



NATIONAL GALLERY OF ART

FY 2013 Performance and Accountability Report



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PERFORMANCE AND ACCOUNTABILITY REPORT

for the year ended September 30, 2013

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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 2013 *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 2013 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 2013 towards achieving our long term goals and objectives.

Performance Highlights

This PAR discusses our achievements in FY 2013 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 repair the East Building facade
- 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 again received an unmodified opinion on its FY 2013 Financial Statements and remains committed to pursuing improvements in our business processes.

We have no material weaknesses, significant deficiencies or non-compliance issues to address.

Conclusion

FY 2013 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.

A handwritten signature in black ink, appearing to read "Earl A. Powell III". The signature is stylized and cursive.

Earl A. Powell III
Director
December 16, 2013

Message from the CFO

This *Performance and Accountability Report* (PAR) discusses our achievements in FY 2013, 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 2013 towards achieving those long term goals and objectives.

The performance section of this report discusses the Gallery's programmatic activities conducted in FY 2013 as discussed in the Gallery's annual performance goals. The Gallery has continued to refine its state-of-the art financial system to further enhance our governance structure and improve our planning process as the Gallery strives to provide more accurate, timely financial data for all performance goals and measures.

The Gallery again received an unmodified opinion on its FY 2013 financial statements and did not identify any material weaknesses, significant deficiencies or non-compliance issues to report or address.

FY 2013 has been a very productive year. Building on our accomplishments, we will continue to focus on the challenges that lie ahead as we strive to increase our efficiency and enhance the stewardship of our limited resources.



William W. McClure
Treasurer
December 16, 2013

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

The Gallery and its Mission

The National Gallery of Art is considered 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 seven Executive Officers of the Gallery oversee the execution of 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, Secretary and General Counsel, and Development and External Affairs Officer.

The Gallery is funded with Congressional appropriations and private funding.

Performance Goals, Objectives and Results

Building on FY 2012 accomplishments, the Gallery continued to make significant progress during FY 2013 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 fiscal year 2013 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.

- Perform repairs to the East Building façade:

While no additional funding was needed to complete repairs to the East Building façade in FY 2013, the repairs continued on this significant project through FY 2013. Therefore, the progress of these repairs continued to be measured in FY 2013.

- 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 were begun 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



Main Floor Gallery Air Handling Unit



Piping for Air Handling Unit

preventative maintenance initiative and the maintenance of the complex systems and operations necessary for the Gallery to function efficiently as an art museum open daily to the public.

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 nine established objectives for FY 2013 related to capital repairs, deferred maintenance, and information technology. The Gallery met or exceeded five objectives, partially met one objective, and did not meet three objectives. The objectives not met or partially met relate to deferred maintenance, the Master Facilities Plan, and the IT strategic plan. The Gallery has requested additional funding to address these needs.

Federal Financial Statements Summary and Analysis

This section summarizes and discusses the Gallery's federal net operating costs and federal balance sheet for the years ended September 30, 2013 and 2012. This information represents the results of all activities supported by federal appropriations provided to the National Gallery of Art. It does not include the effects of activity supported by non-federal sources.

National Gallery of Art
Key Federal Financial Statement Information
Fiscal Years 2013 and 2012
(amounts in thousands)

	<u>2013</u>	<u>2012</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Results of Operations				
Total Financing Sources	\$ 142,954	170,731	(27,777)	-16.3%
Less Net Costs	(125,256)	(126,471)	1,215	-1.0%
Results of Operations	<u>\$ 17,698</u>	<u>44,260</u>	<u>(26,562)</u>	<u>-60.0%</u>
Net Position				
Assets				
Fund balance with U.S. Treasury	\$ 41,135	65,254	(24,119)	-37.0%
Other assets	22	—	22	—
Property, plant and equipment, net	230,986	211,372	19,614	9.3%
Total Assets	<u>\$ 272,143</u>	<u>276,626</u>	<u>(4,483)</u>	<u>-1.6%</u>
Liabilities				
Intragovernmental	\$ 867	197	670	340.1%
Accounts payable	6,235	7,752	(1,517)	-19.6%
Actuarial FECA liability	8,664	8,974	(310)	-3.5%
Environmental liability	23,908	21,025	2,883	13.7%
Other	9,338	17,445	(8,107)	-46.5%
Total Liabilities	<u>\$ 49,012</u>	<u>55,393</u>	<u>(6,381)</u>	<u>-11.5%</u>
Net Position	<u>\$ 223,131</u>	<u>221,233</u>	<u>1,898</u>	<u>0.9%</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 the crucial funds necessary for the repair, restoration and renovation of the Gallery's buildings. The appropriation received for salaries, benefits and expenses is a one-year appropriation that must be obligated by the end of the 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 of the Gallery's appropriations for fiscal year 2013 was \$121.6 million (\$6.8 million lower than the fiscal year 2012 appropriation of \$128.4 million), including \$104.6 million for salaries, benefits and expenses, \$3.3 million for special exhibitions and \$13.7 million for repair, restoration and renovation of the buildings.

The Gallery's net cost of operations totaled \$125.3 million for the year ended September 30, 2013, \$1.2 million or 1.0% lower than the \$126.5 million costs for the prior year. Program costs represented \$94.5 million of the \$125.3 million, with the remaining \$30.8 million in “costs not assigned to programs” primarily representing general and administrative expenses.

Balance Sheet

The Gallery's net position totaled \$223.1 million, increasing \$1.9 million or 0.9% from FY 2012. Work continued on the replacement of the façade on the East Building and other renovation projects under the Master Facilities Plan, resulting in an increase in property, plant and equipment of \$19.6 million, with offsetting decreases in fund balance with U.S. Treasury, accounts payable and unexpended appropriations on the balance sheet.

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 2013 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*.

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
December 16, 2013

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

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)	
Statement of Assurance	Statement of no assurance (N/A)

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

Effectiveness of Internal Control over Operations (FMFIA § 2)	
Statement of Assurance	Statement of no assurance (N/A)

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

Conformance with financial management system requirements (FMFIA § 4)	
Statement of Assurance	Systems conforms to financial management system requirements

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

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

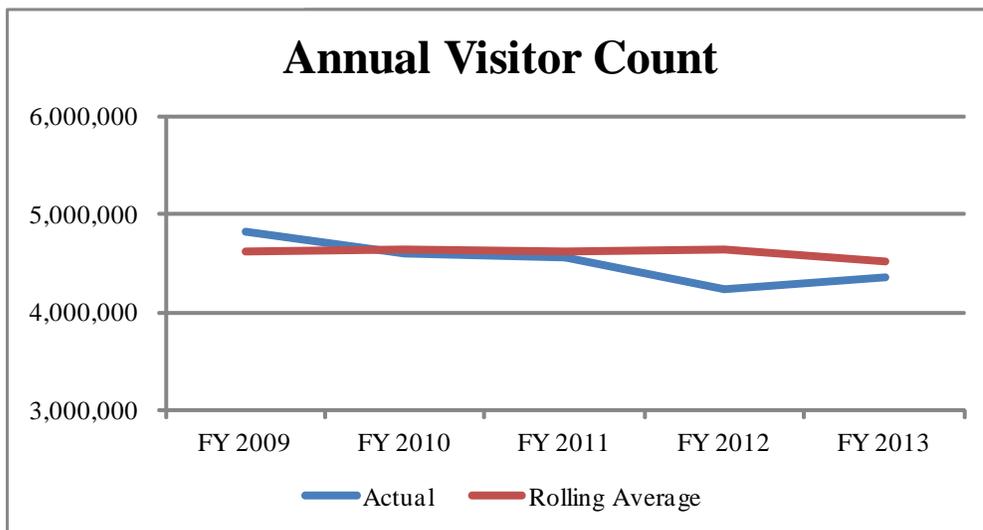
National Gallery of Art Performance Report

The Gallery’s fiscal year 2013 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 4,347,000 visitors in fiscal year 2013.



	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	4,831,000	4,608,000	4,549,000	4,230,000	4,347,000
Rolling Average	4,619,400	4,642,600	4,616,000	4,636,200	4,513,000

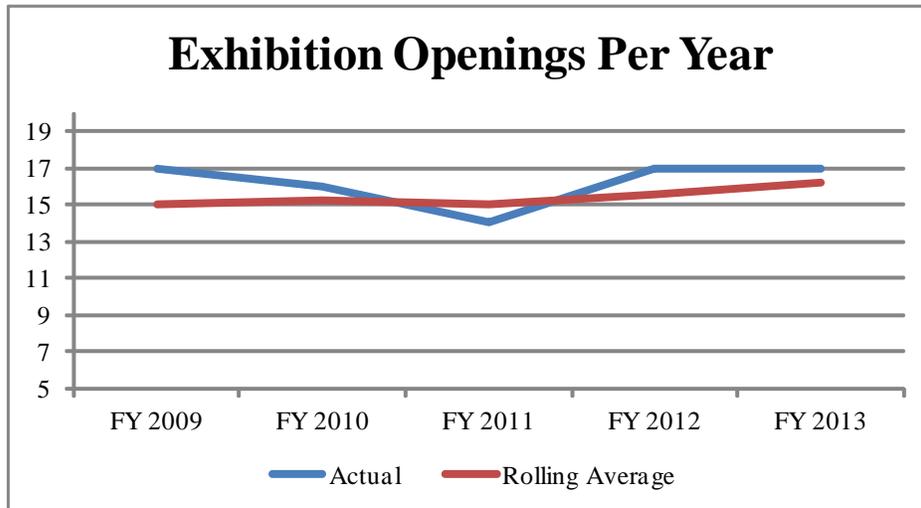
2. Offer visitors the widest range of visual experience through a schedule of special exhibitions that are organized and presented by the Gallery to augment existing strengths in the collection and to provide the opportunity to focus on material of exceptional merit from other cultures and periods.



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 fiscal year 2013, the Gallery organized and presented 17 special exhibitions, slightly exceeding the rolling average of 16.

Among the highlights presented in FY 2013 were:

- *Diaghilev and the Ballets Russes, 1909 – 1929: When Art Danced with Music*
- *Edvard Munch: A 150th Anniversary Tribute*
- *In the Tower: Kerry James Marshall*
- *Yes, No, Maybe: Artists Working at Crown Point Press*
- *Tell It With Pride: The 54th Massachusetts Regiment and Augustus Saint-Gaudens' Shaw Memorial*
- *Charles Marville: Photographer of Paris.*



	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	17	16	14	17	17
Rolling Average	15	15.25	15	15.6	16.2

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

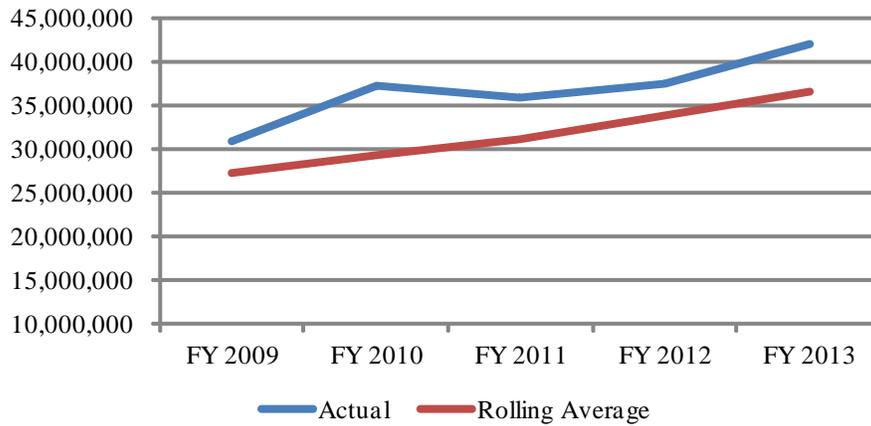
The Gallery’s commitment to fostering the understanding of art at the highest possible scholarly levels continued in fiscal year 2013 through its many educational program activities. The education resources outreach program provided films, videotapes and other long-distance learning materials free of charge to an audience of 42 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 111,200 participants. The Gallery had nearly 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 2013 the web site received over 15,000 unique visits per day.

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 22,000 reference inquiries.

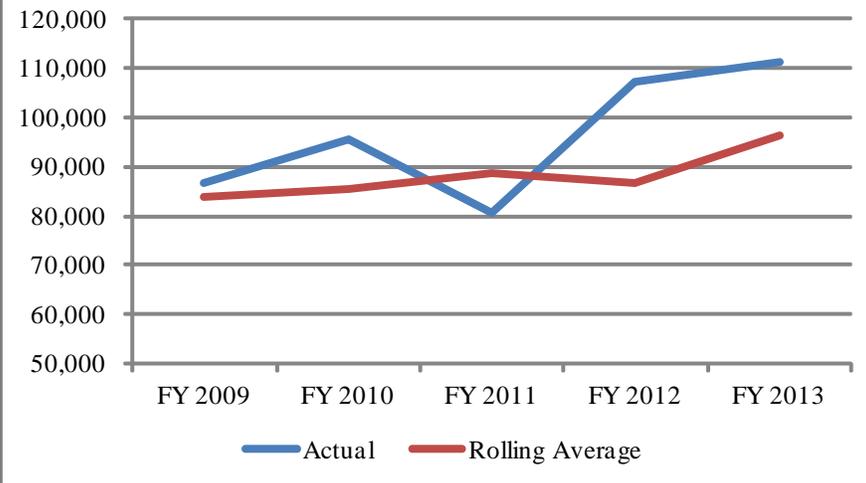
The following pages provide statistical metrics for education outreach.

National Education Resource Extension Program (Audiences per Year)

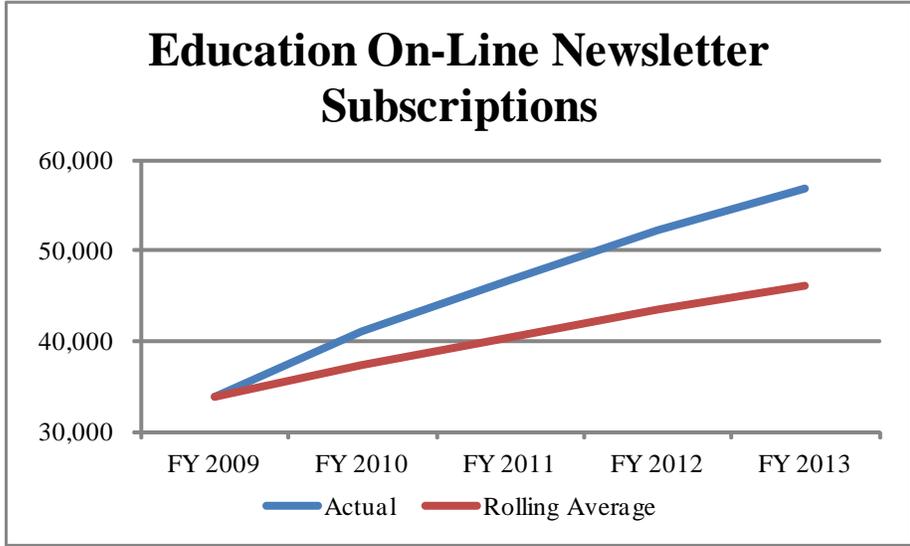


	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	30,800,000	37,300,000	35,900,000	37,400,000	41,979,000
Rolling Average	27,200,000	29,220,000	31,200,000	33,880,000	36,675,800

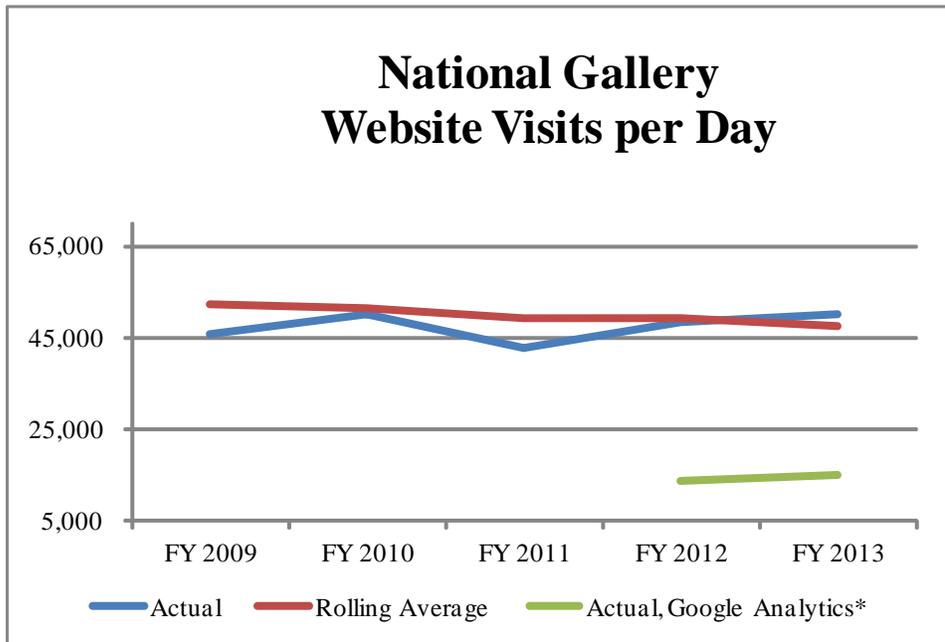
On-Site Education Program (Participants per Year)



	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	86,800	95,500	80,600	107,300	111,200
Rolling Average	83,900	85,350	88,733	86,700	96,280

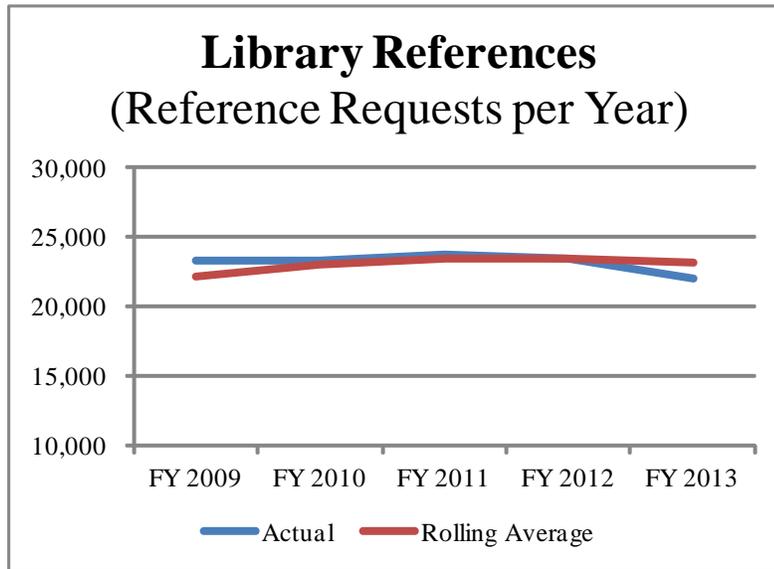


	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	33,800	41,000	46,700	52,400	57,000
Rolling Average	33,800	37,400	40,500	43,475	46,180



	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	45,800	50,200	42,700	48,300	50,100
Rolling Average	52,200	51,533	49,325	49,325	47,420
Actual, Google Analytics*				13,700	15,000

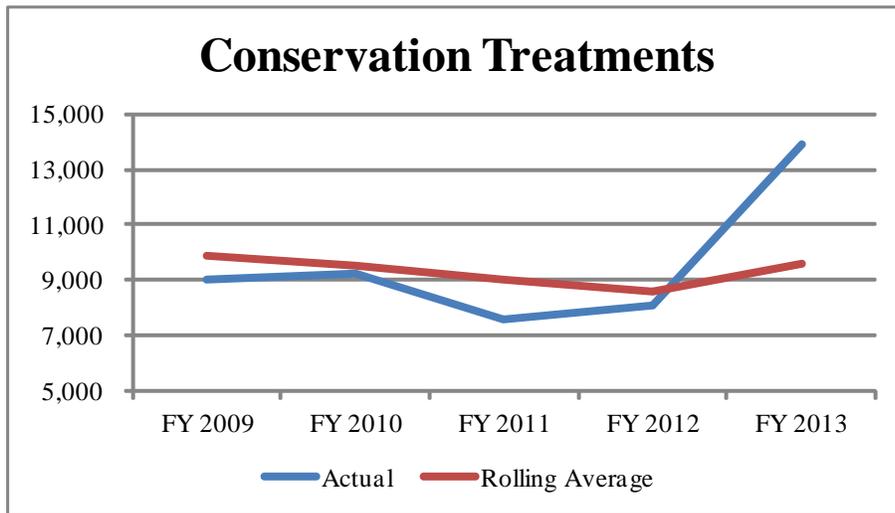
*Note: The Gallery began using Google Analytics to measure website visits during FY 2012 because it is now the industry standard. The old method credited multiple visits when a user browsed different areas of the site while Google Analytics counts a website visitor once per session.



	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	23,300	23,300	23,800	23,400	22,000
Rolling Average	22,200	23,060	23,440	23,420	23,160

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 fiscal year 2013, the Gallery’s painting, object, paper, and textile conservators and scientific researchers undertook 13,900 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 labs were completed in FY 2013 allowing conservation treatments to return to a higher level.



	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	9,002	9,200	7,600	8,100	13,900
Rolling Average	9,886	9,505	9,012	8,606	9,560

- **Continuing to repair the East Building Facade:**

1. ***Manage the stone repairs to the East Building Stone Repair (EBSR) so that they proceed on schedule and on budget.***



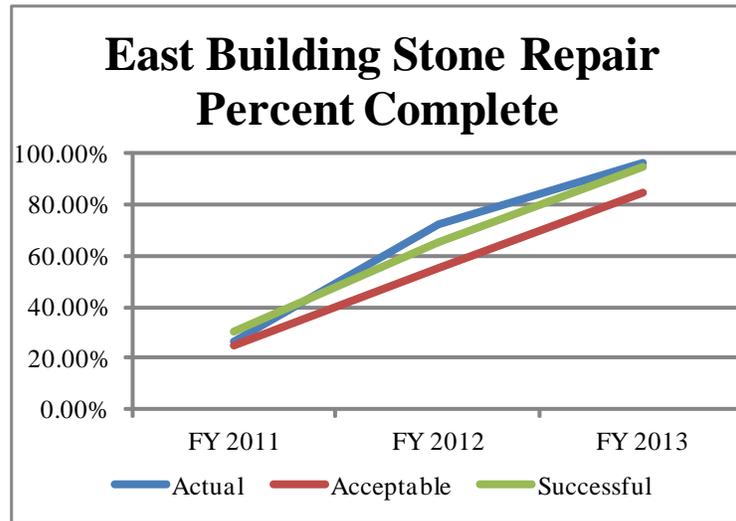
Performance Measure: The planned construction completion date for the EBSR project was November 15, 2013. The entire project completion date, including site restoration and art re-installation is May 15, 2014.

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Planned Completion Date	11/15/13	11/15/13	11/15/13
Acceptable	12/31/13	12/31/13	2/15/14
Successful	9/30/13	9/30/13	11/15/13
Assessment	On Schedule	On Schedule	On Schedule

Performance Measure: EBSR costs are budgeted at \$82,165,500.

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	On budget	On budget	On budget
Acceptable	Total projected EBSR construction costs (incurred to date plus anticipated costs to complete) are projected to be no more than 5% over budget.		
Successful	Total projected EBSR construction costs (incurred to date plus anticipated costs to complete) are projected to be on or under budget.		
Assessment	Target Met	Target Met	Target Met

Performance Measure: That 95% of the total projected EBSR construction costs are incurred by the end of FY 2013.

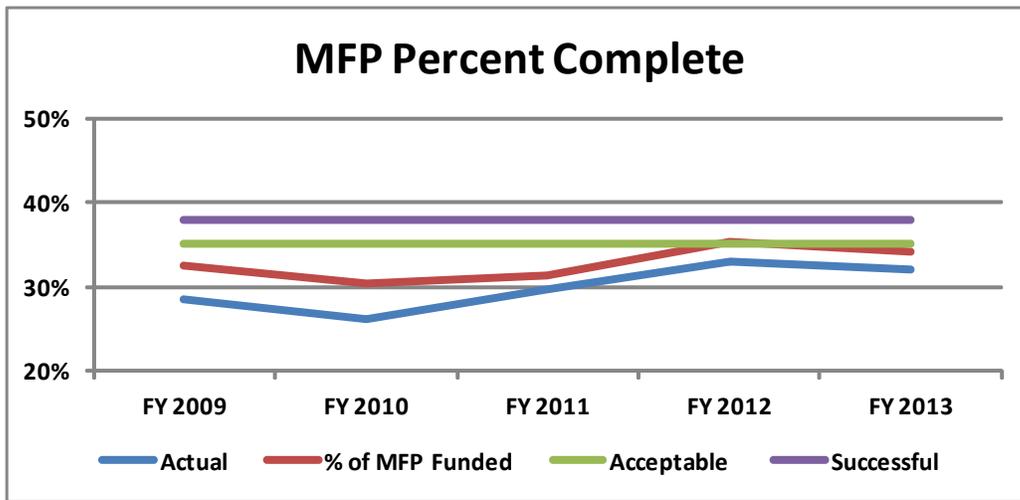


	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Actual	26.80%	72.00%	96.00%
Acceptable	25.00%	55.00%	85.00%
Successful	30.00%	65.00%	95.00%
Assessment	Target Met	Target Exceeded	Target Exceeded

- **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.

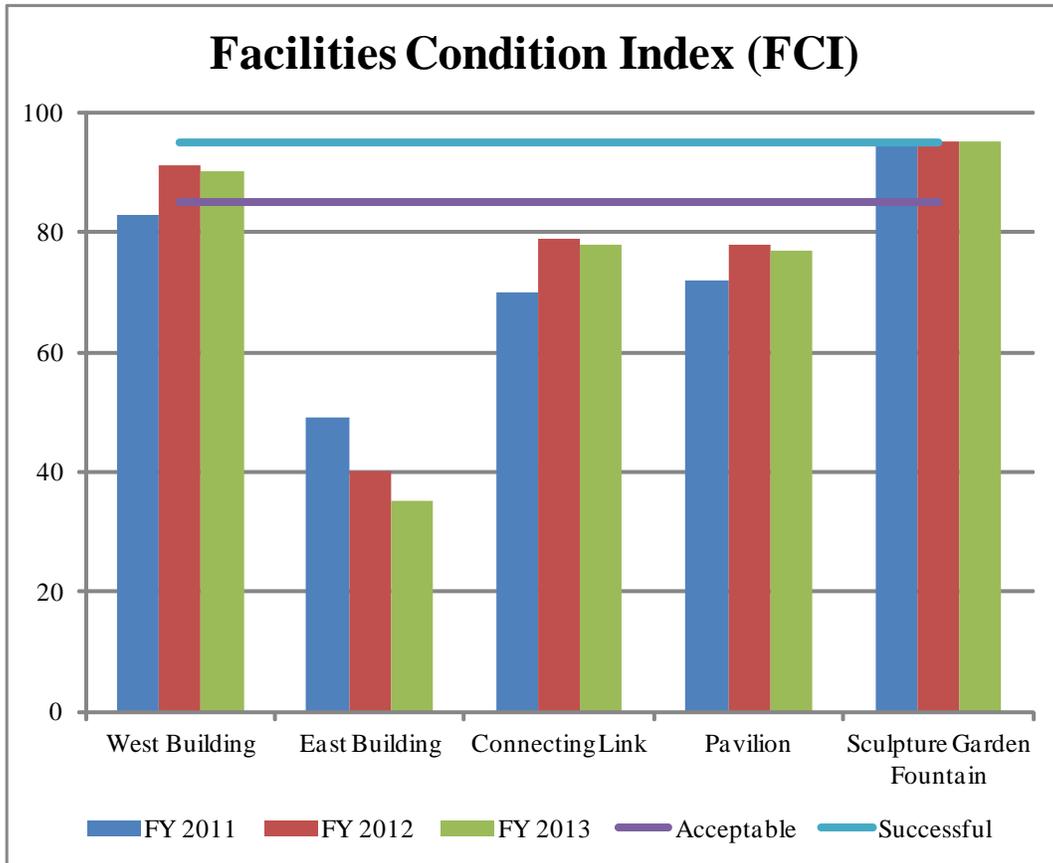


	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	29%	26%	30%	33%	32%
% of MFP Funded	32%	30%	31%	35%	34%
Acceptable	35%	35%	35%	35%	35%
Successful	38%	38%	38%	38%	38%

Assessment: For the past five years funding has not been sufficient to allow the Gallery to meet the minimally acceptable target.

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

Performance Measure: 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.



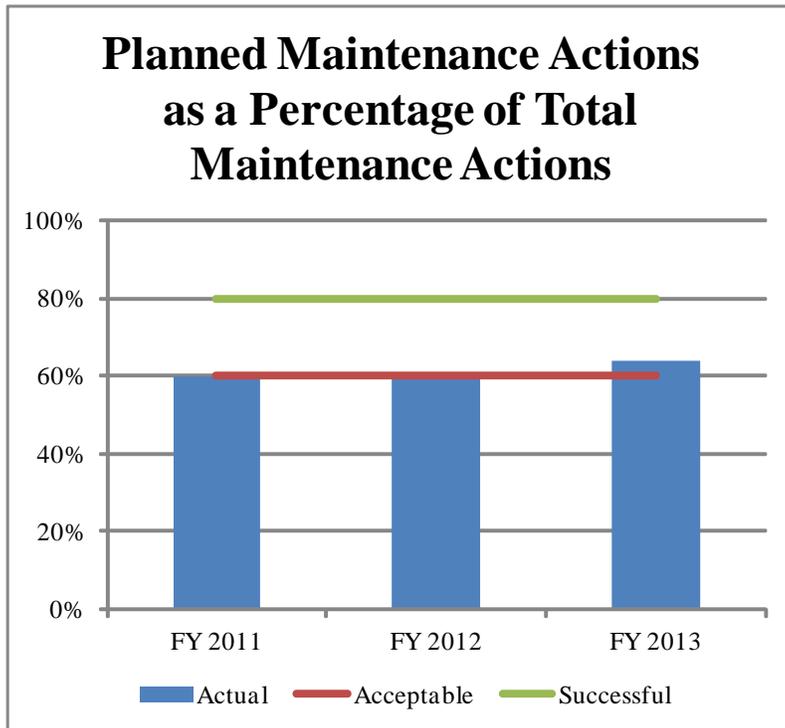
	West Building	East Building	Connecting Link	Pavilion	Sculpture Garden Fountain
FY 2011	83	49	70	72	95
FY 2012	91	40	79	78	95
FY 2013	90	35	78	77	95
Acceptable	85	85	85	85	85
Successful	95	95	95	95	95

Assessment: Since the inception of this measure funding has not been sufficient to allow the Gallery to meet the minimally acceptable target in most facilities.

Performance Measure: 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>
	+5%	+8.5%	+8.5%
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:	Funding is not sufficient to allow the Gallery to reduce the deferred maintenance backlog.		

Performance Measure: Percentage of maintenance actions that were planned.



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

Note: FY 2011 is the first year for this measure.

Performance Measure: APPA 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

	FY 2011	FY 2012	FY 2013
Actual	2	2	2
Minimally Acceptable	2	2	2
Successful	1	1	1

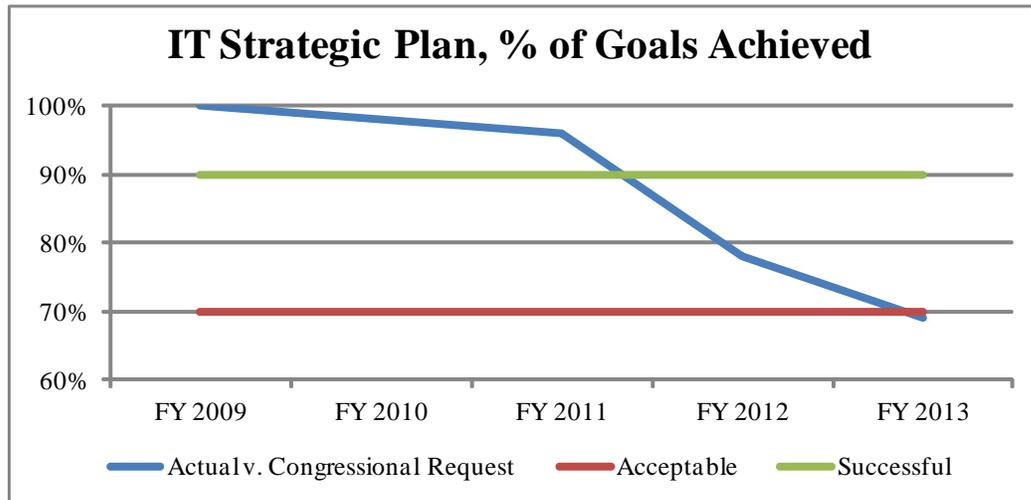
Assessment Target Met Target Met Target Met

Note: FY 2011 is the first year for this measure

- **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 number of projects successfully executed against the number planned in the budget request.



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual v. Congressional Request	100%	98%	96%	78%	69%
Acceptable	70%	70%	70%	70%	70%
Successful	90%	90%	90%	90%	90%
Assessment	Target Exceeded	Target Exceeded	Target Exceeded	Target Met	Target Not Met

The FY 2013 appropriation funded only 78% of the requested level. As a result, the following major projects were not completed due to lack of funding and will be deferred to a future year:

- Web Enhancements,
- Human Resource Management MIS Platform,
- Intellectual Property Management Digital Imaging Project.

- **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, will not publicly disclose its security measures and results in the PAR.



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

Independent Auditors' Report

The Board of Trustees of
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, 2013, and the related statement 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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012 is consistent, in all material respects, with the audited consolidated 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 basic financial statements as a whole. The Supplementary Schedules and related notes and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the Supplementary Schedules and related notes to the Supplementary Schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 Schedules and related notes are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information in the September 30, 2013 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 basic 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 December 13, 2013 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

December 13, 2013

NATIONAL GALLERY OF ART

Statement of Financial Position

September 30, 2013

(with summarized financial information as of September 30, 2012)

(In thousands)

Assets	2013			2012
	Private	Federal	Total	Total
Cash and cash equivalents	\$ 10,239	41,135	51,374	73,476
Accounts receivable and other assets, net	6,474	22	6,496	5,601
Pledges receivable, net	22,847	—	22,847	18,874
Investments and trusts held by others	761,194	—	761,194	700,579
Property, plant and equipment, net	54,789	230,986	285,775	266,545
Art collections	—	—	—	—
Total assets	\$ 855,543	272,143	1,127,686	1,065,075
Liabilities and Net Assets				
Liabilities:				
Accounts payable and other liabilities	\$ 20,517	23,631	44,148	42,751
Capital lease obligation	—	868	868	1,110
Unexpended federal one-year appropriations	—	9,589	9,589	11,848
Environmental liability	—	23,908	23,908	21,025
Total liabilities	20,517	57,996	78,513	76,734
Net assets:				
Unrestricted	281,639	192,948	474,587	426,038
Temporarily restricted	173,215	21,199	194,414	192,468
Permanently restricted	380,172	—	380,172	369,835
Total net assets	835,026	214,147	1,049,173	988,341
Total liabilities and net assets	\$ 855,543	272,143	1,127,686	1,065,075

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Statement of Activities

Year ended September 30, 2013

(with summarized financial information for the year ended September 30, 2012)

(In thousands)

	Unrestricted private	Unrestricted federal	Total	Temporarily restricted	Permanently restricted	Total 2013	Total 2012
Operating:							
Support and revenue:							
Federal appropriations	\$ —	101,106	101,106	6,843	—	107,949	110,546
Gifts and grants	2,701	—	2,701	6,766	—	9,467	10,392
Gallery shops sales, net	9,662	—	9,662	—	—	9,662	8,384
Spending policy appropriated for operations	2,326	—	2,326	14,973	—	17,299	16,425
Royalties and other income	2,441	—	2,441	—	—	2,441	1,633
	17,130	101,106	118,236	28,582	—	146,818	147,380
Net assets released from restrictions to fund operating expenses	20,887	6,812	27,699	(27,699)	—	—	—
Total support and revenue	38,017	107,918	145,935	883	—	146,818	147,380
Expenses:							
Collections	3,193	40,533	43,726	—	—	43,726	45,217
Special exhibitions	8,401	13,156	21,557	—	—	21,557	19,220
Education, gallery shops, and public programs	16,042	22,476	38,518	—	—	38,518	38,397
Editorial and photography	1,569	4,390	5,959	—	—	5,959	6,358
General and administrative	5,068	25,377	30,445	—	—	30,445	31,652
Development	2,745	1,665	4,410	—	—	4,410	4,451
Total operating expenses	37,018	107,597	144,615	—	—	144,615	145,295
Change in net assets from operating activities	999	321	1,320	883	—	2,203	2,085
Non-operating:							
Federal appropriations	—	5,412	5,412	10,185	—	15,597	17,874
Non-operating gifts and grants	1,300	—	1,300	15,336	1,157	17,793	25,127
Spending policy appropriated for art acquisitions	10,629	—	10,629	16,800	—	27,429	3,746
Changes in value of trusts held by others	(330)	—	(330)	18	418	106	896
Investment return less amounts appropriated for operations and art acquisitions	31,439	—	31,439	7,565	5,527	44,531	76,917
Acquisitions of works of art	(31,940)	—	(31,940)	—	—	(31,940)	(8,467)
Depreciation and amortization expense	(3,345)	(9,111)	(12,456)	—	—	(12,456)	(11,470)
Income tax benefit	514	—	514	—	—	514	—
Environmental liability expense	—	(2,945)	(2,945)	—	—	(2,945)	(1,066)
Provision for bad debts	—	—	—	—	—	—	(4)
Unrealized loss on sale of other asset	—	—	—	—	—	—	(820)
Matching and other reclassifications	(1,751)	—	(1,751)	(1,484)	3,235	—	—
Net assets released from restrictions to fund non-operating expenses	23,742	23,615	47,357	(47,357)	—	—	—
Increase in net assets from non-operating activities	30,258	16,971	47,229	1,063	10,337	58,629	102,733
Increase in net assets	31,257	17,292	48,549	1,946	10,337	60,832	104,818
Net assets at beginning of year	250,382	175,656	426,038	192,468	369,835	988,341	883,523
Net assets at end of year	\$ 281,639	192,948	474,587	194,414	380,172	1,049,173	988,341

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART
Statement of Cash Flows
Year ended September 30, 2013
(with summarized financial information as of September 30, 2012)
(In thousands)

	<u>Private</u>	<u>Federal</u>	<u>Total 2013</u>	<u>Total 2012</u>
Cash flows from operating activities:				
Increase in net assets	\$ 56,938	3,894	60,832	104,818
Adjustments to reconcile increase in net assets to net cash used in operating activities:				
Depreciation and amortization	3,345	9,111	12,456	11,470
Amortization of discount on pledges receivable	(453)	—	(453)	(214)
Amortization of discount on contractual obligations	—	—	—	76
Provision for bad debts	—	—	—	4
Contributions and net investment income for permanently restricted investments	(3,160)	—	(3,160)	(1,538)
Federal appropriations for capital projects	—	(15,597)	(15,597)	(17,874)
Gifts and grants for art acquisitions and capital projects	(9,720)	—	(9,720)	(8,920)
Acquisitions of works of art	23,534	—	23,534	8,280
Realized and unrealized gains on investments	(81,684)	—	(81,684)	(92,437)
Donated investment securities	(1,334)	—	(1,334)	(1,099)
Unrealized loss on sale of other asset	—	—	—	820
Change in value of trusts held by others	210	—	210	(2,005)
Change in accounts receivable and other assets, net	(873)	(22)	(895)	(480)
Change in pledges receivable, net	(3,520)	—	(3,520)	(11,669)
Change in accounts payable and other liabilities	10,100	(680)	9,420	(4,201)
Change in unexpended one-year federal appropriations	—	(2,259)	(2,259)	(302)
Change in environmental liability	—	2,883	2,883	1,036
Net cash used in operating activities	<u>(6,617)</u>	<u>(2,670)</u>	<u>(9,287)</u>	<u>(14,235)</u>
Cash flows from investing activities:				
Purchase of investments	(112,557)	—	(112,557)	(71,746)
Proceeds from sale of investments	134,750	—	134,750	87,705
Acquisitions of works of art	(23,534)	—	(23,534)	(8,280)
Purchase of property, plant and equipment	(2,905)	(36,804)	(39,709)	(46,856)
Net cash used in investing activities	<u>(4,246)</u>	<u>(36,804)</u>	<u>(41,050)</u>	<u>(39,177)</u>
Cash flows from financing activities:				
Contributions and net investment income for permanently restricted investments	3,160	—	3,160	1,538
Federal appropriations for capital projects	—	15,597	15,597	17,874
Gifts and grants for art acquisitions and capital projects	9,720	—	9,720	8,920
Principal payment on capital lease obligation	—	(242)	(242)	(220)
Payments on contractual obligations	—	—	—	(7,950)
Net cash provided by financing activities	<u>12,880</u>	<u>15,355</u>	<u>28,235</u>	<u>20,162</u>
Net change in cash and cash equivalents	2,017	(24,119)	(22,102)	(33,250)
Cash and cash equivalents, at beginning of year	8,222	65,254	73,476	106,726
Cash and cash equivalents, at end of year	<u>\$ 10,239</u>	<u>41,135</u>	<u>51,374</u>	<u>73,476</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest on capital lease	\$ —	102	102	122
Income taxes	—	—	—	131
Supplemental disclosure of noncash information:				
Capital additions included in accounts payable	\$ 243	2,059	2,302	10,325

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2013

(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 958-205, 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 all 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 non-operating activities such as non-operating 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, 2013

(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 note 5).

(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, 2012, 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 include "one-year" federal appropriations and all other resources, which are not subject to donor-imposed stipulations. The unrestricted net assets of federal funds consist primarily of the Gallery's net investment in building improvements and other equipment purchased or constructed using federal funds less unfunded liabilities. 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 "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.

(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 U.S. Treasury). The Gallery considers all highly liquid investments with an original maturity of three months or less at

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2013

(In thousands)

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 5).

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 1.8 % to 5.0 %. 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 these alternative investments, their 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 5).

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, 2013

(In thousands)

(h) *Accounts Receivables and Other Assets*

Accounts receivable and other assets includes accounts receivable, deferred private expenses incurred in connection with future special exhibitions, Gallery shops inventory carried at lower of cost or market value, and donated assets held for sale recorded at the estimated net realizable value.

(i) *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.

(j) *Art Collections*

The Gallery's art collections focus upon European and American paintings, sculpture and works on paper. 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.

(k) *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.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2013

(In thousands)

(l) *Unexpended Federal One-Year Appropriations*

The Gallery's federal one-year appropriations are recognized as revenue as expenditures are incurred throughout the year. One-year federal 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.

(m) *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 13).

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 OMB's economic assumptions for ten-year U.S. Treasury notes and bonds. The Gallery computes its actuarial FECA liability based on the model provided by DOL and presents it as a liability to the public on the statement of financial position because neither the costs nor reimbursements have been recognized by DOL. The change in the projected FECA liability is reported in the statement of activities. The FECA actuarial liability is

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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.

(n) *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 13.

(o) *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.

(p) *Functional Allocation of Expenses*

The cost of providing various programs and other activities summarized on a functional basis is shown in note 11. 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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(q) 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.

(r) 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.

(s) Reclassifications

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

(3) Fund Balance with U.S. Treasury

As of September 30, 2013 and 2012, fund balance with U.S. Treasury consisted of the following:

	2013	2012
Appropriated funds	\$ 41,135	65,254
Status of fund balance with U.S. Treasury:		
Unobligated balance:		
Available	\$ 12,740	9,351
Unavailable	1,941	1,013
Obligated balance not yet disbursed	26,454	54,890
Total	\$ 41,135	65,254

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(4) Pledges Receivable, Net

As of September 30, 2013 and 2012, pledges receivable, net, consisted of the following:

	2013	2012
Due in one year or less	\$ 6,162	3,901
Due between one year and five years	17,288	15,793
Due in more than five years	—	—
Subtotal	23,450	19,694
Less discounts of \$453 and \$670 and allowances of \$150 and \$150, respectively	(603)	(820)
Total	\$ 22,847	18,874

As of September 30, 2013 and 2012, \$13,173 and \$14,273 of the pledge receivable balance was receivable from related parties.

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

As of September 30, 2013 and 2012, investments and trust held by others consisted of the following:

	2013	2012
Investments	\$ 743,864	683,039
Trusts held by others	12,330	12,540
Subtotal	756,194	695,579
Loan to U.S. Treasury	5,000	5,000
Total	\$ 761,194	700,579

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 (4.00% during fiscal year 2013). Interest income on this loan was \$203 and \$203 for the fiscal years ended September 30, 2013 and 2012, respectively.

As of September 30, 2013 and 2012, the carrying value of the Gallery's cash, cash equivalents and balances with U.S. Treasury, receivables, deferred charges and other assets, loan to the U.S. Treasury, 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. 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 securities custodied in separate accounts and 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. Investments consist of limited partnerships and limited liability companies where the underlying investments are, for the most part, marketable securities. The Gallery receives monthly statements from the investment managers but has limited visibility of the underlying securities of certain Level 2 investment funds.
- *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. Investments consist of limited partnership and limited liability companies where the underlying investments include private equity, venture capital, hedge funds, and private real estate for which there is no active market and for which the inputs into the fair value estimate are unobservable. The portfolio holdings of underlying funds in Level 3 investments may not be disclosed; therefore the Gallery relies on the investment manager to provide a valuation estimate which is generally based on the most current net asset value (NAV) adjusted for cash flows when the reported NAV is not at the measurement date. Trusts held by others are also 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. One trust is a perpetual trust invested in equity, fixed income securities, and mutual funds where the Gallery receives annual distributions but will never received the trust's principal. The remainder of the trusts are invested in cash equivalents, mutual funds, and publicly traded equities.

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(In thousands)

The following tables summarize the fair value of investments and trusts held by others as of September 30, 2013 and 2012 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)	Fair value at September 30, 2013
U.S. equities	\$ 110,292	74,525	—	184,817
International equities:				
Developed market equities	59,966	65,601	—	125,567
Emerging market equities	13,729	44,098	—	57,827
Real estate	16,723	—	5,007	21,730
Inflation hedging securities	—	33,347	—	33,347
Private equity and venture capital funds	—	—	51,235	51,235
Hedge fund of funds	—	—	155,679	155,679
Multi-asset fund	—	—	45,926	45,926
Fixed income securities	61,588	—	—	61,588
Charitable gift annuities and other	6,148	—	—	6,148
Trusts held by others	—	—	9,784	9,784
	<u>268,446</u>	<u>217,571</u>	<u>267,631</u>	<u>753,648</u>
Assets measured at fair value on a recurring basis				
Trust held by others	—	—	2,546	2,546
	<u>—</u>	<u>—</u>	<u>2,546</u>	<u>2,546</u>
Assets measured at fair value on a nonrecurring basis				
Total	\$ <u>268,446</u>	<u>217,571</u>	<u>270,177</u>	<u>756,194</u>

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	Prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value at September 30, 2012
U.S. equities	\$ 93,856	62,489	—	156,345
International equities:				
Developed market equities	46,875	54,126	—	101,001
Emerging market equities	—	42,488	—	42,488
Real estate	15,571	—	4,926	20,497
Inflation hedging securities	—	36,684	—	36,684
Private equity and venture capital funds	—	—	52,850	52,850
Hedge fund of funds	—	—	144,914	144,914
Multi-asset fund	—	—	44,411	44,411
Fixed income securities	78,158	—	—	78,158
Charitable gift annuities and other	5,691	—	—	5,691
Trusts held by others	—	—	9,994	9,994
	<u>240,151</u>	<u>195,787</u>	<u>257,095</u>	<u>693,033</u>
Assets measured at fair value on a recurring basis				
Trust held by others	—	—	2,546	2,546
	<u>—</u>	<u>—</u>	<u>2,546</u>	<u>2,546</u>
Assets measured at fair value on a nonrecurring basis				
Total	\$ <u>240,151</u>	<u>195,787</u>	<u>259,641</u>	<u>695,579</u>

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The following table summarizes the changes in Level 3 assets, measured at fair value on a recurring basis, as of September 30, 2013:

	<u>Real estate</u>	<u>Private equity and venture capital funds</u>	<u>Hedge fund of funds</u>	<u>Multi-asset fund</u>	<u>Trusts held by others</u>
Fair value of Level 3 assets at September 30, 2012	\$ 4,926	52,850	144,914	44,411	9,994
(Expenses) net of dividends and interest	175	(678)	(580)	920	—
Realized and unrealized gains	398	4,869	17,023	2,861	1,084
Proceeds from sales, redemptions and distributions	(830)	(11,546)	(5,678)	(2,266)	(1,295)
Purchase of investments	338	5,740	—	—	1
Fair value of Level 3 assets at September 30, 2013	<u>\$ 5,007</u>	<u>51,235</u>	<u>155,679</u>	<u>45,926</u>	<u>9,784</u>

For the year ended September 30, 2013, there was approximately \$8,011 of unrealized gains included in the change in net assets that were attributable to Level 3 assets, measured at fair value on a recurring basis, still held at September 30, 2013.

The following table summarizes the changes in Level 3 assets, measured at fair value on a recurring basis, as of September 30, 2012:

	<u>Real estate</u>	<u>Private equity and venture capital funds</u>	<u>Hedge fund of funds</u>	<u>Multi-asset fund</u>	<u>Trusts held by others</u>
Fair value of Level 3 assets at September 30, 2011	\$ 3,957	53,123	137,741	43,940	7,989
(Expenses) net of dividends and interest	(65)	(1,021)	(600)	(143)	—
Realized and unrealized gains	444	3,314	13,373	2,833	1,586
Proceeds from sales, redemptions and distributions	(278)	(8,801)	(8,379)	(2,219)	(484)
Purchase of investments	868	6,235	2,779	—	903
Fair value of Level 3 assets at September 30, 2012	<u>\$ 4,926</u>	<u>52,850</u>	<u>144,914</u>	<u>44,411</u>	<u>9,994</u>

For the year ended September 30, 2012, there was approximately \$6,252 of unrealized gains included in the change in net assets that were attributable to Level 3 assets, measured at fair value on a recurring basis, still held at September 30, 2012.

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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, 2013:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a)	\$ 74,525	—	Quarterly	60 days
International equities:	(b)				
Developed market equities		65,601	—	Daily to Semi-monthly	6 to 20 days
Emerging market equities		44,098	—	Monthly	30 to 120 days
Real estate	(c)	5,007	806	N/A	N/A
Inflation hedging securities	(d)	33,347	—	Monthly	30 days
Private equity and venture capital funds	(e)	51,235	20,421	N/A	N/A
Hedge fund of funds	(f)	155,679	—	Semi-annually to 2 years	90 to 95 days
Multi-asset fund	(g)	45,926	—	Annually	365 days
Total		<u>\$ 475,418</u>	<u>21,227</u>		

The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 2012:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a)	\$ 62,489	—	Quarterly	60 days
International equities:	(b)				
Developed market equities		54,126	—	Daily to semi-monthly	6 to 20 days
Emerging market equities		42,488	—	Monthly	30 to 120 days
Real estate	(c)	4,926	1,144	N/A	N/A
Inflation hedging securities	(d)	36,684	—	Monthly	30 days
Private equity and venture capital funds	(e)	52,850	26,161	N/A	N/A
Hedge fund of funds	(f)	144,914	—	Semi-annually to 2 years	90 to 95 days
Multi-asset fund	(g)	44,411	—	Annually	365 days
Total		<u>\$ 442,888</u>	<u>27,305</u>		

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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 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, and U.S. Treasury Inflation Protected Securities (TIPS) 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.

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(In thousands)

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September 30, 2013 and 2012:

	2013			Total	2012 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Dividends and interest (net of expenses of \$4,292 and \$4,067 respectively)	\$ 2,069	4,209	1,297	7,575	5,184
Net investment appreciation	42,325	35,129	4,230	81,684	91,904
	<u>44,394</u>	<u>39,338</u>	<u>5,527</u>	<u>89,259</u>	<u>97,088</u>
Appropriated for operations	(2,326)	(14,973)	—	(17,299)	(16,425)
Appropriated for art acquisitions	(10,629)	(16,800)	—	(27,429)	(3,746)
Investment return less amounts appropriated for operations and art acquisitions	<u>\$ 31,439</u>	<u>7,565</u>	<u>5,527</u>	<u>44,531</u>	<u>76,917</u>

(6) Property, Plant and Equipment, Net

As of September 30, 2013 and 2012, net property, plant and equipment consisted of the following:

	2013			2012 Total
	Private funds	Federal funds	Total	
Buildings and improvements	\$ 156,310	174,339	330,649	329,420
Equipment and computer software	5,982	68,999	74,981	68,267
Construction-in-progress	3,355	88,218	91,573	67,830
Equipment under capital lease	—	2,962	2,962	2,962
Subtotal	<u>165,647</u>	<u>334,518</u>	<u>500,165</u>	<u>468,479</u>
Less accumulated depreciation and amortization	<u>(110,858)</u>	<u>(103,532)</u>	<u>(214,390)</u>	<u>(201,934)</u>
Total	<u>\$ 54,789</u>	<u>230,986</u>	<u>285,775</u>	<u>266,545</u>

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(In thousands)

(7) Accounts Payable and Other Liabilities

As of September 30, 2013 and 2012, accounts payable and other liabilities consisted of the following:

	2013			2012 Total
	Private funds	Federal funds	Total	
Accounts payable and accrued expenses	\$ 11,122	7,444	18,566	9,823
Employee-related liabilities	6,283	14,878	21,161	24,061
Other accrued liabilities	3,112	1,309	4,421	8,867
Total	<u>\$ 20,517</u>	<u>23,631</u>	<u>44,148</u>	<u>42,751</u>

(8) 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, 2013 and 2012 the net remediation costs included in the Gallery's property, plant and equipment consists of the following:

	2013	2012
Remediation costs	\$ 4,201	4,201
Less accumulated depreciation	(3,275)	(3,192)
Net remediation costs	<u>\$ 926</u>	<u>1,009</u>

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

	2013	2012
Beginning balance	\$ 21,025	19,989
Liability recorded for the period	2,945	1,066
Remediation costs incurred	(62)	(30)
Total	<u>\$ 23,908</u>	<u>21,025</u>

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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.

(9) 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 one-year appropriation that must be obligated by the end of the 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 fiscal year 2013 salaries and expenses appropriation includes \$3,294 for no-year special exhibitions funding.

The Gallery's federal appropriations received in the fiscal years ending 2013 and 2012 are reconciled to federal appropriation revenue recognized as follows:

	2013			
	Salaries and expenses	Repairs, restoration and renovation	Total	2012
Federal appropriations received	\$ 107,927	13,735	121,662	128,376
Unexpended appropriations	(6,205)	—	(6,205)	(8,594)
Amounts expended from prior years' appropriations	8,089	—	8,089	8,638
Federal appropriation revenue recognized	\$ 109,811	13,735	123,546	128,420
Operating	\$ 104,399	3,550	107,949	110,546
Non-operating	5,412	10,185	15,597	17,874
Total federal appropriation revenue recognized	\$ 109,811	13,735	123,546	128,420

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(10) 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:

	2013			2012
	Private	Federal	Total	Total
Collections	\$ 2,283	—	2,283	2,379
Special exhibitions	6,642	3,262	9,904	7,797
Education and public programs	4,741	—	4,741	4,485
Editorial and photography	661	—	661	1,498
Operations	6,560	3,550	10,110	9,787
Subtotal operating	<u>20,887</u>	<u>6,812</u>	<u>27,699</u>	<u>25,946</u>
Acquisition of art	21,107	—	21,107	7,607
Capital projects	2,635	23,615	26,250	46,697
Subtotal non-operating	<u>23,742</u>	<u>23,615</u>	<u>47,357</u>	<u>54,304</u>
Total	<u>\$ 44,629</u>	<u>30,427</u>	<u>75,056</u>	<u>80,250</u>

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(In thousands)

(11) Functional Classification of Expenses

Expenses by functional classification for fiscal years 2013 and 2012 are shown below:

	2013			2012
	Private	Federal	Total	Total
Total operating expenses from the statement of activities	\$ 37,018	107,597	144,615	145,295
Expenses included in the non-operating section of the statement of activities:				
Depreciation and amortization	3,345	9,111	12,456	11,470
Environmental liability	—	2,945	2,945	1,066
Income tax benefit	(514)	—	(514)	—
Total expenses	<u>\$ 39,849</u>	<u>119,653</u>	<u>159,502</u>	<u>157,831</u>
Program services:				
Collections	\$ 4,859	46,449	51,308	51,347
Special exhibitions	8,824	14,601	23,425	20,730
Education, Gallery shops and public programs	16,682	24,761	41,443	40,733
Editorial and photography	1,640	4,681	6,321	6,651
Subtotal program expenses	<u>32,005</u>	<u>90,492</u>	<u>122,497</u>	<u>119,461</u>
Supporting services:				
General and administrative	5,062	27,342	32,404	33,760
Development	2,782	1,819	4,601	4,610
Subtotal supporting services	<u>7,844</u>	<u>29,161</u>	<u>37,005</u>	<u>38,370</u>
Total expenses	<u>\$ 39,849</u>	<u>119,653</u>	<u>159,502</u>	<u>157,831</u>

(12) Endowments and Net Asset Classifications

The Gallery's endowment consists of seventy-six 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 the UPMIFA as allowing the Gallery to

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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. As a result of this interpretation, the Gallery has not changed the way permanently restricted net assets are classified. The Gallery continues to classify 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

Endowment net assets were comprised of the following as of September 30, 2013 and 2012:

	2013		2012	
	Donor- restricted endowment funds	Board- designated endowment funds	Donor- restricted endowment funds	Board- designated endowment funds
Unrestricted	\$ —	11,135	(12,052)	23,026
Temporarily restricted	62,719	—	60,121	—
Permanently restricted	380,172	—	369,835	—
Total funds	\$ 442,891	11,135	417,904	23,026

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2013

(In thousands)

The following table summarizes the change in the endowment funds during the years ended September 30, 2013 (with summarized comparative totals for 2012):

	2013			Total	2012 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Endowment net assets as of October 1,	\$ 10,974	60,121	369,835	440,930	389,034
Investment return:					
Investment income	189	3,332	1,297	4,818	2,387
Net appreciation	13,817	28,170	4,648	46,635	56,977
Total investment return	14,006	31,502	5,945	51,453	59,364
Contributions	799	—	1,157	1,956	6,516
Appropriation of endowment assets for expenditures	(13,048)	(27,836)	—	(40,884)	(14,189)
Reclassifications	(1,596)	(1,068)	3,235	571	205
Endowment net assets as of September 30,	\$ 11,135	62,719	380,172	454,026	440,930

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 \$12,052 as of September 30, 2012. These deficiencies were the result of unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the Gallery. All endowment fund deficiencies were fully recovered during fiscal year 2013.

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 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 three-and-one quarter 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.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2013

(In thousands)

The following table summarizes the purpose of the net asset restrictions as of September 30, 2013 (with summarized comparative totals for 2012):

	2013			2012 Total
	Temporarily restricted	Permanently restricted	Total	
Acquisition of art	\$ 27,545	76,763	104,308	107,367
Collections	7,655	37,909	45,564	44,104
Special exhibitions	22,300	31,649	53,949	49,542
Education and public programs	43,272	87,347	130,619	122,567
Editorial and photography	370	4,315	4,685	4,398
Capital projects	26,539	—	26,539	19,100
Federal repair and renovation projects	21,215	—	21,215	34,645
Operations	45,518	142,189	187,707	180,580
Total	<u>\$ 194,414</u>	<u>380,172</u>	<u>574,586</u>	<u>562,303</u>

(13) Employee Benefits

Total pension expense recognized in the Gallery's financial statements was \$7,644 and \$7,571 for the years ended September 30, 2013 and 2012, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$1,899 and \$2,372, 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, 2013 and 2012, were \$2,472 and \$2,374, 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 2013 and 2012, the Gallery contributed \$5,788 and \$5,637, 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 \$4,960 and \$5,581 during fiscal years 2013 and 2012, respectively, and are financed by OPM and imputed to the Gallery.

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 2013 and 2012 total \$258 and \$270, 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.

(14) 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.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2013

(In thousands)

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 does not believe its financial statements include any uncertain tax positions.

(15) 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, 2014. 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:

	2013	
	Capital lease	Operating lease
2014	\$ 343	3,875
2015	344	4,625
2016	345	4,736
2017	—	4,851
2018	—	4,968
Thereafter	—	9,017
Total minimum lease payments	1,032	\$ 32,072
Less amount representing interest	(164)	
Present value of minimum capital lease payments	\$ 868	

Rental expense was approximately \$4,884 and \$4,821 for the years ended September 30, 2013 and 2012, respectively.

(16) Subsequent Events

The Gallery has performed an evaluation of subsequent events through December 13, 2013, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2013.

NATIONAL GALLERY OF ART

Federal Supplementary Schedules

September 30, 2013

(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

Years ended September 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Assets:		
Intragovernmental:		
Fund balance with U.S. Treasury	\$ 41,135	65,254
Total intragovernmental	41,135	65,254
Accounts receivable and other assets, net	22	—
Property, plant and equipment, net	230,986	211,372
Total assets	<u>\$ 272,143</u>	<u>276,626</u>
Liabilities:		
Intragovernmental:		
Other	\$ 867	197
Total intragovernmental	867	197
Accounts payable	6,235	7,752
Actuarial FECA liability	8,664	8,974
Environmental liability	23,908	21,025
Other	9,338	17,445
Total liabilities	<u>49,012</u>	<u>55,393</u>
Net position:		
Unexpended appropriations	30,591	46,391
Cumulative results of operations	192,540	174,842
Total net position	<u>223,131</u>	<u>221,233</u>
Total liabilities and net position	<u>\$ 272,143</u>	<u>276,626</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, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Program costs:		
Collections	\$ 49,013	49,389
Special exhibitions	14,860	14,837
Education	25,653	25,980
Editorial and photography	4,968	4,795
Total program costs	<u>94,494</u>	<u>95,001</u>
Costs not assigned to programs	<u>30,762</u>	<u>31,470</u>
Net cost of operations	<u>\$ 125,256</u>	<u>126,471</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, 2013 and 2012
 (In thousands)

	2013	2012
Budgetary resources:		
Unobligated balance, bought forward, October 1	\$ 10,364	14,680
Recoveries of prior year unpaid obligations	4,595	—
Other changes in unobligated balance	(374)	(258)
	14,585	14,422
Appropriations	121,662	128,376
Spending authority from offsetting collections	10	—
	136,257	142,798
Status of budgetary resources:		
Obligations incurred	\$ 121,576	132,434
Unobligated balance, end of year:		
Apportioned	12,740	9,351
Unapportioned	1,941	1,013
	14,681	10,364
	\$ 136,257	142,798
Change in obligated balance:		
Unpaid obligations brought forward, October 1 (gross)	\$ 54,890	83,434
Obligations incurred	121,576	132,434
Outlays, gross	(145,417)	(160,978)
Recoveries of prior year unpaid obligations	(4,595)	—
	\$ 26,454	54,890
Budget authority and outlays, net:		
Budget authority, gross	\$ 121,672	128,376
Actual offsetting collections	(10)	—
	\$ 121,662	128,376
Outlays, gross	\$ 145,417	160,978
Actual offsetting collections	(10)	—
	\$ 145,407	160,978

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, 2013 and 2012
 (In thousands)

	<u>2013</u>	<u>2012</u>
Cumulative results of operations:		
Beginning balances	\$ 174,842	130,582
Budgetary financing sources:		
Appropriations used	137,087	163,944
Other financing sources:		
Imputed financing from costs absorbed by others	5,867	6,787
Total financing sources	<u>142,954</u>	<u>170,731</u>
Net cost of operations	<u>(125,256)</u>	<u>(126,471)</u>
Net change	<u>17,698</u>	<u>44,260</u>
Cumulative results of operations	<u>192,540</u>	<u>174,842</u>
Unexpended appropriations:		
Beginning balances	46,391	82,217
Budgetary financing sources:		
Appropriations received	128,376	128,582
Other adjustments	(7,089)	(464)
Appropriations used	<u>(137,087)</u>	<u>(163,944)</u>
Total budgetary financing sources	<u>(15,800)</u>	<u>(35,826)</u>
Total unexpended appropriations	<u>30,591</u>	<u>46,391</u>
Net position	<u>\$ 223,131</u>	<u>221,233</u>

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

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2013

(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 2013 actual budgetary execution information has not yet been published. *The Budget of the United States Government* is scheduled for publication in January 2014. Accordingly, information required for such disclosure is not available at the time of preparation of these schedules.

Instead, the Gallery’s FY 2012 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.

	Budgetary resources	Obligations incurred	Distributed offsetting receipt	Net outlays
Schedule of budgetary resources	\$ 142,798	132,434	—	160,978
Other	(798)	566	—	22
Budget of the U.S. government	\$ 142,000	133,000	—	161,000

See accompanying independent auditors' report.

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2013

(In thousands)

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

The net cost of operations for the years ended September 30, 2013 and 2012, consisted of the following:

	2013	2012
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	\$ 121,576	132,434
Less recoveries of prior year unpaid obligations	(4,595)	—
Less spending authority from offsetting collections	(10)	—
Obligations net of offsetting collections	116,971	132,434
Other resources:		
Imputed financing from costs absorbed by others	5,867	6,787
Total resources used to finance activities	122,838	139,221
 Total resources used to finance items not part of the cost of operations	 (8,935)	 (21,555)
Total resources used to finance the net cost of operations	113,903	117,666
 Total component of net cost of operations that will not require or generate resources	 11,353	 8,805
Net cost of operations	\$ 125,256	126,471

(3) 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.

See accompanying independent auditors' report.

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2013

(In thousands)

(4) 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, 2013 the changes in heritage assets were as follows:

	<u>October 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2013</u>
Art collection	1	—	—	1
Image collection	1	—	—	1
Library collection	1	—	—	1
Total	<u>3</u>	<u>—</u>	<u>—</u>	<u>3</u>

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.

See accompanying independent auditor's report.

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2013

(In thousands)

(5) Liabilities Not Covered by Budgetary Resources

As of September 30, 2013 and 2012, liabilities not covered by budgetary resources consisted of the following:

	2013	2012
Actuarial FECA liability	\$ 8,664	8,974
Environmental liability	23,908	21,025
Other	5,268	5,663
Total liabilities not covered by budgetary resources	37,840	35,662
Total liabilities covered by budgetary resources	11,172	19,731
Total liabilities	\$ 49,012	55,393

(6) 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, 2013 and 2012, as follows:

	2013	2012
Net position	\$ 223,131	221,233
Unexpended one-year appropriation	(9,589)	(11,848)
Capital lease obligation	605	868
Net assets under U.S. GAAP	\$ 214,147	210,253

(7) Undelivered Orders

The amount of budgetary resources obligated for undelivered orders at September 30, 2013 and 2012 is \$15,910 and \$36,026, respectively.

See accompanying independent auditors' report.

NATIONAL GALLERY OF ART

Other Supplementary Information

September 30, 2013

UNAUDITED

(In thousands)

Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2013

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
Budgetary Resources:			
Unobligated balance brought forward, October 1	\$ 1,020	9,344	10,364
Recoveries of prior year unpaid obligations	332	4,263	4,595
Other changes in unobligated balance	(374)	—	(374)
Unobligated balance from prior year budget authority, net	<u>978</u>	<u>13,607</u>	<u>14,585</u>
Appropriations	107,927	13,735	121,662
Spending authority from offsetting collections	10	—	10
Total budgetary resources	<u>\$ 108,915</u>	<u>27,342</u>	<u>136,257</u>
Status of Budgetary Resources:			
Obligations incurred:	\$ <u>107,993</u>	<u>13,583</u>	<u>121,576</u>
Unobligated balance, end of year:			
Apportioned	54	12,686	12,740
Unapportioned	<u>868</u>	<u>1,073</u>	<u>1,941</u>
Total unobligated balance, end of year	<u>922</u>	<u>13,759</u>	<u>14,681</u>
Total budgetary resources	<u>\$ 108,915</u>	<u>27,342</u>	<u>136,257</u>
Change in Obligated Balance:			
Unpaid obligations brought forward, October 1 (gross)	\$ 19,209	35,681	54,890
Obligations incurred	107,993	13,583	121,576
Outlays, gross	(113,011)	(32,406)	(145,417)
Recoveries of prior year unpaid obligations	(332)	(4,263)	(4,595)
Obligated balance, end of year (net)	<u>\$ 13,859</u>	<u>12,595</u>	<u>26,454</u>
Budget authority and outlays, net			
Budget authority, gross	\$ 107,937	13,735	121,672
Actual offsetting collections	<u>(10)</u>	<u>—</u>	<u>(10)</u>
Budget authority, net	<u>\$ 107,927</u>	<u>13,735</u>	<u>121,662</u>
Outlays, gross	\$ 113,011	32,406	145,417
Actual offsetting collections	<u>(10)</u>	<u>—</u>	<u>(10)</u>
Outlays, net	<u>\$ 113,001</u>	<u>32,406</u>	<u>145,407</u>

NATIONAL GALLERY OF ART

Other Supplementary Information

September 30, 2013

UNAUDITED

(In thousands)

Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2012

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
Budgetary Resources:			
Unobligated balance brought forward, October 1	\$ 987	13,693	14,680
Recoveries of prior year unpaid obligations	—	—	—
Other changes in unobligated balance	<u>(258)</u>	<u>—</u>	<u>(258)</u>
Unobligated balance from prior year budget authority, net	729	13,693	14,422
Appropriations	113,883	14,493	128,376
Spending authority from offsetting collections	<u>—</u>	<u>—</u>	<u>—</u>
Total budgetary resources	<u>\$ 114,612</u>	<u>28,186</u>	<u>142,798</u>
Status of Budgetary Resources:			
Obligations incurred:	<u>\$ 113,592</u>	<u>18,842</u>	<u>132,434</u>
Unobligated balance, end of year:			
Apportioned	7	9,344	9,351
Unapportioned	<u>1,013</u>	<u>—</u>	<u>1,013</u>
Total unobligated balance, end of year	<u>1,020</u>	<u>9,344</u>	<u>10,364</u>
Total budgetary resources	<u>\$ 114,612</u>	<u>28,186</u>	<u>142,798</u>
Change in Obligated Balance:			
Unpaid obligations brought forward, October 1 (gross)	\$ 19,975	63,459	83,434
Obligations incurred	113,592	18,842	132,434
Outlays, gross	<u>(114,358)</u>	<u>(46,620)</u>	<u>(160,978)</u>
Recoveries of prior year unpaid obligations	—	—	—
Obligated balance, end of year (net)	<u>\$ 19,209</u>	<u>35,681</u>	<u>54,890</u>
Budget authority and outlays, net			
Budget authority, gross	\$ 113,883	14,493	128,376
Actual offsetting collections	<u>—</u>	<u>—</u>	<u>—</u>
Budget authority, net	<u>\$ 113,883</u>	<u>14,493</u>	<u>128,376</u>
Outlays, gross	\$ 114,358	46,620	160,978
Actual offsetting collections	<u>—</u>	<u>—</u>	<u>—</u>
Outlays, net	<u>\$ 114,358</u>	<u>46,620</u>	<u>160,978</u>

NATIONAL GALLERY OF ART

Other Supplementary Information

September 30, 2013

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>2013</u>	<u>2012</u>
Buildings	\$ 43,036	39,764
Facilities equipment	<u>10,759</u>	<u>9,941</u>
Total deferred maintenance	<u>\$ 53,795</u>	<u>49,705</u>

The current estimate is a realistic measure of the maintenance and repair work that must be done to buildings and equipment in order to bring them to where the Gallery believes they should be.



KPMG LLP
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Washington, DC 20006

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 of
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, 2013, 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 December 13, 2013.

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

December 13, 2013

Please send your comments to:

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

Acknowledgements

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