluated subsequent events from September 25, 2022 through May 30, 2023, 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

Year ended September 24, 2022

(Dollars in thousands)

<table>
<thead>
<tr>
<th>Operating revenues, net:</th>
<th>Museum services</th>
<th>Retail/direct</th>
<th>Media</th>
<th>Consumer and Education products</th>
<th>Corporate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise sales</td>
<td>$ (1,039)</td>
<td>46,060</td>
<td>574</td>
<td>(37)</td>
<td>—</td>
<td>45,558</td>
</tr>
<tr>
<td>Media</td>
<td>—</td>
<td>(7)</td>
<td>32,862</td>
<td>—</td>
<td>—</td>
<td>32,855</td>
</tr>
<tr>
<td>Concessions, licensing, and other</td>
<td>10,931</td>
<td>10,251</td>
<td>11,298</td>
<td>5,154</td>
<td>3,126</td>
<td>40,760</td>
</tr>
<tr>
<td>Total operating revenues, net</td>
<td>9,892</td>
<td>56,304</td>
<td>44,734</td>
<td>5,117</td>
<td>3,157</td>
<td>119,173</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating expenses:</th>
<th>Museum services</th>
<th>Retail/direct</th>
<th>Media</th>
<th>Consumer and Education products</th>
<th>Corporate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>—</td>
<td>18,803</td>
<td>153</td>
<td>759</td>
<td>650</td>
<td>20,365</td>
</tr>
<tr>
<td>Production costs</td>
<td>—</td>
<td>1,534</td>
<td>9,807</td>
<td>822</td>
<td>—</td>
<td>12,163</td>
</tr>
<tr>
<td>Circulation costs</td>
<td>—</td>
<td>83</td>
<td>9,184</td>
<td>389</td>
<td>—</td>
<td>9,656</td>
</tr>
<tr>
<td>Selling, general, and administrative costs</td>
<td>2,989</td>
<td>23,605</td>
<td>11,003</td>
<td>2,442</td>
<td>9,193</td>
<td>49,232</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,172</td>
<td>898</td>
<td>19</td>
<td>7</td>
<td>1,514</td>
<td>3,610</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>4,161</td>
<td>44,923</td>
<td>30,166</td>
<td>4,419</td>
<td>11,357</td>
<td>95,026</td>
</tr>
</tbody>
</table>

| Net gain – operating results | 5,731 | 11,381        | 14,568| 698                             | (8,200)   | 24,147|

| Gain on sale of asset     | —              | —             | —     | —                               | 31        | 31    |

| Unrelated business income taxes | —              | (42)          | —     | —                               | —         | (42) |

| Net gain – after taxes     | 5,731          | 11,339        | 14,568| 698                             | (8,200)   | 24,136|

| Net gain – after taxes and adjustment | $5,731 | 11,339 | 14,568 | 698 | (8,200) | 24,136 |
May 30, 2023
KPMG LLP

1801 K Street, NW
Suite 12000
Washington, District of Columbia 20006

We are providing this representation letter in connection with your review of the Statement of Net Gain of Smithsonian Enterprises an unincorporated operating division of the Smithsonian Institution, for the period ended September 24, 2022, the supplemental schedule of net gain by lines of business, and the related notes to the Statement of Net Gain (hereinafter referred to as the Statement of Net Gain) for the purpose of limited assurance that there are no material modifications that should be made to the Statement of Net Gain in order for it to be in conformity with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of the date of this letter, the following representations made to you during your review:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 25, 2023, for the preparation and fair presentation of the Statement of Net Gain in accordance with U.S. generally accepted accounting principles.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement of Net Gain, whether due to error or fraud. We understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

3. All transactions have been recorded in the accounting records and are reflected in the Statement of Net Gain.

4. We have made the following available to you as agreed upon in the terms of the engagement:
   a. All records, documentation, and information of which we are aware that is relevant to the preparation and fair presentation of the Statement of Net Gain.
   b. All minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
   c. Additional information that you have requested from us for the purpose of the review.
   d. Unrestricted access to persons within the entity from who you have determined it necessary to obtain review evidence.
All information relevant to the use of the going concern assumption in the financial statements.

5. We have responded fully and truthfully to all inquiries made to us by you during your review.

6. We have disclosed to you all related party relationships and transactions, of which we are aware, and appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

7. We have no knowledge of any fraud or suspected fraud affecting the entity’s Statement of Net Gain involving:
   a. Management,
   b. Employees who have significant roles in internal control over financial reporting, or
   c. Others, when the fraud could have a material effect on the Statement of Net Gain.

8. We have no knowledge of any significant facts relating to any allegations of fraud, or suspected fraud, affecting the entity’s Statement of Net Gain received in communications from employees, former employees, regulators, or others.

9. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the Statement of Net Gain.

10. All events subsequent to the date of the Statement of Net Gain and through the date of this letter for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

11. The effects of uncorrected misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the Statement of Net Gain taken as a whole.

12. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, Contingencies. We have determined that such matters are appropriately recorded on the Smithsonian Institution accounting ledger.

13. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the Statement of Net Gain.

14. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

15. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Company’s current period Statement of Net Gain, and the expected impact of each such policy and practice on future periods’ financial reporting. We believe the effect of these policies and practices on the Statement of Net Gain is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the Statement of Net Gain in future periods.
Very truly yours,

Smithsonian Enterprises

Carol LeBlanc
President, Smithsonian Enterprises

Alan Chu
SVP of Finance and Administration, Smithsonian Enterprises

Ron Cortez
Under Secretary for Administration, Smithsonian Institution