Submission of Special Purpose Audited Statements and Related Documents to Office of Management and Budget

NOVEMBER 15, 2012
WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

Special-Purpose Financial Statements

September 30, 2012 and 2011

(With Independent Auditors’ Report Thereon)
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Independent Auditors’ Report

The Board of Trustees
Woodrow Wilson International Center for Scholars:

We have audited the accompanying Federal statements of financial position of the Woodrow Wilson International Center for Scholars (the Center) as of September 30, 2012 and 2011 and the related Federal statements of activities and cash flows for the years then ended. These special-purpose financial statements are the responsibility of the Center’s management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the special-purpose financial statements. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 2, the accompanying special-purpose financial statements were prepared to present the assets, liabilities, net assets, revenues, expenses, and cash flows related to the Center’s direct federal appropriation and are not intended to be a complete presentation of the Center’s financial position and activities under U.S. generally accepted accounting principles.

In our opinion, the accompanying special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center’s direct federal appropriation as of September 30, 2012 and 2011, and the changes in net assets and cash flows of the Center’s direct federal appropriation for the years then ended, in conformity with U.S. generally accepted accounting principles and the presentation described above and in note 2 to the financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2012 on our consideration of the Center’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.
This report is intended solely for the information and use of the Center’s Board of Trustees, the Center’s management, and the U.S. Office of Management and Budget, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2012
WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS
Federal Statements of Financial Position
September 30, 2012 and 2011

<table>
<thead>
<tr>
<th>Assets</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance with Treasury</td>
<td>$4,709,127</td>
<td>4,098,528</td>
</tr>
<tr>
<td>Prepaid costs and other assets</td>
<td>2,360</td>
<td>79,431</td>
</tr>
<tr>
<td>Equipment and leasehold improvements, net (note 3)</td>
<td>2,182,612</td>
<td>2,239,484</td>
</tr>
<tr>
<td>Total assets</td>
<td>6,894,099</td>
<td>6,417,443</td>
</tr>
</tbody>
</table>

**Liabilities and Net Assets**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>904,667</td>
<td>1,228,504</td>
</tr>
<tr>
<td>Grants payable</td>
<td>2,213,570</td>
<td>1,633,403</td>
</tr>
<tr>
<td>Deferred revenue (note 7)</td>
<td>1,593,250</td>
<td>1,316,052</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4,711,487</td>
<td>4,177,959</td>
</tr>
</tbody>
</table>

Net assets – unrestricted                     | 2,182,612  | 2,239,484  |

Commitments and contingencies (note 5)        |            |            |
| Total liabilities and net assets             | $6,894,099 | 6,417,443  |

See accompanying notes to special-purpose financial statements.
WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS  
Federal Statements of Activities  
Years ended September 30, 2012 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations revenue</td>
<td>$10,521,178</td>
<td>11,002,449</td>
</tr>
<tr>
<td>Expenses (note 5):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fellows</td>
<td>2,587,670</td>
<td>2,119,400</td>
</tr>
<tr>
<td>Services to fellows</td>
<td>985,918</td>
<td>1,140,801</td>
</tr>
<tr>
<td>Conferences and special projects</td>
<td>3,818,546</td>
<td>4,153,915</td>
</tr>
<tr>
<td>Wilson Quarterly</td>
<td>301,638</td>
<td>323,315</td>
</tr>
<tr>
<td>Total program services</td>
<td>7,693,772</td>
<td>7,737,431</td>
</tr>
<tr>
<td>Supporting services (note 4):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>2,884,278</td>
<td>3,032,692</td>
</tr>
<tr>
<td>Total expenses</td>
<td>10,578,050</td>
<td>10,770,123</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>(56,872)</td>
<td>232,326</td>
</tr>
<tr>
<td>Net assets – unrestricted, beginning of year</td>
<td>2,239,484</td>
<td>2,007,158</td>
</tr>
<tr>
<td>Net assets – unrestricted, end of year</td>
<td>$2,182,612</td>
<td>2,239,484</td>
</tr>
</tbody>
</table>

See accompanying notes to special-purpose financial statements.
WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS
Federal Statements of Cash Flow
Years ended September 30, 2012 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$(56,872)</td>
<td>232,326</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>273,365</td>
<td>190,114</td>
</tr>
<tr>
<td>Decrease (increase) in prepaid costs and other assets</td>
<td>77,071</td>
<td>154,737</td>
</tr>
<tr>
<td>Increase (decrease) in liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>(323,837)</td>
<td>12,363</td>
</tr>
<tr>
<td>Grants payable</td>
<td>580,167</td>
<td>(433,615)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>277,198</td>
<td>(47,133)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>827,092</td>
<td>108,792</td>
</tr>
</tbody>
</table>

Cash flows from investing activities:

| Purchases of equipment and leasehold improvements | (216,493) | (422,440) |

Net cash used in investing activities | (216,493) | (422,440) |

Net (decrease) increase in Fund Balance with Treasury | 610,599   | (313,648) |

Fund Balance with Treasury, beginning of year | 4,098,528 | 4,412,176 |

Fund Balance with Treasury, ending of year | $ 4,709,127 | 4,098,528 |

See accompanying notes to special-purpose financial statements.
(1) Organization, Mission, and Federal Support

The Woodrow Wilson International Center for Scholars (the Center), a publicly supported, nonprofit organization, was created by the Congress of the United States, as a living memorial – an institution that would serve as a visible tribute to our 28th president by conducting activities that symbolize and strengthen relations between the world of learning and the world of public affairs.

The Center was established under the Woodrow Wilson Memorial Act of 1968 (P.L. 90-637) as an international center for advanced studies. The Center’s purpose is accomplished through its program activities, including supporting international fellows and guest scholars, organizing meetings ranging from small seminars to major international conferences, publishing books to disseminate the Center’s program information, and producing the Wilson Quarterly and the Dialogue radio and television show to report on important developments in the world of scholarship.

Approximately 25% of the Center’s operating budget is funded from its annual federal appropriation. Future appropriations are subject to the action of Congress and are therefore not assured. The Center received a federal appropriation of $10,987,392 for fiscal year 2012 which shall remain available until September 30, 2013 through the Consolidated Appropriations Act, 2012 (Public Law 112-74). The Center’s appropriation for fiscal year 2013 has not been approved by Congress. Currently, the Center is operating under the Continuing Appropriation for Fiscal Year 2013 Act (P.L. 112-175) which provided an amount up to 48.77% of prior year appropriation through March 27, 2013. In addition to the federal appropriations, additional significant federal support is provided through the provision of office space at no cost to the Center.

(2) Summary of Significant Accounting Policies

(a) Special-Purpose Financial Statement Presentation

The accompanying special-purpose financial statements present the financial position, change in net assets and cash flows related to only the federal appropriations received by the Center and is not intended to present the Center’s financial position, statement of activities or cash flows as a whole.

(b) Net Asset Classification

Revenues, gains, and losses are classified as changes in unrestricted net assets as federal funds are available to support the overall mission of the Center.

(c) Revenue Recognition

Federal appropriations are recorded as exchange transactions. Revenue is recognized as expenditures are incurred and to the extent reimbursable costs are incurred. Unused appropriations are refunded five years after the period of availability (see note 7).

(d) Functional Allocation of Expenses

The costs of providing various programs and support activities have been summarized on a functional basis in the federal statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
(e) **Grants Payable**

The Center provides fellowship grants which are expensed and recorded as liabilities at the time the Center receives a signed offer letter from the recipient indicating acceptance of the grant.

(f) **Equipment and Leasehold Improvements**

Furniture and computer equipment is recorded at cost. Equipment acquired by transfer from government agencies is capitalized at the transfer price or at estimated fair value, taking into consideration expected use and current condition. Depreciation is recorded on a straight-line basis over the estimated useful lives of assets as follows:

- Computer equipment 5 years
- Furniture and fixtures 5 to 7 years

Leasehold improvements are recorded at cost and are depreciated over the lesser of the estimated useful life of the asset or the remaining lease term.

(g) **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions may affect reported amounts and disclosures in the special-purpose financial statements. Actual results could differ from those estimates.

(h) **Fund Balance with Treasury**

The Fund Balance with Treasury represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services.

(3) **Equipment and Leasehold Improvements**

As of September 30, 2012 and 2011, equipment and leasehold improvements, consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$1,214,508</td>
<td>$1,122,604</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$2,660,715</td>
<td>$2,660,715</td>
</tr>
<tr>
<td></td>
<td>$3,875,223</td>
<td>$3,783,319</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>$(1,692,611)</td>
<td>$(1,543,835)</td>
</tr>
<tr>
<td></td>
<td>$2,182,612</td>
<td>$2,239,484</td>
</tr>
</tbody>
</table>
(4) Smithsonian Institution

Under a contractual agreement, the Smithsonian Institution (the Smithsonian) acts as the Center’s fiscal agent for federal funds and provides accounting services, certain administrative services, and certain telecommunications services. The amount paid to the Smithsonian by the Center for these services totaled approximately $292,000 and $275,000, for the years ended September 30, 2012 and 2011, respectively.

The Act of Congress that created the Center provides that the Secretary of the Smithsonian shall be a member of the Board of Trustees of the Center.

(5) Retirement Plans

Employees of the Center are covered by retirement plans administered by the Smithsonian and Office of Personnel Management (OPM), in which substantially all Center employees are eligible to participate. The Smithsonian administers the retirement plans for trust employees and OPM administers the retirement plans for federal employees.

Federal employees of the Center are covered by either the Civil Service Retirement System (CSRS, including CSRS-Offset) or the Federal Employee Retirement System (FERS). The features of both of these systems are defined in published government documents. Under both systems, the Center withholds from each federal employee’s salary a required percentage. The Center also contributes specified percentages. The Center’s expense under these systems for the years ended September 30, 2012 and 2011 was approximately $417,000 and $455,000, respectively, for retirement contributions.

Employees covered by CSRS and FERS are eligible to contribute to the U.S. Government’s Thrift Savings Plan (TSP), administered by the Federal Retirement Thrift Investment Board. A TSP account is automatically established for FERS-covered employees, and the Center makes a mandatory contribution of 1% of basic pay. FERS-covered employees are entitled to contribute up to $16,500 and $17,000 for 2011 and 2012, respectively (IRS limit) to their TSP account, with the Center making matching contributions of up to 4% of basic pay in addition to the automatic 1% employer paid contribution. Employees covered by CSRS are entitled to contribute up to $16,500 and $17,000 for 2011 and 2012, respectively (IRS limit) to their TSP account. The Center makes no matching contributions for CSRS-covered employees. Effective July 2003, TSP participants age 50 or older who are already contributing the maximum amount of contributions for which they are eligible may also make catch-up contributions of $5,500 per year (IRS limit for both 2011 and 2012).

Most federal employees are eligible to enroll in the Federal Employees Health Benefit (FEHB) Program, which provides post-retirement health benefits if certain conditions are met. OPM administers this program and is responsible for the reporting of liabilities. Currently, employer agencies are not required to make any contributions for post-retirement health benefits. OPM calculates the U.S. government’s service cost for covered employees each fiscal year. The estimated amounts which the Center has not recognized as imputed cost and imputed financing source related to these post-retirement benefits are approximately $361,000 and $427,000 for the years ended September 30, 2012 and 2011, respectively.
Most federal employees are entitled to participate in the Federal Employees Group Life Insurance (FEGLI) Program. Participating employees can obtain basic term life insurance, with the employee paying two-thirds of the cost and the Center paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. government’s service cost for the post-retirement portion of the basic life coverage. Because the Center’s contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, the Center has recognized the entire service cost of the post-retirement portion of basic life coverage as an expense.

It is the policy of the Center to pay the accrued costs of all plans currently.

(6) Income Taxes

The Center has been recognized by the Internal Revenue Service as exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. Net unrelated business income is subject to tax. The Center has determined no provision for income taxes is required for the years ended September 30, 2012 and 2011. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the special purpose financial statements.

(7) Availability of Prior Years’ Appropriations

The U.S. Congress enacted Public Law 101-510, the Defense Authorization Act (Act), which determined prior year appropriations are only available for a five-year period. After the five-year period, the appropriation account is closed and any unobligated balances are returned to the U.S. Treasury. In fiscal year 2012, the Center returned $189,000 to the U.S. Treasury which represented the unobligated balance for fiscal year 2006.

(8) Subsequent Events

The Center has evaluated subsequent events from September 30, 2012 through November 8, 2012, the date the financial statements were available to be issued, and determined there were no items to disclose.
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees
Woodrow Wilson International Center for Scholars:

We have audited the special-purpose financial statements of the Woodrow Wilson International Center for Scholars (the Center) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting
Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center’s internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Center’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
This report is intended solely for the information and use of the Center’s Board of Trustees, the Center’s management, and the U.S. Office of Management and Budget, and is not intended to be and should not be used by anyone other than these specified parties.

November 8, 2012
November 8, 2012

KPMG LLP
1801 K Street, NW
Suite 12000
Washington, DC 20006

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the Federal statement of financial position of the Woodrow Wilson International Center for Scholars (the Center) as of September 30, 2012, and the related statements of activities, and cash flows for the year then ended (herein after referred to as special-purpose financial statements) for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position of the Center, and the changes in its net assets and its cash flows in conformity with U.S. generally accepted accounting principles and the presentation described in note 2 of the financial statements. We confirm that we are responsible for the fair presentation in the special-purpose financial statements of financial position, changes in net assets, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

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

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit(s):

1. The special-purpose financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and the presentation described in note 2 to the special-purpose financial statements.

2. We have made available to you:
a. All financial records and related data.

b. All minutes of meetings of the Board of Trustees (Directors) and committees of the Board of Trustees (Directors), or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

4. There are no:

   a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, Contingencies.

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, Contingencies.

   d. Material transactions that have not been properly recorded in the accounting records underlying the special-purpose financial statements.

   e. Events that have occurred subsequent to the date of the statement of financial position and through the date of this letter that would require adjustment to or disclosure in the special-purpose financial statements.

5. We believe that the effects of the unrecorded financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the special-purpose financial statements as a whole.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
   
   a. Management
   
   b. Employees who have significant roles in internal control over financial reporting, or
   
   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. The Center has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

10. We have no knowledge of any officer or director of the Center, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

11. The following have been properly recorded or disclosed in the special-purpose financial statements:
   
   a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
   
   b. Guarantees, whether written or oral, under which the Center is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB ASC 460, Guarantees.
   
   c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, Risks and Uncertainties.

   Significant estimates are estimates at the balance sheet date, which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year.
d. Off-balance sheet activities, including accounting policies relating to non-consolidation and revenue recognition. Specifically, for those off-balance sheet activities in which the Organization is a sponsor or transferor, the majority owners of the off-balance sheet vehicle are independent third parties who have made and maintained a substantive capital investment in the vehicle, control the vehicle and have substantive risks and rewards of the assets of the vehicle, including residuals.

e. Changes in accounting principle affecting consistency.

f. Significant affiliation relationships requiring disclosure.

g. All assets and liabilities under the Center’s control.

12. The Center has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

13. The Organization has complied with all aspects of laws, regulations, contracts, grants, and donor restrictions that would have a material effect on the special-purpose financial statements in the event of noncompliance.

14. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Center. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Center’s ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit.

16. There have been no:

a. Instances of fraud involving others that could have a material effect on the adjustments.
b. Allegations, either written or oral, of misstatements or other misapplication of accounting principles in the Center’s adjustments that have not been disclosed to you in writing.

c. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the Center’s adjustments that have not been disclosed to you in writing.

d. False statements affecting the Center’s adjustments made to you, our internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.

17. There are no material transactions that have not been properly recorded in the accounting records underlying the adjustments.

18. Uncertain tax positions have been accounted for in accordance with the provisions of FASB ASC 740, Income Taxes.

19. The Organization has been recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 as an organization described in Section 501(c)(3) of the Code, as evidenced by our determination letter dated January 10, 1979, a copy of which has been furnished to you. Since the date of our determination letter, no changes have occurred in the organization or operation of the Organization that would affect our tax exempt status. Based on our determination letter, we have been classified as [a public charity, a private foundation, a private operating foundation] under Section 509(a) of the Internal Revenue Code, and since the date of our determination letter, no changes have occurred in the organization or its operations that would change this classification. We have been audited by federal, state or local tax authorities. Provision has been made, where material, for any federal, state or local income, excise, employment, property, sales and use, or other tax liability.

20. The Organization has classified net assets as unrestricted based on our assessment that the federal appropriation is available to support the overall mission of the Center.

21. The Organization has a reasonable basis for allocation of functional expenses.

22. In accordance with Government Auditing Standards, we have identified to you the significant findings and recommendation from previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit and
have accurately communicated to you the related corrective actions taken to address these findings.

Very truly yours,

Woodrow Wilson International Center for Scholars

Jane Harman

President and Chief Executive Officer

Michael H. Van Dusen

Executive Vice President

John T. Dysland

Chief Financial Officer
The Woodrow Wilson International Center for Scholars - Federal  
Summary of Uncorrected Audit Differences  
September 30, 2012

<DR> Operating Expenses $ 16,318  
<CR> Accounts Payable $ 16,318

To record the expense for services performed in FY12
November 1, 2012

KPMG, LLP
ATTN: Emily Whelan
1801 K Street, NW
Washington, D.C. 20036

Re: FY 2012 Special Purpose Audit of Woodrow Wilson International Center for Scholars

Dear Ms. Whelan:

I write in connection with your audit of the special purpose federal only financial statements of Woodrow Wilson International Center for Scholars (WWICS) for the year ending September 30, 2012. The Smithsonian Office of General Counsel has been engaged to provide legal advice as requested by WWICS.

For the year ending September 30, 2012 and from that date to the date of the letter:

1. There was one pending or threatened litigation, claim, or assessment considered by management of WWICS to be material.

On September 5, 2012, the Department of State (State) disallowed reimbursement of $678,199.65 in expenses from a grant awarded to the Wilson Center in 2010, pursuant to which the Wilson Center was to organize and facilitate workshops for senior military leaders and senior political officials in the Democratic Republic of Congo (DRC). In prior meetings with Wilson Center staff, State asserted that the Wilson Center was not authorized to expend funds until after a Memorandum of Understanding (MOU) was executed between State and the DRC. However, emails between State and the Wilson Center during the course of the grant work reflect that State informed the Wilson Center team that the MOU was in process and encouraged the team to proceed with its work notwithstanding the absence of an MOU. State’s claim for reimbursement

Office of General Counsel
Smithsonian Institution
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Washington DC 20013-7012
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represents the difference between the total grant amount disbursed by State to the Wilson Center ($801,299.58) over an 18 month period and an amount equal to the Wilson Center’s first three and one half months’ of expenses. The Wilson Center has requested a reversal of all disallowed costs and a reimbursement of $21,877.07 in other unreimbursed expenses which the Wilson Center asserts should be allowable under the grant.

2. There were no unasserted claims or assessments. In the course of performing legal services for WWICS, should I form a professional conclusion that WWICS should disclose or consider disclosure of a matter recognized to involve a possible claim or assessment that may call for financial disclosure, I shall so advise WWICS and consult with it concerning the question of such disclosure and the applicable requirements of Accounting Standards Codification (ASC) No. 450.

3. No information was brought to my attention indicating the occurrence of a possible illegal act committed by WWICS, or by any of its agents or employees.

4. As of September 30, 2011, WWICS had no indebtedness to the Smithsonian Office of General Counsel, which provides legal advice to the WWICS pursuant to an administrative agreement between the Smithsonian and the WWICS.

Please feel free to contact me if you have any questions.

Sincerely,

[Signature]

Judith E. Leonard
General Counsel
Smithsonian Institution

cc: John Dysland, Chief Financial Officer, WWICS
Michael H. Van Dusen, Executive Vice President and COO, WWICS
Management’s Discussion and Analysis (Un-audited)

Introduction

This report, Management’s Discussion and Analysis (un-audited), provides an overview of the federal financial position and results of federally funded activities of the Woodrow Wilson International Center for Scholars (the “Center”) for the fiscal year ended September 30, 2012 (FY 2012). Prepared by Management, it contains supplemental information to the special-purpose audited financial statements and footnotes regarding the Center’s federally appropriated funds. This information was developed to assist readers of these statements in better understanding the Center’s federally funded financial position and operating activities.

Established by Act of Congress in 1968 (P.L. 90-637) and headquartered in Washington, D.C., the Woodrow Wilson International Center for Scholars is the official, “living”, national memorial to President Wilson. In providing an essential link between the worlds of ideas and public policy, the Center addresses current and emerging challenges confronting the United States and the world. The Center promotes policy-relevant research and dialogue to increase understanding and enhance the capabilities and knowledge of leaders, citizens, and institutions worldwide. The Center is a non-partisan institution supported by both public and private funds.

The Woodrow Wilson Center, while initially established and located within the Smithsonian Institution, operates as a separate trust instrumentality of the United States Government. The Wilson Center remains affiliated with the Smithsonian and pays an annual fee to them for certain administrative and legal services.

The Wilson Center’s mission is to be the nation's key non-partisan policy forum for tackling global issues through independent research and open dialogue to inform actionable ideas for Congress, the Administration and the broader policy community. The Center’s mission is consonant with the mission of the Smithsonian, “an establishment for the increase and diffusion of knowledge …”

While not part of the Smithsonian governance structure, the Secretary of the Smithsonian is an ex officio member of the Center’s Board of Trustees which also consists of the Secretary of State, Secretary of Health and Human Services, Secretary of Education, Chairman of the National Endowment for the Humanities, Librarian of Congress, and the Archivist of the United States, nine members appointed by the President from the private sector, and one member appointed by the President from within the federal government.

The Center is also advised and supported by the Wilson National Cabinet, the Wilson Council, and the Wilson Alliance, all groups of private and corporate citizens, whose members are drawn largely from business, the professions, and public service. Their broad range of expertise helps
the Center in achieving its mandate of bridging the worlds of academia, business, and policy. Engaging these members on topics of interest in our world today both adds to their understanding of contemporary issues as well as provides another dimension to the Center's ongoing conversation on these matters.

The Wilson Center is the model of a successful public-private partnership, attracting solid support from private donors who believe in the mission of this public institution. The Center’s appropriation provides a stable base that encourages donors to contribute. Federal support gives donors confidence that they are contributing to an established, national institution. The Center, using the use of the federal appropriation as leverage, strives to increase its private funding every year and to support the very core of its mandate – providing a living memorial to President Woodrow Wilson by honoring his scholarship and public/government service.

Financial Statements Summary

The Center’s financial position remains strong at September 30, 2012, with total federal assets of $6,894,099 and total federal liabilities of $4,711,487. Net assets, which represent the residual interest in the Center’s assets after liabilities are deducted, are $2,182,612.

STATEMENT OF FINANCIAL POSITION

Assets.

Balance with U.S. Treasury. The $4,709,127 represents the Center’s balance with the U.S. Treasury.

Prepaid costs and advances. The $2,360 represents travel advances and grant advances.

Equipment and Leasehold Improvements, net. The $2,182,612 represents: a.) the capitalized furniture and computer equipment which is recorded and depreciated over the estimated useful lives of the property; and b.) capitalized leasehold improvements recorded at cost and amortized over the estimated life of the asset or the remaining length of the lease, whichever is less.

Liabilities. Liabilities consist primarily of accounts payable and accrued compensation. The Center also has grants payable for fellowship grants which are expensed and recorded as liabilities at the time recipients are notified, accept and become entitled to the grants. Deferred revenue is the unexpended appropriations.

Net Assets. Net Assets represents the depreciated value of the Center’s leasehold improvements and equipment.
STATEMENT OF ACTIVITIES

The Statement of Activities presents the Center’s results of federal financial activity for the fiscal year and matches revenues to related expenses. The statement summarizes the annual gain/loss in equity.

Revenue. Federal appropriations revenue are recorded as exchange transactions. Revenue is recognized to the extent eligible costs are incurred.

Expenses. The costs of providing various programs and support activities have been summarized on a functional basis in the statement of activities.

MANAGEMENT INTEGRITY: CONTROLS AND COMPLIANCE

The Center maintains a comprehensive management control program through the activities of the Smithsonian’s Inspector General, as part of an administrative services agreement with the Smithsonian, the efforts by the Audit Committee of the Center’s Board of Trustees, and the ongoing hands-on efforts to review and improve controls by management staff.

Based on this program, the Center has reasonable assurance that:

a. The financial reporting is reliable.
b. The Center is in compliance with all applicable laws and regulations.
c. Management’s performance reporting systems are reliable.

The Director, the Executive Vice President and Chief Financial Officer all sign a representation letter to the external auditors, KPMG, stating that the Center’s special-purpose financial statements, as well as the audited annual consolidated financial statements issued later, comply with all applicable regulations and accounting principles to the best of their knowledge.

FUTURE CONCERNS AND ISSUES

The Wilson Center is an outstanding institution, but it will achieve even greater impact on public ideas as it sharpens its focus and increases its relevance over the next three years. At a time of divisive debates among people of different political, religious, and national backgrounds, the Wilson Center stands as a beacon to reasoned dialogue and balanced, independent research that can bridge these divides and bring credible research and original ideas to vital issues of public policy.

It will strive to reach the following strategic goals to improve the Center in the future:
a. Ensure clear focus in programming by strengthening lanes of excellence, developing new collaborative initiatives, focusing better on reaching key audiences, and measuring performance regularly and rigorously.

b. Align scholars far more closely with programming to ensure maximum impact on the Center's work, while achieving increased preeminence and visibility in scholar appointments.

c. Heighten visibility and impact by enhancing communication and outreach to the media, Congress, and other key audiences, and by establishing a more robust presence outside of Washington, DC.

d. Ensure the financial sustainability of the Wilson Center by expanding current fundraising strategies and through innovative outreach strategies to new sources of funding nationally and internationally and creative partnerships with interested individuals, organizations, and foundations.

e. Improve the Center's human capital by strengthening recruitment of the most qualified staff possible, developing career paths that provide opportunities for growth, ensuring the necessary training for optimal job performance, and reinforcing the performance evaluation system

The Center also faces constant wide-ranging and challenging issues which include:

a. obtaining foundation and other private funding to ensure its ability to fund activities and programming at a time of slow economic recovery and continued global economic uncertainty including reduced endowment income for the Center itself as well as many of its funder;

b. achieving a sustainable balance between not overloading the Center’s small administrative staff and space capacity, while providing adequate and necessary infrastructure and support services that uphold all activities of the Center

c. The institution remains too dependent on a few key staff and scholars and lacks a deep bench; succession planning is difficult; and there are few opportunities for advancement for younger staff. Many staff also struggle with the need to balance programming and their own scholarship in the field.

The Center can – and will – evolve rapidly over the next few years to realize its full potential and to respond to changing needs for quality non-partisan research and dialogue that can directly participate in the most important policy discussions that will shape the future of the United States and the global community.