



American flag found by a recovery worker in the World Trade Center debris at the Staten Island recovery site. Now on display at the Smithsonian's National Museum of American History exhibition, *September 11, Bearing Witness to History*.

**Annual Report to the Board of Regents
for Fiscal Year 2002
January 2003**

INTRODUCTION

This annual report presents Smithsonian Institution data and highlights for fiscal year 2002 (October 1, 2001 through September 30, 2002), as well as information about some programs and other events that occurred during the first quarter of fiscal year 2003.

PUBLIC IMPACT

VISITS TO THE SMITHSONIAN

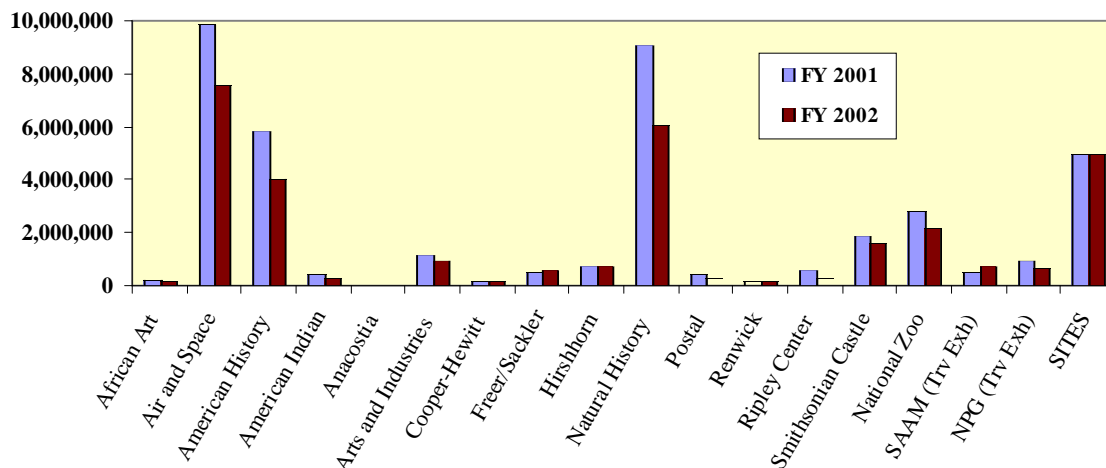
Smithsonian museums and traveling exhibitions had 31.3 million visits in fiscal year 2002: 22.8 million visits to museums; 2.2 million visits to the National Zoo (NZZ); and 6.3 million visits to traveling exhibitions organized by the Smithsonian Institution Traveling Exhibition Service (SITES), the Smithsonian American Art Museum (SAAM), and the National Portrait Gallery (NPG). Overall, attendance in fiscal year 2002 dropped by 22% compared to fiscal year 2001, reflecting the continuing effect on recreational tourism of the September 11 terrorist attacks, especially in New York and Washington, D.C., and a weakened economy.

Visits to Smithsonian museums and the National Zoo (traveling exhibitions not included) had been steadily rising for five years until fiscal year 2002's drop to 25 million. Visits totaled 31.5 million in fiscal year 1998, 31.0 million in 1999, 33.5 million in 2000, and 33.7 million in 2001.

Visits in April and May – the traditional spring tourist season – were far below 2001 visit levels, with an average 42% decrease in visits. Attendance began to recover with the start of summer vacations and the Smithsonian Folklife Festival in June, and continued to improve throughout the summer with averages of 18% and 9% below 2001 visit levels in July and August, respectively. After September 11, 2002, attendance comparisons were based on post-9/11 versus pre-9/11 visit levels, with notable increases in visits given the context of a virtual standstill in travel during that period in 2001. The overall decrease in attendance is challenging the Smithsonian to do more with less.

Visits to Smithsonian Museums and Traveling Exhibitions

Fiscal Years 2001 and 2002



*Visit statistics do not include SAAM and NPG, which were closed for renovation.

Sources: Office of Protection Services, NZZ, SITES, SAAM, NPG.

The big three museums on the National Mall – Air and Space, Natural History, and American History – sustained the heaviest blows to attendance with decreases in visits of 23%, 34%, and 31%, respectively, compared to 2001, reflecting a decline in national tourism. Only two museums had overall increases in attendance in fiscal year 2002. Visits to the Freer and Sackler Galleries rose by 21%, attributable in part to a dramatic spike in attendance during the two weeks in January of the *Tibetan Healing Mandela* and the success of its *Zen in the City* advertising campaign. The Cooper-Hewitt, National Design Museum registered a 4% increase in attendance over fiscal 2001. The Anacostia Museum, which closed for expansion and renovation in late 1999, reopened in February 2002 and ended the fiscal year with 27,339 visits (up 22% from the same period in 1999).

VIRTUAL ATTENDANCE

Virtual visitors have continued to increase at the Smithsonian's web sites, including the main web site (www.si.edu) and the more than 70 other Smithsonian museum, zoo, and exhibit-specific web sites. Visitor sessions during fiscal year 2002 topped 56.5 million; significantly surpassing the 43.4 million web visitors recorded in fiscal year 2001.

- The National Museum of Natural History posted 13 new publicly accessible web sites during fiscal year 2002, including web sites on highlights of volcano research, discovery of a new plant genus, the Arctic Studies Center, the gem collection, the genetics laboratory, the Maya, and the Alutiiq peoples of Southern Alaska.
- The Archives of American Art's online exhibition, *Frida Kahlo: Notas Sobre una Vida/Notes on a Life*, coincided with Hispanic Heritage Month. The exhibition, which highlighted photographs and letters selected from several Archives collections, provided a glimpse into Kahlo's public and private life and revealed the relationships and events that impacted her life and art. In addition, *Smithsonian Magazine's* December issue features a cover story about Frida Kahlo.
- The Smithsonian Environmental Research Center (SERC) was the site of an electronic field trip in spring 2002, when approximately 20 million students from 18 states watched a live broadcast from the SERC dock of "Where the River Meets the Sea: Exploring Life in the Chesapeake Bay with Smithsonian Scientists." The program for students in grades 3 to 7 is adapted from SERC's most popular hands-on Bay ecology education program, "Estuary Chesapeake."
- The National Portrait Gallery launched the web site, *CivilWar @ Smithsonian* (www.civilwar.si.edu), giving the public access to selections from the Smithsonian's vast Civil War collections via one portal. Curators from six museums and other units selected the initial 250 objects, which include uniforms, equipment, weapons, and paintings and photographs of some of the war's most celebrated personalities. A new section on Winslow Homer's Civil War drawings is the latest update.
- The new Hirshhorn Museum and Sculpture Garden web site (<http://hirshhorn.si.edu>) was launched March 25. The clean, modern design is easy for people to use. Interactive features include online activities and an interface with the collection database that makes interpretive text, provenance, exhibition history, published references, and images available to scholars and enthusiasts.
- Visits to the Smithsonian Center for Education and Museum Studies' (SCEMS) web site (<http://educate.si.edu>) increased by 54%. SCEMS continued its partnership with Advanced Placement/College Board, adding new content to its Artifact and Analysis web site.



EXHIBITION HIGHLIGHTS

In July, over 1.3 million visitors attended *The Silk Road: Connecting Cultures, Creating Trust* program at the **2002 Smithsonian Folklife Festival**. Secretary of State Colin Powell, Senators Ted Kennedy and Sam Brownback, the Aga Khan, Yo Yo Ma, and Secretary Small, along with Richard Kurin, Director of the Smithsonian Center for Folklife and Cultural Heritage, spoke at the opening ceremonies. The festival, co-sponsored by Yo-Yo Ma and the Silk Road Project, broke previous records for international scope, attendance, media coverage, and sales. Three hundred fifty traditional artists from 25 countries demonstrated ancient and contemporary connections between music, crafts, martial arts, and cuisines across the Silk Road region.



The National Museum of American History, Behring Center, opened ***September 11: Bearing Witness to History*** on the first anniversary of the terrorist attacks on the United States. The temporary exhibition of artifacts, images, and stories all, in their own way, bear witness to the tragic events of September 11, 2001. In presenting this exhibition, the Museum invites the public to share its own memories and thoughts; to bear witness to history in its own words and share in the responsibility of documenting and preserving this history for future generations.



The Arts and Industries Building presented the exhibition, ***New York, September 11 by Magnum Photographers***, in May and June. In addition to 37 color and black-and-white photographs and a compelling silent video, the exhibition included one of the American flags recovered at Ground Zero. By hosting one of the earliest exhibitions organized on the subject of September 11, the Arts and Industries Building became an emotional site for the public as well as the law enforcement community during the summer months.

George Catlin and His Indian Gallery opened in September at the Smithsonian American Art Museum's Renwick Gallery. The exhibition is the most comprehensive display of Catlin's work in more than a century, showcasing more than 400 artworks from one of the most important collections of the museum – the nearly complete surviving set of Catlin's first Indian Gallery painted in the 1830s. Special features include an audio tour, a surround video experience, a film, a full color gift book, a multi-media educational web site, and an extensive array of public programs.



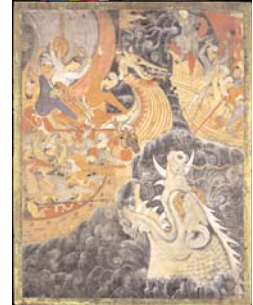
On August 1, thousands of visitors celebrated Tian Tian's and Mei Xiang's birthday, an event that received national and local media attention. On the first anniversary of the Giant Pandas' public debut at the National Zoo on January 10, the public was invited to mark the occasion as the Zoo renamed the exhibit the ***Fujifilm Giant Panda Conservation Exhibit***. Also in January, the Zoo held a two-part public symposium, "Giant Pandas at the National Zoo: From the First Year into the Future," which explored national and international policies that may affect the species, the Zoo's contribution to understanding panda reproduction, nutrition, and behavior,

and how the Zoo, through financial support and professional training programs, is helping wild panda populations.



Gifts and Blessings: The Textile Arts of Madagascar, at the National Museum of African Art from April to September, was a groundbreaking exhibition that examined historic and contemporary textile production in Madagascar, and the role of textiles as gifts bestowed to forge local and international relations. It featured extremely beautiful 19th and 20th century textiles of woven silk, bark, reed, and cotton and raffia fibers, and included two important silk cloths that were given as diplomatic gifts to U.S. President Grover Cleveland in 1886 by Malagasy Queen Ranavalona III.

The Adventures of Hamza, at the Freer Gallery of Art and Arthur M. Sackler Gallery from June to September, was the first exhibition to examine in-depth one of the most unusual and important manuscripts made during the Mughal dynasty (1526-1858). Commissioned by the teenaged emperor Akbar (r. 1556-1605) in India, the Hamzanama originally contained 1,400 large-scale paintings that depict fantastic tales of the exploits of Hamza, uncle of the Prophet Muhammad. The exhibition, described in media reviews as “breathtaking” and “magnificent,” featured 61 of the best folios to survive.



Open City: Street Photographs since 1950 at the Hirshhorn Museum and Sculpture Garden received rave reviews in both *The Washington Post* and *The Washington Times* its opening weekend in June, and was featured on the *Newshour with Jim Lehrer*. Charting the street as a theater of human activity, *Open City* began with the raw, edgy imagery of the 1950s and 1960s and ended with contemporary views influenced by advertising, fashion, and cinema. The show included

more than 100 photographs by 19 international artists. The Hirshhorn was the final and only American venue for the exhibition, which was also on view in England and Spain.

SKIN: Surface, Substance, and Design opened at the Cooper-Hewitt, National Design Museum in May and continued through September 15, 2002. *SKIN* highlights the responses of designers from around the world to a culture obsessed with physical appearances and transformed by biotechnology. The exhibition focused on works designed between 1997 to the present, and featured products, fashion, furniture, architecture and media that are expanding the conventional definition of surface.

The Furniture of Sam Maloof was on display at the Renwick Gallery of the Smithsonian American Art Museum from September 2001 to January 2002. The exhibition was the first full-scale retrospective of Maloof’s work, providing a rare glimpse into the sculptural furniture and workshop technique of the nation’s most renowned designer-craftsmen. Prominent stories and reviews of the exhibition appeared in *The New York Times*, *Chicago Tribune*, National Public Radio, *The Washington Post* and *The Washington Times*.



Wayne Thiebaud: Memories and Delight was on display at the Archives of American Art’s New York Gallery from October 2001 to January 2002. The exhibit showcased artist Wayne Thiebaud’s recent gift to the Archives of drawings, teaching notes, and other memorabilia. Among the treasures are wonderful ink drawings of pies and cakes, lunch counter still life arrangements, and urban scenes. Mr. Thiebaud’s lively friendships with artists such as Claes Oldenburg, Willem de Kooning, and Richard Diebenkorn are explored through letters, photographs, drawings and jokes.



Great Masters of Mexican Folk Art from the Collection of Fomento Cultural Banamex opened in July at the National Museum of the American Indian's George Gustav Heye Center in New York. The exhibition is an overview of the most exceptional contemporary and traditional artists of Mexico. A complementary exhibition, ***Ancient Mexican Art from the Collection of the National Museum of the***

American Indian, features 44 objects—most of which have never been publicly displayed—that were made by Mixtec, Maya, and other indigenous peoples to express their values and beliefs. The side-by-side exhibitions illustrate the continuing influence of pre-Columbian cultures on Mexican artists.

Invention at Play opened at the National Museum of American History, Behring Center in July. The exhibition, developed by the museum's Lemelson Center for the Study of Invention and Innovation in partnership with the Science Museum of Minnesota and the National Science Foundation, focuses on the similarities between the ways children and adults play and the creative processes used by innovators in science and technology. Visitors of all ages experience various playful habits of mind that underlay invention: curiosity, imagination, visual thinking, model building, and problem solving.



History Through Deaf Eyes, a nationally touring exhibition developed by Gallaudet University, presents the formation and transformation of an American minority group with parallels to American social history. The National Museum of American History contributed artifacts from its permanent collection for the exhibition's stay at the Arts and Industries Building from May to September.

Kaho'olawe: Rebirth of a Sacred Island opened at the Arts and Industries Building in June. The Smithsonian Asian Pacific American Program sponsored the exhibition from the Bishop Museum in Honolulu. The exhibition celebrates the island of Kaho'olawe and the Hawaiian people's love for the land and tells Kaho'olawe's unique story, from its legendary beginnings to current efforts toward its protection and revitalization.



Two temporary exhibitions opened at the National Air and Space Museum in fiscal year 2002. ***Aerobatic Champions*** showcases two remarkable aircraft – the newly restored Pitts S-1C Little Stinker and the Loudenslager Laser 200 – and celebrates aerobatics champion Betty Skelton and Leo Loudenslager and the storied history of both aircraft in national competitions. ***At the Controls*** features large-format color photographs of the cockpits of airplanes and spacecraft from the NASM col-

lection including the Wright 1903 Flyer, Ryan NYP Spirit of St. Louis, Grumman F4F-4 Wildcat, Supermarine Spitfire Mark VII, and the Space Shuttle Columbia.

Philatelic Firsts from the National Postal Museum Collection was on display at the Postal Museum from August through October 2002. The exhibition featured first-of-their-kind philatelic items, including the first U.S. postage stamps – a five-cent stamp featuring Benjamin Franklin and a ten-cent stamp depicting George Washington – issued in 1847, and the first airmail cover, signed by President Woodrow Wilson and sent on the 1st regular U.S. airmail flight on May 15, 1918.



Modern Mongolia opened at the National Museum of Natural History in July. Using the traditional home of Mongolian nomads as a backdrop, the exhibition invited visitors to experience 20th century Mongolian life and discover Genghis Khan's lasting legacy to his people.



A **Komodo dragon** outdoor enclosure opened at the National Zoo on September 17. The new exhibit allows the two giant lizards to roam around the spacious yard and benefit from natural, unfiltered sunlight when the temperature exceeds 70 degrees. The National Zoo was the first zoo outside of Indonesia to hatch Komodo dragons. The current two adults are from the first clutch of 17 eggs hatched at the Zoo in 1992.

NATIONAL OUTREACH

In fiscal year 2002, the Office of National Programs and its four units – Smithsonian Affiliations, The Smithsonian Associates, Smithsonian Institution Traveling Exhibition Service, and Smithsonian Center for Education and Museum Studies – continued their efforts to expand the Smithsonian's presence across America. National Programs' units organized nearly 2,000 activities, including traveling exhibitions, regional programs, educational workshops, study tours and ongoing relationships with Smithsonian Affiliates.

Smithsonian Affiliations. In fiscal year 2002, Smithsonian Affiliations signed agreements with 30 new affiliates in five previously unrepresented areas, bringing the total to 116 affiliates in 34 states, the District of Columbia, Puerto Rico, and Panama. More than 18 million people are estimated to have visited affiliated institutions and more than 5.8 million visitors saw Smithsonian artifacts. Eight Smithsonian museums and libraries loaned affiliates a total of 386 artifacts, and traveling exhibits opened at 26 affiliates during the fiscal year. Current staffing would allow the Affiliations program to manage as many as 200 affiliated institutions.

The fourth Smithsonian Affiliations National Conference in June attracted 114 participants. Seven senators and 25 congressmen attended the accompanying Congressional Reception at the U.S. Botanic Gardens.

The American Association of Retired Persons donated \$300,000 in support of planning for the Smithsonian Affiliations Cultural Alliance Initiative (CAI). This endeavor is dedicated to creating exhibition, training and programmatic opportunities with multi-cultural perspectives. The CAI will enable Affiliates to create even more meaningful cultural presences in their communities.

The Smithsonian Associates (TSA). In fiscal year 2002, TSA created over 1,500 different educational programs designed to reach learners of all ages. The programs occurred in 40 states, the District of Columbia, and Puerto Rico, and 131 international tours visited countries around the world.

The Resident Associate Program (RAP) offered more than 1,200 courses, seminars, lectures, performances, studio arts workshops, and study tours in the greater Washington area. RAP's special fall 2001 focus was the Brain: The World Inside Your Head, designed to complement the exhibition in the Arts and Industries Building. Highlights of the Brain programs included the Pfizer Distinguished Lecture Series, featuring leading experts who addressed a variety of topics, from brain disorders and language acquisition to the fascinating 15-year Nun Study on Aging. RAP's spring focus was Britain, in honor of the Queen's Jubilee Year. Among the many presenters were Lord Patrick Lichfield, Princess Michael of Kent, Claire Bloom, John Cleese, and Dick Francis.

Several of the 266 U.S. and international study tours and seminars featured Smithsonian resources. Participants on a study voyage to Costa Rica and Panama enjoyed a special visit to the Smithsonian Tropical Research Institute's Barro Colorado Island. Other Associate travelers took a grand tour of the solar system at the Smithsonian Astrophysical Observatory in Tucson. The Smithsonian Elderhostel programs, inaugurated this year, drew three groups to the museums on the mall for in-depth, behind-the-scenes tours.

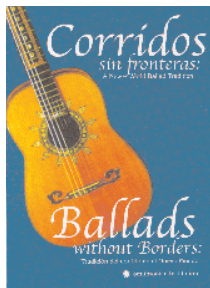
The Smithsonian Institution Traveling Exhibition Service (SITES).

SITES celebrated its 50th anniversary in fiscal year 2002. A few of the many highlights during the year were: a special showing in March of SITES' exhibition *Going Strong: Older Americans on the Job* in the Russell Senate Building; the opening in August of *Produce for Victory Posters on the American Home Front, 1941-45* at the South Dakota State Fair in Huron, with rousing speeches by Congressional Representatives and the Governor and presentation of the Colors by the Beadle County National Guard; and costumed *Star Wars* Storm Troopers at the opening of *Star Wars: Magic of Myth* at the Powerhouse Museum in Sydney, Australia in September.



South Dakota veterans

SITES added eight new exhibitions this year, bringing the total number of its traveling exhibitions in circulation to 54. *In the Spirit of Martin: The Life and Legacy of Dr. Martin Luther King, Jr.* traveled to the Charles H. Wright Museum of African American History in Detroit from January to August. The exhibition includes 130 paintings, photographs, works on paper, sculpture, and mixed media pieces by well-known artists. By juxtaposing historical accounts in Dr. King's life with visual renderings of those events, *In the Spirit of Martin* speaks to the power of art to shape collective national memory.



Corridos sin Fronteras: A New World Ballad Tradition, a collaboration of the Smithsonian Center for Latino Initiatives, SITES, and the University of California at Los Angeles Chicano Studies Research Center, opened in the Arts & Industries Building in February. The music-based, bilingual (Spanish/English) exhibition celebrates the *corrido* (ballad) tradition in the New World and explores the significance of this popular oral tradition through vintage and modern recordings, photographs, posters, musical instruments, performance costumes, and interactive audiovisual stations.

Smithsonian Center for Education and Museum Studies (SCEMS). On May 17, SCEMS held its Smithsonian Teachers' Night at five locations around the country: the National Museum of Natural History in Washington, D.C.; the Smithsonian Astrophysical Observatory in Boston; the Charles H. Wright Museum of African American History in Detroit; the Houston Museum of Fine Arts, Houston; and The Presidio Trust in San Francisco. The open house for educators featured dissemination of educational resources, information about Smithsonian and other museum programs and exhibits, and interactive activities and demonstrations.

SCEMS published Educator's Guide to Smithsonian Publications and Educator's Guide to Smithsonian Web Sites. The guides feature hundreds of Smithsonian resources that teachers can order for the classroom or access from the Web.

Also in fiscal 2002, SCEMS participated at three U.S. Department of Education "Improving America's Schools" conferences and presented three sessions of "Improving the Teaching of U.S.

History," a professional development program for Montgomery County, Maryland teachers funded by a U.S. Department of Education grant.

OTHER TRAVELING EXHIBITIONS

Reflections in Black: African American Photography, a traveling exhibition of the Anacostia Museum and Center for African American History and Culture, continued its national tour to seven cities including New York City, Buffalo, Richmond, Hanover, New Hampshire, Orlando, Chicago, and Los Angeles. The exhibition unites vintage images by masters from the 19th and 20th centuries with the work of contemporary figures.

With the acquisition of the *Lansdowne* portrait of George Washington by Gilbert Stuart in Spring 2001, the National Portrait Gallery launched an eight-stop nationwide tour of the painting. ***George Washington: A National Treasure*** traveled to the Houston Museum of Fine Arts and the Las Vegas Art Museum in fiscal year 2002. Attendance during the exhibition's opening weekend in June at the Las Vegas Art Museum topped that Museum's total attendance for 2001.



From left: Smithsonian Regent Manuel Ibanez, Secretary Small, and U.S. Secretary of Education Rod Paige chat during the Houston opening of the George Washington tour.

SMITHSONIAN EVENTS

Tom Crouch, Senior Curator of the Division of Aeronautics at the National Air and Space Museum, gave the third annual Smithsonian Distinguished Research lecture, entitled *Inventing Flight: The Science of Balloons, the Technology of Wings*, on September 25. Dr. Crouch has served both NASM and the National Museum of American History in a variety of curatorial and administrative posts since 1974. He has both authored and edited a number of books and articles, most extensively on the history of flight technology, for both popular magazines and scholarly journals.



NMAI Director Rick West

On September 14 and 15, the National Museum of the American Indian had its Inaugural Pow Wow on the National Mall, adjacent to the construction site of its new museum. An estimated 20,000 people attended the event. More than 400 dancers and 14 drum groups, representing over 250 tribes, participated in the Pow Wow. NMAI's Pow Wow web site provided a live webcast of the Pow Wow that was simultaneously broadcast on AIROS (American Indian Radio on Satellite), which reaches Native communities and listeners throughout the United States.

Tibetan Healing Mandala. In response to the September 11 tragedies, twenty Buddhist monks from the Drepung Loseling Monastery constructed a sand mandala (sacred painting) at the Sackler gallery from January 11 to 27, 2002. The seven-foot-square mandala, one of the largest ever created in the West, was offered for the healing and protection of America. In addition, the monks participated in chanting, meditation, and other traditional healing ceremonies. Record numbers of visitors came to the Freer and Sackler Galleries during the two-week ceremony.



A rare and important drawing by Michelangelo, *Design for a Candelabrum*, was discovered by Sir Timothy Clifford, Director of the National Galleries of Scotland, Edinburgh, among the Italian drawings collection at the Cooper-Hewitt, National Design Museum's Drue Heinz Study Center for

Drawings and Prints. Department curators worked with Sir Timothy to secure the drawing's new attribution, even taking it to London to be reviewed by major Michelangelo scholars. This discovery makes the Cooper-Hewitt one of only seven public institutions in the U.S. to own a work by Michelangelo. The drawing was on display at the Cooper Hewitt during the week of October 28 and can be seen in the exhibition, *The Medici, Michelangelo, and the Art of the Late Renaissance Florence*, which opened November 7, 2002, at the Art Institute of Chicago.



For the seventh consecutive summer, the Arthur M. Sackler Gallery, Freer Gallery of Art, Hirshhorn Museum and Sculpture Garden and National Museum of African Art sponsored *Art Night on the Mall*. Live music and dance performances on the Hirshhorn Plaza, the steps of the Freer, and in the Enid H. Haupt Garden, as well as lectures and tours, films, hands-on children's activities, poetry readings, and artist talks, were offered until 8:00 p.m. on 14 Thursday evenings from

May to August. Total attendance at Art Night 2002 was close to 40,000, slightly higher than in 2001, and over \$43,000 was generated at the shops in the four museums.

FOCUSED, FIRST-CLASS SCIENCE

SCIENCE COMMISSION

The Science Commission produced an interim report for the Regents' May 6 meeting and will submit a final report in December 2002. The Commission's preliminary observation is that the major problem confronting science at the Smithsonian is one of process, not structure. There is much high-quality, important research being done at the Smithsonian, but it could be even better, more efficient, and more directed. The Commission intends to provide recommendations to the Regents on how such improvement can be accomplished in a cost-effective manner.

The Smithsonian's Science Division has provided all necessary support to the Science Commission in fiscal year 2002, including support costs of \$75,000 to date. Michael Lang has served as senior staff member to the Science Commission from its inception, facilitating Commission meetings, coordinating town hall meetings and site visits, providing science unit data compilation and analysis, and editing report drafts. Science Division staff also managed the Science Commission budget and made its travel and lodging arrangements.

SCIENCE RESEARCH FUNDING STUDY

In April, at the behest of the Office of Management and Budget, the Smithsonian contracted with the National Research Council (NRC) of the National Academy of Sciences and the National Academy of Public Administration (NAPA) to assess whether the Institution's science research is "inherently unique" enough to justify noncompetitive funding. The NRC released its findings on October 31, stating that the National Museum of Natural History, National Zoological Park, and Smithsonian Center for Materials Research and Education should remain exempt because of their unique contributions to the science and museum communities. The NRC also found that the Smithsonian Astrophysical Observatory, Environmental Research Center, and Tropical Research Institute provide "world class" research and should continue to receive Federal funding. NAPA's parallel report also called for continuation of core support appropriations for all Smithsonian science centers, consistent with the NRC report recommendations.

SCIENTIFIC ACHIEVEMENTS

National Zoological Park

- National Zoo visitors and Zoo scientists celebrated the birth of a male Asiatic elephant, Kandula, in November 2001. The mother, Shanthi, conceived the calf as a result of artificial insemination. The population of Asiatic elephants is in dramatic decline and this success, along with other recent births made possible by the pioneering research of NZP reproductive physiologist Janine Brown, represents an important breakthrough.



National Museum of Natural History

- NMNH zoologist James Mead was part of the scientific team that identified a new whale species on the basis of DNA sequencing. This is only the second whale species discovered in the past ten years; the last was named by an NMNH scientist in 1991. The findings were published in *Marine Mammal Science*, Vol. 18, No. 3, July 2002, “A New Species of Beaked Whale *Mesoplodon perrini* sp.n. I (Cetacea: Ziphiidae) Discovered through Phylogenetic Analyses of Mitochondrial DNA Sequences.”
- On May 30, the U.S. Army/Armed Forces Institute of Pathology presented Douglas Ubelaker and Douglas Owsley of the Department of Anthropology with the Commander's Award for Civilian Service in recognition of and thanks for their involvement in the identification of victims from the September 11, 2001, terrorist attack at the Pentagon.

Smithsonian Astrophysical Observatory (SAO)

- The Chandra X-ray Observatory was able to study the most distant objects ever found: three quasars so far from Earth that their light was generated only about one billion years after the universe itself was created.



Smithsonian Center for Materials Research and Education (SCMRE)

- SCMRE played a major role in addressing urgent questions raised in the aftermath of the September 11 terrorist attacks. The staff of the Hart Senate Office Building and the Environmental Protection Agency consulted with SCMRE on the potential damage that the proposed anthrax decontamination process might cause to sensitive artistic and historic objects in that building. SCMRE scientists carried out measurements on the degradation of various materials sent through the National Postal Service, which is using electron beam irradiation to sterilize the mail. SCMRE also provided technical information on dangers posed and necessary protection measures for workers involved in the clean up of art objects in public and private collections contaminated with dust from the collapsed World Trade Center Towers in New York.

Smithsonian Environmental Research Center (SERC)

- SERC's avian ecology laboratory, headed by Dr. Peter Marra, is studying the spread of West Nile Virus through populations of migratory birds. Marra is monitoring the course of the virus down the eastern seaboard and into the New World Tropics in countries such as Mexico, Jamaica, and Puerto Rico. West Nile Virus, which broke out in the New York City region in 1999, has spread across much of the U.S. and Canada and is responsible for more than 30 human deaths as well as the deaths of millions of birds and other animals.

Smithsonian Tropical Research Institute (STRI)

- The Association of Tropical Biology presented STRI Director Ira Rubinoff with the Exceptional Service Award in the Field of Tropical Biology and Conservation during its August 2002 annual meeting in Panama. Dr. Rubinoff is the first person to receive the award, which recognizes his lifetime contributions to research in the tropics.



MANAGEMENT EXCELLENCE

SMITHSONIAN MANAGEMENT

Ten top quality leaders were hired to fill senior management slots during fiscal year 2002. In addition, a new Director of the National Museum of American History, Behring Center was selected at the beginning of fiscal year 2003. Searches are under way for the top positions in the Center for Latino Initiatives, National Museum of African Art, National Museum of Natural History, and Office of Safety and Environmental Management.

- Nancy Bechtol was selected as Director, Office of Facilities Management, and has overseen the implementation of the facilities integration initiative since March. She was Director of the Horticulture Program since 1993, where she managed public landscapes surrounding 14 Smithsonian museums and support centers.
- Virginia B. (Ginny) Clark was appointed as Director of External Affairs; she will oversee the Office of Development and the Office of Sponsored Projects. She has been in the professional development field for 24 years at the University of Pennsylvania, rising to the top slot in fund raising there as Vice President for Development and Alumni Relations.
- David L. Evans became Under Secretary for Science at the Smithsonian on September 9. He was formerly the Assistant Administrator for Research at the National Oceanic and Atmospheric Administration.
- Don Fehr was appointed as Director of Smithsonian Institution Press effective July 8. His career in publishing includes posts as Publishing Director of The Perseus Press, and Senior Editor at Viking Penguin, Addison Wesley, and Atheneum.
- Brent D. Glass was named Director of the National Museum of American History; he will join the Smithsonian in December. For the last 15 years, he has been Executive Director of the Pennsylvania Historical and Museum Commission in Harrisburg, Pennsylvania.
- Allen Kane became the new Director of the Postal Museum on February 19, 2002. He served for more than 30 years at the United States Postal Service in a variety of senior leadership positions, most recently as Senior Vice President.
- Sheryl Kolasinski became Director, Office of Project Management, Office of Facilities Engineering and Operations, in March. Since 1995, she has managed the Institution's capital construction program and project management staff in Washington, D.C. and Panama.
- Evelyn S. Lieberman was named Director of Communications and Public Affairs; she began work on July 1. Her former positions include Under Secretary of State for Public Diplomacy and Public Affairs, Director of the Voice of America, and senior official in the White House.
- James J. McLaughlin was appointed as Director of the Office of Protection Services, having served as Deputy Director of that office since 1998. Before joining the Smithsonian, he served for 28 years with the U.S. Park Police.

- Julian Raby, started as Director of the Freer and Sackler Galleries in May. Prior to his appointment he was a distinguished member of the Faculty of Oriental Studies at the University of Oxford, England.
- Ned Rifkin began as the new Director of the Hirshhorn Museum and Sculpture Garden on February 1, 2002. Prior to coming to the Smithsonian, he was Director of the de Menil Collection and Foundation in Houston, Texas.

PARTICIPATION OF WOMEN AND MINORITIES IN TOP 200 JOBS

Although minority representation decreased slightly in the top 200 jobs during fiscal year 2002, the number of women represented rose. The overall combined percentage reflecting the representation of women and minorities in these positions increased slightly in fiscal year 2002.

STAFFING CHANGES IN TOP 200 POSITIONS*					
	FY 2001		FY 2002		Change
	# Of Employees	% Of top 200	# Of Employees	% Of top 200	
Female	44	21.5%	50	24.4%	+6
Male	161	78.5%	155	75.6%	-6
Black	10	4.9%	6	2.9%	-4
Hispanic	3	1.5%	2	1.0%	-1
Asian	5	2.4%	6	2.9%	+1
Am. Indian	2	1.0%	3	1.5%	+1
White	185	90.2%	188	91.7%	+3

*Actual number of top positions is 205 due to number of equal salaries at lowest qualifying level.

INFORMATION TECHNOLOGY UPDATE

To meet its financial and human resource management needs, the Institution plans to incrementally implement the *PeopleSoft* Enterprise Resource Planning (ERP) system. The project is well under way. The first phase of the project – general ledger, accounts payable, and purchasing – was piloted in the National Air and Space Museum in mid-July and deployed throughout the Institution on October 1. The Financial Management Steering Committee, chaired by the Chief Financial Officer, will form work groups and start work on the remaining financial management software modules – budgets, accounts receivable, project accounting, billing, grants, contract management, and asset management. The Institution plans to have the remaining financial management software modules implemented by September 30, 2003.

FEDERAL SUPPORT FOR BUILDING RESTORATION

One of the Institution's goals for fiscal year 2002 was to enlist the guidance of Congressional Regents and develop a strategy to secure an incremental \$1.5 billion in Federal funding to address the Restoration, Repair and Alteration (RR&A) backlog. The Institution negotiated with the Office of Management and Budget (OMB) for \$81.3 million in RR&A for fiscal year 2003, a 19.5% increase over the RR&A budget in fiscal year 2002. It also assisted Senator Cochran in his effort to include language calling for full funding of the \$1.5 billion backlog in the Senate report to accompany the fiscal year 2003 Interior Appropriations bill. The budget package presented to the Regents and OMB for fiscal year 2004 calls for \$118.3 million in RR&A, an increase of 45% over fiscal year 2003, and 105% over fiscal year 2001, when the current leadership's efforts began.

STRATEGIC PLAN AND PERFORMANCE MEASUREMENT

In fiscal year 2002, the Smithsonian put in place a Strategic Plan for fiscal years 2003 to 2007, and took major steps to respond to the President's initiative on integrating budget and performance information. For the first time, the Institution developed its fiscal year 2004 budget request by requiring all units to link their budget information to the Institution's strategic plan goals and draft performance plan objectives. The Smithsonian's annual Performance Plan for fiscal year 2003 was submitted to the Office of Management and Budget for review in October 2002. It is the first comprehensive plan that rigorously links Institutional objectives and performance measures. An appendix to the plan describes how proposed outcome measures of program results and other performance indicators will be developed during this fiscal year, including defining, testing and refining measures, developing data collection methodologies and procedures, establishing baselines, and setting targets for improvement.

EXHIBITION POLICY STUDY

The Office of Policy and Analysis will issue a report on its study of Smithsonian exhibitions by year's end that will recommend the introduction of institution-wide standards for new exhibits and the establishment of clear lines and terms of accountability for their adoption.

SECURITY PLANNING AND IMPLEMENTATION

During fiscal year 2002, the Office of Facilities Engineering and Operations' Office of Protection Services (OPS) completed planning for Institution security improvements. Security measures planned for implementation through fiscal year 2005 include Perimeter Vehicle Barriers to prevent or mitigate the effects of a vehicular attack; Window Anti-shatter measures to provide resistance to blast and prevent windows from shattering; Perimeter Closed Circuit Television to provide surveillance of building exteriors; Electronic Access Control to restrict access to sensitive areas of facilities; Electronic Screening of visitors at all mall facilities to deter hand delivered bombs and attacks with deadly weapons; Public Address Systems to aid in the evacuation of facilities; mail and package screening; and Chemical, Biological, and Radiological Threat Mitigation.

Since receiving the fiscal year 2002 Emergency Supplemental Funding in February, OPS has completed a pilot program and fully implemented magnetometer/x-ray screening at the National Air and Space Museum (NASM), installed temporary barriers around the perimeters of NASM, American History and Natural History, hired 128 security officers, and hired two canine teams for bomb detection and oversized parcel screening.

FACILITIES MANAGEMENT INTEGRATION

After six months of study, a Facility Management Integration Task Force recommended that all facilities management operations be integrated into the Office of Facilities Engineering and Operations (OFEO). Secretary Small approved the plan in March 2002 and the Board of Regents agreed to it in May. The goal of the integration is to improve the quality of Smithsonian facility management by increasing efficiencies in operations and making use of advanced maintenance technologies. The plan calls for the establishment of seven facility management zones delivering broad support in accordance with service agreements for Smithsonian museums and service centers in the Washington, D.C. metro area. A completed crosswalk of resources to be transferred is being prepared for submission with the fiscal year 2004 budget request. In sum, over \$20 million and 400 personnel (FTE) would permanently transfer from the museums and be integrated into OFEO.

MAJOR CONSTRUCTION AND RENOVATION PROJECTS

During fiscal year 2002, the Institution made significant progress on its major construction and renovation projects in the areas of construction, funding, and collections and exhibit preparation.

National Air and Space Museum's (NASM) Steven F. Udvar Hazy Center

Construction. The Smithsonian has committed to a base bid and options in the contract totaling \$222.4 million, including the full Aviation Hangar, Space Hanger and Central Utility Plant. The project remains on time and on budget for completion of the awarded portions; as of December 1, those were 74% complete.

Funding. The project is budgeted at \$311.5 million with a current estimated cost of \$302.0 million. Monies raised to date include \$31.1 million in in-kind services from the Commonwealth of Virginia, \$27.6 million in Federal, state and local funding, and \$141.0 million from private sources.

Recent major gifts include \$10 million for naming the James S. McDonnell Space Hanger, \$10 million from Lockheed-Martin for naming the Mall museum theater, \$1 million from the Raytheon Corporation, and \$500,000 from Embraer Aircraft.

Collections and Exhibits. 72 aircraft and 13 spacecraft, along with many smaller artifacts, are ready for installation. The IMAX film, *Straight-Up, Helicopters in Action* premiered in September. A facilities management contract was awarded to Consolidated Engineering Services. Security outsourcing proposals are under review. A furnishings contract was awarded with projected cost savings of \$1 million. Progress continues on the installation of the information technology infrastructure.

National Museum of the American Indian (NMAI)

Construction. Construction of the NMAI Mall Museum is now 40% complete and the project remains on time and on budget.

Funding. The total cost of the project is \$219.3 million. The Smithsonian has raised a total of \$193.9 million, including \$113.3 million in Federal funds and \$80.6 million in private funds. The Smithsonian received its full request of \$10 million in Federal funds for fiscal year 2003.

Major gifts include \$10 million each from the Oneida Indian Nation of New York and the Mohegan Indian Tribe. The Hearst Foundation Corporation, Jim Block, David A. Rockefeller, Sr., and the 3M Corporation each donated \$1 million. The Christian A. Johnson Endeavor Foundation has pledged \$1.5 million.

Collections and Exhibits. Four major exhibit galleries are planned. Three long-term exhibits will focus on Native cosmologies and philosophies, Native histories and Native identities. The changing gallery will open with a major retrospective on the work of 20th century artists George Morrison and Allan Hauser. Construction documents are complete for key exhibitions located in public spaces. The study collections will contain 3,500 objects in rotating installations representing the full scope of the NMAI collection. The Potomac Gallery will have *Return to a Native Place*, an exhibit honoring local native peoples, and *Boat Building*, an exhibit of the native craft. More than 347,000 artifacts have been moved from New York to Maryland, including over 60% of the more complex ethnographic items. NMAI is currently moving between 15,000 and 20,000 items a month, with every object being digitally imaged and inventoried.

Patent Office Building (POB)

Construction: The replacement of the five-acre roof and reopening of extensive skylights was finished in early 2000. Selective interior demolition and hazardous waste removal was completed in November 2002. The contract for window replacement and the renovation of the stone facade is 50% complete. The 100% design plan for the renovation project is complete; the contract was advertised in September and will be awarded in the second quarter of fiscal 2003.

The project plans to have a select number of architects of national and international renown submit design concepts for a glass enclosure over the central court. The enclosure will create the second largest enclosed events space in the city. The project awaits Congressional approval.

Funding: The total estimated cost of the project is \$216 million: \$166 million in Federal funds for renovation of the building and \$50 million in private funds for renewal, including the construction of a glass enclosure for the courtyard. Monies raised to date include \$48.6 million in Federal funds and \$25.9 million from private sources and the portion of the funding of the Victor Building allocated to the project. The Smithsonian requested \$25 million in Federal funds for fiscal year 2003, an amount included in both the House and Senate appropriations bills. \$48 million was requested for fiscal year 2004 and \$44.4 million will be requested for fiscal year 2005.

Collections and Exhibits: The Smithsonian American Art Museum (SAAM) has enlisted external colleagues and consultants to help in developing concepts on "big issues" such as how to present SAAM's collections. Object preparation for the Luce Center and galleries is underway, as well as interpretation of the collection through short videos, audio tours, and extended labels.

National Museum of American History, the Behring Center

The renovation and renewal of the National Museum of American History, Behring Center consists of three major elements: the complete renovation of the central core of the museum, the installation of a series of new exhibits, and the renewal and upgrading of the infrastructure of the building.

Construction/Collections and Exhibits. The Central Core Project is presently in the initial design stages. *The Price of Freedom* is scheduled to open in November 2004. A designer has been chosen and design is under way, with the 35% design plan expected by February 2003. *America on the Move* is scheduled to open in November 2003. Demolition and shell construction are under way, the final designs are under review, and the fabrication and installation contract is out for bid. *For Which it Stands/the Star Spangled Banner* will have the central icon in the renewed central core. Both the preservation of the flag and the exhibit are on schedule. The design contract was issued in November and the exhibition is scheduled to open in November 2005. The facilities modernization element of the overall renovation of the Museum includes improvements to circulation such as elevators, fire stairwells, restrooms, and mechanical systems.

Funding. A final price has not been established for the Central Core Project; it will be funded primarily with private funds. Two permanent exhibits, *The Price of Freedom* and the Introductory Exhibit, both estimated at \$20 million, are also largely funded by private funds. The design and construction of *America on the Move* is funded through a combination of private funds and Federal grant funds totaling \$19.6 million. Additional funding of \$2.4 million is needed to design and construct *On the Water*, the maritime exhibit. The projected cost of *For Which It Stands/the Star Spangled Banner* is \$33 million, to be raised with private funds; \$18 million has been raised so far. The Smithsonian expects to ask for \$5.5 million in Federal funds for renewal and upgrading of the infrastructure of the building in fiscal year 2004, and a total Federal funding commitment of \$37.5 million between fiscal years 2004 and 2006.

National Museum of Natural History

Construction. The Roof, Skylight, and Facade Repair project is 75% complete. Phase VI of the Major Revitalization, including air conditioning renovation of the main building attics and the Emergency Power Modification project, is 40% complete and is scheduled for completion in mid-summer 2003. The contract to upgrade the fire alarm system was awarded. Construction will begin shortly and is expected to finish at the end of 2003. Installation of mechanical/electrical systems for the West Wing and renovation of the East Wing 4th and 5th floors is substantially complete. Renovation of elevators 19 and 20 is complete at a cost of \$440,000.

Pod 5 of the Museum Support Center: The Architecture/Engineering (A/E) scope of work and design fee negotiations have been completed. The A/E design contract will be awarded when fiscal 2003 funds become available. Design is scheduled for 14 months and construction for 18 months to two years. This facility is needed so that the millions of biological specimens stored in jars filled with flammable alcohol may be moved off the Mall.

Funding. All monies have been raised to meet the estimated cost of the Mammal Hall of \$31.3 million (\$13.9 million in Federal and \$17.4 million in Trust funds, including the Behring gift of 13.0 million.) Pod 5 of the Museum Support Center's total estimated cost is \$30.0 million in Federal funds. To date, \$2 million has been appropriated for the project. The Smithsonian included \$2 million for design of Pod 5 in the fiscal year 2003 budget request. The total estimated cost of the Major Revitalization project is \$268.6 million in Federal funds. \$85 million has been appropriated so far.

Collections and Exhibits. All work has been awarded on the Kenneth E. Behring Family Hall of Mammals. As of December 1, the building restoration is 75% complete, exhibit construction is 5% complete, and work on the audio-visual programs has begun. The exhibit is scheduled to open in the fall of 2003.

National Zoological Park

Design and construction. During fiscal year 2002, milestones were reached for the Farm Exhibit and Asia Trail I components of the zoo revitalization. Construction documents were completed for the Farm Exhibit. Contract award is scheduled for January 2003 and construction completion for December 2003. The schematic design for Asia Trail I was completed and construction documents are scheduled for completion in July 2003. In addition to those projects, the Mane Restaurant renovation began in February 2002 and is scheduled for completion in spring 2003.

Exhibits for existing collections that were renovated in fiscal year 2002 include: the Komodo Dragon outdoor exhibit; the Otter outdoor exhibit; the Invertebrate House Octopus and Blue Crab exhibit; and the Kangaroo and Singing Dog relocations in preparation for the Asia Trail. Other fiscal year 2002 construction includes: renovation of the Birdhouse to eliminate a dead-end corridor; replacement of the Camel House roof; installation of donated bronze lions at Connecticut Avenue; and installation of the donated chimp sculpture.

Funding. The total estimated cost of the Farm Exhibit is \$5 million in Federal funds, all of which is in hand. The total estimated cost of Asia Trail Phase I is \$16.1 million. \$8.1 million in Federal funds and \$8 million in Trust funds have been raised to date. Large gifts were received from Fuji Film (\$4.8 million) and Ruth Holmberg (\$1 million.) The total estimate for the Mane Restaurant is \$5.1 million. \$5.1 million in Federal funds and \$400,000 from the Friends of the National Zoo are in hand.

FINANCIAL STRENGTH

Fiscal year 2002 ended without much fanfare and with little evidence of a meaningful economic recovery anytime soon. Recent concerns about a weak labor market, the threat of military action in Iraq, and the prolonged decline in the financial markets continues to undermine consumer confidence. Tourism in the Washington D.C. metropolitan area continues to be down.

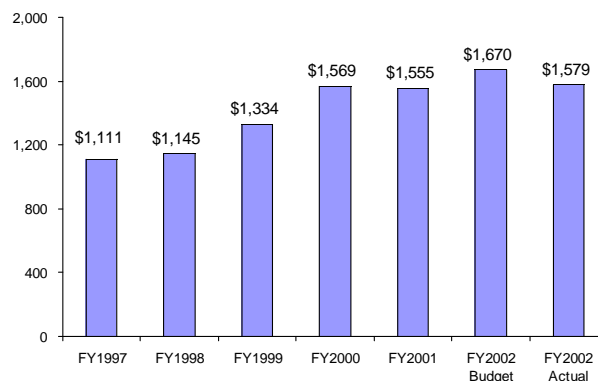
FINANCIAL POSITION

At the Smithsonian, the financial picture is shaped largely by the strength of the overall economy and museum visitation. Fiscal year 2002 was a year unlike any other in recent memory due to the dramatic drop in museum visitation, the associated drop in unrestricted Trust fund revenues, the swift actions taken by management to reduce unrestricted Trust expenses, and the decline in the stock market. In particular, the severe fourth quarter decline in the performance of the stock market accounted in large part for the sharp drop in the valuation of the Institution's endowment.

Nevertheless, fiscal year 2002 was actually a better year financially than fiscal year 2001. The net worth of the Institution at fiscal year-end increased by 1.5%, making up the small loss experienced in fiscal year 2001 and closing slightly higher than fiscal year 2000 levels. While the Institution's net worth is at a record high, it has stayed essentially flat over the last three years, with the negative impact of the stock market on the endowment's valuation having been offset by strong support of the Institution's facilities capital program and robust private sector fund raising.

The Smithsonian's net worth (or net assets) reflects the combined value of the Institution's endowment, investments, building and equipment, and outstanding pledges, minus its liabilities. The historic pattern of growth in the Institution's net assets is shown below.

Smithsonian Institution Growth in Net Assets
(\$ millions)



The Smithsonian Institution's net assets grew in fiscal year 2002 by 1.5% or \$24 million, from \$1.555 billion in FY 2001 to \$1.579 billion in FY 2002.

Overall, the Institution ended the year short of its budget but in a strong financial position nonetheless. Where budget targets were missed, it is because the budget was in error because the budgeting approach used eighteen months ago was not as comprehensive as it is today, and not because actual performance presents a problem.

In early fiscal year 2002, in part as a consequence of the dramatic decline in revenues from museum shops, restaurants, and theaters, as well as from advertising sales in Smithsonian Magazine due to the nationwide economic recession and the drop in museum visitation, management established a goal to eliminate the imbalance between unrestricted Trust revenues and expenses by the start of fiscal year 2004. During the first quarter of fiscal year 2002, the senior leadership implemented the first phase of a series of operating program reductions. A total of 155 Trust-funded employees engaged in both business activities and central administrative services were discharged from the Institution in fiscal year 2002; since the beginning of fiscal 2001, 255 Trust employees have been let go. Administrative support activities were scaled back, and efforts traditionally funded with unrestricted funds were shifted to the extent possible to restricted funding. In the fourth quarter of fiscal year 2002, the senior leadership approved further actions to bring operating expenses and revenue in line. The plan anticipates discharging an additional 30 employees in fiscal year 2003.

By the start of fiscal year 2004, the Institution's expenditures of unrestricted Trust funds will have been reduced to a level slightly lower than expected unrestricted Trust fund revenues. For fiscal year 2002, the total Trust budget reflected an operating surplus, and robust support for the Institution's facilities capital program was sustained. Fund raising remained strong in spite of the economy and the performance of the market.

Smithsonian Institution Financial Position

(\$ millions)

	Fiscal Year 2001 Actual	Fiscal Year 2002 Budget	Fiscal Year 2002 Actual (Unaudited)	Variance FY2002 Actual to Budget Increase/ (Decrease)
Federal Deposits	225	245	230	(15)
Endowment	626	641	552	(89)
Other Investments	108	110	45	(65)
Smithsonian Buildings and Equipment	785	862	938	76
Outstanding Pledges	218	238	228	(10)
Other	116	109	135	26
Total Assets	2,078	2,205	2,128	(77)
Liabilities	523	535	549	14
Net Assets	1,555	1,670	1,579	(91)
Total Liabilities and Net Assets	2,078	2,205	2,128	(77)

For fiscal year 2002, net assets increased over the previous year by \$24 million or 1.5%, to \$1.579 billion, \$91 million or 5.4% less than budgeted. Since fiscal year 2000, net assets have stayed essentially flat. During this period, the endowment has dropped by \$205 million from its peak in March 2000. That decline, however, has been offset by private sector fund raising, which has amounted to over half a billion dollars in new commitments over the last three years (not all received or spent during the last three years), as well as strong growth in Federal support for the facilities capital program.

FISCAL YEAR 2002 FINANCIAL ACTIVITY

Compared to fiscal year 2001, the Smithsonian ended fiscal year 2002 in a stronger financial position. Net assets improved largely as a consequence of continued public and private sector support for the Institution's facilities capital program. Federal support in fiscal year 2002 for the upgrades

to the Institution's physical infrastructure was the single largest increase from the prior year. For fiscal year 2003, the Office of Management and Budget did not support the Institution's full Federal budget request, but agreed to a compromise that preserved funding for research and the restoration of the Patent Office Building.

For fiscal year 2002, the positive variance in operating sources of \$38 million, primarily in the form of unbudgeted government grants and contracts totaling \$26 million from the National Aeronautics and Space Administration (NASA) to the Smithsonian Astrophysical Observatory (SAO) was offset by negative variance to budget in operating expenses of \$63 million. The unbudgeted expenses included \$26 million in spending by SAO for research funded by NASA (the offset of the unbudgeted revenue increase) and Trust spending associated with funds raised and recognized as revenue in prior years. Consequently, the Institution ended fiscal year 2002 with an operating deficit of \$18 million, \$25 million less than the budgeted gain of \$7 million. While these Trust expenditures have been in the Institution's plans for several years, the variance reflects the fact that the budget process used eighteen months ago was insufficiently comprehensive to capture all the spending planned of previously raised Trust funds.

The Institution offset its operating deficit with a non-operating surplus of \$42 million, which was \$66 million less than budget. This negative variance was entirely due to the valuation of the endowment, which declined with the terrible performance of the stock market. Nonetheless, the Institution's great momentum in getting Federal and private sector support for facilities capital projects offset the negative impact of the stock market and produced a non-operating surplus of \$42 million. The Institution's net assets increased as a consequence, albeit by less than budgeted. Taken together, the net assets of the Institution grew by \$24 million or 1.5% over the previous year.

Smithsonian Institution Annual Financial Activity
(\$ millions)

	FY2001 Actual	FY2002 Budget	FY2002 Actual (Unaudited)	Variance FY2002 Actual to Budget Better/(Worse)
Total Operating Sources	672	630	668	38
Total Operating Expenses	638	623	686	(63)
Operating Surplus	34	7	(18)	(25)
Total Non-operating Surplus/(Deficit)	(48)	108	42	(66)
Net Assets Increase/ (Decrease)	(14)	115	24	(91)

Compared to the budget for fiscal year 2002, growth in net assets was \$24 million, \$91 million or 5.4% less than budgeted, due primarily to the impact of the unbudgeted stock market decline

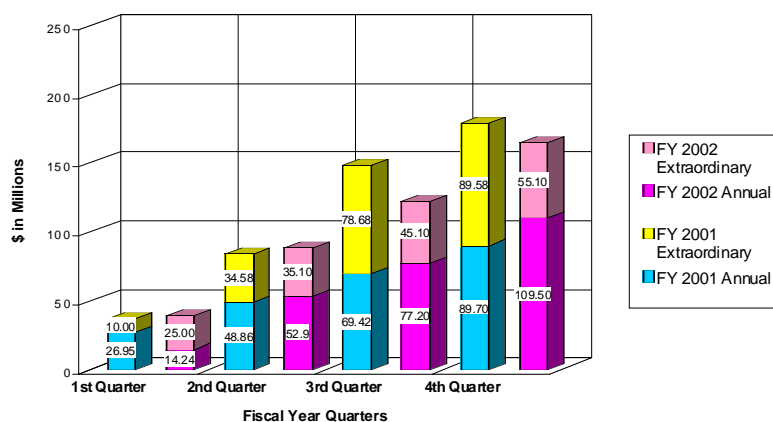
For the immediate future, the challenge for the Smithsonian Institution continues to be the cost of maintaining the aging building stock, upgrading exhibitions and administrative and financial systems, and investing in human resources.

DEVELOPMENT

Despite a weakened economy, fiscal year 2002 was a successful year for fund raising. The Institution raised \$164.6 million in private support from individuals, foundations and corporations, or nearly 93% of last year's total of \$177 million.

Annual Giving and Extraordinary Gifts*, Fiscal Years 2001 and 2002

*Extraordinary gifts are those of \$5 million or more.



Columns reflect cumulative fund raising amounts

Fiscal year 2002's extraordinary gifts, those of \$5 million or above, include:

- \$10 million from the General Motors Foundation in support of the National Museum of American History, Behring Center's *America on the Move* exhibition;
- \$10 million from the Oneida Indian Nation of New York toward construction of the National Museum of the American Indian;
- \$10 million from Lockheed Martin Corporation toward construction of the Steven F. Udvar-Hazy Center;
- \$10 million from John F. McDonnell and James S. McDonnell III and The JSM Charitable Trust toward construction of the Steven F. Udvar-Hazy Center;
- \$10 million from McDonald's Corporation for exclusive food service rights at the National Air and Space Museum, and carts located outside the museum seasonally on the west-side patio and at the Steven F. Udvar-Hazy Center; and
- \$5.1 million as an anonymous gift toward construction of the National Museum of the American Indian;

Major gifts received near the end of fiscal year 2002 include \$1.2 million from Alcoa for support of a Wright brothers exhibition at the Steven F. Udvar-Hazy Center and \$1.25 million from Raytheon for the ATC/TRACON (air traffic control) exhibition at the Center. A memorandum of understanding for a significant marketing sponsorship with Coca-Cola has also been signed, which includes corporate membership as well as sponsorship fees.

The Development Office undertook several projects in fiscal year 2002 to increase philanthropic commitments and grants, in addition to ongoing fund raising and oversight of work to secure major gifts through the units. In fiscal year 2002, 13 of 20 units met or exceeded their fund-raising goals.

A special appeal letter from Secretary Small asking for the support of the American people in light of the Institution's decreased revenue post-9/11 generated more than \$1 million. The success of this appeal has been formalized as the "Secretary's Annual Fund," and a letter will now be mailed annually in both November and February to a combination of pan-Institutional members, high level donors, and others with multiple affiliations with the Smithsonian.

This year, the Contributing Membership raised \$11.9 million in unrestricted funds, as opposed to \$11.6 million in 2001, and welcomed 22,305 new members and donors, making its membership total the highest ever at 73,000 national and international members. Cumulatively, the Contributing Membership has contributed \$147 million since the program's inception 38 years ago.

The Development Office's ongoing cultivation work continues to generate consistent and increased giving from groups such as the Smithsonian National Board, the James Smithson Society and unit boards and commissions. Giving is also progressing for the major construction projects and efforts across the Institution to reinvigorate programs and services for 21st century audiences.

SMITHSONIAN BUSINESS VENTURES

Smithsonian Business Ventures (SBV) earned operating income of \$18.8 million in fiscal year 2002 on total revenues of \$139 million. While all Smithsonian businesses were profitable, operating income declined by nearly \$7.4 million from the prior year due to reduced museum visitation and the continuing recession in the magazine advertising industry. Declines in domestic and international travel and tourism following the events of September 11, 2001 had a dramatic impact on SBV. Sales at museum stores, theaters and restaurants rely on the number of visitors to the museums, and travel industry clients are *Smithsonian Magazine's* single largest category of advertising revenue. Despite these external factors, several business units performed better than in fiscal year 2001, principally Smithsonian Catalogue, consumer product licensing, and IMAX theaters.

Immediately following September 11, 2001, management developed a plan to cut operating expenses by \$7.2 million and to reduce the workforce by 11% (70 FTEs) in anticipation of decreased revenues. During the course of FY2002 the workforce was reduced by 87 employees. Aggressive efforts were made to improve revenues, including direct marketing to Washington area residents to encourage repeat business. Major efficiency initiatives were also undertaken.

SBV enters fiscal year 2003 positioned to provide a substantially increased contribution in unrestricted funds for the Institution, depending on the degree of recovery in museum visitation and the general economy.

Growth in selected business ventures in fiscal year 2002 include:

- Improvements and new concessions in museum retail operations are successfully generating incremental revenue and improving the visitor experience.
 - At the National Air and Space Museum (NASM), SBV installed a "full dome projection system," and created a new show, *Infinity Express*, for the Planetarium. Since the re-opening, attendance is up over 50% weekly.

- A new concession of state-of-the-art, dual-axis flight simulators at NASM offers museum visitors the experience of simulated flight and piloting aircraft, generating a significant new revenue stream.
- Following a multi-million dollar renovation, the Wright Place food court at NASM opened for the summer season with a flagship trio of menu offerings from McDonald's, Donato's Pizzeria, and Boston Market. The ten-year operating agreement includes total minimum guaranteed commissions of \$16.1 million and \$5 million in cash marketing fees, for a total of \$21 million of guaranteed payments.
- *Smithsonian Magazine* maintained two million paid circulation and readership levels of eight million monthly.
 - The publishing staff sold 514 pages of advertising, a 19% decline from fiscal year 2001, in the face of the magazine advertising industry's worst recession since World War II.
 - The Magazine installed a new Editor-in-Chief, the third in its 32-year history.
 - In spite of marketplace turmoil, *Smithsonian* achieved continued high rates of subscriber renewals and reader satisfaction.
- A significant efficiency initiative was completed with the outsourcing of the Catalogue fulfillment operations in Chantilly, generating substantial long-term savings of \$1.5 million a year for the Institution beginning in fiscal year 2003.
- *Smithsonian Magazine* published the first free visitor's guide, *My Smithsonian*, with an initial circulation of 3.5 million copies and advertising revenue of \$467,000. This comprehensive guide is designed to enhance visitor outreach and help families navigate Smithsonian museums.
- SBV established a Group Sales Division to increase group tourism and museum sales by marketing Smithsonian museum visits and packages to school, tour, and convention groups.
 - These first-ever Smithsonian group packages and consolidated group sales reservations yielded gross revenues in fiscal year 2002 of \$533,000, representing approximately 97,000 group visitors; the fiscal year 2003 sales plan calls for significant increases to \$800,000 and 123,000 group visitors.
 - Programs were established with Washington hotel operators and packages were developed in partnership with groups such as the American Automobile Association and the American Association of Retired Persons.
 - A strategic partnership with the National Museum of Natural History's (NMNH) Education Department has created an electronic newsletter targeting regional educators with promotions for group package sales and teachers' events. The current target focus of 20,000 educators is expected to grow substantially in fiscal year 2003.
- Additional investments were made to upgrade stores and restaurants across the National Mall.
 - At NMNH, the Gem and Mineral Store was renovated and the new exhibit-driven Fossil Café opened.
 - A new quick service café opened at the Arts and Industries Building.
 - A new Smithsonian Museum Store opened at Dulles International Airport.

- SBV secured museum support for an extended summer hours program on the National Mall from Memorial Day through Labor Day weekends, yielding an additional \$1 million in sales at NMNH.
- SBV established a pan-Institutional committee and spearheaded the redesign of the Smithsonian's web home page and top-tier navigation. Launched in May, it was named one of 200 "Outstanding Web Sites" in the 2002 Web Award Competition. In addition to soliciting for Catalogue requests and other e-commerce activities, the site will sell, for the first time, memberships online.

CONCLUSION

Fiscal year 2002 was a year of solid accomplishment at the Smithsonian in spite of the aftermath of the tragedies that occurred in September 2001 and the sluggish economy. The Institution is moving forward, prepared to take on future challenges and opportunities. In addition to dealing with the dramatic reduction in visitation following the terrorist attacks, the Smithsonian's staff faces the daunting task of having to raise billions of dollars from public and private sector sources and use them to modernize the Institution's dilapidated buildings, aged exhibits and creaking infrastructure, complete several major new museum construction projects, and refocus Smithsonian scientific research activities into a coherent set of understandable, well known, well financed units with clear cut missions and priorities. In spite of the magnitude of such a huge revitalization effort, we have confidence that we can achieve what we have set out to do. Looking back on fiscal year 2002, the Smithsonian has demonstrated it has the capacity to accomplish a great deal.