



Smithsonian Institution



*The renovated Donald W. Reynolds Center for American Art and Portraiture
in the historic Patent Office Building reopened on July 1*

Report to the Board of Regents Third Quarter, Fiscal Year 2006

September 2006

Public Impact

Visits to the Smithsonian

In the first nine months of fiscal year 2006, the Institution counted **19.9 million** visits to its museums, traveling exhibitions, and National Zoo. This was divided as follows:

- **16.4 million** visits to Smithsonian museums in Washington and New York, plus the National Zoo and Udvar-Hazy Center—down **5 percent** from the comparable period in the previous fiscal year;
- **3.5 million** visits to traveling exhibitions mounted by the Smithsonian Institution Traveling Exhibition Service—up **43 percent** from the comparable period in the previous fiscal year.

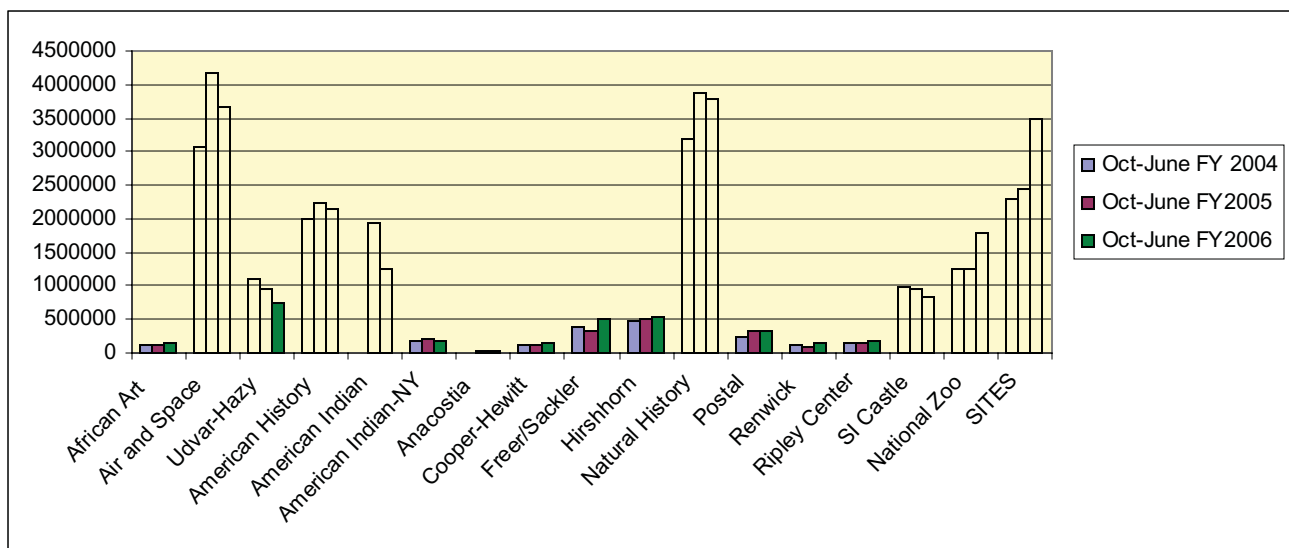
Analysis of the visitation numbers presents a mixed picture. Attendance was down dramatically at two destinations—the National Museum of the American Indian (36 percent) and the Udvar-Hazy Center (22 percent)—but both cases reflect an expected loss of the “novelty factor” at the new museums. Attendance also declined, albeit more modestly, at the other large museums: the National Air and Space Museum (12 percent); the National Museum of American History (4 percent); and the National Museum of Natural History (2 percent). American History and Natural History were closed to visitors for several days at the end of June due to heavy rains and flooding, and this accounts for a significant part of the small declines in visitorship recorded at these museums.

On the other hand, visitation to the National Zoo was up by 43 percent, thanks to public interest in the panda cub Tai Shan. Smithsonian art museums also are having a spectacular year, with overall visitation up by 25 percent. Reflecting strong exhibition schedules, a modest increase was realized at the Hirshhorn (8 percent) and major increases were seen at the Cooper-Hewitt (23 percent), National Museum of African Art (27 percent), Renwick Gallery (39 percent), and Freer and Sackler Galleries (48 percent).

Disregarding the expected declines in visitorship to new museums over time and the effects of the June floods, the increases in visitorship to the art museums and National Zoo essentially offset the declines at other units, leaving visitorship roughly flat in comparison with fiscal year 2005.

Visits to Smithsonian Museums and Traveling Exhibitions

First Nine Months of Fiscal Years 2004, 2005, and 2006



Smithsonian Online

The figure of **110 million visits** to the Smithsonian's wide range of online offerings for the first nine months of fiscal year 2006 was a **38 percent** increase over the same period in fiscal year 2005. This striking rise owes much to the public's fascination with all things panda on the National Zoo's Web site.

As part of the collaborative **Biodiversity Heritage Library** (BHL) project, the Smithsonian Institution Libraries has created an interface that provides access to all BHL-related digital content (some 77,000 page images) in the Libraries' collections.

The National Postal Museum launched *Arago*, a Web site created specifically for the study of philately and postal history that combines the Museum's collections database with innovative storytelling tools.

The Smithsonian American Art Museum's blog *Eye Level* won an American Association of Museums' Silver Muse award. The Museum also added a new interactive called *Meet Me At Midnight*, aimed at getting children interested in museum-going.

In cooperation with the U.S. Geological Survey, the National Museum of Natural History launched an interactive Web site, *The Dynamic Planet: World Map of Volcanoes, Earthquakes, Impact Craters, and Plate Tectonics*.

Exhibition Highlights

The 40th annual **Smithsonian Folklife Festival** opened on June 30, featuring *Alberta at the Smithsonian*; *Carriers of Culture: Living Native Basket Traditions*; *Nuestra Musica: Latino Chicago*; and a series of evening concerts of African-American music from New Orleans, *Been in the Storm So Long*. Over 900,000 people attended the ten-day event.



Anselm Kiefer: Heaven and Earth at the Hirshhorn (June 20–September 10), the first American survey of the renowned German artist's work in almost 20 years, features 40 large works that integrate mythological and mystical themes with modern history.

Rarity Revealed: The Benjamin K. Miller Collection opened at the National Postal Museum on May 27 and will run through October 1, 2007. Among the philatelic gems on display is the "1-Cent 'Z-Grill'"—the rarest of all U.S. stamps, with only two copies known to exist.

On March 15, the National Museum of Natural History presented two new exhibitions in its *Forces of Change* series: *Arctic: A Friend Acting Strangely* and *Atmosphere: Change Is in the Air*. Both will run through November.

The Cooper-Hewitt exhibition *Frederic Church, Winslow Homer, and Thomas Moran: Tourism and the American Landscape* (May 19–October 22) explores the promotion of scenic tourism in 19th-century America through the Museum's collections of works by these artists.

Facing East: Portraits from Asia at the Sackler Gallery (July 1–September 4) features a wide range of works that reveal how the self has been understood and represented in Asian art.

From May 18 to August 20, the Ripley Center concourse hosted *Singgalot: Ties That Bind*, a photo exhibition recounting 100 years of Filipino immigration to the United States. The show was part of the Smithsonian's year-long Filipino American Centennial Commemoration.

First Look, an intimate preview of works from the National Museum of African Art's recently acquired Disney-Tishman collection of traditional art, will be on display from May 17 through December 3.

The Anacostia Community Museum opened two new exhibitions: *New Orleans Black Mardi Gras Indians: Exploring a Community Tradition from an Insider's View* (April 23–October 15) and *Through Their Eyes: Birney Elementary School Students Photograph Anacostia* (April 23–August 27).

Two exhibits of the works of Native American artists opened at the National Museum of the American Indian's Heye Center in New York: *Will Wilson: Auto Immune Response* and *Virgil Ortiz: La Renaissance Indigene*. Both run from May 6 through September 24.

The Archives of American Art has a new exhibition space in the Reynolds Center: the **Lawrence A. Fleischman Gallery**. The inaugural exhibition, *Artists in their Studios* (July 1–October 27), brings together 75 photographs, letters, and other documents from the Archives' collections.

An exploration of the wildlife of Amazonia, *Vicious Fishes and Other Riches*, delighted children of all ages in the International Gallery of the Ripley Center from April 3 through August 6.

Collections Highlights

On April 24, in a ceremony held at the Smithsonian Castle, the National Portrait Gallery unveiled the portraits of **President Bill Clinton** and **First Lady Hillary Rodham Clinton** that will join its collections.

On May 24, a litter of three **Sumatran tiger cubs**, consisting of one male and two females, was born at the National Zoo.

At a kick-off press ceremony for Jazz Appreciation Month in April, the National Museum of American History welcomed into its collections a number of objects drawn from the lives and work of two legendary jazz masters: pianist **Thelonious Monk** and trumpet player **Miles Davis**.



On May 23, Steve Fossett donated the **Virgin Atlantic Global Flyer**, which flew around the world in 80 hours without refueling, to the National Air and Space Museum. The aircraft, designed and built by Burt Rutan, is on display at the Udvar-Hazy Center.

Education, Event, and Program Highlights



Festivities to mark the reopening of the gloriously renovated **Donald W. Reynolds Center for American Art and Portraiture** took place from June 19 through July 1, when the Center opened to the public. Guests and dignitaries participated in celebratory dinners, open-house tours, and a dedication ceremony on June 21.

The Smithsonian American Art Museum's catalogue *America's Art* was awarded the Frances Smyth-Ravenel Prize ("Best in Show") at the 2006 American Association of Museums Publication Awards. The Freer and Sackler's *Asiatica* won first prize in the annual report category, and the National Museum of African Art's family guide to its exhibition *BIG/small* won first place in the educational materials division.

April was **Jazz Appreciation Month** at the National Museum of American History. It featured 17 programs, including two performances by the Smithsonian Jazz Masterworks Orchestra, Swing Dance Day, and a panel on jazz history hosted by national radio personality Tavis Smiley.

On May 5, **Space Day 2006** at the Udvar-Hazy Center drew more than 15,000 visitors. It featured astronaut appearances, educational activities, and an IMAX film festival. A satellite broadcast of Space

Day was beamed to more than 38,000 schools in North America. (Last year's Space Day broadcast won a Telly Award, recognizing excellence in non-broadcast cable programming.)

On April 27, the Cooper-Hewitt, National Design Museum welcomed over 400 guests for the opening celebration of its **Target National Design Education Center**. Activities featured creation of a graffiti wall with artist Sub, music by MTV's VJ Cipa, and a keynote address by designer Mark Ecko.

The **Fellowship Program** offered awards to 99 scholars, scientists, and students to conduct research at the Smithsonian—12 senior, 34 postdoctoral, 33 predoctoral, and 16 ten-week graduate student fellows.

The National Aeronautic Association awarded the National Air and Space Museum docent corps its **2005 Frank G. Brewer Trophy** for significant contributions to aerospace education.

Twenty-four young people were selected out of a nationwide pool of 13,000 applicants for the Smithsonian Latino Center's **Young Ambassadors Program**, which gives artistically gifted Latino high school seniors a chance to experience the arts field and explore their cultural identity.

The Smithsonian Libraries and the National Museum of the American Indian co-hosted the seventh annual **Spencer Baird Society Dinner** on May 11, which raised \$50,000 toward an endowment for the Museum's library. The audience of 180 was entertained by media personalities Kate and Jim Lehrer.

National Outreach

Smithsonian Institution Traveling Exhibitions Service (SITES)

During the third quarter of fiscal year 2006, SITES circulated **45 exhibitions** to **62 locations** in 36 states plus the District of Columbia. Attendance was approximately **1.2 million** for the quarter.

One new SITES exhibition went on the road: *Wondrous Cold: An Antarctic Journey*, which opened on May 17 at the National Museum of Natural History. It features images by photographer Joan Myers that capture life at Antarctica's McMurdo Station, as well as panoramic views of Antarctica's austere beauty. A companion book received an award for graphic design in the American Association of Museums' 2006 Museum Publications Competition.



Smithsonian Affiliations

In the third quarter of fiscal year 2006, Smithsonian Affiliations signed agreements with **seven new Affiliates**. There are currently **143 Affiliates** in 39 states, the District of Columbia, Puerto Rico, and Panama. The seventh annual **Smithsonian Affiliations National Conference** (June 13–15) brought together 92 participants representing 67 affiliates from 35 states, the District of Columbia, and Puerto Rico; a Congressional reception attracted two senators and three representatives.

Smithsonian Center for Education and Museum Studies (SCEMS)

On May 24, SCEMS hosted the first meeting of the steering committee for the Smithsonian's partnership with the Council of Chief State School Officers. The committee identified several priority projects, including alignment of Smithsonian resources with standards of learning in all states.

"The Music in Poetry," the spring 2006 issue of *Smithsonian in Your Classroom*, features a "soundtrack." Students can go to a special Web page and listen to music from Folkways Recordings that illustrates the lessons contained in it. Copies were distributed to 83,000 elementary and middle school libraries in the United States.

The Smithsonian Associates (TSA)

During the third quarter of fiscal year 2006, TSA programs featured such distinguished personalities as professor of linguistics Deborah Tannen, author Frank McCourt, *New Yorker* editor David Remnick, and cartoonist Jules Feiffer. TSA's Regional Events program reached into eight communities around the country, bringing Smithsonian experts into local schools, museums, libraries, and civic organizations.

Focused, First-Class Science

Science Division

The National Zoo, Smithsonian Tropical Research Institute, and Office of the Under Secretary for Science have been forging partnerships within the U.S. government to apply the expertise of the Smithsonian to the national effort to address **avian flu**. Smithsonian science units have published some 700 papers on the ecology of wildlife diseases in the last 10 years.

National Zoological Park (NZZP)

In June, the Zoo launched **Elephant Trails: A Campaign to Save Asian Elephants**, an initiative with four elements: a new habitat at the Zoo's Rock Creek Park facility for its Asian elephants; a conservation program built on decades of Smithsonian science; a public education program; and a new research facility at the Zoo's Conservation and Research Center.



A memorandum of understanding was signed between the **U.S. Fish and Wildlife Service** and the Conservation Centers for Species Survival (which includes NZZP's Conservation and Research Center) to establish a joint framework for research and conservation of priority species and their habitats.

Katherine Ralls received an honorary fellowship from the Zoological Society of London. The Society awards these fellowships to only the most eminent zoologists; two were awarded this year.

The July 2006 issue of *National Geographic* focused on panda research at the National Zoo. **Jon Ballou**, **Dave Wildt**, and **Lisa Stevens** were interviewed for the article, which included many pictures of Zoo pandas **Tai Shan** and **Mei Xiang**, including a cover photo.

Smithsonian Environmental Research Center (SERC)

In the first nine months of fiscal year 2006, SERC scientists received **37 new research grant/contract awards**, totalling **\$4.4 million**.

SERC's field experiment on how rising atmospheric carbon dioxide affects natural plant communities marked its 20th year. The longest-running project of its type in the world, it has received support from the Department of Energy, the U.S. Geological Survey, and the National Science Foundation.

A number of SERC scientists currently serve in key scientific leadership positions, including **Wayne Coats** (president of the International Society of Protozoologists), **Thomas Jordan** (president of the Association of Ecosystem Research Centers), **Patrick Megonigal** (president-elect of the Society of Wetland Scientists), **Patrick Neale** (president-elect of the Society of Photobiology), **Denise Breitburg** (co-chair of the Science and Technology Advisory Committee of the Chesapeake Bay Program), and **Anson Hines** and **Dennis Whigham** (board members of the Chesapeake Research Consortium).

Smithsonian Tropical Research Institute (STRI)

From April to June 2006, STRI reported 57 **publications**, including four books and articles in *Science*, *Nature*, and *Proceedings of the National Academy of Sciences*.

On June 6, the *New York Times* featured an article by **Nancy Beth Jackson** describing the establishment of STRI's Barro Colorado Island Forest Dynamic Plot and the Center for Tropical Forest Sciences.

STRI research associate **Phyllis D. Coley** was elected to the American Academy of Arts and Sciences in April. Coley's work focuses on plants' chemical defenses against herbivores and disease.

In May, STRI signed an agreement with the **United Nations Educational, Scientific and Cultural Organization** (UNESCO) to develop a new management plan for Panama's Coiba National Park and Special Marine Conservation Area.

An environmental leadership and training program to promote conservation in tropical forests has been established at **Yale University**; it will be coordinated in partnership with STRI.

Smithsonian Astrophysical Observatory (SAO)

Center director **Charles Alcock** was elected into the American Academy of Arts and Sciences. The Academy, whose members are drawn from a wide range of disciplines and professions, is a policy research center that conducts multidisciplinary studies of complex emerging problems.

Warren Brown, **Margaret Geller**, **Scott Kenyon**, and **Michael Kurtz** reported the discovery of two new hypervelocity stars—stars moving with high velocity relative to the galactic rest frame, and which therefore will escape eventually from the galaxy.

Despite a reputation as irresistible sinks for matter and energy, black holes are often sources of powerful emission. Writing in *Nature*, **John Raymond** and his team used the Chandra X-Ray Observatory to report the first case in which it is clear that magnetic field processes are responsible.



National Museum of Natural History (NMNH)

A study published in *Paleoceanography* by **Brian Huber** and two co-authors reveals a high degree of climatic variability and regional divergences from global temperature trends during the late Cretaceous period, about 65 million years ago. This contrasts with the previously held view that Cretaceous climates were stable and uniformly warm.

Documenting Domestication: New Genetic and Archaeological Paradigms, a new volume by **Melinda Zeder**, **Bruce D. Smith**, and two colleagues, brings together the work of leading archaeologists and biologists working on the domestication of both plants and animals.

Museum Conservation Institute (MCI)



Don Williams supervised the restoration of a 1866 parlor cabinet attributed to Alexander Roux, which is now featured among the Smithsonian American Art Museum's permanent exhibits.

MCI has purchased a state-of-the-art **Breuckmann 3D Topographic Digitizing System**, a high-resolution scanner that acquires full-color and spatial data for images that will document a variety of Smithsonian collections and research material, from Bronze Age "deer stones" to whale skulls to modern sculpture.

National Air and Space Museum Center for Earth and Planetary Studies (CEPS)

CEPS scientists serve on science teams for several spacecraft missions, including the **Mars Exploration Rovers**, **Mars Reconnaissance Orbiter**, **Mars Express**, and **MESSENGER to Mercury**. Scientists from CEPS have submitted two abstracts of recommendations for the next Mars Lander mission.

John Grant continues mission planning and targeting activities for the Spirit Rover and is making preparations for targeting the HiRISE camera on the Mars Reconnaissance Orbiter. Grant is also co-chair of the Landing Site Selection Committee for the next Mars Lander mission.

Management Excellence

Leadership Milestones

John W. Smith was named director of the Archives of American Art. He previously served as assistant director for collections, exhibitions, and research at the Andy Warhol Museum.

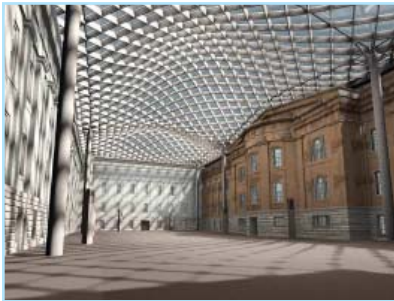


Major Construction and Renovation Projects

Donald W. Reynolds Center for American Art and Portraiture

384,000 gross sq. ft. \$298 million total estimated project and program cost

The Donald W. Reynolds Center for American Art and Portraiture in the historic Patent Office Building reopened to the public on July 1, 2006. The privately funded courtyard enclosure is anticipated to open during the first quarter of 2008. The installation of structural steel framing for the roof enclosure is approximately 50 percent complete. Final design approvals for the interior courtyard landscape were received from the Commission of Fine Arts in June and the National Capital Planning Commission in July. The preliminary design for the exterior landscape, perimeter security, and F Street stair reconstruction will be submitted for review by these agencies at the beginning of September.



The \$298 million total project cost includes \$166 million in Federal funds for the original building; \$72.6 million in Trust funds for the courtyard enclosure, landscape, and F Street stairs; and the Trust-funded remainder for exhibits, programs, and support costs.

National Zoological Park

\$111.7 million total estimated cost for Asia Trail, phases I and II

The Asia Trail, a Federal/private partnership, will upgrade nearly 25 percent of the Zoo's developed area. Asia Trail I will provide new homes for the giant pandas and other animals at a total projected cost of \$52.7 million—\$45.2 million Federal and \$7.5 million Trust. Construction is nearly 80 percent complete, with the opening planned for late October 2006.

Asia Trail II will renovate the elephant house and expand the elephants' outdoor environment at a total projected cost of \$59 million (\$35.8 million Federal). The Smithsonian expects to award a "design-build" contract (for both design and construction) by September 25. The fiscal year 2006 appropriations bill provided \$9 million for this project, plus \$4.5 million for other Zoo facilities revitalization projects. The fiscal year 2007 request contains \$13 million for the elephant trails project.

National Museum of American History, Kenneth E. Behring Center

Central core: 120,000 gross sq. ft. \$85.1 million total project cost

The \$85.1 million total cost includes design and construction for infrastructure and architectural enhancements to the central core and *Star-Spangled Banner* exhibit. The Federal contribution is \$4 million for design and \$41.9 million for public space renewal; the remainder will be Trust-funded.

Sixty-five percent design documents will be received in July 2006 and construction is planned to start in fall 2006. The building will remain closed for 20 months and will reopen in fall 2008 (with the *Star-Spangled Banner* exhibit slated to reopen in late 2008). Private funds have been raised for the central core enhancements, and fund raising continues for the *Star-Spangled Banner* exhibit. The fiscal year 2007 Federal budget request of \$13.5 million will complete Federal funding for the central core project.

National Museum of African American History and Culture

Total project and program cost to be determined

On January 30, the Board of Regents designated a site on the National Mall for the new National Museum of African American History and Culture (NMAAHC). Currently under the jurisdiction of the National Park Service, the site will be transferred to the Smithsonian. Pre-project planning, including an environmental impact statement and historic preservation research, will be initiated in September. Pre-design services, including detailed architectural programming, are anticipated to begin in early summer 2007. A separate competitive process will be undertaken to select a design team.



National Museum of Natural History, Ocean Hall Exhibit

Exhibition area: 39,000 gross sq. ft. \$43.9 million total estimated project and program cost

The National Museum of Natural History is in the midst of its largest renovation of public space in the last 40 years, involving seven major halls. Installation of the Ocean Hall exhibition will begin upon completion of the public space renewal project in March 2007. The total estimated cost of the Ocean Hall is \$43.9 million: \$21.7 million from Smithsonian Federal funding for fiscal years 2002 through 2006 and \$22.2 million from a NOAA grant. The construction of the Federally funded portion is 52 percent complete. The exhibition is targeted to open during the fall of 2008.

Museum Support Center, Pod 5

119,500 gross sq. ft. \$42.7 million total estimated project cost

Construction of a fifth storage pod at the Museum Support Center (MSC) in Suitland, Maryland, began in October 2005. Pod 5 will house most of the alcohol collections currently stored at the Natural History building and all of the collections from Pod 3 at MSC. This will eliminate a major safety concern by removing 365,000 gallons of alcohol from the Natural History building. Congress has provided \$37.3 million of the total project cost of \$42.7 million through fiscal year 2006, with the remaining \$5.4 million included in the facilities capital budget request for fiscal year 2007. Construction is 46 percent complete and on schedule to be finished in the spring of 2007.

Arts and Industries Building (AIB) Staff and Programs Relocation and Building Closure

200,000 gross sq. ft. \$34 million total project cost

The following offices were moved during (or shortly after) the third quarter of fiscal year 2006: Smithsonian Affiliations (to L'Enfant Plaza); the Accessibility Office (to the American History building); the Office of the Chief Information Officer data center (to Herndon, Virginia); and the Office of Facilities Management and Reliability, Office of Protection Services headquarters, Office of the Chief Information Officer (all to near-Mall operations), and Office of Policy and Analysis (to Capital Gallery). OCIO staff remaining at AIB will move to Herndon at the end of August. Smithsonian Archives staff and collections will move to Capital Gallery in August, and other tenants are scheduled for September moves to the Quadrangle. The last 8 percent of staff in AIB will not move until the end of the calendar year, due to the need to coordinate these moves with the relocation of staff from the Victor Building.

Permanent Physical Security Barriers—Multi-facility, Mall and Off-Mall

\$55 million total project and program cost

Temporary perimeter security barriers installed after September 11, 2001, will be replaced with permanent barriers over several years, with Mall facilities taking precedence. Mall-wide, 35 percent design is complete. Project funding to date has come from \$8 million in Federal anti-terrorism supplements. Perimeter security improvements at the National Air and Space Museum are 60 percent complete and scheduled to be finished in late 2006; perimeter modifications to the National Museum of the American Indian are 100 percent complete.

The fiscal year 2006 appropriations bill provided an additional \$7.9 million for design and construction of security barriers around the National Museum of Natural History. Design documents are 100 percent complete and the construction contract will be awarded in late summer. Also included is \$1 million for the design of National Museum of American History barriers. No funding for these programs is included in the fiscal year 2007 Federal request.

Victor Building Staff Relocation and Consolidation

213,000 gross sq. ft. \$13 million total project cost

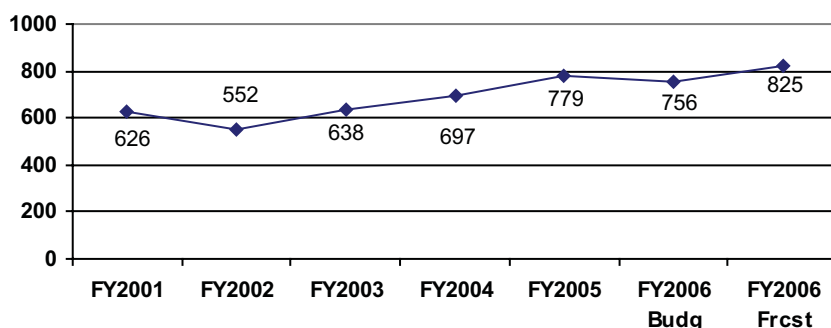
The sale of the Victor Building in late 2005 requires the relocation of approximately 750 staff to leased space and the consolidation of remaining staff on lower floors of the Building. The Regents have approved relocation/consolidation funding out of the sale proceeds, with the total project cost not to exceed \$13 million. Approximately 75,000 square feet have been leased near the Mall for those offices whose mission requires such proximity, and an additional 50,000 square feet has been leased in nearby Virginia. Plans have been developed for these spaces, with all moves to be completed by January 31, 2007. The projected rent for space in Virginia, near the Mall, and in the Victor Building (for those units remaining there) will not exceed the rent currently being paid for Victor Building occupants.

Financial Strength

Fiscal year 2006 shows signs of being another good year financially. The Smithsonian is largely on track to meet its budget. While museum visitation has declined somewhat and net income from retail business has fallen short of budget, private-sector giving has remained strong and the Institution's Endowment continues to perform well, outperforming the Institution's market benchmarks.

The Endowment's forecast market value for fiscal year-end 2006, \$825 million, shows a positive budget variance of \$69 million. This reflects a stronger-than-projected performance in the fourth quarter of fiscal year 2005 (which occurred after the fiscal year 2006 budget was established) and unbudgeted new funds from donor-designated gifts in fiscal years 2005 and 2006.

Smithsonian Institution Year End Endowment Value (\$ in millions)



Financial Performance

In final action on the Institution's appropriation for fiscal year 2006, Congress approved less funding than required to fully fund the mandated Federal staff pay raise and to support ongoing operations. The Institution absorbed this shortfall largely by not filling newly vacant positions. To hold down unrestricted Trust expenses, management continued to fill only one position for every two vacancies funded with unrestricted Trust funds. These actions brought requirements for ongoing programs in line with the current Federal appropriation and generated a small unrestricted Trust fund surplus.

Revenues for fiscal year 2006 are forecast to exceed budget by \$12 million. This primarily is due to increases in funds raised by the Institution, interest earned on short-term investments, and other miscellaneous income generated through unit-raised royalties, special events, and unit-sponsored business activities. These positive variances were offset by decreases in Federal revenues for operations (due to across-the-board reductions in appropriations imposed by Congress after the budget was prepared) and in SBV net gain (due to the disappointing performance of catalog and museum retail operations and an incorrect budget assumption about the loss of MBNA affinity credit card program revenue).

Expenses for fiscal year 2006 are forecast to be under budget by \$4 million, due largely to the decrease in spending associated with the reductions in appropriations imposed by Congress and a decrease in the non-cash depreciation charge for the Victor Building, which was sold in November 2005.

Smithsonian Institution Financial Performance for Fiscal Year 2006 (\$ in millions)

	FY2006 Budget	FY2006 Actual	Variance to Budget
Revenues	929	941	12
Expenses	852	848	4
Endowment Return Reinvested	20	20	0
Other	36	63	27
Growth in Net Assets	133	176	43

The large positive budget variance (\$27 million) in the "Other" category is due to extraordinary income from the sales of the Victor Building and a warehouse property in northern Virginia that had been

expected to occur late in fiscal year 2005, but instead produced a gain of \$68 million in fiscal year 2006. Taken together with other minor activities, the Institution forecasts an increase in net worth of \$176 million in fiscal year 2006—\$43 million better than budgeted.

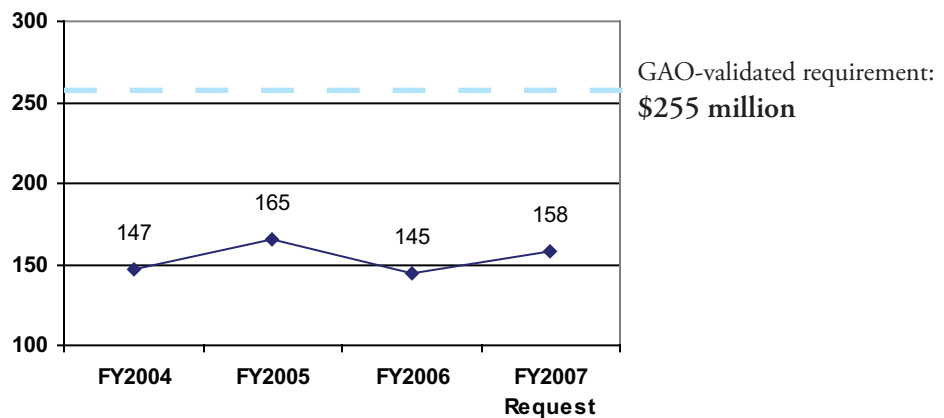
Financial Summary

The Smithsonian continues to make considerable progress in achieving its goals, despite ongoing fiscal challenges. Revitalization of the Institution’s aging infrastructure continues—albeit with somewhat less momentum due to a 31 percent decline in Federal facilities revitalization funding in fiscal year 2006. Ongoing major capital projects are on budget and on schedule. Work on enhancing Smithsonian security, modernizing telephone systems and computers, and upgrading financial control infrastructure continues, despite staff shortfalls and resource constraints.

Unfortunately, the Smithsonian’s budget for physical infrastructure remains inadequate. A 2001 Congressionally mandated report by the National Academy of Public Administration (NAPA) established an average annual facilities revitalization funding requirement of \$150 million. An April 2005 report by the Government Accountability Office (GAO) expanded on the NAPA report, validating the Institution’s overall facilities requirement of \$2.3 billion for fiscal years 2005–13 and establishing a more comprehensive annual funding requirement of \$255 million. Without \$255 million annually for facilities, the Smithsonian cannot expect to get ahead of the problem of its aged physical plant. Securing adequate Federal funds for facilities revitalization remains the Institution’s most pressing challenge.

The response of trained in-house facilities staff to the floods of late 2006 averted a major crisis for Smithsonian buildings, systems, and collections. However, inadequate funding for facilities maintenance and revitalization continues to gradually take its toll: in May 2006, the National Trust for Historic Preservation added the Arts and Industries Building to its list of endangered historic landmarks.

Funding for Smithsonian Facilities (\$ in millions)



External Affairs

As of June 30, 2006, the Institution is well on the way to reaching its private fund-raising goal of \$100 million. This year, the Smithsonian has received many gifts of \$1 million or more through June 30, which assisted with institutional fund-raising priorities. These include the opening of the Donald W. Reynolds Center on July 1, the phase II construction of the National Air and Space Museum’s Udvar-Hazy Center, the transformation of the National Museum of American History and its *Star-Spangled Banner* exhibit, and other projects.

In June, the Office of External Affairs launched **Smithsonian Focus**, a free monthly e-newsletter. Subscribers to Smithsonian Focus will be asked to give to the Smithsonian in separate electronic fund-raising appeals.

The Contributing Membership and its James Smithson Society continue their strong growth. A number of guests attended the James Smithson Society Annual Gala Dinner on May 14 in the National Air and Space Museum's Milestones of Flight Gallery.

The March Smithsonian National Board study tour to India was an outstanding success. The Board's annual spring meeting was held in Washington on May 11–14.

Smithsonian Business Ventures (SBV)

In the third quarter, visitation to the museums where SBV operates fell by 10 percent compared to the same period in 2005, adversely affecting retail operations. The Smithsonian catalog, which experienced financial and operating challenges in the holiday season, also performed below plan in the third quarter. *Smithsonian* magazine remained in line with the budget, and licensing and travel operations showed improvement. Overall, however, SBV revenues declined by \$2 million in the third quarter, and earnings thru the third quarter fell short of budget by 10 percent.

Activities to prepare for the launch of *Smithsonian On Demand* are under way. SBV staff have provided briefings for all units and the development of programs from Smithsonian content has commenced. The venture has begun hiring independent producers, and the new venture has fully staffed its editorial, production, and marketing teams.

Smithsonian magazine has made some exciting changes. A new "Around the Mall" section, which has its own cover and table of contents, groups all Smithsonian-related content together. A new Web division has been created to develop advertising online. And a number of new features have been added to the *Smithsonian* Web site as part of a strategy to better engage readers and attract a younger audience.

A licensing revenue agreement was finalized with EF Education First, an experienced domestic student tour operator. Under the name **EF Smithsonian**, it will offer teacher-led tours for U.S. middle- and high-school students to destinations throughout the nation.

A letter of intent containing principal terms of an agreement to establish a co-branded affinity credit card partnership has been reached with a major credit card company. The relationship will bring opportunities for the Smithsonian, such as participation in the company's membership rewards program and access to its marketing channels.

A marketing program with **Corbis Images**, the largest image archive in the world, will start in fall 2006 with an initial sampling of 400–500 images from the Smithsonian's collections. Corbis will act as a worldwide sales representative, offering Smithsonian images for commercial or editorial use in advertising, magazines, textbooks, and other venues, and will bear all costs.

The Smithsonian expects over 6600 members to travel with **Smithsonian Journeys** in fiscal year 2006, a rise of nearly 1,000 over fiscal year 2005, resulting in nearly \$1 million in additional revenue. Smithsonian Journeys also has launched a cruise catalog aimed at travelers interested in high-end ocean and river cruises worldwide.

SBV's partnership with **HarperCollins Publishers** saw the recent debuts of Richard Kurin's *Hope Diamond*, the story behind the most famous (and infamous) gem in the world, and Robert V. Remini's *The House*, a fascinating history of the U.S. House of Representatives.