

MINUTES OF THE JANUARY 17, 2012, FINANCE COMMITTEE MEETING

The Finance Committee (“the Committee”) of the Board of Regents of the Smithsonian Institution held a meeting on January 17, 2012, beginning at 2 p.m. Participating were Committee Chair David Rubenstein and Committee members Senator Thad Cochran, Roger W. Sant, David Silfen, and Patty Stonesifer. Participating staff included Secretary Wayne Clough; Treasurer Sudeep Anand; Chief of Staff to the Secretary Patricia Bartlett; Smithsonian Enterprises Chief Financial Officer Gregory Bokman; Director of Advancement and Philanthropic Giving Virginia Clark; Inspector General Scott Dahl; Director of the Office of Planning, Management, and Budget Bruce Dauer; Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath; Chief of Staff to the Regents John K. Lapiana; General Counsel Judith Leonard; Smithsonian Enterprises President Tom Ott; and Director of Government Relations Nell Payne.

The Chair called the meeting to order and welcomed Mr. Dahl to the Smithsonian.

APPROVAL OF MINUTES

Mr. Rubenstein asked for comments on the draft minutes of the August 30, 2011, meeting. There were none and the minutes were approved.

FISCAL YEAR (FY) 2013 FEDERAL BUDGET SUBMISSION TO CONGRESS

Mr. Rubenstein noted that Smithsonian management and members of the Office of Management and Budget (OMB) have agreed on the Smithsonian’s FY 2013 Federal budget submission to Congress, and that the Committee was being asked to review and, if appropriate, recommend approval of the submission by the full Board.

Mr. Dauer explained that the proposed submission was a “good news story” given an overall tight Federal budget environment. However, he warned the Committee that the Budget Control Act is in effect and that sequestration would be triggered in FY 2013 if certain overall Federal budget targets are not achieved. The sequestration would be Government-wide.

Mr. Dauer reviewed the FY 2012 appropriations of \$810 million, including \$75 million for the construction of the National Museum of African American History and Culture (NMAAHC). The appropriation was subject to a .16 percent across-the-board reduction.

With regard to FY 2013, Mr. Dauer explained that the President’s proposed budget would include a request for an \$857 million appropriation for the Smithsonian. That amount, Mr. Dauer said, included \$16.6 million for earthquake repairs and \$85 million for NMAAHC construction. Mr. Dauer said that the proposed appropriation would not completely cover earthquake repair costs and that the Smithsonian would likely have to reprogram facilities capital funds from other projects.

Committee members noted that both the FY 2012 appropriation and feedback on the FY 2013 proposed submission evidenced the Congress's commitment to the public-private partnership to build the NMAAHC facility. Dr. Clough and Ms. Clark updated the Committee on related private fundraising efforts for the museum.

Mr. Dauer then reviewed the major components of the proposed budget (\$660.3 million for Salaries and Expenses and \$196.5 million for Facilities Capital). He said that the proposal completely satisfied six of the seven Smithsonian budget priorities established by the Regents for FY 2013.

Consequently, the Committee approved the following motion:

VOTED that the Finance Committee recommends that the Board of Regents authorizes the Secretary to submit to Congress a Federal budget request for appropriated funds for fiscal year 2013 as part of the President's budget in the amount negotiated with OMB, and authorizes the Secretary to inform OMB and Congress fully about the implications of the President's budget for the mission and priorities of the Smithsonian.

FISCAL YEAR 2011 FINANCIAL REPORT

Mr. Horvath directed the Committee to the FY 2011 year-end financial report in the meeting materials. He noted that the results did not differ materially from those presented at the Committee's August 30, 2011, meeting. Among the more significant highlights of the report, Mr. Horvath said, was that net gain goals for fundraising, outside grants and contracts, and Smithsonian Enterprises had been exceeded.

He added that KPMG, the Smithsonian's outside auditor, was expected to complete its review of the Smithsonian's FY 2011 financial statements within the next month and that the results would be presented to the Committee.

SMITHSONIAN ENTERPRISES: FY 2011 YEAR-END RESULTS AND FY 2012 OUTLOOK

Mr. Ott began his presentation with a review of Smithsonian Enterprises' (SE) FY 2011 performance. He reported that SE achieved \$29.1 million in net gain for FY 2011, and noted that this was the fifth straight year that SE achieved bottom line growth. He said two SE divisions "shined" in particular—the media and consumer products groups. Retail operations, in contrast, reported "softer" results. He said that catalog operations were "on hiatus" for part of the reporting period.

Turning to the FY 2012 outlook, Mr. Ott said that SE remained on track to achieve or exceed its core budget projections, with net gain performance currently ahead of budget by \$1.4 million.

Mr. Ott identified a series of key factors driving the positive outlook. He attributed some of the media group's success to the improvements initiated by the new editor of *Smithsonian*

magazine, Michael Caruso. Mr. Ott predicted that readers and potential advertisers will more fully see, and react positively to, Mr. Caruso's changes over the next few issues. New leadership for the retail group is also in place. With new leadership, Mr. Ott predicted stronger contributions to retail from the catalog and e-commerce operations.

Mr. Ott noted that sales in the Made-in-America gift shop (located within the National Museum of American History) are not strong, but that SE remains committed to increasing the proportion of American-made offered by Smithsonian retail operations. He said the goal is to increase the Smithsonian's sale of American-made retail goods from 32 percent to 58 percent.

Key factors and drivers advancing the media group outlook also included, Mr. Ott said, growth contributed by the Smithsonian Channel (both in profitability and distribution); an increased circulation base for the *Smithsonian* magazine and a favorably renegotiated printing contract; unexpectedly high sales for the "Jefferson Bible"; and digital initiatives (e.g., *Smithsonian* magazine app for the iPhone).

Retail factors and drivers included the opening of a new Smithsonian store in Union Station, better catalog performance, and increased theater revenues. Mr. Ott noted that the performance of Smithsonian retail stores in general and visitor-related services remained "soft," but that better results are anticipated with new leadership in place. Mr. Ott highlighted increased international bookings for Smithsonian Journeys and that "significant relationships continue to build" with QVC and the New York Mint. Other potential licensing partnerships are being explored.

Mr. Ott said that SE was deferring some of its planned capital improvements pending further evidence in spring 2012 that retail revenues will meet expectations.

Mr. Bokman then reviewed the December 2011 balance sheet. SE does not maintain its own cash accounts, and its balance sheet primarily reflects working capital and accounts receivable. Mr. Bokman said receivables are driven primarily by *Smithsonian* magazine advertising and that SE is closely monitoring doubtful and delinquent accounts. Inventories are generally lower, prompted by better inventory management by catalog operations.

Ms. Stonesifer noted a continuing concern that a heightened focus on net gain may discourage SE investment in initiatives that could increase overall revenue. She asked that, at a future meeting, SE identify those revenue-building investments it has considered but refrained from making due to budget constraints.

EXECUTIVE SESSION

The Committee conducted an executive session to discuss the status of the search for Mr. Ott's successor.

ADJOURNMENT

The meeting was adjourned at 3:00 p.m.

Respectfully submitted,

David Rubenstein
Finance Committee Chair