

# NATIONAL GALLERY OF ART



## Performance and Accountability Report

Fiscal Year 2015



**NATIONAL GALLERY OF ART**

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**PERFORMANCE AND ACCOUNTABILITY REPORT**

**for the year ended September 30, 2015**

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**Performance and Accountability Report**  
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## Message from the Director



On behalf of the National Gallery of Art, I am pleased to submit the Gallery's FY 2015 Performance and Accountability Report (PAR). This report presents information on the Gallery's financial, management and programmatic results for the previous year. I give my assurance that the performance and financial data included in this report are complete and reliable, consistent with guidance provided by the Office of Management and Budget.

This report meets the requirements of OMB Circular A-136 and other management legislation and demonstrates the Gallery's commitment to be accountable for the results measured against the annual performance goals presented in our FY 2015 Annual Performance Plan.

The Gallery serves the United States in a national role by preserving, collecting, exhibiting, and encouraging the understanding by the American public of original, great works of art. This mission and standard of excellence is central to every activity of the Gallery, from caring for and strengthening the collection to presenting special exhibitions and organizing public programs.

We are proud of the progress the Gallery has made in FY 2015 towards achieving our long term goals and objectives.

### Performance Highlights

This PAR discusses our achievements in FY 2015 and reviews our progress towards the key annual performance goals and objectives established in our performance plan by:

- Providing the public with increased and continuing access to the Gallery's collection and educational materials
- Continuing to address the backlog of deferred maintenance
- Advancing the Gallery's Information Technology Strategic Plan
- Maintaining the Gallery's security readiness

### Excellence in Financial management

The Gallery received an unmodified opinion on its FY 2015 financial statements. The auditors did not report any material weaknesses, significant deficiencies, or instances of non-compliance with laws, regulations, contracts, and grant agreements that are required to be reported in accordance with *Government Auditing Standards*.

FY 2015 has been a very productive year. Building on our accomplishments, we will continue to focus on the challenges that lie ahead as we provide our visitors with an enjoyable and rewarding experience with the world's artistic heritage through the Gallery's collection and special exhibitions.

Earl A. Powell III  
Director  
November 16, 2015

## Message from the CFO

This Performance and Accountability Report (PAR) discusses our achievements in FY 2015, provides performance and financial information, and reviews our progress towards the key annual performance goals and objectives established in our performance plan. As we fulfill our mission of preserving, collecting, exhibiting, interpreting and encouraging the understanding by the American public of original, great works of art, the National Gallery of Art is committed to effectively and efficiently managing the government resources provided to fulfill that mission. The Gallery continued to make progress in FY 2015 towards achieving those long term goals and objectives.

The performance section of this report discusses the Gallery's programmatic activities conducted in FY 2015 in relation to the Gallery's annual performance goals. The Gallery has continued to refine its financial system to further enhance our governance, improve our planning process and provide more accurate, timely financial data for all performance goals and measures.

The Gallery received an unmodified audit opinion on its FY 2015 financial statements. The auditors did not report any material weaknesses, significant deficiencies, or instances of non-compliance with laws, regulations, contracts, and grant agreements that are required to be reported in accordance with *Government Auditing Standards*.

FY 2015 has been a very productive year. Building on our accomplishments, we will continue to focus on increasing our efficiency and enhancing the stewardship of our limited resources to meet the challenges that lie ahead.

William W. McClure  
Treasurer  
November 16, 2015

## **National Gallery of Art Management's Discussion and Analysis (unaudited)**

### **The Gallery and its Mission**

The National Gallery of Art is one of the world's premiere art museums with a renowned collection of American and European master works of art.

The Gallery was created by a Joint Resolution of Congress in 1937. This event was the culmination of efforts by financier, Secretary of the Treasury, ambassador and art collector Andrew W. Mellon to establish an art gallery of the highest possible quality in the nation's capital for the people of the United States. The gift of his superlative collection of Old Master paintings and sculptures, as well as endowment funding and what is now known as the West Building, remains one of the greatest single private donations to any government.

The Gallery today consists of two landmark buildings on the National Mall and the National Gallery Sculpture Garden. The West Building, designed by John Russell Pope, opened in 1941. The East Building, designed by I.M. Pei, opened in 1978. An icon of modern architecture, the East Building was a gift from Paul Mellon and Ailsa Mellon Bruce, the children of the founder, and The Andrew W. Mellon Foundation. The Sculpture Garden opened in 1999; the Morris and Gwendolyn Cafritz Foundation provided funds for its construction and for several of the sculptures.



The Gallery's mission is to serve the country by preserving, collecting, exhibiting, interpreting and encouraging the understanding by the American public of original, great works of art.

### **Organizational Structure**

The Gallery is led by a Board of Trustees composed of four ex-officio members – the Chief Justice of the United States, the Secretary of State, the Secretary of the Treasury, and the Secretary of the Smithsonian Institution - and five general trustees

who are citizens of the United States. The general trustees are chosen by a majority vote of the general trustees for terms of ten years.

The six Executive Officers of the Gallery oversee the general operations and programs of the Gallery. The Executive Officers are the Director, Deputy Director, Dean of the Center for Advanced Study in the Visual Arts, Administrator, Treasurer, and the Secretary General and General Counsel.

The Gallery is funded with Congressional appropriations and private funding.

### **Performance Goals, Objectives and Results**

Building on FY 2014 accomplishments, the Gallery continued to make significant progress during FY 2015 advancing its mission of preserving, collecting, exhibiting, interpreting and encouraging the understanding by the American public of original, great works of art.

The Gallery's annual performance goals reflect its mission and have been structured to support the Strategic Plan that identifies the following goals and objectives:

- The Gallery will continue to seek out the finest works of art available for donation or for purchase with private funds to strengthen the core collection donated by Andrew W. Mellon;
- In order to maintain the very highest standards, the Gallery will consistently hire and retain the best available curatorial, conservation, educational, and management staffs;
- Day-to-day operations will support the Gallery's mission through the care, maintenance, and security of the works of art and the facilities at optimum levels; and
- The Gallery will serve as a model for other museums from coast to coast, offering its expertise and educational resources, including loans of works of art and special exhibitions from the collection.

To achieve its mission, the Gallery focused in FY 2015 on the following five key performance goals:

- Provide the public with continuing and increased access to the Gallery's collection and educational materials:

The National Gallery of Art is defined by the high quality of its collection and educational programs, which are at the core of its mission. The Gallery's national role as an educational institution includes major initiatives such as: 1) displaying great works of original art using the highest standards; 2) organizing and presenting a comprehensive program of special exhibitions focusing on master works of art from all cultures and periods; 3) fostering understanding of the visual arts by providing access to the Gallery's educational materials and programs; and 4) maintaining an active program of conservation and protection of the Gallery's collection.

The Gallery's performance as a national institution of the highest quality is dependent upon adequate funding of its programs and the staff to develop and administer them. The number and variety of these programs and their attendance will measure performance.



- Address the backlog of deferred maintenance:

The National Gallery of Art is committed to maintaining its buildings, equipment and grounds in excellent condition. The Master Facilities Plan (MFP), developed in 1997, identified all crucial repair, restoration and renovation projects and created a phased approach to complete them. The most critical projects began in 1999. The phased plan of the MFP achieves cost efficiencies and reduces disruptions to ongoing Gallery public programs and operations.

Coincident with the repair, restoration and renovation activity of the MFP is the crucial need to sustain the Gallery's buildings and equipment at a high level of performance. The facilities maintenance program at the Gallery focuses on a solid preventative maintenance initiative and the efficient operation of the complex systems necessary for the Gallery to function as an art museum open to the public 363 days a year.

The West Building, opened in March 1941, has reached an age where the building, its systems and components have exceeded their useful life, and significant repair and refurbishment is required. The East Building, opened in June

1978, has reached the point where significant refurbishment is required due to the nature of its design and construction. The success of this initiative will be measured against the goals of providing optimum operational effectiveness and efficiency.



- Advance the Gallery's Information Technology (IT) Strategic Plan:

IT improvements often require multiple years to implement – up to one year to prepare the solicitation packages and select a vendor, and then up to an additional two years to install, configure and test the new systems. The Gallery's IT Strategic Plan addresses the proactive replacement, implementation, and repair of the Gallery's mission critical systems, and identifies the following goals: 1) provide a reliable and secure IT infrastructure to support the Gallery's mission; 2) improve operations through efficient and effective IT solutions; 3) align IT services with stakeholder and audiences' needs; and 4) identify and implement a governance structure to monitor IT performance. The success of this initiative will be measured against the goal of supporting the Gallery's IT strategy.

- Provide the Highest Level of Security for the Gallery's Collection, Visitors, Staff and Facilities:

The National Gallery of Art must protect its landmark buildings and grounds, its irreplaceable art collection, the staff, and the millions of visitors it welcomes each year. The Gallery's prominent location on the National Mall at the foot of the Capitol adds even greater urgency to the need to harden security measures against a wide range of means and methods of possible attack.

In the Performance Report section, the Gallery has detailed its key annual performance goals relating to the areas detailed above. The Gallery reports eight metrics as statistical information only, as well as six established objectives for FY 2015 related to capital repairs, deferred maintenance, and information technology. The Gallery met or exceeded three objectives, partially met one objective and did not meet two objectives. The objectives not met or partially met relate to deferred maintenance, the Master Facilities Plan (MFP) and the Facilities Condition Index (FCI). The Gallery has requested additional funding to address these requirements.



## **Federal Financial Statements Summary and Analysis**

Summarized operating results and net position for the years ended September 30, 2015 and 2014 are presented below. This financial summary encompasses all activities supported by federal appropriations provided to the National Gallery of Art. It does not include the Gallery's activities supported by private funding.

### **NATIONAL GALLERY OF ART Key Federal Financial Statement Information Fiscal Years 2015 and 2014 (amounts in thousands)**

	<u>2015</u>	<u>2014</u>	Increase/Decrease	
			\$	%
<b>Results of Operations</b>				
Total Financing Sources	\$ 147,086	129,307	17,779	14%
Less Net Costs	<u>(133,861)</u>	<u>(127,764)</u>	<u>(6,097)</u>	<u>5%</u>
Results of Operations	<u>13,225</u>	<u>1,543</u>	<u>11,682</u>	<u>757%</u>
<b>Net Position</b>				
<b>Assets</b>				
Fund balance with U.S. Treasury	47,982	49,843	(1,861)	-4%
Property, plant and equipment, net	<u>243,681</u>	<u>232,574</u>	<u>11,107</u>	<u>5%</u>
Total assets	<u>291,663</u>	<u>282,417</u>	<u>9,246</u>	<u>3%</u>
<b>Liabilities</b>				
Intragovernmental	583	224	359	160%
Accounts payable	5,360	4,812	548	11%
Actuarial FECA liability	7,918	8,987	(1,069)	-12%
Environmental liability	23,671	23,782	(111)	0%
Other	<u>8,582</u>	<u>9,557</u>	<u>(975)</u>	<u>-10%</u>
Total liabilities	<u>46,114</u>	<u>47,362</u>	<u>(1,248)</u>	<u>-3%</u>
Net Position	<u>\$ 245,549</u>	<u>235,055</u>	<u>10,494</u>	<u>4%</u>

## **Operating Results**

The Gallery is funded primarily by two Congressional appropriations: one appropriation covers the Gallery's salaries, benefits and expenses, a portion of which is designated for special exhibitions, and the second appropriation provides funds necessary for the repair, restoration and renovation of the Gallery's buildings.

The appropriation received for salaries, benefits and expenses is a two-year appropriation that must be obligated by the end of the second fiscal year with the exception of that portion of the appropriation designated for special exhibitions expenses which is available until it is expended. The appropriation for the repair, restoration, and renovation of the Gallery's buildings is available until expended.

The total appropriation received for FY 2015 was \$138.5 million, a \$5.5 million increase above the FY 2014 appropriation of \$133.0 million. The appropriation included \$115.9 million for salaries, benefits and expenses, \$3.6 million for special exhibitions and \$19.0 million for the repair, restoration and renovation of the buildings.

The Gallery's net cost of operations totaled \$133.9 million for the year, an increase of \$6.1 million or 5% above the prior year. Program costs represented \$101.1 million or 75% of total net costs, with the remaining \$32.8 million in "costs not assigned to programs" primarily representing general and administrative expenses.

## **Net Position**

The Gallery's net position totaled \$245.5 million, increasing \$10.5 million or 4% over the prior year. Work continued on the renovation projects under the Master Facilities Plan, resulting in an increase in property, plant and equipment of \$11.1 million. Fund balance with the US Treasury decreased \$1.9 million from FY 2014. Total liabilities decreased by \$1.2 million.

Liabilities not funded with budgetary resources include the environmental liability, the actuarial FECA liability, and liabilities for accrued annual leave, the capital lease obligation and rent abatement. The remaining accounts payable, accrued expenses and other liabilities are covered by budgetary resources.

## **Independent Auditors' Report on the Gallery's Financial Statements**

The Gallery received an unmodified audit opinion on its FY 2015 financial statements. The auditors did not report any material weaknesses or instances of non-compliance with laws, regulations, contracts, and grant agreements that are required to be reported in accordance with *Government Auditing Standards*.

## **Systems, Controls and Legal Compliance**

### **Management Integrity: Controls and Compliance**

The Gallery maintains a comprehensive management control program through the activities of its internal auditor and the Gallery's Audit Committee, the review and monitoring effort of its legal staff, and ongoing proactive improvement efforts by its management staff.

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

- The financial reporting is reliable,
- The Gallery is in compliance with all applicable laws and regulations,
- Management's performance reporting systems are reliable.

In addition to these efforts, the Gallery has been accredited by the American Association of Museums. In going through the accreditation process, qualified museum professionals conducted a thorough independent evaluation of all aspects of the Gallery including a review of management controls.

The Director's Statement of Assurance as required under the *Federal Managers Financial Integrity Act*, attests to these and other Federal requirements for financial management.

### **Goals and the supporting financial systems strategies**

The Gallery continues to pursue its financial management system strategy to improve reporting, accountability, and decision making, while furthering implementation of key Government-wide initiatives, e-Gov requirements, and other regulatory mandates. In so doing the Gallery seeks to maintain financial management systems, processes, and controls that ensure financial accountability and transparency, provide useful information to management, and satisfy Federal laws, regulations, and guidance.

Continued assessment and change management and optimization of the Gallery's financial management system capabilities will further assure the accuracy and completeness of data, standardize the business processes, institutionalize financial practices, and improve ease of preparation and completeness of all types of financial reports.

### **Limitations of the Financial Statements**

The principal financial statements have been prepared to report the financial position and results of operations of the Gallery pursuant to the requirement of 31 U.S.C. 3515(b). The statements have been prepared from the books and records of the Gallery in accordance with general accepted accounting principles. The Federal schedules included in the supplementary information are in addition to the financial reports the Gallery used to monitor and control budgetary resources and were prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

## **National Gallery of Art Management Assurances**

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires each executive agency to establish internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General (CG). The CG standards require that such systems of internal control shall be designed to provide reasonable assurance that:

- (i) obligations and costs are in compliance with applicable law;
- (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (iii) revenue and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over the assets.

The FMFIA also requires that the head of each agency, on the basis of an evaluation conducted in accordance with OMB and CG guidelines, prepare an annual statement:

that the agency's systems of internal accounting and administrative control fully comply with the requirements described above; or that such systems do not fully comply with such requirements.

The Gallery's management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations.

Section 2 of the FMFIA requires that, in the event material weaknesses in the agency's systems of internal accounting and administrative control are identified, the agency head shall report the plans and schedule for correcting any such weaknesses. I am pleased to state that the Gallery has no material weaknesses to report.

Section 4 of the FMFIA requires that I include in this statement, a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the CG. Based on our evaluation of the Gallery's internal controls and accounting system, the Gallery's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General.

Earl A. Powell III  
Director  
November 16, 2015

**Table 1**

## Summary of Financial Statement Audit

Audit Opinion	Unmodified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None	0	0	0	0	0

**Table 2**

## Summary of Management Assurances

<b>Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)</b>	
Statement of Assurance	Internal controls over financial reporting are effective

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0

<b>Effectiveness of Internal Control over Operations (FMFIA § 2)</b>	
Statement of Assurance	Internal controls over operations are effective

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0

<b>Conformance with financial management system requirements (FMFIA § 4)</b>	
Statement of Assurance	System conforms to financial management system

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0

<b>Compliance with Federal Financial Management Improvement Act (FFMIA)</b>	
Overall Substantial Compliance	Yes
1. System Requirements	Yes
2. Accounting Standards	Yes
3. USSGL at Transaction Level	Yes

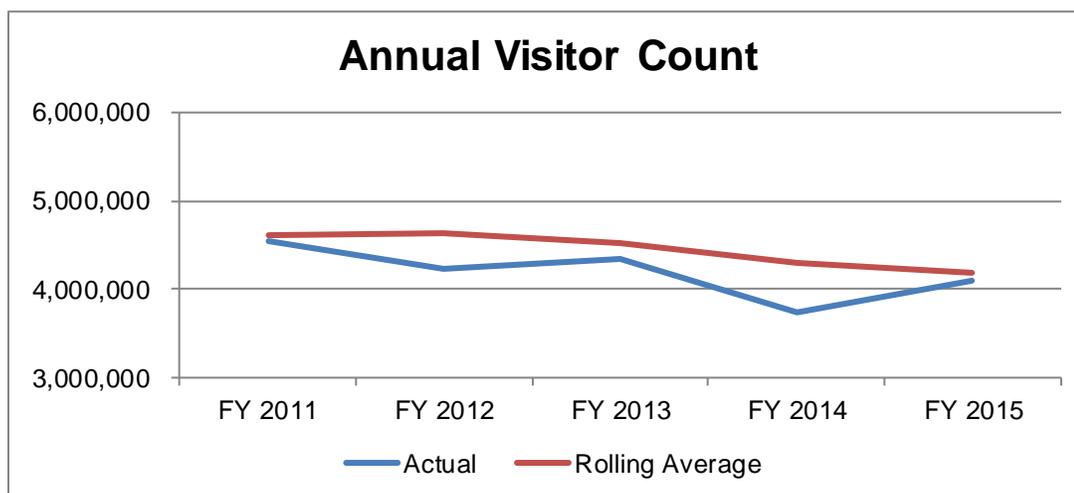
## National Gallery of Art Performance Report

The Gallery's FY 2015 Federal funds appropriations supported the following key annual performance goals outlined below.

- **Providing the public with increased and continuing access to the Gallery's collection and educational materials:**

1. ***Present the Gallery's collection and special exhibitions using the highest standards of display, lighting, and signage and to encourage visitation by the widest audience.***

The Gallery welcomed 4,103,000 visitors in FY 2015, slightly below the average for the past five years, due to the closure of public galleries in the East Building during major renovations.



	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	4,549,000	4,230,000	4,347,000	3,733,000	4,103,000
Rolling Average	4,616,000	4,636,200	4,513,000	4,293,400	4,192,400

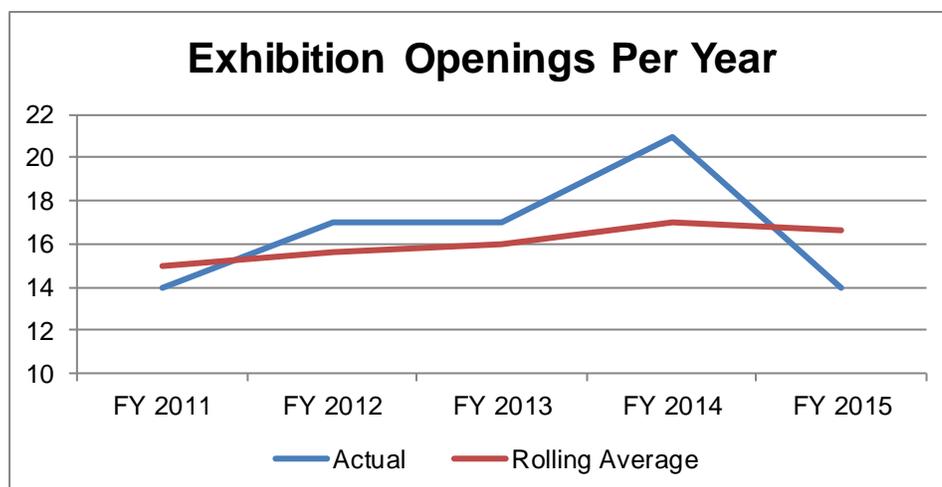
2. ***Offer visitors the widest range of visual experience through a schedule of special exhibitions that are organized and presented by the Gallery to augment existing strengths in the collection and to provide the opportunity to focus on material of exceptional merit from other cultures and periods.***

The Gallery's goal of presenting a schedule of special exhibitions that offers visitors the widest range of visual experience was achieved again this year. Special exhibitions gave visitors the opportunity to enjoy hundreds of masterpieces loaned by public and private collections throughout the world. During FY 2015, the Gallery organized and presented 14 special exhibitions, below the five year average of 17 due to the closure of the East Building galleries.

Among the highlights presented in FY 2015 were:

- *Vermeer's "Woman in Blue Reading a Letter" from the Rijksmuseum*
- *Gustave Caillebotte: The Painter's Eye*
- *Pleasure and Piety: The Art of Joachim Wtewael*
- *Drawing in Silver and Gold: Leonardo to Jasper Johns*
- *Peter Paul Rubens: The Three Magi Reunited*
- *American Masterworks from the Corcoran*
- *Piero de Cosimo: The Poetry of Painting in Renaissance Florence*





	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	14	17	17	21	14
Rolling Average	15	16	16	17	17

**3. Foster awareness of the visual arts by providing increased and continued access to the collection and educational materials.**

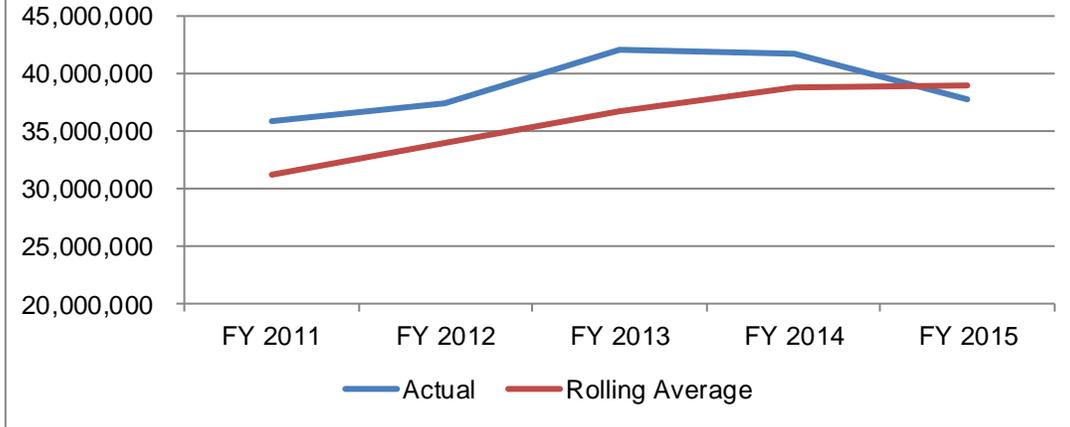
The Gallery’s commitment to fostering the understanding of art at the highest possible scholarly levels continued in FY 2015 through its many educational program activities. The education resources outreach program provided films, videotapes and other long-distance learning materials free of charge to an audience of nearly 38 million, including schools, district media centers, colleges, universities, museums, health facilities, correctional facilities, and community groups. On-site education programs consisting of adult, student, and family programs and tours were viewed by 87,100 participants. The Gallery had over 57,000 subscriptions to its education on-line newsletter.

The National Gallery of Art public website is an in-depth resource that allows people from all over the world access to the Gallery’s collections, exhibitions, educational resources and schedule of events. In April 2013, the Gallery launched a new expanded website on a leading edge software platform with powerful search capabilities. In FY 2015 the web site received over 5.8 million unique visitors.

The Art Research Library continued its longstanding practice of facilitating the interest in and scholarly research of various topics in art and architecture by facilitating over 20,000 reference inquiries.

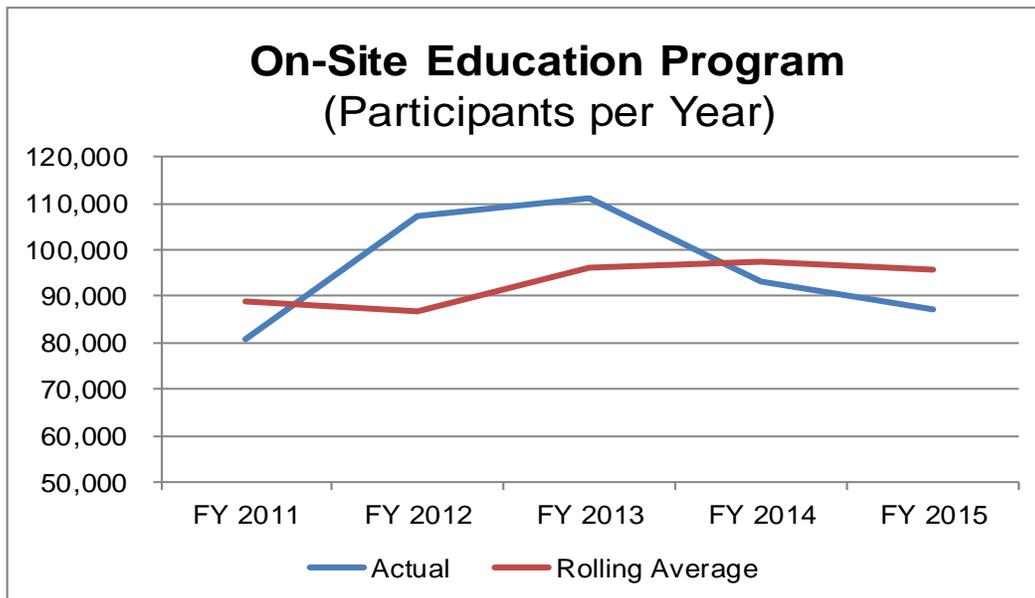
The following pages provide statistical metrics for education outreach.

### National Education Resource Extension Program (Audiences per Year)



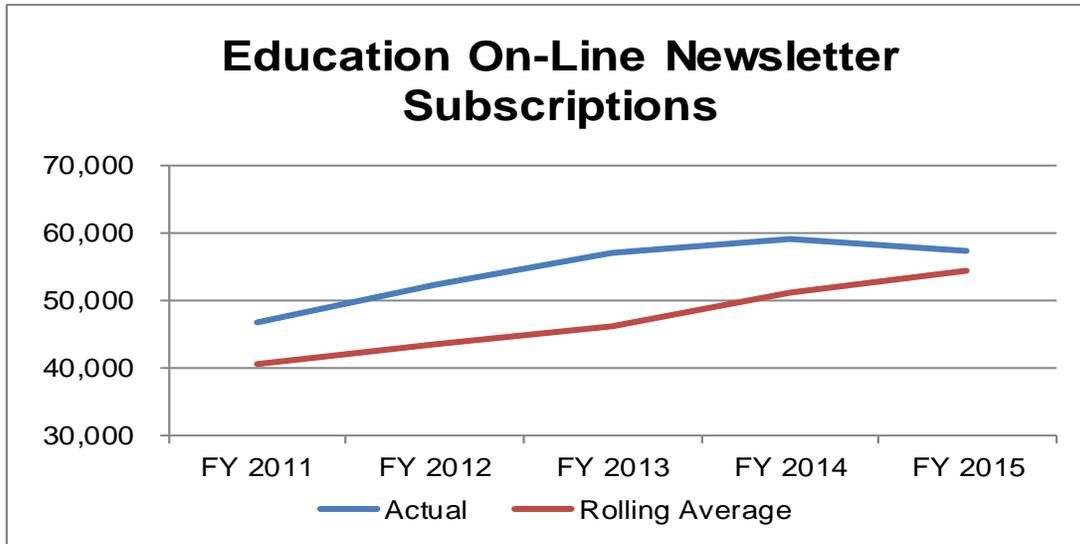
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	35,900,000	37,400,000	41,979,000	41,632,000	37,688,000
Rolling Average	31,200,000	33,880,000	36,675,800	38,842,200	38,919,800

### On-Site Education Program (Participants per Year)



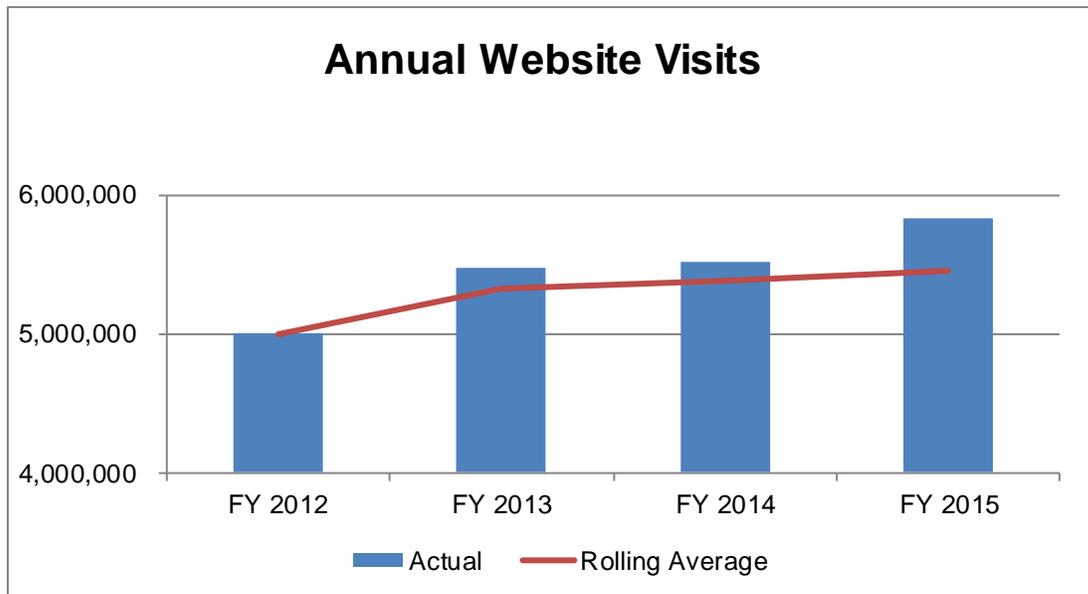
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	80,600	107,300	111,200	93,100	87,100
Rolling Average	88,733	86,700	96,280	97,540	95,860

## Education On-Line Newsletter Subscriptions



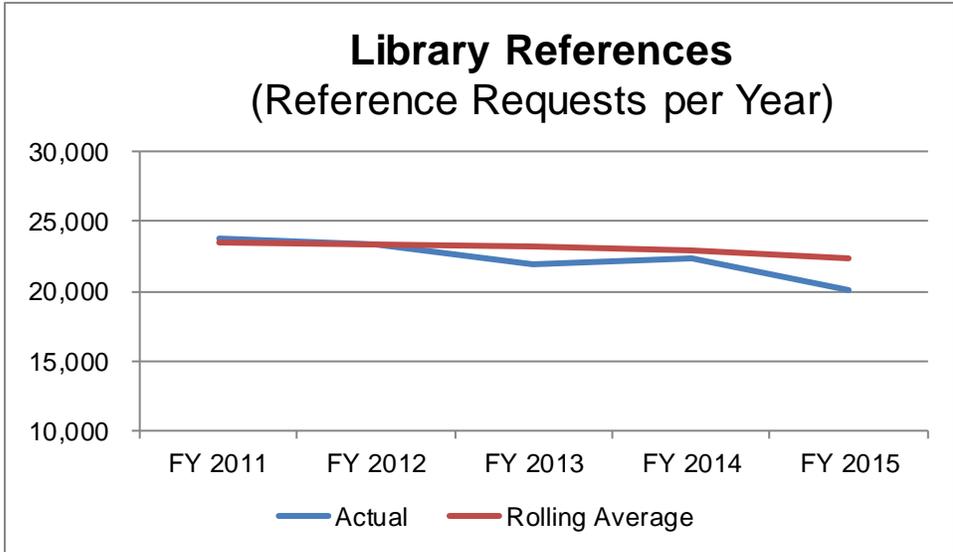
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	46,700	52,400	57,000	58,900	57,300
Rolling Average	40,500	43,475	46,180	51,200	54,460

## Annual Website Visits

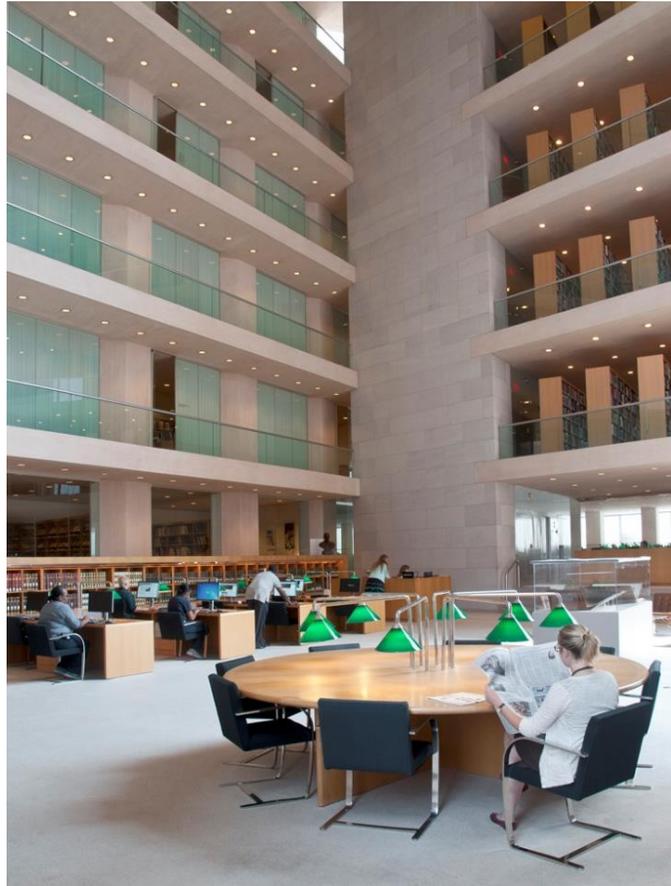


	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	5,000,500	5,475,000	5,511,500	5,824,397
Rolling Average	5,000,500	5,329,000	5,374,625	5,452,849

Note: The Gallery began using Google Analytics to measure website visits in FY 2012



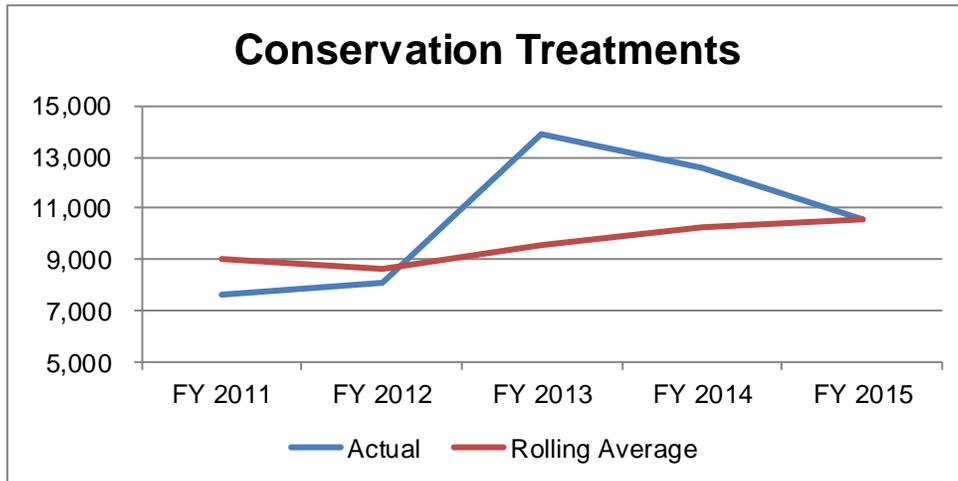
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	23,800	23,400	22,000	22,300	20,100
Rolling Average	23,440	23,420	23,160	22,960	22,320



**4. Maintain an active program of conservation and protection of the works of art in the Gallery's collection including art displayed in the Sculpture Garden.**



Preserving the Gallery's outstanding collection for future generations remains one of the Gallery's critical responsibilities and the primary concern of its conservators and scientific researchers. In FY 2015, the Gallery's painting, object, paper, photography and textile conservators and scientific researchers undertook 10,600 major and minor treatments and examinations. In addition, new technologies were studied and devised that further the Gallery's mission of preserving the works of art with which it is entrusted. Major renovations to the conservation lab were completed in FY 2013 allowing conservation treatments to return to a higher level. Year to year fluctuation in the total number of treatments is due primarily to the number of art work examinations required for special exhibitions.

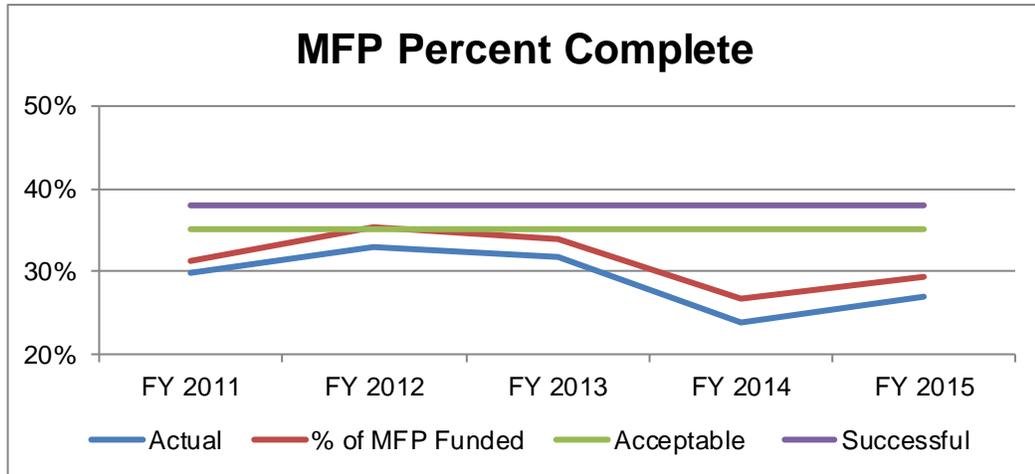


	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	7,600	8,100	13,900	12,600	10,600
Rolling Average	9,012	8,606	9,560	10,280	10,560

- **Continuing to address the backlog of deferred maintenance**

1. ***Manage the Master Facilities Plan (MFP) so that significant facilities repairs and replacements projects proceed on schedule.***

**Performance Measure:** Performance is determined by the extent to which cumulative MFP costs incurred to date are on schedule, based on amount expended vs. total plan costs as identified in the Congressional Request for the identified year.



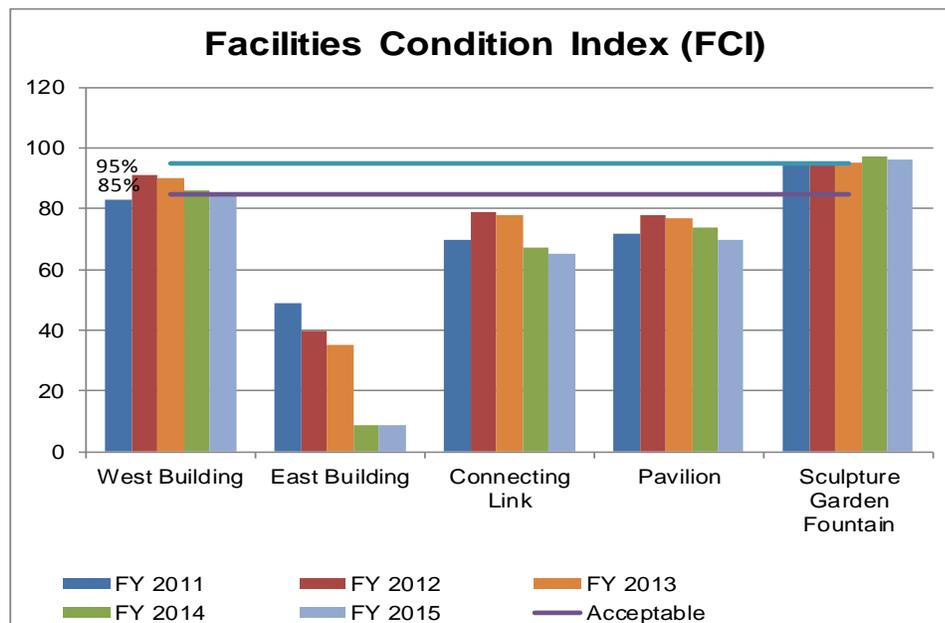
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	30%	33%	32%	24%	27%
% of MFP Funded	31%	35%	34%	27%	29%
Acceptable	35%	35%	35%	35%	35%
Successful	38%	38%	38%	38%	38%
Assessment:	Target Not Met				

For the past five years funding has not been sufficient to allow the Gallery to meet the minimally acceptable target and has resulted in an increase of total plan costs.

**2. Maintain the physical condition of the East and West Buildings to the highest standard.**

**Performance Measures:** Performance is measured by industry standard numerical ratings for appearance and maintenance posture for each building.

a) Facility Condition Index (FCI): This industry standard metric provides a general measure of a constructed asset's physical condition at a specific point in time. FCI is calculated as the sum of total deferred maintenance costs plus capital renewal costs, expressed as a percentage of the current replacement value of the building. This measure was established in FY 2011 and is reported to GSA individually for each physical asset shown in the table below.



	West Building	East Building	Connecting Link	Pavilion	Sculpture Garden Fountain
FY 2011	83	49	70	72	95
FY 2012	91	40	79	78	95
FY 2013	90	35	78	77	95
FY 2014	86	9	67	74	97
FY 2015	85	9	65	70	96
Acceptable	85	85	85	85	85
Successful	95	95	95	95	95
Assessment	Target Met	Target Not Met	Target Not Met	Target Not Met	Target Met

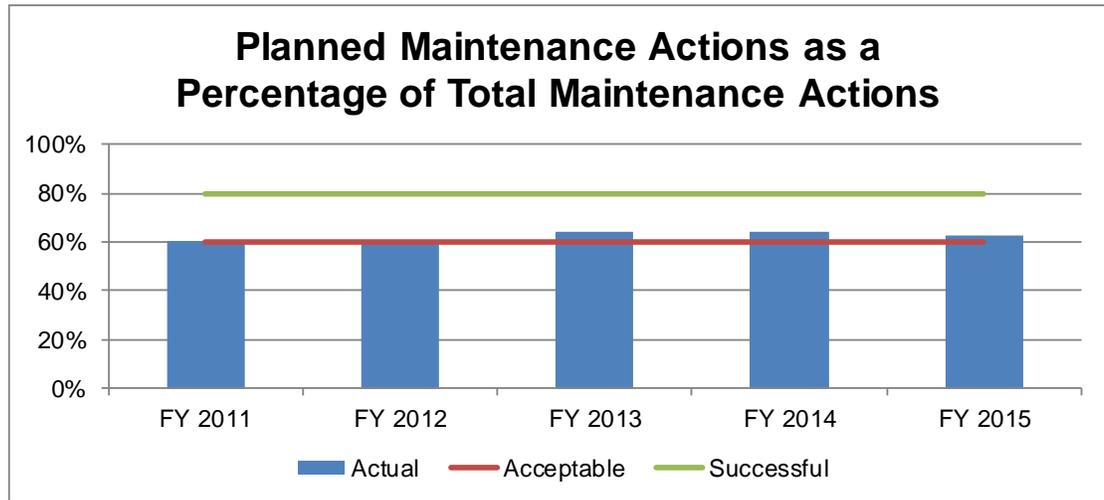
Since the inception of this measure funding has not been sufficient to allow the Gallery to meet the minimally acceptable target in most facilities. Renovation of the East Building public galleries began in 2014 and is continuing.

b) Deferred Maintenance Backlog: Change in Deferred Maintenance Backlog as reported to GSA in the Federal Real Property Profile Report.

Actual:	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014 *</u>	<u>FY 2015</u>
	+5%	+8.5%	+8.8%	+45%	+3%
Acceptable:	The deferred maintenance backlog decreases by less than 3% during the year				
Successful:	The deferred maintenance backlog decreases by at least 3% during the year				
Assessment:	Target Not Met	Target Not Met	Target Not Met	Target Not Met	Target Not Met

\* Funding is not sufficient to allow the Gallery to meet this standard. The increase in FY 2014 reflects updated total for MFP program.

c) Planned Maintenance Percentage: Percentage of maintenance actions that were planned.



	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	60%	60%	64%	64%	63%
Acceptable	60%	60%	60%	60%	60%
Successful	80%	80%	80%	80%	80%
Assessment	Target Met				

d) Appearance Index. Maintain a minimum standard of appearance based on the Association of Higher Education Facilities Officers (APPA) scale of appearance standards.



Acceptable: APPA index of 2 (Ordinary Tidiness)

Successful: APPA index of 2 (Ordinary Tidiness) or better

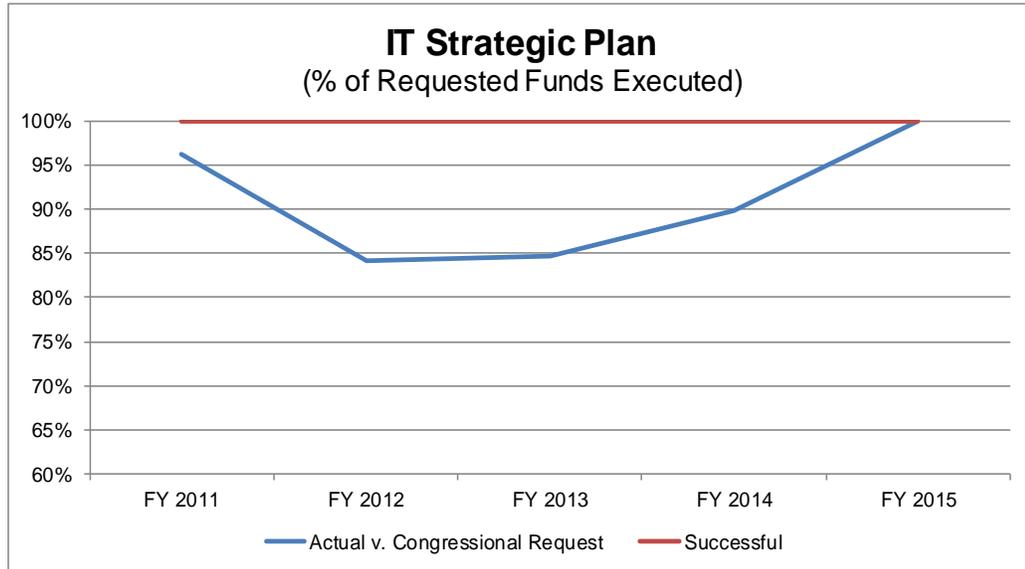
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Actual	2	2	2	2	2
Acceptable	2	2	2	2	2
Successful	2	2	2	2	2

Assessment      Target Met    Target Met    Target Met    Target Met    Target Met

- **Advancing the Gallery’s Information Technology (IT) Strategic Plan:**

1. ***Implement the Gallery’s IT initiatives as documented in the Gallery’s IT Strategic Plan.***

**Performance Measure:** This metric measures the funds provided against the budget request.



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual v. Congressional Request	96%	84%	85%	90%	100%
Successful	100%	100%	100%	100%	100%
Assessment	Target Not Met	Target Not Met	Target Not Met	Target Not Met	Target Met

NOTE: NGA executed all funds allocated in this category for all years shown.

- **Maintaining the Gallery’s security readiness:**

1. ***Protect the valuable collection and national/international loans entrusted to the Gallery’s care as well as to ensure and to enhance protection of employees and visitors.***

The Gallery, with concurrence of OMB, does not publicly disclose security measures and results in the PAR.



**NATIONAL GALLERY OF ART**

Financial Statements

September 30, 2015

(With Independent Auditors' Reports Thereon)



KPMG LLP  
1676 International Drive  
McLean, VA 22102

## Independent Auditors' Report

The Board of Trustees  
The National Gallery of Art:

### Report on the Financial Statements

We have audited the accompanying financial statements of the National Gallery of Art (the Gallery), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion on the Financial Statements*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Gallery of Art as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### **Report on Summarized Comparative Information**

We have previously audited the Gallery's 2014 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary private and federal information on the financial statements, the federal Supplementary Schedules and related notes and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The information included in the supplementary private and federal information on the financial statements, the federal Supplementary Schedules and related notes to the federal Supplementary Schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary private and federal information on the financial statements, the federal Supplementary Schedules and related notes are fairly stated in all material respects in relation to the financial statements as a whole.

The other information in the September 30, 2015 Management's Discussion and Analysis, Performance Report, and the Other Supplementary Information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of the Gallery'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* in considering the Gallery's internal control over financial reporting and compliance.

**KPMG LLP**

November 16, 2015

**NATIONAL GALLERY OF ART**

Statement of Financial Position

September 30, 2015

(with summarized financial information as of September 30, 2014)

(In thousands)

<b>Assets</b>	<b>2015</b>			<b>2014</b>
	<b>Private</b>	<b>Federal</b>	<b>Total</b>	<b>Total</b>
Cash and cash equivalents	\$ 12,119	47,982	60,101	67,918
Accounts receivable and other assets, net	5,093	–	5,093	5,738
Pledges receivable, net	9,112	–	9,112	13,605
Investments and trusts held by others	759,738	–	759,738	817,404
Property, plant and equipment, net	67,205	243,681	310,886	288,983
Art collections	–	–	–	–
Total assets	\$ 853,267	291,663	1,144,930	1,193,648
<b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 13,043	22,443	35,486	33,999
Unexpended federal one-year and two-year appropriations	–	18,859	18,859	18,116
Environmental liability	–	23,671	23,671	23,782
Total liabilities	13,043	64,973	78,016	75,897
Net assets:				
Unrestricted	292,727	207,053	499,780	502,257
Temporarily restricted	156,687	19,637	176,324	215,357
Permanently restricted	390,810	–	390,810	400,137
Total net assets	840,224	226,690	1,066,914	1,117,751
Total liabilities and net assets	\$ 853,267	291,663	1,144,930	1,193,648

See accompanying notes to financial statements.

**NATIONAL GALLERY OF ART**

Statement of Activities  
Year ended September 30, 2015  
(with summarized financial information for the year ended September 30, 2014)  
(In thousands)

	<u>Unrestricted private</u>	<u>Unrestricted federal</u>	<u>Total Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2015</u>	<u>Total 2014</u>
Operating:							
Support and revenue:							
Federal appropriations	\$ —	109,841	109,841	7,949	—	117,790	110,134
Gifts and grants	2,842	—	2,842	10,587	—	13,429	9,486
Gallery shops sales, net	8,641	—	8,641	—	—	8,641	8,811
Spending policy appropriated for operations	4,504	—	4,504	15,467	—	19,971	17,611
Royalties and other income	2,929	—	2,929	—	—	2,929	3,338
	<u>18,916</u>	<u>109,841</u>	<u>128,757</u>	<u>34,003</u>	<u>—</u>	<u>162,760</u>	<u>149,380</u>
Net assets released from restrictions to fund operating expenses	<u>18,365</u>	<u>7,355</u>	<u>25,720</u>	<u>(25,720)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>37,281</u>	<u>117,196</u>	<u>154,477</u>	<u>8,283</u>	<u>—</u>	<u>162,760</u>	<u>149,380</u>
Expenses:							
Collections	4,366	44,070	48,436	—	—	48,436	44,790
Special exhibitions	4,812	13,832	18,644	—	—	18,644	17,523
Education, gallery shops, and public programs	15,837	24,132	39,969	—	—	39,969	38,952
Editorial and photography	1,509	4,675	6,184	—	—	6,184	6,081
General and administrative	5,457	27,448	32,905	—	—	32,905	31,457
Development	2,387	1,657	4,044	—	—	4,044	4,100
Total operating expenses	<u>34,368</u>	<u>115,814</u>	<u>150,182</u>	<u>—</u>	<u>—</u>	<u>150,182</u>	<u>142,903</u>
Change in net assets from operating activities	<u>2,913</u>	<u>1,382</u>	<u>4,295</u>	<u>8,283</u>	<u>—</u>	<u>12,578</u>	<u>6,477</u>
Nonoperating:							
Federal appropriations	—	5,034	5,034	14,629	—	19,663	13,899
Nonoperating gifts and grants	3	—	3	8,629	202	8,834	7,702
Spending policy appropriated for art acquisitions	31	—	31	9,223	—	9,254	968
Changes in value of trusts held by others	(164)	—	(164)	(29)	(941)	(1,134)	182
Investment return less amounts appropriated for operations and art acquisitions	(26,634)	—	(26,634)	(37,377)	(304)	(64,315)	57,002
Acquisitions of works of art	(18,979)	—	(18,979)	—	—	(18,979)	(8,914)
Depreciation and amortization expense	(3,561)	(11,081)	(14,642)	—	—	(14,642)	(13,467)
Income tax (expense) benefit	(726)	—	(726)	—	—	(726)	50
Environmental liability expense	—	(1,123)	(1,123)	—	—	(1,123)	(571)
Provision for bad debts	(247)	—	(247)	—	—	(247)	—
Gifts transferred from Corcoran	—	—	—	—	—	—	5,250
Reclassifications of net asset balances	(1,264)	—	(1,264)	9,548	(8,284)	—	—
Net assets released from restrictions to fund nonoperating expenses	<u>33,261</u>	<u>18,678</u>	<u>51,939</u>	<u>(51,939)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets from nonoperating activities	<u>(18,280)</u>	<u>11,508</u>	<u>(6,772)</u>	<u>(47,316)</u>	<u>(9,327)</u>	<u>(63,415)</u>	<u>62,101</u>
(Decrease) increase in net assets	<u>(15,367)</u>	<u>12,890</u>	<u>(2,477)</u>	<u>(39,033)</u>	<u>(9,327)</u>	<u>(50,837)</u>	<u>68,578</u>
Net assets at beginning of year	<u>308,094</u>	<u>194,163</u>	<u>502,257</u>	<u>215,357</u>	<u>400,137</u>	<u>1,117,751</u>	<u>1,049,173</u>
Net assets at end of year	\$ <u>292,727</u>	<u>207,053</u>	<u>499,780</u>	<u>176,324</u>	<u>390,810</u>	<u>1,066,914</u>	<u>1,117,751</u>

See accompanying notes to financial statements.

**NATIONAL GALLERY OF ART**

Statement of Cash Flows

Year ended September 30, 2015

(with summarized financial information for the year ended September 30, 2014)

(In thousands)

	<u>Private</u>	<u>Federal</u>	<u>Total 2015</u>	<u>Total 2014</u>
Cash flows from operating activities:				
Federal operating appropriations	\$ —	118,533	118,533	118,660
Operating gifts and grants	8,196	—	8,196	7,953
Gallery shops sales	8,639	—	8,639	8,830
Investment income and dividends, net	4,927	—	4,927	3,550
Royalties and other income	3,438	—	3,438	3,244
Payments to employees	(19,637)	(79,505)	(99,142)	(98,117)
Payments to suppliers	(13,442)	(43,158)	(56,600)	(47,716)
Interest payments	—	(55)	(55)	(79)
Income tax payments	(330)	—	(330)	—
Net cash used in operating activities	<u>(8,209)</u>	<u>(4,185)</u>	<u>(12,394)</u>	<u>(3,675)</u>
Cash flows from investing activities:				
Purchase of investments	(93,016)	—	(93,016)	(150,258)
Proceeds from sale of investments	109,230	—	109,230	166,193
Acquisitions of works of art	(18,962)	—	(18,962)	(17,445)
Purchase of property, plant and equipment	(13,559)	(17,050)	(30,609)	(16,334)
Net cash used in investing activities	<u>(16,307)</u>	<u>(17,050)</u>	<u>(33,357)</u>	<u>(17,844)</u>
Cash flows from financing activities:				
Contributions and net investment income for permanently restricted investments	397	—	397	5,240
Federal appropriations for capital projects	—	19,663	19,663	13,899
Gifts and grants for art acquisitions and capital projects	18,163	—	18,163	19,187
Principal payment on capital lease obligation	—	(289)	(289)	(263)
Net cash provided by financing activities	<u>18,560</u>	<u>19,374</u>	<u>37,934</u>	<u>38,063</u>
Net change in cash and cash equivalents	(5,956)	(1,861)	(7,817)	16,544
Cash and cash equivalents, at beginning of year	18,075	49,843	67,918	51,374
Cash and cash equivalents, at end of year	<u>\$ 12,119</u>	<u>47,982</u>	<u>60,101</u>	<u>67,918</u>

(Continued)

**NATIONAL GALLERY OF ART**

Statement of Cash Flows  
Year ended September 30, 2015  
(with summarized financial information for the year ended September 30, 2014)  
(In thousands)

	<u>Private</u>	<u>Federal</u>	<u>Total 2015</u>	<u>Total 2014</u>
(Decrease) increase in net assets	\$ (60,272)	9,435	(50,837)	68,578
Adjustments to reconcile increase in net assets to net cash used in operating activities:				
Depreciation and amortization	3,561	11,081	14,642	13,467
Amortization of discount on pledges receivable	(565)	-	(565)	(324)
Provision for bad debts	247	-	247	-
Contributions and net investment income for permanently restricted investments	(397)	-	(397)	(5,240)
Federal appropriations for capital projects	-	(19,663)	(19,663)	(13,899)
Gifts and grants for art acquisitions and capital projects	(18,163)	-	(18,163)	(19,187)
Acquisitions of works of art	18,962	-	18,962	17,445
Realized and unrealized losses (gains) on investments, net	43,414	-	43,414	(71,916)
Reinvested dividends and interest, net	(2,142)	-	(2,142)	403
Donated investment securities	(5,733)	-	(5,733)	(5,508)
Proceeds from donated investment securities	5,757	-	5,757	5,533
Change in value of trusts held by others	249	-	249	144
Change in accounts receivable and other assets, net	785	-	785	758
Change in pledges receivable, net	4,670	-	4,670	8,990
Change in accounts payable and other liabilities	1,418	(5,670)	(4,252)	(11,320)
Change in unexpended one-year federal appropriations	-	743	743	8,527
Change in environmental liability	-	(111)	(111)	(126)
Net cash used in operating activities	<u>\$ (8,209)</u>	<u>(4,185)</u>	<u>(12,394)</u>	<u>(3,675)</u>
Supplemental disclosure of noncash information:				
Capital additions included in accounts payable	\$ 1,714	6,863	8,577	2,643

See accompanying notes to financial statements.

# NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

## (1) Organization

The National Gallery of Art (the Gallery) was created in 1937 for the people of the United States of America by a joint resolution of Congress, accepting the gift of financier and art collector Andrew W. Mellon. The Gallery is a nonprofit organization exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The Gallery serves the United States in a national role by preserving, collecting, exhibiting, and encouraging the understanding by the American public of original, great works of art. This mission and standard of excellence is central to every activity of the Gallery, from caring for and strengthening the collection to presenting special exhibitions and organizing public programs.

A substantial portion of the Gallery's operations is funded from annual federal appropriations. Since its founding, federal funds ensure the operation and maintenance and the protection and care of the nation's art collection enabling the Gallery to remain open 363 days a year at no charge to visitors. The Gallery also receives federal appropriations for the repair and restoration of its facilities.

In addition to federal appropriations, the Gallery receives private donations and earns income from investments. Private donations from individuals, foundations and corporations have provided support for art acquisitions and conservation, scholarly and scientific research, exhibitions, and education outreach programs.

## (2) Summary of Significant Accounting Policies

### (a) General

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP) under *FASB ASC 958, Not-for-Profit Presentation of Financial Statements*.

The Gallery receives annual federal appropriations to cover its core programs and renovation of its buildings as part of the budget approved annually by Congress and signed by the President. This is supplemented with income from endowments designated for current operating expenditures as well as gifts and grants designated by donors for other specific expenditures. All monies, related activities and balances from federal sources are referred to herein as "federal", while all other monies, related activities and balances are referred to herein as "private".

### (b) Measure of Operations

The Gallery includes in its measure of operations federal and private support and revenue and expenses that are integral to its core program services: collections; special exhibitions; education, Gallery shops and public programs; and editorial and photography. The measure of operations excludes certain nonoperating activities such as nonoperating gifts and grants (endowment gifts, gifts for art acquisitions, and capital projects), investment return less amounts designated for operations, acquisitions of works of art, and income tax and depreciation expense.

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

The Gallery's Board of Trustees appropriates only a portion of the Gallery's cumulative investment return for support of current operations and art acquisitions; the remainder is retained to support operations of future years and to offset potential market declines. The amount appropriated is computed under the Gallery's spending policy and is appropriated for use based on the underlying donor-imposed restrictions (see notes 4 and 11).

### (c) **Summarized Financial Information**

The financial statements include certain summarized prior-year information in total only. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Gallery's financial statements for the year ended September 30, 2014, from which the summarized information was derived.

### (d) **Net Assets**

The Gallery's net assets, support and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Gallery are classified and reported as follows:

- *Unrestricted* net assets consist of the Gallery's net investment in building improvements and other equipment purchased or constructed using federal funds less unfunded liabilities and all other resources which are not subject to donor-imposed restrictions. At the discretion of the Gallery's Board of Trustees, private funds which are not expended for operating activities may be set aside in designated reserves and earmarked to cover future program costs or other contingencies.
- *Temporarily restricted* net assets carry specific donor-imposed stipulations on the expenditure or other use of the contributed funds. In addition, the Gallery's unexpended "no-year" federal appropriations for special exhibitions and for the repair, renovation and restoration of its buildings are classified as temporarily restricted net assets.

Temporary restrictions may expire by the passage of time or as a result of fulfillment of the donor's stipulations. For gifts restricted for capital additions, net assets are released when capital expenditures are incurred.

- *Permanently restricted* net assets have donor-imposed stipulations that require that the corpus of the gifts be retained permanently. In some cases, the donor has also permanently restricted the use of excess income and any realized or unrealized gains attributable to the corpus. When the investment earnings in subsequent years are not sufficient to support expenditures under the Gallery's endowment spending policy, the necessary funds are transferred from permanently restricted net assets not to exceed the original corpus. The amount transferred in FY 2015 totaled \$9,284 and is reported as a "reclassification of net asset balances" on the statement of activities.

### (e) **Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing demand deposits and appropriated amounts yet to be disbursed remaining on deposit with the U.S. Department of Treasury (or

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

U.S. Treasury). The Gallery considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents, except where such cash equivalents are held as part of a long-term investment strategy (see note 4).

The fund balances with U.S. Treasury consists of appropriated funds that are available to pay current liabilities and finance authorized purchase commitments of the Gallery. The Gallery's fund balances with U.S. Treasury are carried forward until such time as goods or services are received and payments are made, or until the funds are returned to the U.S. Treasury.

### **(f) Pledges Receivable**

Unconditional promises to give to the Gallery in the future (pledges receivable) are recorded at the fair value of future cash flows, after providing an allowance for uncollectibility (Level 3 inputs). For unconditional promises to give recognized prior to October 1, 2008, a risk-free rate of return at the date of the gift was used. For unconditional promises to give recognized on or after October 1, 2008, a discount rate approximating the current market rate at the date of the gift is used. The resulting discount rates range from 2.2% to 4.5%. Conditional promises to give are recognized as income when the conditions stipulated by the donor are substantially met.

### **(g) Investments and Trusts Held by Others**

Investments are generally reported at fair value. Common and preferred stocks and mutual funds are valued using readily determinable market prices. Alternative investments are reported at the estimated fair value as provided by the investment managers. The Gallery reviews and evaluates valuation methods and assumptions the investment managers use in determining the fair value. For investments valued based on manager reported net asset values, the Gallery applies procedures to assess the valuation including comparing performance to relevant market indices and verifying the underlying asset values to quoted market prices. Due to the uncertainty of valuation of alternative investments, values may differ from values that would have been used had a ready market for the investments existed.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average historical value (cost of securities if purchased or the fair market value at the date of gift if received by donation). Dividend and interest income is recorded when earned on an accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities (see note 4).

The Gallery has been named as beneficiary in several irrevocable charitable trusts held by third parties. The Gallery's share of these trusts is generally recorded at current fair value. Income distributions from these trusts are recorded as investment income and changes in the value of these trusts are recorded as "changes in value of trusts held by others" in the statement of activities.

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

### **(h) Property, Plant and Equipment**

The land occupied by the Gallery's buildings was appropriated and reserved by the Congress of the United States for that purpose. No value has been assigned in the accompanying financial statements. Property, plant and equipment with a cost of \$50 or more is capitalized at cost and depreciated using the straight-line method over the useful life of the assets. These assets have been assigned a useful life as follows:

Buildings	50 years
Building improvements	up to 25 years
Equipment under capital lease	14 years
Equipment	5 - 10 years
Computer software	3 - 5 years

Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

### **(i) Art Collections**

The Gallery's art collections focus upon European and American paintings, sculpture, decorative arts, works on paper and photographs. In conformity with accounting policies generally followed by art museums, the value of art has been excluded from the statement of financial position.

The Gallery's collections are maintained for public exhibition, education and research in furtherance of public service, rather than for financial gain.

The Gallery acquires its art collections through purchase or by donations-in-kind. Only current year purchases made from specifically designated funds, not donations-in-kind, are reflected in the statement of activities. The Gallery does not deaccession any of its permanent collections.

In 2014, the District of Columbia Attorney General and the District of Columbia Superior Court approved a *cy pres* petition by the Corcoran Gallery of Art to authorize specific contracts between the Corcoran Gallery of Art, the National Gallery of Art, and George Washington University. Upon execution of these contracts, the Corcoran Gallery of Art transferred to the National Gallery of Art the custody, care and possession of all of the Corcoran's artworks, together with certain related gift and endowment assets. The National Gallery's Board of Trustees has accessioned appropriate works of art into its collection, and the remainder of the artwork in its custody and care will be distributed by the surviving Corcoran entity to other art museums or entities.

### **(j) Accrued Leave**

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability as of the date of the financial statements is recognized for earned but unused annual leave by federal employees since this annual leave will be paid from future federal appropriations when the leave is used by employees. The amount accrued is based upon current pay of the employees.

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### **(k) Unexpended Federal One-Year and Two-Year Appropriations**

The Gallery's federal one-year and two-year appropriations are recognized as revenue as expenditures are incurred throughout the year. The portion of these appropriations which are not obligated or expended are retained by the Gallery in accordance with federal guidelines and returned to the U.S. Department of Treasury after five years. The remaining unexpended balances of these funds are classified as a liability on the statement of financial position.

### **(l) Employee Benefits**

The pension expense recognized in the Gallery's financial statements is equal to the current service cost for the Gallery's employees for the accounting period less the amount contributed by the employees. The measurement of the pension service cost requires the use of an actuarial cost method and assumptions with factors applied by the Gallery. These factors are supplied by the Office of Personnel Management (OPM), the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the Gallery represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM; therefore the excess financing costs are not recognized in the statement of activities. This amount is considered imputed financing by the Gallery.

All permanent employees of the Gallery, both federal and nonfederal, hired subsequent to January 1, 1984 participate in both the Social Security Retirement System and the Federal Employees' Retirement System (FERS). Employees hired prior to January 1, 1984 had the option of remaining under the Civil Service Retirement System (CSRS) or electing FERS. All employees have the option to make tax-deferred contributions to a Thrift Savings Plan and, in some instances, receive a matching portion from the Gallery. The Gallery funds all retirement contributions on a current basis, and accordingly there are no unfunded retirement costs (see note 12).

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Gallery for these paid claims.

The actuarial FECA liability represents the liability for expected future workers' compensation benefits, which includes the liability for death, disability, medical, and miscellaneous costs for approved cases. The actuarial liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period, wage inflation factors, medical inflation factors and other variables. These actuarially computed projected annual benefit payments are discounted to present value using discount rates derived from the Treasury Nominal Coupon-Issue Yield Curve based on an average of the quarterly spot rates presented from September 30, 2014, through June 30, 2015. Specific rates were selected by interpolation for Treasury notes with maturities that matched average FECA compensation and medical cash flow duration. The change in the projected FECA

## NATIONAL GALLERY OF ART

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liability is reported in the statement of activities. The FECA actuarial liability is recorded for financial reporting purposes only. This liability constitutes an extended future estimate of cost which will not be obligated against budgetary resources until the fiscal year in which DOL actually bills the cost to the Gallery. The cost associated with this liability cannot be met by the Gallery without further appropriation action.

### **(m) *Imputed Financing Sources***

In certain cases, costs of the Gallery are paid out of funds appropriated to other federal agencies. As an example, the law requires certain costs of retirement programs to be paid by OPM and certain legal judgments against the Gallery to be paid from the Judgment Fund maintained by U.S. Treasury. Costs that are identifiable to the Gallery and directly attributable to the Gallery's operations are paid by these federal agencies; however, imputed costs and offsetting federal funding amounts are not recognized in the statement of activities.

Imputed costs and offsetting federal funding amounts for pension and post-retirement health and life insurance benefits are computed and presented in note 12.

### **(n) *Contributed Services and Donated Assets***

The Gallery has volunteers who provide assistance in various departments. Such contributed services do not meet the criteria for recognition of contributed services and accordingly, are not reflected in the accompanying financial statements.

Donated assets, which do not become part of the Gallery's art collections, are recorded at their fair value at the date of the gift. The Gallery does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue.

### **(o) *Functional Allocation of Expenses***

The cost of providing various programs and other activities summarized on a functional basis is shown in note 10. Certain costs including depreciation, utilities, building maintenance, security, information systems and other operating costs have been allocated among program and supporting services.

Included under the Collections category are the costs of the care and display of the Gallery's collections. Special exhibition expenses include travel, transportation of items, and other services necessary for the display of special exhibitions. Education, Gallery shops and public programs includes the cost of providing a wide array of lectures, tours, films, music, symposia and academic programs to the general public, in addition to Gallery shops' cost of goods sold and expenses. Editorial and photography expenses include the costs to produce the many publications produced by the Gallery. General and administrative expenses include costs for executive management, financial administration, human resources and legal services. Development expenses include those costs associated with individual and corporate gifts and grants, annual appeals and other fundraising efforts.

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**(p) *Estimates***

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from these estimates.

**(q) *Risks and Uncertainties***

The Gallery invests in a variety of investment securities. Investment securities are exposed to risks such as interest rate, market, and credit risks. As a result, changes in the values of investment securities may occur that could materially affect the value of the Gallery's investments and its financial position.

**(r) *Recent Accounting Pronouncements***

In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the disclosure requirements of Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and also remove the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for the Gallery's fiscal year beginning after December 31, 2015, with early application permitted. The Gallery elected to early adopt the provisions of ASU 2015-07 in fiscal year 2015 and has applied the amendments retrospectively to all periods presented in note 4.

**(s) *Reclassifications***

Certain prior year balances have been reclassified to conform to current year presentation.

## NATIONAL GALLERY OF ART

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### (3) Pledges Receivable, Net

As of September 30, 2015 and 2014, pledges receivable, net, consisted of the following:

	<b>2015</b>	<b>2014</b>
Due in one year or less	\$ 3,100	10,887
Due between one year and five years	6,508	3,044
Subtotal	9,608	13,931
Less discounts of \$346 and \$176 and allowances of \$150 and \$150, respectively	(496)	(326)
Total	\$ 9,112	13,605

As of September 30, 2015 and 2014, \$1,073 and \$7,062 of the pledge receivable balance was receivable from related parties.

### (4) Investments, Trusts Held by Others and Fair Value Measurement

As of September 30, 2015 and 2014, investments and trust held by others consisted of the following:

	<b>2015</b>	<b>2014</b>
Investments	\$ 742,861	799,236
Trusts held by others	11,877	13,168
Subtotal	754,738	812,404
Loan to U.S. Treasury	5,000	5,000
Total	\$ 759,738	817,404

In 1942, the Gallery, under authority of an Act of Congress, made a \$5,000 permanent loan to the U.S. Treasury. This loan bears interest at the higher of 4.00% or 0.25% below the average monthly rate for long-term funds paid by the U.S. Treasury (4% during fiscal year 2015). Interest income on this loan was \$203 for the fiscal years ended September 30, 2015 and 2014. The fair value of the loan to the U.S. Treasury approximates the carrying value.

As of September 30, 2015 and 2014, the carrying value of the Gallery's cash, cash equivalents and balances with U.S. Treasury, receivables, deferred charges and other assets, and accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturity of these assets and liabilities. The Gallery's investments in private equity, venture capital, and real estate are generally valued based on the most current net asset value (NAV) adjusted for cash flows when the reported NAV is not at the measurement date.

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The fair value of a financial instrument is the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The Gallery applies a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

- *Level 1* – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Gallery has the ability to access as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. Investments include investments in equity, real estate, and fixed income mutual funds that are traded in an active exchange market.
- *Level 2* – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly as of the reporting date.
- *Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement as of the reporting date. The determination of fair value for these financial instruments requires one or more inputs subject to significant management judgment or estimation. Trusts held by others are valued using Level 3 inputs. One trust is invested in real property and has been recorded at the value of the real property as of the date of the gift based on property valuations that involved significant judgments and estimation. Another trust is a perpetual trust invested in equity, fixed income securities, and mutual funds where the Gallery receives annual distributions but will never receive the trust's principal. The remainder of the trusts are invested in cash equivalents, mutual funds, and publicly traded equities.

## NATIONAL GALLERY OF ART

### Notes to Financial Statements September 30, 2015 (In thousands)

The following tables summarize the fair value of investments and trusts held by others as of September 30, 2015 and 2014 for financial assets by pricing observability levels:

	Prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Investments measured at net asset value <sup>1</sup>	Fair value at September 30, 2015
U.S. equities	\$ 103,792	–	–	88,919	192,711
International equities:					
Developed market equities	54,840	–	–	63,609	118,449
Emerging market equities	17,219	–	–	37,958	55,177
Real estate:					
Mutual fund	17,546	–	–	–	17,546
Private Investments	–	–	–	2,860	2,860
Inflation hedging securities	–	–	–	16,828	16,828
Private equity and venture capital funds	–	–	–	47,327	47,327
Hedge fund of funds	–	–	–	164,416	164,416
Multi-asset fund	–	–	–	46,807	46,807
Fixed income securities	7,391	–	–	67,284	74,675
Charitable gift annuities and other	6,065	–	–	–	6,065
Trusts held by others	–	–	11,877	–	11,877
<b>Total</b>	<b>\$ 206,853</b>	<b>–</b>	<b>11,877</b>	<b>536,008</b>	<b>754,738</b>

<sup>1</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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### Notes to Financial Statements September 30, 2015 (In thousands)

	Prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Investments measured at net asset value <sup>1</sup>	Fair value at September 30, 2014
U.S. equities	\$ 118,507	-	-	84,070	202,577
International equities:					
Developed market equities	59,507	-	-	69,214	128,721
Emerging market equities	21,933	-	-	47,037	68,970
Real estate:					
Mutual fund	17,414	-	-	-	17,414
Private Investments	-	-	-	4,613	4,613
Inflation hedging securities	-	-	-	33,817	33,817
Private equity and venture capital funds	-	-	-	53,585	53,585
Hedge fund of funds	-	-	-	160,312	160,312
Multi-asset fund	-	-	-	49,201	49,201
Fixed income securities	8,121	-	-	65,520	73,641
Charitable gift annuities and other	6,385	-	-	-	6,385
Trusts held by others	-	-	13,168	-	13,168
	<u>231,867</u>	<u>-</u>	<u>13,168</u>	<u>567,369</u>	<u>812,404</u>
Total	\$ <u>231,867</u>	<u>-</u>	<u>13,168</u>	<u>567,369</u>	<u>812,404</u>

<sup>1</sup> Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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### Notes to Financial Statements September 30, 2015 (In thousands)

The following table summarizes the changes in Level 3 assets, Trusts held by others, measured at fair value on a recurring basis for the years ended September 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Fair value of Level 3 assets, October 1	\$ 13,168	12,330
Unrealized (losses) gains	(603)	859
Proceeds from distributions	(688)	(453)
Purchase of investments	–	432
	\$ 11,877	13,168

The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 2015:

		<b>Fair value</b>	<b>Commitments</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>
U.S. equities	(a) \$	88,919	–	Monthly to Quarterly	30 to 60 days
International equities:	(b)				
Developed market equities		63,609	–	Semi-monthly	6 to 20 days
Emerging market equities		37,958	–	Monthly	30 to 120 days
Real estate:	(c)				
Private Investments		2,860	575	N/A	N/A
Inflation hedging securities	(d)	16,828	–	Monthly	30 days
Private equity and venture capital funds	(e)	47,327	11,344	N/A	N/A
Hedge fund of funds	(f)	164,416	–	Semi-annually to annually	90 to 95 days
Multi-asset fund	(g)	46,807	–	Annually	365 days
Fixed income securities	(h)	67,284	–	Monthly	30 days
Total		\$ 536,008	11,919		

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The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 2014:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a) \$	84,070	–	Quarterly	60 days
International equities:	(b)				
Developed market equities		69,214	–	Semi-monthly	6 to 20 days
Emerging market equities		47,037	–	Monthly	30 to 120 days
Real estate:	(c)				
Private investments		4,613	650	N/A	N/A
Inflation hedging securities	(d)	33,817	–	Monthly	30 days
Private equity and venture capital funds	(e)	53,585	14,468	N/A	N/A
Hedge fund of funds	(f)	160,312	–	Semi-annually to annually	90 to 95 days
Multi-asset fund	(g)	49,201	–	Annually	365 days
Fixed income securities	(h)	65,520	–	Monthly	30 days
Total		<u>\$ 567,369</u>	<u>15,118</u>		

## NATIONAL GALLERY OF ART

Notes to Financial Statements

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- (a) U.S. equities: Investments in equity securities of large cap and small cap U.S. companies comprised of a fund that invests long and short in U.S. equities.
- (b) International equities: Investments in equity securities of international companies in both developed and emerging markets comprised of investments in mutual funds, limited partnerships and limited liability companies.
- (c) Real estate: Investments in U.S. Real Estate Investment Trust (REIT) mutual fund or privately held real estate comprised of investments in private limited partnerships.
- (d) Inflation hedging securities: Investments in securities which are expected to perform well in periods of high inflation, including precious metals, energy, commodities, natural resources, U.S. Treasury Inflation Protected Securities (TIPS) and energy infrastructure Master Limited Partnership (MLP) comprised of an investment in a limited partnership.
- (e) Private equity and venture capital funds: Investments in limited partnerships which invest in shares of operating companies that are not listed on a publicly traded stock exchange, including leveraged buyouts, growth capital, distressed investments, and start-ups. The limited partnerships are organized as funds of funds.
- (f) Hedge fund of funds: Investments in limited partnerships which invest in shares of hedge funds which employ strategies such as long/short equity, credit and distressed assets, and multi-strategy.
- (g) Multi-asset fund: Investment in a limited partnership which invests in shares of funds engaged in all asset classes, including U.S. and international equities, fixed income, private equity, venture capital, hedge funds, real estate, and natural resources.
- (h) Fixed income securities: Investment in a limited partnership which invests in investment grade fixed income securities issued by U.S. government and corporate entities.

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The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September 30, 2015 and 2014:

	2015			Total	2014 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Dividends and interest (net of expenses of \$3,532 and \$5,175, respectively)	\$ 1,861	5,327	–	7,188	4,249
Net investment (depreciation) appreciation	(23,960)	(18,014)	(304)	(42,278)	71,332
	(22,099)	(12,687)	(304)	(35,090)	75,581
Appropriated for operations	(4,504)	(15,467)	–	(19,971)	(17,611)
Appropriated for art acquisitions	(31)	(9,223)	–	(9,254)	(968)
Investment return less amounts appropriated for operations and art acquisitions	\$ (26,634)	(37,377)	(304)	(64,315)	57,002

### (5) Property, Plant and Equipment, Net

As of September 30, 2015 and 2014, net property, plant and equipment consisted of the following:

	2015			2014 Total
	Private funds	Federal funds	Total	
Buildings and improvements	\$ 156,310	263,803	420,113	419,728
Equipment and computer software	7,170	75,983	83,153	78,081
Construction-in-progress	21,622	25,536	47,158	16,069
Equipment under capital lease	–	2,962	2,962	2,962
Subtotal	185,102	368,284	553,386	516,840
Less accumulated depreciation and amortization	(117,897)	(124,603)	(242,500)	(227,857)
Total	\$ 67,205	243,681	310,886	288,983

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### (6) Accounts Payable and Other Liabilities

As of September 30, 2015 and 2014, accounts payable and other liabilities consisted of the following:

	2015			2014 Total
	Private funds	Federal funds	Total	
Accounts payable and accrued expenses	\$ 2,213	6,793	9,006	8,923
Employee-related liabilities	4,623	14,989	19,612	20,502
Other liabilities	6,207	661	6,868	4,574
Total	\$ 13,043	22,443	35,486	33,999

### (7) Environmental Liability

In 2006 the Gallery, in conjunction with third party consultants, determined the cost of removing asbestos and other hazardous materials from the Gallery's buildings pursuant to the Clean Air Act as amended. The environmental liability was initially recorded at the estimated fair value calculated using inflation rates ranging from 1.9% to 2.6% and discount rates ranging from 4.6% to 4.9% (Level 3 inputs). The cost of the remediation is amortized over the useful life of the asset.

As of September 30, 2015 and 2014 the net remediation costs included in the Gallery's property, plant and equipment consists of the following:

	2015	2014
Remediation costs	\$ 4,201	4,201
Less accumulated depreciation	(3,442)	(3,358)
Net remediation costs	\$ 759	843

The Gallery's financial statements reflect an unfunded liability for environmental remediation clean-up costs as follows:

	2015	2014
Beginning balance	\$ 23,782	23,908
Liability recorded for the period	1,123	571
Remediation costs incurred	(1,234)	(697)
Total	\$ 23,671	23,782

The actual cost may vary from the current estimated cost at completion in the future due to inflation and the timing of implementing the various remedies. Management annually updates the total estimated costs for completion.

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### (8) Federal Appropriations

The Gallery is funded primarily by two Congressional appropriations: one appropriation covers the Gallery's salaries, benefits and expenses, a portion of which is designated for special exhibitions, and the second appropriation provides funds necessary for the repair, restoration and renovation of the Gallery's buildings. The appropriation received for salaries, benefits and expenses is a two-year appropriation that must be obligated by the end of the second fiscal year, with the exception of the portion of the appropriation designated for special exhibitions expenses, which is available until it is expended. The appropriation for the repair, restoration, and renovation of the Gallery's buildings is available until expended. The fiscal year 2015 salaries and expenses appropriation includes \$3,578 for no-year special exhibitions funding.

The Gallery's federal appropriations received in the fiscal years ending 2015 and 2014 are reconciled to federal appropriation revenue recognized as follows:

	<u>Salaries and expenses</u>	<u>2015 Repairs, restoration and renovation</u>	<u>Total</u>	<u>2014</u>
Federal appropriations received	\$ 119,500	19,000	138,500	133,000
Unexpended appropriations	(12,433)	-	(12,433)	(14,836)
Amounts expended from prior years' appropriations	<u>11,386</u>	<u>-</u>	<u>11,386</u>	<u>5,869</u>
Federal appropriation revenue recognized	<u>\$ 118,453</u>	<u>19,000</u>	<u>137,453</u>	<u>124,033</u>
Operating	\$ 113,419	4,371	117,790	110,134
Nonoperating	<u>5,034</u>	<u>14,629</u>	<u>19,663</u>	<u>13,899</u>
Total federal appropriation revenue recognized	<u>\$ 118,453</u>	<u>19,000</u>	<u>137,453</u>	<u>124,033</u>

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### (9) Net Assets Released from Restrictions

Net assets are released from donor restrictions when the expenses are incurred to satisfy the restricted purposes as specified by donors. The donor-specified restrictions that were met in the reporting period are as follows:

	2015			2014
	Private	Federal	Total	Total
Collections	\$ 2,172	–	2,172	2,303
Special exhibitions	3,358	2,984	6,342	5,524
Education and public programs	5,616	–	5,616	5,553
Editorial and photography	130	–	130	10
Operations	7,089	4,371	11,460	11,286
Subtotal operating	<u>18,365</u>	<u>7,355</u>	<u>25,720</u>	<u>24,676</u>
Acquisition of art	18,986	–	18,986	7,952
Capital projects	14,275	18,678	32,953	14,944
Subtotal nonoperating	<u>33,261</u>	<u>18,678</u>	<u>51,939</u>	<u>22,896</u>
Total	<u>\$ 51,626</u>	<u>26,033</u>	<u>77,659</u>	<u>47,572</u>

## NATIONAL GALLERY OF ART

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### (10) Functional Classification of Expenses

Expenses by functional classification for fiscal years 2015 and 2014 are shown below:

	<b>2015</b>			<b>2014</b>
	<b>Private</b>	<b>Federal</b>	<b>Total</b>	<b>Total</b>
Total operating expenses from the statement of activities	\$ 34,368	115,814	150,182	142,903
Expenses included in the nonoperating section of the statement of activities:				
Depreciation and amortization	3,561	11,081	14,642	13,467
Income tax expense (benefit)	726	-	726	(50)
Environmental liability	-	1,123	1,123	571
Provision for bad debts	247	-	247	-
Total expenses	<u>\$ 38,902</u>	<u>128,018</u>	<u>166,920</u>	<u>156,891</u>
Program services:				
Collections	\$ 6,109	50,077	56,186	51,623
Special exhibitions	5,246	15,267	20,513	19,199
Education, Gallery shops and public programs	16,525	26,446	42,971	41,626
Editorial and photography	1,591	4,980	6,571	6,420
Subtotal program expenses	<u>29,471</u>	<u>96,770</u>	<u>126,241</u>	<u>118,868</u>
Supporting services:				
General and administrative	7,005	29,457	36,462	33,740
Development	2,426	1,791	4,217	4,283
Subtotal supporting services	<u>9,431</u>	<u>31,248</u>	<u>40,679</u>	<u>38,023</u>
Total expenses	<u>\$ 38,902</u>	<u>128,018</u>	<u>166,920</u>	<u>156,891</u>

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### (11) Endowments and Net Asset Classifications

The Gallery's endowment consists of eighty-five individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Gallery's Board of Trustees has resolved to be guided by the standards in the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted by the District of Columbia on January 23, 2008, in the management, investment, and expenditure of Gallery endowment funds although it is not required to do so as a matter of law. The Board has interpreted UPMIFA as allowing the Gallery to appropriate for expenditure or accumulate so much of an endowment fund as the Gallery determines is prudent for the uses, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Gallery. The Gallery classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Gallery in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Gallery considers the following factors when making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Gallery and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Gallery
- The investment policies of the Gallery

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

Endowment net assets were comprised of the following as of September 30, 2015 and 2014:

	2015		2014	
	Donor- restricted endowment funds	Board- designated endowment funds	Donor- restricted endowment funds	Board- designated endowment funds
Unrestricted	\$ (12,273)	7,769	35	9,820
Temporarily restricted	57,784	-	79,544	-
Permanently restricted	390,810	-	400,137	-
Total	\$ 436,321	7,769	479,716	9,820

The following table summarizes the change in the endowment funds during the years ended September 30, 2015 (with summarized comparative totals for 2014):

	2015				2014 Total
	Unrestricted	Temporarily restricted	Permanently restricted	Total	
Endowment net assets as of October 1,	\$ 9,855	79,544	400,137	489,536	454,026
Investment return:					
Investment income	67	4,214	-	4,281	2,910
Net (depreciation) appreciation	(12,781)	(13,705)	(1,245)	(27,731)	40,085
Total investment return	(12,714)	(9,491)	(1,245)	(23,450)	42,995
Contributions	-	1	202	203	5,899
Appropriation of endowment assets for expenditures	(381)	(12,534)	(9,284)	(22,199)	(13,425)
Reclassifications	(1,264)	264	1,000	-	41
Endowment net assets as of September 30,	\$ (4,504)	57,784	390,810	444,090	489,536

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Gallery to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$12,296 as of September 30, 2015. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

The Gallery has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of funding for programs while maintaining the purchasing power of the endowment. Under the investment policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that reduces risk through diversification while

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

obtaining a competitive rate of return. To satisfy its long-term rate-of-return, the Gallery relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Gallery targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Gallery's spending policy is based on an annual endowment spending rate of 5% of the average fair value of endowment investments at the end of the previous five years. This spending rate constitutes the Board's annual appropriation for spending endowment earnings to support both the purchase of art and support of operations. Funds appropriated for art acquisition may exceed the 5% based on the availability of works of art for acquisition.

The following table summarizes the purpose of the net asset restrictions as of September 30, 2015 (with summarized comparative totals for 2014):

	<b>2015</b>			<b>2014</b> <b>Total</b>
	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>	
Acquisition of art	\$ 21,482	78,774	100,256	115,315
Collections	8,178	41,891	50,069	52,616
Special exhibitions	30,940	31,853	62,793	59,992
Education and public programs	79,086	88,358	167,444	136,858
Editorial and photography	524	5,704	6,228	6,291
Capital projects	8,234	-	8,234	22,131
Federal repair and renovation projects	19,637	-	19,637	23,092
Operations	8,243	144,230	152,473	199,199
Total	<u>\$ 176,324</u>	<u>390,810</u>	<u>567,134</u>	<u>615,494</u>

### (12) Employee Benefits

Total pension expense recognized in the Gallery's financial statements was \$8,596 and \$7,676 for the years ended September 30, 2015 and 2014, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$1,991 and \$3,102, respectively. To the extent that Gallery employees are covered by the thrift savings component of FERS, the Gallery's payments to the plan are recorded as operating expenses. The Gallery's costs associated with the thrift savings component of FERS for the years ended September 30, 2015 and 2014, were \$2,647 and \$2,540, respectively.

In addition, the Gallery makes matching contributions for all employees who are eligible for current health and life insurance benefits. The Gallery's contributions for active employees are recognized as operating expenses. During fiscal years 2015 and 2014, the Gallery contributed \$5,984 and \$5,873, respectively. Using the cost factors supplied by OPM, the Gallery has not recognized as an expense in its financial statements the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$4,169 and \$4,027 during fiscal years 2015 and 2014, respectively, and are financed by OPM and imputed to the Gallery.

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

The Gallery has a commitment to certain key employees whereby the Gallery will pay those employees a specified amount at a future point in time. The cost of these benefits is accrued over the key employees' future years of service to the Gallery. The cost of these benefits for fiscal years 2015 and 2014 total \$87 and \$101, respectively, and is recognized as an expense in the statement of activities and as a liability included in accounts payable and other liabilities in the accompanying statement of financial position.

### (13) Income Taxes

The Gallery is a nonprofit organization exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Tax positions are recognized or derecognized based on a more-likely than-not threshold. This applies to positions taken or expected to be taken in a tax return. The Gallery is not aware of any uncertain tax positions.

### (14) Lease Commitments

During fiscal year 2002, the Gallery entered into a capital lease obligation in connection with the installation of equipment. The Gallery has also entered into several operating leases for warehouse and office space, which continue through April 30, 2024. The terms of these operating leases include additional rent for operating expenses, real estate taxes, utilities and maintenance. Future minimum lease payments under these leases for the fiscal years ended September 30 are as follows:

	2015	
	Capital lease	Operating lease
2016	\$ 345	4,820
2017	–	4,851
2018	–	4,968
2019	–	2,283
2020	–	1,411
Thereafter	–	5,323
Total minimum lease payments	345	\$ 23,656
Less amount representing interest	(29)	
Present value of minimum capital lease payments	\$ 316	

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2015  
(In thousands)

Rental expense was approximately \$5,963 and \$4,834 for the years ended September 30, 2015 and 2014, respectively.

### **(15) Subsequent Events**

The Gallery has performed an evaluation of subsequent events through November 16, 2015 which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2015.

## NATIONAL GALLERY OF ART

Federal Supplementary Schedules  
September 30, 2015  
(In thousands)

In accordance with The Accountability of Tax Dollars Act of 2002 (ATDA), the Gallery is required to submit an annual Performance and Accountability Report (PAR) to The Office of Management and Budget (OMB), the U.S. Department of Treasury, the Government Accountability Office and to Congress. The PAR requirements are detailed in OMB Circular A-136, *Federal Reporting Requirements*, and include a number of components, including a financial section. The following supplementary schedules and related notes reflect the Gallery's Federal activities and have been prepared for Federal reporting purposes.

Supplementary Schedule 1

NATIONAL GALLERY OF ART

Federal Balance Sheets  
As of September 30, 2015 and 2014  
(In thousands)

	<u>2015</u>	<u>2014</u>
Assets:		
Intragovernmental:		
Fund balance with U.S. Treasury	\$ 47,982	49,843
Total intragovernmental	47,982	49,843
Property, plant and equipment, net	243,681	232,574
Total assets	\$ <u>291,663</u>	<u>282,417</u>
Liabilities:		
Intragovernmental:		
Other	\$ 583	224
Total intragovernmental	583	224
Accounts payable	5,360	4,812
Actuarial FECA liability	7,918	8,987
Environmental liability	23,671	23,782
Other	8,582	9,557
Total liabilities	<u>46,114</u>	<u>47,362</u>
Net position:		
Unexpended appropriations	38,241	40,972
Cumulative results of operations	207,308	194,083
Total net position	<u>245,549</u>	<u>235,055</u>
Total liabilities and net position	\$ <u>291,663</u>	<u>282,417</u>

See notes to federal supplementary schedules and accompanying independent auditors' report.

**Supplementary Schedule 2**

**NATIONAL GALLERY OF ART**  
Federal Schedule of Net Cost  
Years ended September 30, 2015 and 2014  
(In thousands)

	<u>2015</u>	<u>2014</u>
Program costs:		
Collections	\$ 52,746	49,596
Special exhibitions	15,657	14,900
Education	27,432	26,237
Editorial and photography	<u>5,220</u>	<u>5,252</u>
Total program costs	101,055	95,985
Costs not assigned to programs	<u>32,806</u>	<u>31,779</u>
Net cost of operations	<u>\$ 133,861</u>	<u>127,764</u>

See notes to federal supplementary schedules and accompanying independent auditors' report.

**Supplementary Schedule 3**

**NATIONAL GALLERY OF ART**

Federal Schedule of Budgetary Resources  
Years ended September 30, 2015 and 2014  
(In thousands)

	<b>2015</b>	<b>2014</b>
<b>Budgetary resources:</b>		
Unobligated balance, bought forward, October 1	\$ 4,986	14,681
Recoveries of prior year unpaid obligations	1,228	1,850
Other changes in unobligated balance	(305)	(441)
Unobligated balance from prior year budget authority, net	5,909	16,090
Appropriations	138,500	133,000
Spending authority from offsetting collections	15	9
Total budgetary resources	\$ 144,424	149,099
<b>Status of budgetary resources:</b>		
Obligations incurred	\$ 138,335	144,113
<b>Unobligated balance, end of year:</b>		
Apportioned	5,147	2,882
Unapportioned	942	2,104
Total unobligated balance, end of year	6,089	4,986
Total budgetary resources	\$ 144,424	149,099
<b>Change in obligated balance:</b>		
Unpaid obligations brought forward, October 1 (gross)	\$ 44,857	26,454
Obligations incurred	138,335	144,113
Outlays, gross	(140,071)	(123,860)
Recoveries of prior year unpaid obligations	(1,228)	(1,850)
Obligated balance, end of year (net)	\$ 41,893	44,857
<b>Budget authority and outlays, net:</b>		
Budget authority, gross	\$ 138,515	133,009
Actual offsetting collections	(15)	(9)
Budget authority, net	\$ 138,500	133,000
Outlays, gross	\$ 140,071	123,860
Actual offsetting collections	(15)	(9)
Outlays, net	\$ 140,056	123,851

See notes to federal supplementary schedules and accompanying independent auditors' report.

**Supplementary Schedule 4**

**NATIONAL GALLERY OF ART**

Federal Schedule of Changes in Net Position  
 Years ended September 30, 2015 and 2014  
 (In thousands)

	<b>2015</b>	<b>2014</b>
Cumulative results of operations:		
Beginning balances	\$ 194,083	192,540
Budgetary financing sources:		
Appropriations used	140,926	122,178
Other financing sources:		
Imputed financing from costs absorbed by others	6,160	7,129
Total financing sources	147,086	129,307
Net cost of operations	(133,861)	(127,764)
Net change	13,225	1,543
Cumulative results of operations	207,308	194,083
Unexpended appropriations:		
Beginning balances	40,972	30,591
Budgetary financing sources:		
Appropriations received	138,500	133,000
Other adjustments	(305)	(441)
Appropriations used	(140,926)	(122,178)
Total budgetary financing sources	(2,731)	10,381
Total unexpended appropriations	38,241	40,972
Net position	\$ 245,549	235,055

See notes to federal supplementary schedules and accompanying independent auditors' report.

## NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules  
September 30, 2015  
(In thousands)

**(1) Explanation of Differences between the Schedules of Budgetary Resources and the Budget of the United States Government**

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* requires explanations of material differences between budgetary resources available, status of those resources and outlays as presented in the Schedule of Budgetary Resources (SBR) to the related actual balances published in the *Budget of the United States Government* (President's Budget). However, the President's Budget that will include FY 2015 actual budgetary execution information has not yet been published. *The Budget of the United States Government* is scheduled for publication in January 2016. Accordingly, information required for such disclosure is not available at the time of preparation of these schedules.

Instead, the Gallery's FY 2014 SBR balances and the related President's Budget are shown in a table below for each major budget account in which a difference exists. The differences are primarily due to rounding and to reporting requirement differences for expired and unexpired appropriations between the U.S. Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

	<b>Budgetary resources</b>	<b>Obligations incurred</b>	<b>Distributed offsetting receipt</b>	<b>Net outlays</b>
Schedule of budgetary resources	\$ 149,099	144,113	-	123,851
Other	(1,099)	(113)	-	149
Budget of the U.S. government	\$ 148,000	144,000	-	124,000

## NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules  
September 30, 2015  
(In thousands)

### (2) Reconciliation of Net Cost of Operations to Budgetary Resources

The net cost of operations for the years ended September 30, 2015 and 2014, consisted of the following:

	<b>2015</b>	<b>2014</b>
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	\$ 138,335	144,113
Less:		
Recoveries of prior year unpaid obligations	(1,228)	(1,850)
Spending authority from offsetting collections	(15)	(9)
Obligations net of offsetting collections	137,092	142,254
Other resources:		
Imputed financing from costs absorbed by others	6,160	7,129
Total resources used to finance activities	143,252	149,383
Total resources used to finance items not part of the cost of operations	(19,827)	(32,640)
Total resources used to finance the net cost of operations	123,425	116,743
Total component of net cost of operations that will not require or generate resources	10,436	11,021
Net cost of operations	\$ 133,861	127,764

### (3) Fund Balance with U.S. Treasury

As of September 30, 2015 and 2014, fund balance with U.S. Treasury consisted of the following:

	<b>2015</b>	<b>2014</b>
Appropriated funds	\$ 47,982	49,843
Status of fund balance with U.S. Treasury:		
Unobligated balance:		
Available	\$ 5,147	2,882
Unavailable	942	2,104
Obligated balance not yet disbursed	41,893	44,857
Total	\$ 47,982	49,843

## NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules  
September 30, 2015  
(In thousands)

### (4) Heritage Assets

The Gallery's general property, plant and equipment (PP&E) falls into two categories: general PP&E and heritage assets. General PP&E items are used to provide general government goods and services. Heritage assets are defined as possessing significant structural, historic, cultural or natural characteristics, and are not included in general PP&E. No value is assigned to heritage assets in the accompanying financial statements.

Multi-use heritage assets are heritage assets that are predominantly for general government operations. Buildings and improvements presented on the balance sheet consist of the East and West Buildings which are multi-use heritage assets. The costs of acquisition, significant betterment or reconstruction of multi-use heritage assets are capitalized as general PP&E and depreciated and are included on the balance sheet as PP&E.

### (5) Stewardship Assets

The Gallery has been entrusted with stewardship responsibility for multiple assets classified as heritage assets, including its art collection, library collection and image collection. Heritage assets are not included on the balance sheet, as no financial value is, nor can be, placed on these assets. These heritage assets are integral to the mission of the Gallery which is to preserve, collect, exhibit, interpret and encourage the understanding by the American public of original, great works of art.

The Gallery's stewardship policy is to ensure that the facilities housing the Gallery's heritage assets collections must meet specific environmental, security, fire protection, housekeeping, physical examination, and conservation treatment, storage, and exhibit space standards. The goal of the Gallery is to preserve the heritage asset collections for as long as possible and to manage their condition in accordance with the intended use and not unduly hasten their deterioration.

For the year ended September 30, 2015 the changes in heritage assets were as follows:

	October 1, 2014	Increases	Decreases	September 30, 2015
Art collection	\$ 1	-	-	1
Image collection	1	-	-	1
Library collection	1	-	-	1
Total	\$ 3	-	-	3

The Gallery acquires its collections through purchase, using private funds, or by donation-in-kind. The Gallery does not deaccession any of its permanent collections.

## NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules  
September 30, 2015  
(In thousands)

### (6) Liabilities Not Covered by Budgetary Resources

As of September 30, 2015 and 2014, liabilities not covered by budgetary resources consisted of the following:

	<b>2015</b>	<b>2014</b>
Actuarial FECA liability	\$ 7,918	8,987
Environmental liability	23,671	23,782
Other	4,785	5,220
Total liabilities not covered by budgetary resources	36,374	37,989
Total liabilities covered by budgetary resources	9,740	9,373
Total liabilities	\$ 46,114	47,362

### (7) Reconciliation of Net Position to Net Assets reported under U.S. GAAP

The Gallery's net position is reconciled to the Federal net assets reported under U.S. generally accepted accounting principles for the years ended September 30, 2015 and 2014, as follows:

	<b>2015</b>	<b>2014</b>
Net position	\$ 245,549	235,055
Unexpended federal one-year and two-year appropriations	(18,859)	(18,116)
Capital lease obligation	—	316
Net assets under U.S. GAAP	\$ 226,690	217,255

### (8) Undelivered Orders

The amount of budgetary resources obligated for undelivered orders at September 30, 2015 and 2014 is \$32,152 and \$35,986, respectively.

# NATIONAL GALLERY OF ART

Other Supplementary Information  
September 30, 2015  
Unaudited  
(In thousands)

## Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2015

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
<b>Budgetary resources:</b>			
Unobligated balance brought forward, October 1	\$ 3,735	1,251	4,986
Recoveries of prior year unpaid obligations	692	536	1,228
Other changes in unobligated balance	(305)	-	(305)
Unobligated balance from prior year budget authority, net	4,122	1,787	5,909
Appropriations	119,500	19,000	138,500
Spending authority from offsetting collections	15	-	15
Total budgetary resources	\$ 123,637	20,787	144,424
<b>Status of budgetary resources:</b>			
Obligations incurred	\$ 118,805	19,530	138,335
<b>Unobligated balance, end of year:</b>			
Apportioned	3,899	1,248	5,147
Unapportioned	933	9	942
Total unobligated balance, end of year	4,832	1,257	6,089
Total budgetary resources	\$ 123,637	20,787	144,424
<b>Change in obligated balance:</b>			
Unpaid obligations brought forward, October 1 (gross)	\$ 21,389	23,468	44,857
Obligations incurred	118,805	19,530	138,335
Outlays, gross	(117,904)	(22,167)	(140,071)
Recoveries of prior year unpaid obligations	(692)	(536)	(1,228)
Obligated balance, end of year (net)	\$ 21,598	20,295	41,893
<b>Budget authority and outlays, net:</b>			
Budget authority, gross	\$ 119,515	19,000	138,515
Actual offsetting collections	(15)	-	(15)
Budget authority, net	\$ 119,500	19,000	138,500
Outlays, gross	\$ 117,904	22,167	140,071
Actual offsetting collections	(15)	-	(15)
Outlays, net	\$ 117,889	22,167	140,056

# NATIONAL GALLERY OF ART

Other Supplementary Information  
September 30, 2015  
Unaudited  
(In thousands)

## Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2014

	<b>Operating</b>	<b>Renovation</b>	<b>Total</b>
<b>Budgetary resources:</b>			
Unobligated balance brought forward, October 1	\$ 922	13,759	14,681
Recoveries of prior year unpaid obligations	798	1,052	1,850
Other changes in unobligated balance	(441)	-	(441)
Unobligated balance from prior year budget authority, net	1,279	14,811	16,090
Appropriations	118,000	15,000	133,000
Spending authority from offsetting collections	9	-	9
Total budgetary resources	\$ 119,288	29,811	149,099
<b>Status of budgetary resources:</b>			
Obligations incurred	\$ 115,553	28,560	144,113
<b>Unobligated balance, end of year:</b>			
Apportioned	2,683	199	2,882
Unapportioned	1,052	1,052	2,104
Total unobligated balance, end of year	3,735	1,251	4,986
Total budgetary resources	\$ 119,288	29,811	149,099
<b>Change in obligated balance:</b>			
Unpaid obligations brought forward, October 1 (gross)	\$ 13,859	12,595	26,454
Obligations incurred	115,553	28,560	144,113
Outlays, gross	(107,224)	(16,636)	(123,860)
Recoveries of prior year unpaid obligations	(798)	(1,052)	(1,850)
Obligated balance, end of year (net)	\$ 21,390	23,467	44,857
<b>Budget authority and outlays, net:</b>			
Budget authority, gross	\$ 118,009	15,000	133,009
Actual offsetting collections	(9)	-	(9)
Budget authority, net	\$ 118,000	15,000	133,000
Outlays, gross	\$ 107,224	16,636	123,860
Actual offsetting collections	(9)	-	(9)
Outlays, net	\$ 107,215	16,636	123,851

## NATIONAL GALLERY OF ART

Other Supplementary Information  
September 30, 2015  
Unaudited  
(In thousands)

### ***Deferred Maintenance***

The Gallery occupies two landmark buildings at one location. A condition assessment survey method is used to evaluate the asset's condition, and determines the repair and maintenance requirements for the buildings.

SFFAS No. 6, *Accounting for Property, Plant and Equipment*, requires that deferred maintenance (measured using the condition survey method) and the description of the requirements or standards for acceptable operating condition be disclosed. Fundamentally, the Gallery considers its facilities and equipment to be in an "acceptable condition" in that they serve their required mission. Adopting standard criteria for a classification of acceptable condition is difficult due to the complex environment in which the Gallery operates.

As a result, the Gallery has identified a current maintenance and repair backlog for:

	<u>2015</u>	<u>2014</u>
Buildings	\$ 41,764	45,926
Facilities equipment	<u>10,441</u>	<u>11,481</u>
Total deferred maintenance	<u>\$ 52,205</u>	<u>57,407</u>

The current estimate is a realistic measure of the maintenance and repair work that must be completed in order to maintain the Gallery's buildings and equipment in an acceptable operating condition.

**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  
The National Gallery of Art:

We have audited, 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, the financial statements of the National Gallery of Art (the Gallery), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Gallery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Gallery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Gallery's internal control.

A deficiency in internal control 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, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Gallery's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Gallery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gallery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 16, 2015

***Please send your comments to:***

National Gallery of Art  
Office of the Treasurer  
2000B South Club Drive  
Landover, MD 20785

***Cover Images***

(top)

National Gallery of Art, West Building

(bottom, left to right) From the collections of the National Gallery of Art:

Ruth Perkins Safford  
*Rotunda, National Gallery of Art, 1950*  
Paul Mellon Collection

Edgar Degas  
*Woman Viewed from Behind (Visit to a Museum), c. 1879-1885*  
Paul Mellon Collection

Ruth Perkins Safford  
*West Court, National Gallery of Art, date unknown*  
Paul Mellon Collection

All photographs courtesy of the National Gallery of Art