



NATIONAL GALLERY OF ART

FY 2014 Performance and Accountability Report



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PERFORMANCE AND ACCOUNTABILITY REPORT

for the year ended September 30, 2014

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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 2014 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 2014 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 2014 towards achieving our long term goals and objectives.

Performance Highlights

This PAR discusses our achievements in FY 2014 and reviews our progress towards the key annual performance goals and objectives established in our performance plan by:

- Providing the public with continuing and increased access to the Gallery's collection and educational materials
- Completing repairs to 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 received an unmodified audit opinion on its FY 2014 financial statements. The auditors did not report any material weaknesses, significant deficiencies, or instances of non-compliance with laws, regulations, contracts, and grant agreements that are required to be reported in accordance with *Government Auditing Standards*.

FY 2014 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 fluid and cursive, with a large, prominent "E" and "P".

Earl A. Powell III
Director
November 14, 2014

Message from the CFO

This Performance and Accountability Report (PAR) discusses our achievements in FY 2014, 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 2014 towards achieving those long term goals and objectives.

The performance section of this report discusses the Gallery's programmatic activities conducted in FY 2014 in relation to the Gallery's annual performance goals. The Gallery has continued to refine its financial system to further enhance our governance, improve our planning process and provide more accurate, timely financial data for all performance goals and measures.

The Gallery received an unmodified audit opinion on its FY 2014 financial statements. The auditors did not report any material weaknesses, significant deficiencies, or instances of non-compliance with laws, regulations, contracts, and grant agreements that are required to be reported in accordance with *Government Auditing Standards*.

FY 2014 has been a very productive year. Building on our accomplishments, we will continue to focus on increasing our efficiency and enhancing the stewardship of our limited resources to meet the challenges that lie ahead.



William W. McClure
Treasurer
November 14, 2014

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

The Gallery and its Mission

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

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

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



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

Organizational Structure

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

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

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

The Gallery is funded with Congressional appropriations and private funding.

Performance Goals, Objectives and Results

Building on FY 2013 accomplishments, the Gallery continued to make significant progress during FY 2014 advancing its mission of preserving, collecting, exhibiting, interpreting and encouraging the understanding by the American public of original, great works of art.

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

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

To achieve its mission, the Gallery focused in FY 2014 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:

This major project was completed in FY 2014 on time and within budget.

- Address the backlog of deferred maintenance:

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

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

The West Building, opened in March 1941, has reached an age where the building, its systems and components have exceeded their useful life, and significant repair and refurbishment is required. The East Building, opened in June 1978, has reached the point where significant refurbishment is required due to the nature of its design and construction. The success of this initiative will be measured against the goals of providing optimum operational effectiveness and efficiency.



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

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



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

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

In the Performance Report section, the Gallery has detailed its key annual performance goals relating to the areas detailed above. The Gallery reports eight metrics as statistical information only, as well as nine established objectives for FY 2014 related to capital repairs, deferred maintenance, and information technology. The Gallery met or exceeded six objectives, partially met one objective and did not meet two objectives. The objectives not met or partially met relate to deferred maintenance, the Master Facilities Plan (MFP) and the Facilities Condition Index (FCI). The Gallery has requested additional funding to address these requirements.

Federal Financial Statements Summary and Analysis

Summarized operating results and net position for the years ended September 30, 2014 and 2013 are presented below. This financial summary encompasses all activities supported by federal appropriations provided to the National Gallery of Art. It does not include the Gallery's activities supported by private funding.

National Gallery of Art
Key Federal Financial Statement Information
Fiscal Years 2014 and 2013
(amounts in thousands)

	<u>2014</u>	<u>2013</u>	Increase (Decrease)	
			<u>\$</u>	<u>%</u>
Results of Operations				
Total Financing Sources	\$ 128,382	142,954	(14,572)	-10.2%
Less Net Costs	<u>(126,839)</u>	<u>(125,256)</u>	<u>(1,583)</u>	<u>-1.3%</u>
Results of Operations	\$ <u>1,543</u>	<u>17,698</u>	<u>(16,155)</u>	<u>-91.3%</u>
Net Position				
Assets				
Fund balance with U.S. Treasury	\$ 49,843	41,135	8,708	21.2%
Other assets	—	22	(22)	—
Property, plant and equipment, net	<u>232,574</u>	<u>230,986</u>	<u>1,588</u>	<u>0.7%</u>
Total Assets	\$ <u>282,417</u>	<u>272,143</u>	<u>10,274</u>	<u>3.8%</u>
Liabilities				
Intragovernmental	\$ 224	867	(643)	-74.2%
Accounts payable	4,812	6,235	(1,423)	-22.8%
Actuarial FECA liability	8,987	8,664	323	3.7%
Environmental liability	23,782	23,908	(126)	-0.5%
Other	<u>9,557</u>	<u>9,338</u>	<u>219</u>	<u>2.3%</u>
Total Liabilities	\$ <u>47,362</u>	<u>49,012</u>	<u>(1,650)</u>	<u>-3.4%</u>
Net Position	\$ <u>235,055</u>	<u>223,131</u>	<u>11,924</u>	<u>5.3%</u>

Operating Results

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

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

The total appropriation received for FY 2014 was \$133.0 million, a \$11.4 million increase above the FY 2013 post-sequester appropriation of \$121.6 million. The appropriation included \$114.5 million for salaries, benefits and expenses, \$3.5 million for special exhibitions and \$15.0 million for the repair, restoration and renovation of the buildings.

The Gallery's net cost of operations totaled \$126.8 million for the year, an increase of \$1.6 million or 1.3% above the prior year. Program costs represented \$95.3 million or 75% of total net costs, with the remaining \$31.5 million in "costs not assigned to programs" primarily representing general and administrative expenses.

Net Position

The Gallery's net position totaled \$235.0 million in FY 2014, increasing \$11.9 million or 5.3% over the prior year. Work continued on the repair of the East Building façade and other renovation projects under the Master Facilities Plan, resulting in an increase in property, plant and equipment of \$1.6 million. Fund balance with the U.S. Treasury increased by \$8.7 million largely due to increased appropriations in FY 2014 and higher obligated balances. Total liabilities decreased by \$1.6 million.

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

Independent Auditors' Report on the Gallery's Financial Statements

The Gallery received an unmodified audit opinion on its FY 2014 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
November 14, 2014

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	Internal controls over financial reporting are effective

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	Internal controls over operations are effective

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	System conforms to financial management system

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

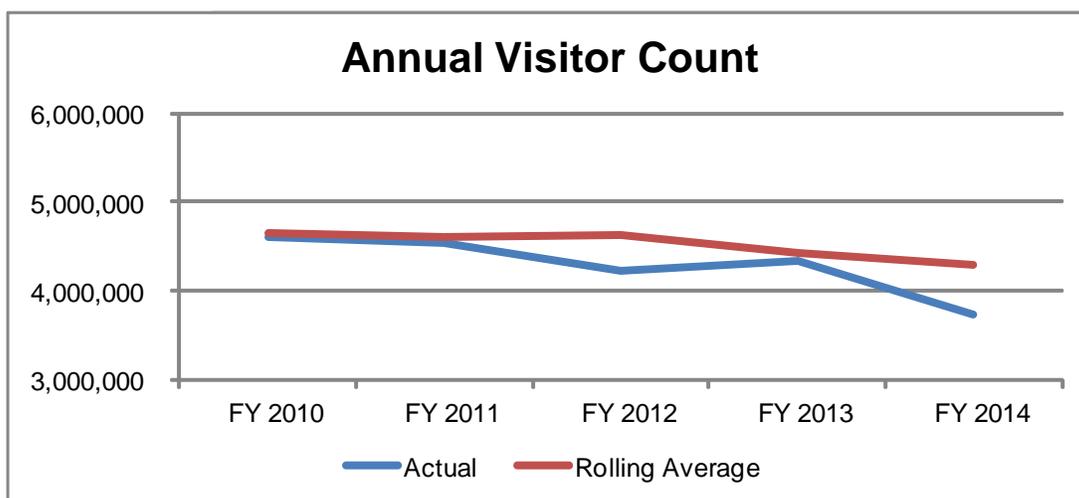
National Gallery of Art Performance Report

The Gallery's FY 2014 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 3,733,000 visitors in FY 2014, 13% below the average for the past five years, due primarily to a 16 day government shutdown, 5 days closed due to severe weather, and closure of the East Building galleries for major renovations.



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	4,608,000	4,549,000	4,230,000	4,347,000	3,733,000
Rolling Average	4,642,600	4,616,000	4,636,200	4,433,500	4,293,400

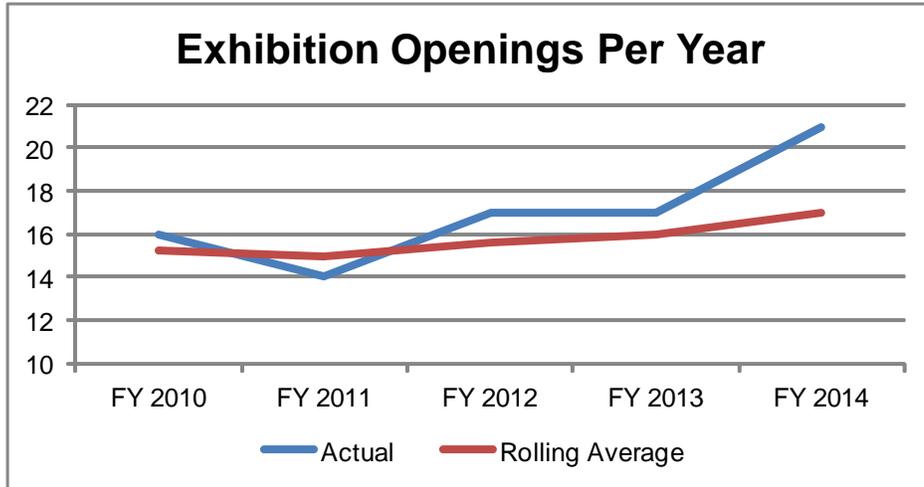
2. ***Offer visitors the widest range of visual experience through a schedule of special exhibitions that are organized and presented by the Gallery to augment existing strengths in the collection and to provide the opportunity to focus on material of exceptional merit from other cultures and periods.***

The Gallery's goal of presenting a schedule of special exhibitions that offers visitors the widest range of visual experience was achieved again this year. Special exhibitions gave visitors the opportunity to enjoy hundreds of masterpieces loaned by public and private collections throughout the world. During FY 2014, the Gallery organized and presented 21 special exhibitions, slightly exceeding the five year average of 17.

Among the highlights presented in FY 2014 were:

- *Heaven and Earth: Art of Byzantium from Greek Collections*
- *The Dying Gaul: An Ancient Roman Masterpiece from the Capitoline Museum, Rome*
- *Andrew Wyeth: Looking Out, Looking In*
- *Degas/Cassatt*
- *Garry Winogrand*
- *From Neoclassicism to Futurism: Italian Prints and Drawings 1800-1925*





	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	16	14	17	17	21
Rolling Average	15	15	16	16	17

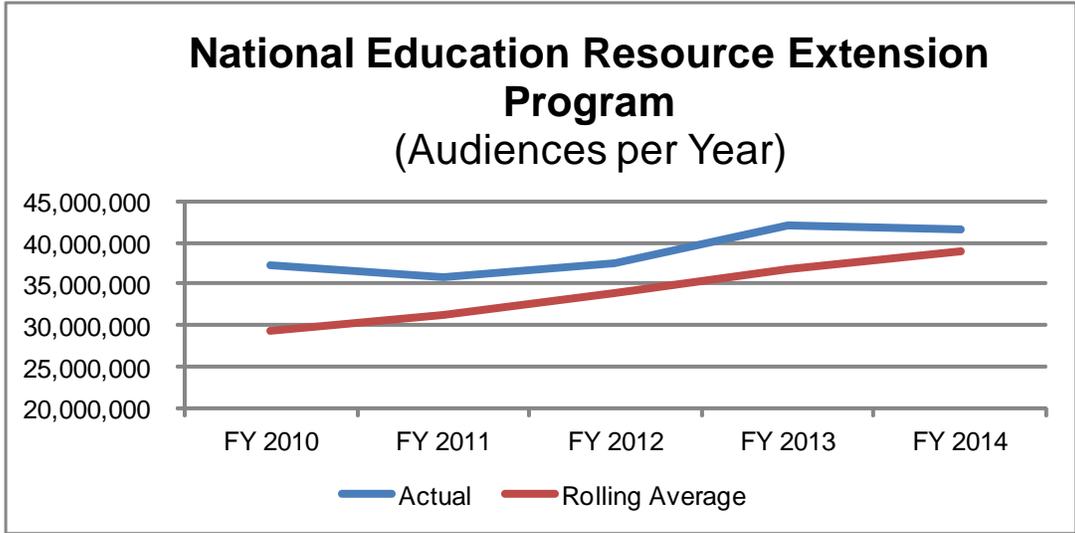
3. Foster awareness of the visual arts by providing increased and continued access to the collection and educational materials.

The Gallery’s commitment to fostering the understanding of art at the highest possible scholarly levels continued in FY 2014 through its many educational program activities. The education resources outreach program provided films, videotapes and other long-distance learning materials free of charge to an audience of nearly 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 93,100 participants. The Gallery had nearly 59,000 subscriptions to its education on-line newsletter.

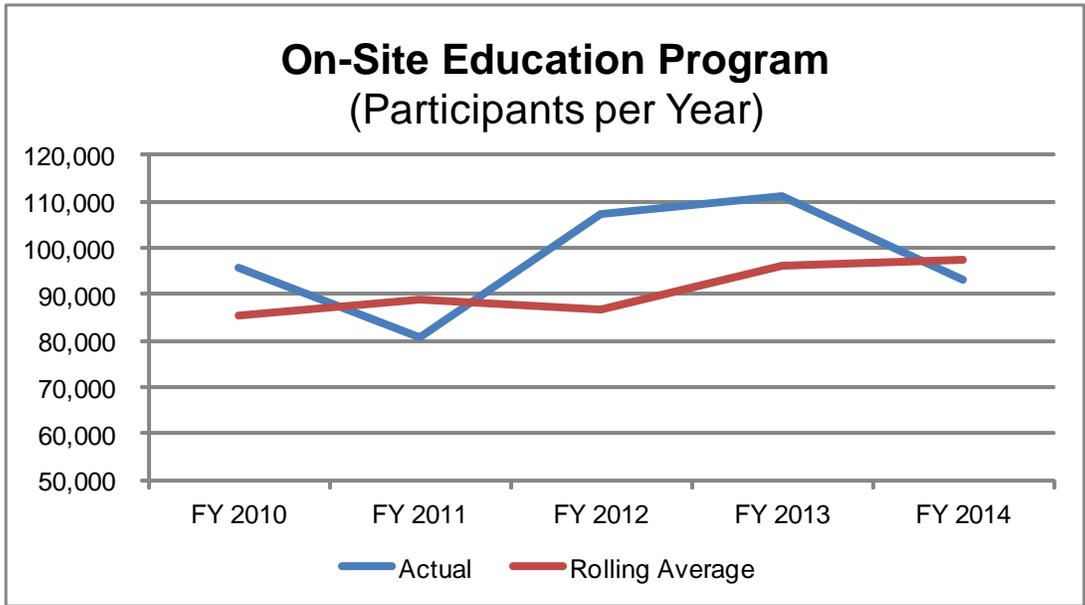
The National Gallery of Art public website is an in-depth resource that allows people from all over the world access to the Gallery’s collections, exhibitions, educational resources and schedule of events. In April 2013, the Gallery launched a new expanded website on a leading edge software platform with powerful search capabilities. In FY 2014 the website 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.

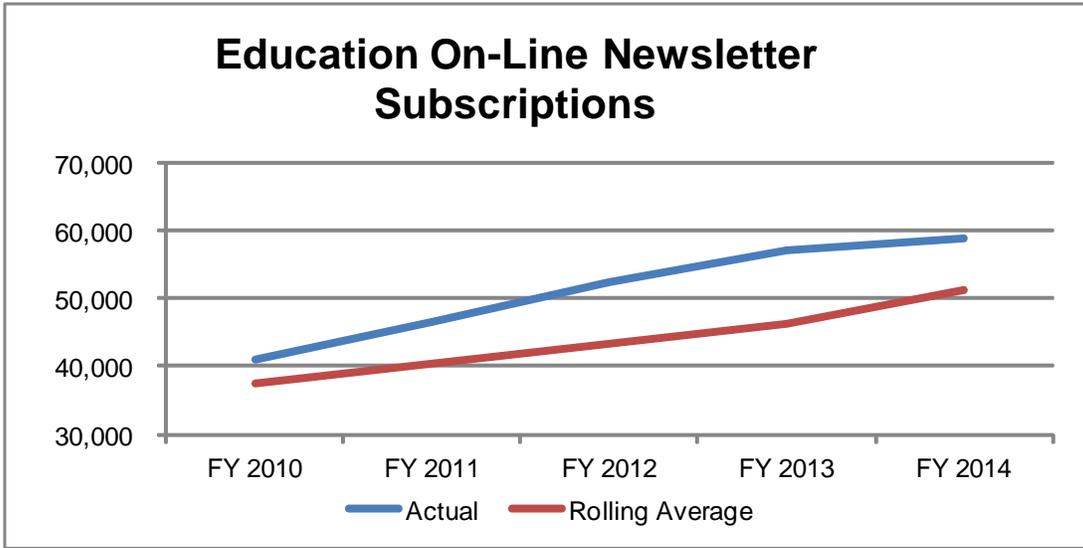
The following pages provide statistical metrics for education outreach.



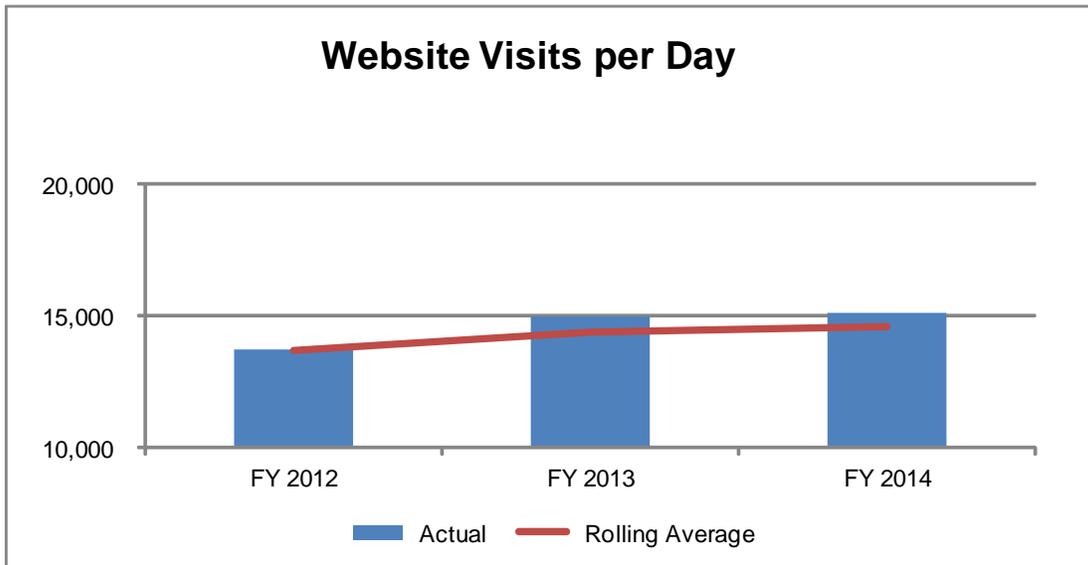
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	37,300,000	35,900,000	37,400,000	41,979,000	41,632,000
Rolling Average	29,220,000	31,200,000	33,880,000	36,675,800	38,842,200



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	95,500	80,600	107,300	111,200	93,100
Rolling Average	85,350	88,733	86,700	96,280	97,540

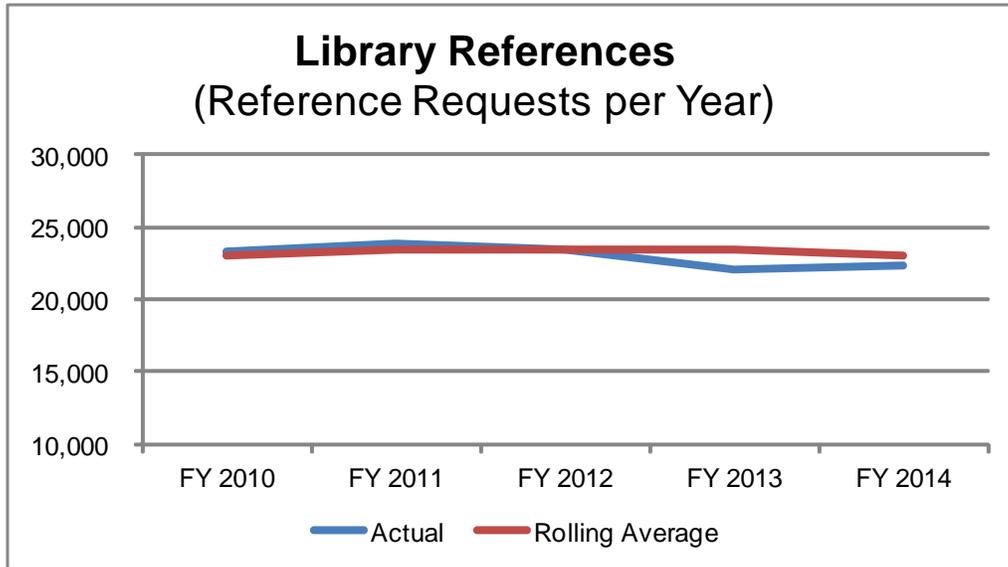


	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	41,000	46,700	52,400	57,000	58,900
Rolling Average	37,400	40,500	43,475	46,180	51,200



	FY 2012	FY 2013	FY 2014
Actual	13,700	15,000	15,096
Rolling Average	13,700	14,350	14,599

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



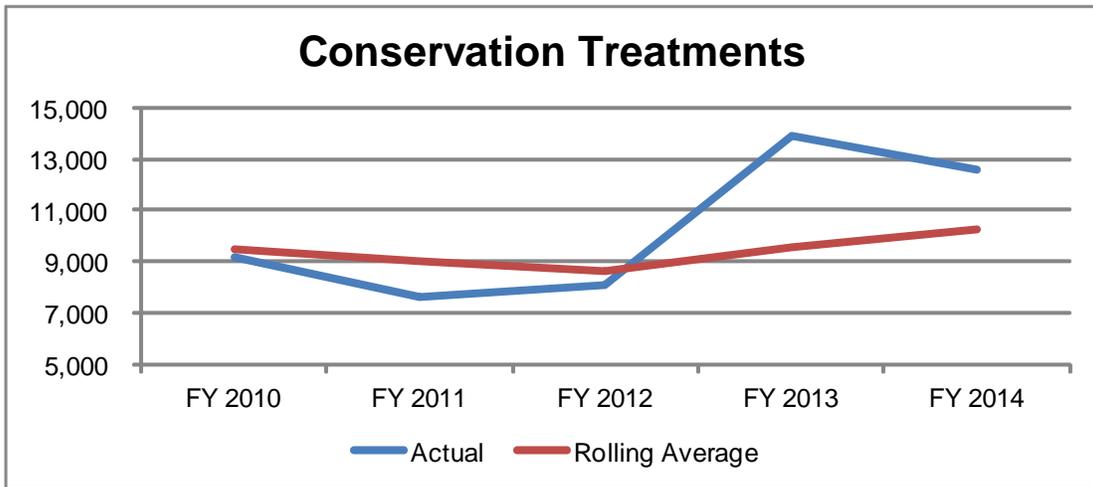
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	23,300	23,800	23,400	22,000	22,300
Rolling Average	23,060	23,440	23,420	23,420	22,960



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



Preserving the Gallery's outstanding collection for future generations remains one of the Gallery's critical responsibilities and the primary concern of its conservators and scientific researchers. In FY 2014, the Gallery's painting, object, paper, and textile conservators and scientific researchers undertook 12,600 major and minor treatments and examinations. In addition, new technologies were studied and devised that further the Gallery's mission of preserving the works of art with which it is entrusted. Major renovations to the conservation lab were completed in FY 2013 allowing conservation treatments to return to a higher level. Year to year fluctuation in the total number of treatments is due primarily to the number of art work examinations required for special exhibitions.



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	9,200	7,600	8,100	13,900	12,600
Rolling Average	9,505	9,012	8,606	9,560	10,280

- **Complete repair of 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. Construction was completed September 18, 2013, slightly ahead of schedule.

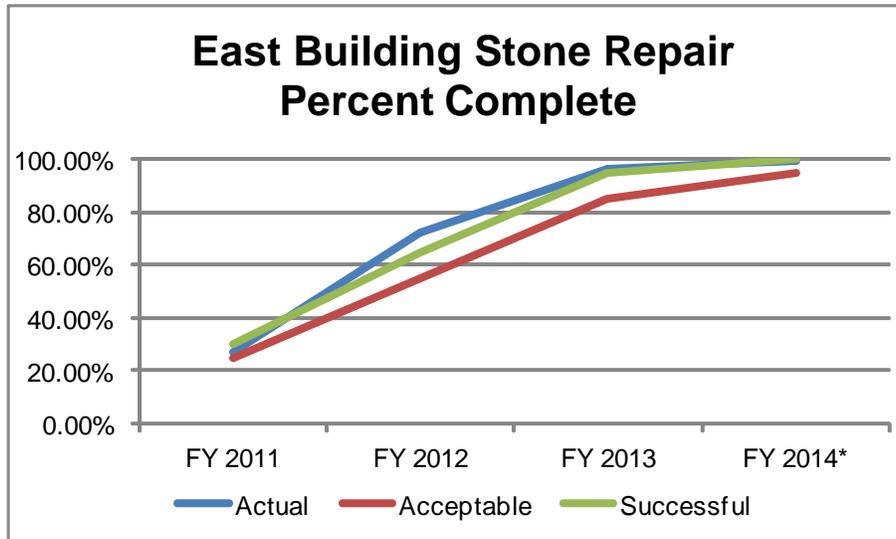
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014*</u>	
Planned Completion Date	11/15/13	11/15/13	11/15/13	9/18/13	(Actual)
Acceptable	12/31/13	12/31/13	2/15/14	3/31/14	
Successful	9/30/13	9/30/13	11/15/13	12/31/13	
Assessment	On Schedule	On Schedule	On Schedule	On Schedule	

* East Building Stone construction is now complete. Some site restoration and art reinstallation has been deferred until completion of other East Building work.

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

	FY 2011	FY 2012	FY 2013	FY 2014
Actual	On budget	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 budget.			
Assessment	Target Met	Target Met	Target Met	Target Met

Performance Measure: That 95% of the total projected EBSR construction costs are incurred by the end of FY 2014.



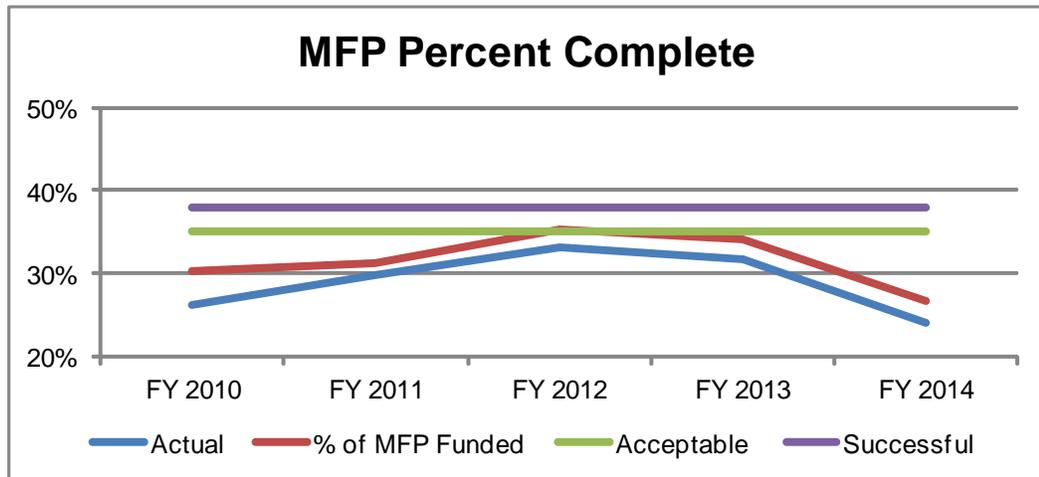
	FY 2011	FY 2012	FY 2013	FY 2014*
Actual	27%	72%	96%	99%
Acceptable	25%	55%	85%	95%
Successful	30%	65%	95%	100%
Assessment	Target Met	Target Exceeded	Target Exceeded	Target Met

* Remaining budget is reserved for site completion and art reinstallation in time for the re-opening of the East Building after major interior renovation is complete.

- **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.



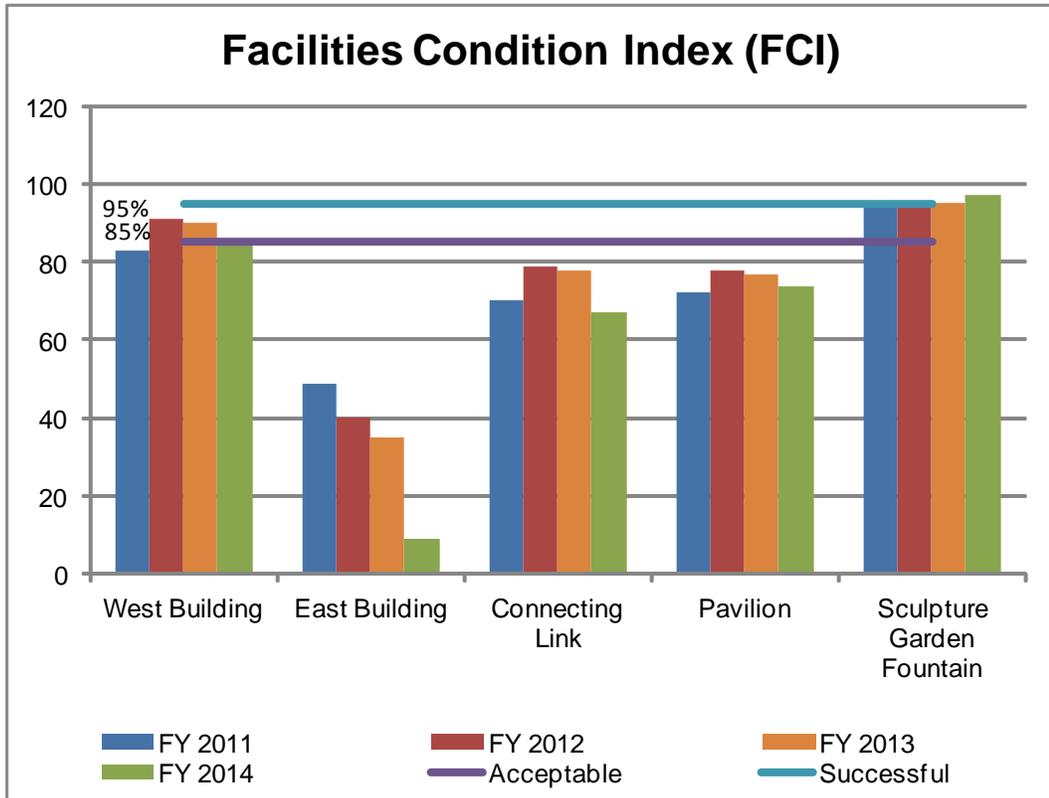
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	26%	30%	33%	32%	24%
% of MFP Funded	30%	31%	35%	34%	27%
Acceptable	35%	35%	35%	35%	35%
Successful	38%	38%	38%	38%	38%
Assessment:	Target Not Met				

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 fiscal year.

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

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

Performance 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
FY 2014	86	9	67	74	97
Acceptable	85	85	85	85	85
Successful	95	95	95	95	95
Assessment	Target Met	Target Not Met	Target Not Met	Target Not Met	Target Met

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

Performance Measure: Change in Deferred Maintenance Backlog, as reported to GSA in the Federal Real Property Profile Report.

Actual:	FY 2011	FY 2012	FY 2013	FY 2014
	+5%	+8.5%	+8.8%	+45%

Acceptable: The deferred maintenance backlog decreases by less than 3% during the year

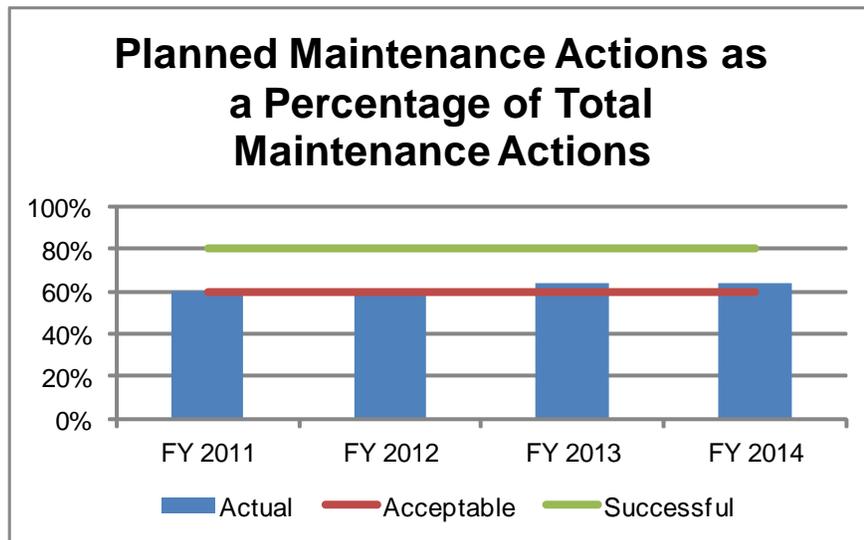
Successful: The deferred maintenance backlog decreases by at least 3% during the year

Assessment:	Target	Target	Target	Target
	Not Met	Not Met	Not Met	Not Met

(a) Deferred Facilities Maintenance Backlog: measures the change in the deferred facilities maintenance backlog, as reported to GSA in the Federal Real Property Profile Report.

Funding is not sufficient to allow the Gallery to meet this standard. The backlog is growing at an unacceptable rate.

Performance Measure: Percentage of maintenance actions that were planned.



	FY 2011	FY 2012	FY 2013	FY 2014
Actual	60%	60%	64%	64%
Acceptable	60%	60%	60%	60%
Successful	80%	80%	80%	80%

Assessment	Target Met	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	FY 2014
Actual	2	2	2	2
Minimally Acceptable	2	2	2	2
Successful	2	2	2	2

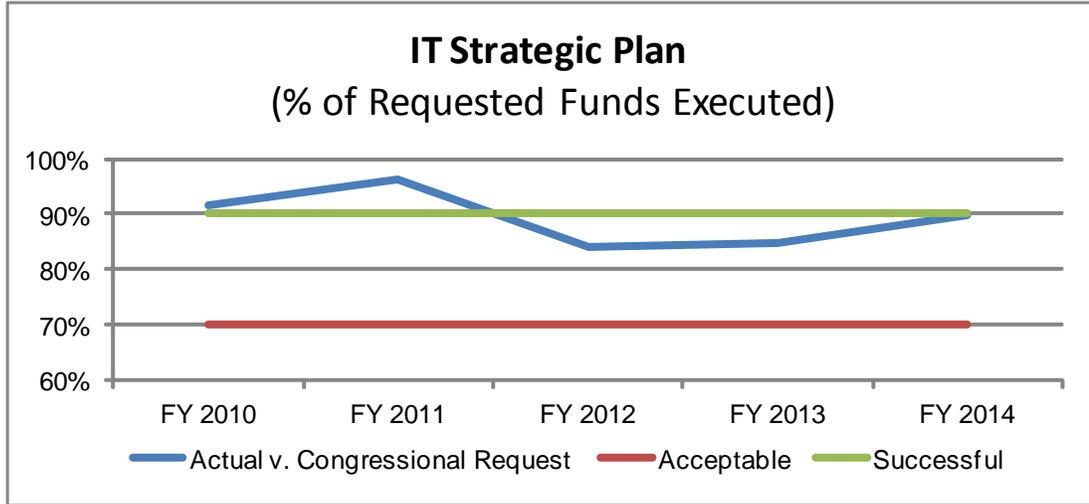
Assessment Target Met Target Met Target Met Target Met

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 funds provided against the budget request.



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual v. Congressional Request	91%	96%	84%	85%	90%
Acceptable	70%	70%	70%	70%	70%
Successful	90%	90%	90%	90%	90%
Assessment	Target Exceeded	Target Exceeded	Target Met	Target Met	Target Met

The FY 2014 appropriation funded only 90% 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:

- Enterprise Digital Asset Management,
- Human Resource Management MIS Platform,
- Centralized Calendar and Resource Scheduler.

- **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.

NATIONAL GALLERY OF ART

Financial Statements

September 30, 2014

(With Independent Auditors' Reports Thereon)



KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Trustees
The National Gallery of Art:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Gallery of Art (the Gallery), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Gallery of Art as of September 30, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated December 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary and Other Information

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

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

The other information in the September 30, 2014 Management's Discussion and Analysis, Performance Report, and the Other Supplementary Information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 on our consideration of the Gallery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gallery's internal control over financial reporting and compliance.

KPMG LLP

November 14, 2014

NATIONAL GALLERY OF ART

Statement of Financial Position

September 30, 2014

(with summarized financial information as of September 30, 2013)

(In thousands)

Assets	2014			2013
	Private	Federal	Total	Total
Cash and cash equivalents	\$ 18,075	49,843	67,918	51,374
Accounts receivable and other assets, net	5,738	—	5,738	6,496
Pledges receivable, net	13,605	—	13,605	22,847
Investments and trusts held by others	817,404	—	817,404	761,194
Property, plant and equipment, net	56,409	232,574	288,983	285,775
Art collections	—	—	—	—
Total assets	<u>\$ 911,231</u>	<u>282,417</u>	<u>1,193,648</u>	<u>1,127,686</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and other liabilities	\$ 10,735	22,659	33,394	44,148
Capital lease obligation	—	605	605	868
Unexpended federal one-year appropriations	—	18,116	18,116	9,589
Environmental liability	—	23,782	23,782	23,908
Total liabilities	<u>10,735</u>	<u>65,162</u>	<u>75,897</u>	<u>78,513</u>
Net assets:				
Unrestricted	308,094	194,163	502,257	474,587
Temporarily restricted	192,265	23,092	215,357	194,414
Permanently restricted	400,137	—	400,137	380,172
Total net assets	<u>900,496</u>	<u>217,255</u>	<u>1,117,751</u>	<u>1,049,173</u>
Total liabilities and net assets	<u>\$ 911,231</u>	<u>282,417</u>	<u>1,193,648</u>	<u>1,127,686</u>

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART
Statement of Activities
Year ended September 30, 2014
(with summarized financial information for the year ended September 30, 2013)
(In thousands)

	Unrestricted private	Unrestricted federal	Total Unrestricted	Temporarily restricted	Permanently restricted	Total 2014	Total 2013
Operating:							
Support and revenue:							
Federal appropriations	\$ —	102,819	102,819	7,315	—	110,134	107,949
Gifts and grants	2,478	—	2,478	7,008	—	9,486	9,467
Gallery shops sales, net	8,811	—	8,811	—	—	8,811	9,662
Spending policy appropriated for operations	2,665	—	2,665	14,946	—	17,611	17,299
Royalties and other income	3,338	—	3,338	—	—	3,338	2,441
	<u>17,292</u>	<u>102,819</u>	<u>120,111</u>	<u>29,269</u>	<u>—</u>	<u>149,380</u>	<u>146,818</u>
Net assets released from restrictions to fund operating expenses	<u>17,895</u>	<u>6,781</u>	<u>24,676</u>	<u>(24,676)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>35,187</u>	<u>109,600</u>	<u>144,787</u>	<u>4,593</u>	<u>—</u>	<u>149,380</u>	<u>146,818</u>
Expenses:							
Collections	3,470	41,320	44,790	—	—	44,790	43,726
Special exhibitions	4,208	13,315	17,523	—	—	17,523	21,557
Education, gallery shops, and public programs	15,823	23,129	38,952	—	—	38,952	38,518
Editorial and photography	1,431	4,650	6,081	—	—	6,081	5,959
General and administrative	5,241	26,216	31,457	—	—	31,457	30,445
Development	2,366	1,734	4,100	—	—	4,100	4,410
Total operating expenses	<u>32,539</u>	<u>110,364</u>	<u>142,903</u>	<u>—</u>	<u>—</u>	<u>142,903</u>	<u>144,615</u>
Change in net assets from operating activities	<u>2,648</u>	<u>(764)</u>	<u>1,884</u>	<u>4,593</u>	<u>—</u>	<u>6,477</u>	<u>2,203</u>
Nonoperating:							
Federal appropriations	—	2,681	2,681	11,218	—	13,899	15,597
Nonoperating gifts and grants	5	—	5	7,058	639	7,702	17,793
Spending policy appropriated for art acquisitions	742	—	742	226	—	968	27,429
Changes in value of trusts held by others	(226)	—	(226)	16	392	182	106
Investment return less amounts appropriated for operations and art acquisitions	24,048	—	24,048	19,058	13,896	57,002	44,531
Acquisitions of works of art	(8,914)	—	(8,914)	—	—	(8,914)	(31,940)
Depreciation and amortization expense	(3,477)	(9,990)	(13,467)	—	—	(13,467)	(12,456)
Income tax benefit	50	—	50	—	—	50	514
Environmental liability expense	—	(571)	(571)	—	—	(571)	(2,945)
Gifts transferred from Corcoran	—	—	—	2,020	3,230	5,250	—
Reclassifications of net asset balances	(1,458)	—	(1,458)	(350)	1,808	—	—
Net assets released from restrictions to fund nonoperating expenses	<u>13,037</u>	<u>9,859</u>	<u>22,896</u>	<u>(22,896)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Increase in net assets from nonoperating activities	<u>23,807</u>	<u>1,979</u>	<u>25,786</u>	<u>16,350</u>	<u>19,965</u>	<u>62,101</u>	<u>58,629</u>
Increase in net assets	<u>26,455</u>	<u>1,215</u>	<u>27,670</u>	<u>20,943</u>	<u>19,965</u>	<u>68,578</u>	<u>60,832</u>
Net assets at beginning of year	<u>281,639</u>	<u>192,948</u>	<u>474,587</u>	<u>194,414</u>	<u>380,172</u>	<u>1,049,173</u>	<u>988,341</u>
Net assets at end of year	<u>\$ 308,094</u>	<u>194,163</u>	<u>502,257</u>	<u>215,357</u>	<u>400,137</u>	<u>1,117,751</u>	<u>1,049,173</u>

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Statement of Cash Flows

Year ended September 30, 2014

(with summarized financial information for the year ended September 30, 2013)

(In thousands)

	<u>Private</u>	<u>Federal</u>	<u>Total 2014</u>	<u>Total 2013</u>
Cash flows from operating activities:				
Increase in net assets	\$ 65,470	3,108	68,578	60,832
Adjustments to reconcile increase in net assets to net cash used in operating activities:				
Depreciation and amortization	3,477	9,990	13,467	12,456
Amortization of discount on pledges receivable	(324)	—	(324)	(453)
Contributions and net investment income for permanently restricted investments	(5,240)	—	(5,240)	(3,160)
Federal appropriations for capital projects	—	(13,899)	(13,899)	(15,597)
Gifts and grants for art acquisitions and capital projects	(19,187)	—	(19,187)	(9,720)
Acquisitions of works of art	17,445	—	17,445	23,534
Realized and unrealized gains on investments, net	(71,332)	—	(71,332)	(81,684)
Donated investment securities	(5,508)	—	(5,508)	(1,334)
Proceeds from donated investment securities	5,533	—	5,533	—
Change in value of trusts held by others	(262)	—	(262)	210
Change in accounts receivable and other assets, net	736	22	758	(895)
Change in pledges receivable, net	8,990	—	8,990	(3,520)
Change in accounts payable and other liabilities	(10,456)	(639)	(11,095)	9,420
Change in unexpended one-year federal appropriations	—	8,527	8,527	(2,259)
Change in environmental liability	—	(126)	(126)	2,883
Net cash (used in) provided by operating activities	<u>(10,658)</u>	<u>6,983</u>	<u>(3,675)</u>	<u>(9,287)</u>
Cash flows from investing activities:				
Purchase of investments	(150,258)	—	(150,258)	(112,557)
Proceeds from sale of investments	166,193	—	166,193	134,750
Acquisitions of works of art	(17,445)	—	(17,445)	(23,534)
Purchase of property, plant and equipment	(4,423)	(11,911)	(16,334)	(39,709)
Net cash used in investing activities	<u>(5,933)</u>	<u>(11,911)</u>	<u>(17,844)</u>	<u>(41,050)</u>
Cash flows from financing activities:				
Contributions and net investment income for permanently restricted investments	5,240	—	5,240	3,160
Federal appropriations for capital projects	—	13,899	13,899	15,597
Gifts and grants for art acquisitions and capital projects	19,187	—	19,187	9,720
Principal payment on capital lease obligator	—	(263)	(263)	(242)
Net cash provided by financing activities	<u>24,427</u>	<u>13,636</u>	<u>38,063</u>	<u>28,235</u>
Net change in cash and cash equivalents	7,836	8,708	16,544	(22,102)
Cash and cash equivalents, at beginning of year	10,239	41,135	51,374	73,476
Cash and cash equivalents, at end of year	<u>\$ 18,075</u>	<u>49,843</u>	<u>67,918</u>	<u>51,374</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest on capital lease	\$ —	79	79	102
Supplemental disclosure of noncash information:				
Capital additions included in accounts payable	\$ 916	1,727	2,643	2,302

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

(1) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) General

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

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

(b) Measure of Operations

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

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

amounts designated for operations, acquisitions of works of art, and income tax and depreciation expense.

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 4).

(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, 2013, 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.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

(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 the date of purchase to be cash equivalents, except where such cash equivalents are held as part of a long-term investment strategy (see note 4).

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

(f) Pledges Receivable

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

(g) Investments and Trusts Held by Others

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

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

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

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.

(h) Property, Plant and Equipment

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

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

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

(i) Art Collections

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

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

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

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

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

the remainder of the artwork in its custody and care will be distributed by the surviving Corcoran entity to other art museums or entities.

(j) *Accrued Leave*

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

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

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

(l) *Employee Benefits*

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

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

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose

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(In thousands)

deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Gallery for these paid claims.

The actuarial FECA liability represents the liability for expected future workers' compensation benefits, which includes the liability for death, disability, medical, and miscellaneous costs for approved cases. The actuarial liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period, wage inflation factors, medical inflation factors and other variables. These actuarially computed projected annual benefit payments are discounted to present value using discount rates derived from the Treasury Nominal Coupon-Issue Yield Curve based on an average of the quarterly spot rates presented from September 30, 2013, through June 30, 2014. Specific rates were selected by interpolation for Treasury notes with maturities that matched average FECA compensation and medical cash flow duration. The change in the projected FECA liability is reported in the statement of activities. The FECA actuarial liability is recorded for financial reporting purposes only. This liability constitutes an extended future estimate of cost which will not be obligated against budgetary resources until the fiscal year in which DOL actually bills the cost to the Gallery. The cost associated with this liability cannot be met by the Gallery without further appropriation action.

(m) Imputed Financing Sources

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

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

(n) Contributed Services and Donated Assets

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

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

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(o) *Functional Allocation of Expenses*

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

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

(p) *Estimates*

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

(q) *Risks and Uncertainties*

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

(r) *Reclassifications*

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

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(In thousands)

(3) Pledges Receivable, Net

As of September 30, 2014 and 2013, pledges receivable, net, consisted of the following:

	2014	2013
Due in one year or less	\$ 10,887	6,162
Due between one year and five years	3,044	17,288
Subtotal	13,931	23,450
Less discounts of \$176 and \$453 and allowances of \$150 and \$150, respectively	(326)	(603)
Total	\$ 13,605	22,847

As of September 30, 2014 and 2013, \$7,062 and \$13,173 of the pledge receivable balance was receivable from related parties.

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

As of September 30, 2014 and 2013, investments and trust held by others consisted of the following:

	2014	2013
Investments	\$ 799,236	743,864
Trusts held by others	13,168	12,330
Subtotal	812,404	756,194
Loan to U.S. Treasury	5,000	5,000
Total	\$ 817,404	761,194

In 1942, the Gallery, under authority of an Act of Congress, made a \$5,000 permanent loan to the U.S. Treasury. This loan bears interest at the higher of 4.00% or 0.25% below the average monthly rate for long-term funds paid by the U.S. Treasury (4% during fiscal year 2014). Interest income on this loan was \$203 and \$203 for the fiscal years ended September 30, 2014 and 2013, respectively. The fair value of the loan to the U.S. Treasury approximates the carrying value.

As of September 30, 2014 and 2013, the carrying value of the Gallery's cash, cash equivalents and balances with U.S. Treasury, receivables, deferred charges and other assets, and accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturity of these assets and liabilities. The Gallery's investments in private equity, venture capital, and real estate are generally valued based on the most current net asset value (NAV) adjusted for cash flows when the reported NAV is not at the measurement date.

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

- *Level 1* – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Gallery has the ability to access as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. Investments include investments in equity, real estate, and fixed income mutual funds that are traded in an active exchange market.
- *Level 2* – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly as of the reporting date. 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 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. Another trust is a perpetual trust invested in equity, fixed income securities, and mutual funds where the Gallery receives annual distributions but will never receive the trust's principal. The remainder of the trusts are invested in cash equivalents, mutual funds, and publicly traded equities.

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(In thousands)

The following tables summarize the fair value of investments and trusts held by others as of September 30, 2014 and 2013 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, 2014
U.S. equities	\$ 118,507	84,070	—	202,577
International equities:				
Developed market equities	59,507	69,214	—	128,721
Emerging market equities	21,933	47,037	—	68,970
Real estate	17,414	—	4,613	22,027
Inflation hedging securities	—	33,817	—	33,817
Private equity and venture capital funds	—	—	53,585	53,585
Hedge fund of funds	—	—	160,312	160,312
Multi-asset fund	—	—	49,201	49,201
Fixed income securities	8,121	65,520	—	73,641
Charitable gift annuities and other	6,385	—	—	6,385
Trusts held by others	—	—	10,622	10,622
	<u>231,867</u>	<u>299,658</u>	<u>278,333</u>	<u>809,858</u>
Assets measured at fair value on a recurring basis				
	<u>231,867</u>	<u>299,658</u>	<u>278,333</u>	<u>809,858</u>
Trusts held by others measured on a nonrecurring basis	—	—	2,546	2,546
	<u>—</u>	<u>—</u>	<u>2,546</u>	<u>2,546</u>
Total	<u>\$ 231,867</u>	<u>299,658</u>	<u>280,879</u>	<u>812,404</u>

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(In thousands)

	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				
	<u>268,446</u>	<u>217,571</u>	<u>267,631</u>	<u>753,648</u>
Trusts held by others measured on a nonrecurring basis	—	—	2,546	2,546
	<u>—</u>	<u>—</u>	<u>2,546</u>	<u>2,546</u>
Total	<u>\$ 268,446</u>	<u>217,571</u>	<u>270,177</u>	<u>756,194</u>

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(In thousands)

The following table summarizes the changes in Level 3 assets, measured at fair value on a recurring basis, as of September 30, 2014:

	<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>	<u>Total</u>
Fair value of Level 3 assets at September 30, 2013	\$ 5,007	51,235	155,679	45,926	9,784	267,631
(Expenses) net of dividends and interest	95	(1,106)	(541)	(429)	—	(1,981)
Realized and unrealized gains	515	11,690	10,874	6,110	859	30,048
Proceeds from sales, redemptions and distributions	(1,123)	(14,183)	(5,700)	(2,406)	(453)	(23,865)
Purchase of investments	119	5,949	—	—	432	6,500
Fair value of Level 3 assets at September 30, 2014	<u>\$ 4,613</u>	<u>53,585</u>	<u>160,312</u>	<u>49,201</u>	<u>10,622</u>	<u>278,333</u>

For the year ended September 30, 2014, there was approximately \$4,042 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, 2014.

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>	<u>Total</u>
Fair value of Level 3 assets at September 30, 2012	\$ 4,926	52,850	144,914	44,411	9,994	257,095
(Expenses) net of dividends and interest	175	(678)	(580)	920	—	(163)
Realized and unrealized gains	398	4,869	17,023	2,861	1,084	26,235
Proceeds from sales, redemptions and distributions	(830)	(11,546)	(5,678)	(2,266)	(1,295)	(21,615)
Purchase of investments	338	5,740	—	—	1	6,079
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>	<u>267,631</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.

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(In thousands)

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

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a) \$	84,070	—	Quarterly	60 days
International equities:	(b)				
Developed market equities		69,214	—	Daily to semi-monthly	6 to 20 days
Emerging market equities		47,037	—	Monthly	30 to 120 days
Real estate	(c)	4,613	650	N/A	N/A
Inflation hedging securities	(d)	33,817	—	Monthly	30 days
Private equity and venture capital funds	(e)	53,585	14,468	N/A	N/A
Hedge fund of funds	(f)	160,312	—	Semi-annually to annually	90 to 95 days
Multi-asset fund	(g)	49,201	—	Annually	365 days
Fixed income securities	(h)	65,520	—	Monthly	7 days
Total		<u>\$ 567,369</u>	<u>15,118</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, 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 two years	90 to 95 days
Multi-asset fund	(g)	45,926	—	Annually	365 days
Total		<u>\$ 475,418</u>	<u>21,227</u>		

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(In thousands)

- (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.
- (h) Fixed income securities: Investment in a limited partnership which invests in investment grade fixed income securities issued by U.S. government and corporate entities.

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Notes to Financial Statements

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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, 2014 and 2013:

	2014			2013 Total	
	Unrestricted	Temporarily restricted	Permanently restricted		Total
Dividends and interest (net of expenses of \$5,175 and \$4,292, respectively)	\$ 1,193	1,647	1,409	4,249	7,575
Net investment appreciation	26,262	32,583	12,487	71,332	81,684
	27,455	34,230	13,896	75,581	89,259
Appropriated for operations	(2,665)	(14,946)	—	(17,611)	(17,299)
Appropriated for art acquisitions	(742)	(226)	—	(968)	(27,429)
Investment return less amounts appropriated for operations and art acquisitions	\$ 24,048	19,058	13,896	57,002	44,531

(5) Property, Plant and Equipment, Net

As of September 30, 2014 and 2013, net property, plant and equipment consisted of the following:

	2014			2013 Total
	Private funds	Federal funds	Total	
Buildings and improvements	\$ 156,309	263,419	419,728	330,649
Equipment and computer software	6,616	71,465	78,081	74,981
Construction-in-progress	7,819	8,250	16,069	91,573
Equipment under capital lease	—	2,962	2,962	2,962
Subtotal	170,744	346,096	516,840	500,165
Less accumulated depreciation and amortization	(114,335)	(113,522)	(227,857)	(214,390)
Total	\$ 56,409	232,574	288,983	285,775

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Notes to Financial Statements

September 30, 2014

(In thousands)

(6) Accounts Payable and Other Liabilities

As of September 30, 2014 and 2013, accounts payable and other liabilities consisted of the following:

	2014			2013 Total
	Private funds	Federal funds	Total	
Accounts payable and accrued expenses	\$ 2,639	6,284	8,923	18,566
Employee-related liabilities	4,515	15,987	20,502	21,161
Other accrued liabilities	3,581	388	3,969	4,421
Total	\$ <u>10,735</u>	<u>22,659</u>	<u>33,394</u>	<u>44,148</u>

(7) Environmental Liability

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

As of September 30, 2014 and 2013 the net remediation costs included in the Gallery's property, plant and equipment consists of the following:

	2014	2013
Remediation costs	\$ 4,201	4,201
Less accumulated depreciation	<u>(3,358)</u>	<u>(3,275)</u>
Net remediation costs	\$ <u>843</u>	<u>926</u>

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

	2014	2013
Beginning balance	\$ 23,908	21,025
Liability recorded for the period	571	2,945
Remediation costs incurred	<u>(697)</u>	<u>(62)</u>
Total	\$ <u>23,782</u>	<u>23,908</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.

(8) Federal Appropriations

The Gallery is funded primarily by two Congressional appropriations: one appropriation covers the Gallery's salaries, benefits and expenses, a portion of which is designated for special exhibitions, and the second appropriation provides funds necessary for the repair, restoration and renovation of the Gallery's buildings. The appropriation received for salaries, benefits and expenses is a two-year appropriation that must be obligated by the end of the second fiscal year, with the exception of the portion of the appropriation designated for special exhibitions expenses, which is available until it is expended. The appropriation for the repair, restoration, and renovation of the Gallery's buildings is available until expended. The fiscal year 2014 salaries and expenses appropriation includes \$3,533 for no-year special exhibitions funding.

The Gallery's federal appropriations received in the fiscal years ending 2014 and 2013 are reconciled to federal appropriation revenue recognized as follows:

	2014			
	Salaries and expenses	Repairs, restoration and renovation	Total	2013
Federal appropriations received	\$ 118,000	15,000	133,000	121,662
Unexpended appropriations	(14,836)	—	(14,836)	(6,205)
Amounts expended from prior years' appropriations	5,869	—	5,869	8,089
Federal appropriation revenue recognized	\$ 109,033	15,000	124,033	123,546
Operating	\$ 106,352	3,782	110,134	107,949
Nonoperating	2,681	11,218	13,899	15,597
Total federal appropriation revenue recognized	\$ 109,033	15,000	124,033	123,546

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(In thousands)

(9) Net Assets Released from Restrictions

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

	2014			2013
	Private	Federal	Total	Total
Collections	\$ 2,303	—	2,303	2,283
Special exhibitions	2,525	2,999	5,524	9,904
Education and public programs	5,553	—	5,553	4,741
Editorial and photography	10	—	10	661
Operations	7,504	3,782	11,286	10,110
Subtotal operating	17,895	6,781	24,676	27,699
Acquisition of art	7,952	—	7,952	21,107
Capital projects	5,085	9,859	14,944	26,250
Subtotal nonoperating	13,037	9,859	22,896	47,357
Total	\$ 30,932	16,640	47,572	75,056

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(In thousands)

(10) Functional Classification of Expenses

Expenses by functional classification for fiscal years 2014 and 2013 are shown below:

	2014			2013
	Private	Federal	Total	Total
Total operating expenses from the statement of activities	\$ 32,539	110,364	142,903	144,615
Expenses included in the nonoperating section of the statement of activities:				
Depreciation and amortization	3,477	9,990	13,467	12,456
Environmental liability	—	571	571	2,945
Income tax benefit	(50)	—	(50)	(514)
Total expenses	<u>\$ 35,966</u>	<u>120,925</u>	<u>156,891</u>	<u>159,502</u>
Program services:				
Collections	\$ 5,159	46,464	51,623	51,308
Special exhibitions	4,637	14,562	19,199	23,425
Education, Gallery shops and public programs	16,495	25,131	41,626	41,443
Editorial and photography	1,509	4,911	6,420	6,321
Subtotal program expenses	<u>27,800</u>	<u>91,068</u>	<u>118,868</u>	<u>122,497</u>
Supporting services:				
General and administrative	5,757	27,983	33,740	32,404
Development	2,409	1,874	4,283	4,601
Subtotal supporting services	<u>8,166</u>	<u>29,857</u>	<u>38,023</u>	<u>37,005</u>
Total expenses	<u>\$ 35,966</u>	<u>120,925</u>	<u>156,891</u>	<u>159,502</u>

(11) Endowments and Net Asset Classifications

The Gallery's endowment consists of eighty-eight individual funds established for a variety of purposes. Included in the funds are eleven endowment funds transferred from the Corcoran Gallery of Art during FY 2014. The contributed value of these eleven funds is reported separately in the Statement of Activities.

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.

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September 30, 2014

(In thousands)

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

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

Endowment net assets were comprised of the following as of September 30, 2014 and 2013:

	2014		2013	
	Donor- restricted endowment funds	Board- designated endowment funds	Donor- restricted endowment funds	Board- designated endowment funds
Unrestricted	\$ 35	9,820	—	11,135
Temporarily restricted	79,544	—	62,719	—
Permanently restricted	400,137	—	380,172	—
Total	\$ 479,716	9,820	442,891	11,135

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

The following table summarizes the change in the endowment funds during the years ended September 30, 2014 (with summarized comparative totals for 2013):

	2014			Total	2013 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Endowment net assets as of October 1,	\$ 11,135	62,719	380,172	454,026	440,930
Investment return:					
Investment income	49	1,452	1,409	2,910	4,818
Net appreciation	902	26,304	12,879	40,085	46,635
Total investment return	951	27,756	14,288	42,995	51,453
Contributions	4	2,026	3,869	5,899	1,956
Appropriation of endowment assets for expenditures	(948)	(12,477)	—	(13,425)	(40,884)
Reclassifications	(1,287)	(480)	1,808	41	571
Endowment net assets as of September 30,	<u>\$ 9,855</u>	<u>79,544</u>	<u>400,137</u>	<u>489,536</u>	<u>454,026</u>

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 \$8 as of September 30, 2014. These deficiencies were the result of unfavorable market fluctuations that occurred after the investment of the new Corcoran contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

The Gallery has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of funding for programs while maintaining the purchasing power of the endowment. Under the investment policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that reduces risk through diversification while obtaining a competitive rate of return. To satisfy its long-term rate-of-return, the Gallery relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Gallery targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Gallery's spending policy is based on an annual endowment spending rate of 5% of the average fair value of endowment investments at the end of the previous five years. This spending rate constitutes the Board's annual appropriation for spending endowment earnings to support

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

both the purchase of art and support of operations. Funds appropriated for art acquisition may exceed the 5% based on the availability of works of art for acquisition.

The following table summarizes the purpose of the net asset restrictions as of September 30, 2014 (with summarized comparative totals for 2013):

	2014			2013 Total
	Temporarily restricted	Permanently restricted	Total	
Acquisition of art	\$ 35,266	80,049	115,315	104,308
Collections	9,704	42,912	52,616	45,564
Special exhibitions	28,141	31,851	59,992	53,949
Education and public programs	46,842	90,016	136,858	130,619
Editorial and photography	519	5,772	6,291	4,685
Capital projects	22,131	—	22,131	26,539
Federal repair and renovation projects	23,092	—	23,092	21,215
Operations	49,662	149,537	199,199	187,707
Total	<u>\$ 215,357</u>	<u>400,137</u>	<u>615,494</u>	<u>574,586</u>

(12) Employee Benefits

Total pension expense recognized in the Gallery's financial statements was \$7,676 and \$7,644 for the years ended September 30, 2014 and 2013, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$2,267 and \$1,899, 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, 2014 and 2013, were \$2,540 and \$2,472, 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 2014 and 2013, the Gallery contributed \$5,873 and \$5,788, 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 \$5,112 and \$4,960 during fiscal years 2014 and 2013, 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 2014 and 2013 total \$101 and \$258, respectively, and is recognized as an expense in the

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2014

(In thousands)

statement of activities and as a liability included in accounts payable and other liabilities in the accompanying statement of financial position.

(13) Income Taxes

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

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

(14) Lease Commitments

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

	2014	
	Capital lease	Operating lease
2015	\$ 344	4,957
2016	345	4,820
2017	—	4,851
2018	—	4,968
2019	—	2,283
Thereafter	—	6,734
Total minimum lease payments	689	\$ 28,613
Less amount representing interest	(84)	
Present value of minimum capital lease payments	\$ 605	

Rental expense was approximately \$4,834 and \$4,884 for the years ended September 30, 2014 and 2013, respectively.

(15) Subsequent Events

The Gallery has performed an evaluation of subsequent events through November 14, 2014 which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2014.

NATIONAL GALLERY OF ART
Federal Supplementary Schedules
September 30, 2014
(In thousands)

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

Supplementary Schedule 1

NATIONAL GALLERY OF ART
 Federal Balance Sheets
 As of September 30, 2014 and 2013
 (In thousands)

	2014	2013
Assets:		
Intragovernmental:		
Fund balance with U.S. Treasury	\$ 49,843	41,135
Total intragovernmental	49,843	41,135
Accounts receivable and other assets, net	—	22
Property, plant and equipment, net	232,574	230,986
Total assets	\$ 282,417	272,143
Liabilities:		
Intragovernmental:		
Other	\$ 224	867
Total intragovernmental	224	867
Accounts payable	4,812	6,235
Actuarial FECA liability	8,987	8,664
Environmental liability	23,782	23,908
Other	9,557	9,338
Total liabilities	47,362	49,012
Net position:		
Unexpended appropriations	40,972	30,591
Cumulative results of operations	194,083	192,540
Total net position	235,055	223,131
Total liabilities and net position	\$ 282,417	272,143

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, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Program costs:		
Collections	\$ 49,171	49,013
Special exhibitions	14,835	14,860
Education	26,080	25,653
Editorial and photography	<u>5,215</u>	<u>4,968</u>
Total program costs	95,301	94,494
Costs not assigned to programs	<u>31,538</u>	<u>30,762</u>
Net cost of operations	<u>\$ 126,839</u>	<u>125,256</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, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Budgetary resources:		
Unobligated balance, bought forward, October 1	\$ 14,681	10,364
Recoveries of prior year unpaid obligations	1,850	4,595
Other changes in unobligated balance	<u>(441)</u>	<u>(374)</u>
Unobligated balance from prior year budget authority, net	<u>16,090</u>	<u>14,585</u>
Appropriations	133,000	121,662
Spending authority from offsetting collections	9	10
Total budgetary resources	<u>\$ 149,099</u>	<u>136,257</u>
Status of budgetary resources:		
Obligations incurred	\$ 144,113	121,576
Unobligated balance, end of year:		
Apportioned	2,882	12,740
Unapportioned	<u>2,104</u>	<u>1,941</u>
Total unobligated balance, end of year	<u>4,986</u>	<u>14,681</u>
Total budgetary resources	<u>\$ 149,099</u>	<u>136,257</u>
Change in obligated balance:		
Unpaid obligations brought forward, October 1 (gross)	\$ 26,454	54,890
Obligations incurred	144,113	121,576
Outlays, gross	(123,860)	(145,417)
Recoveries of prior year unpaid obligations	<u>(1,850)</u>	<u>(4,595)</u>
Obligated balance, end of year (net)	<u>\$ 44,857</u>	<u>26,454</u>
Budget authority and outlays, net:		
Budget authority, gross	\$ 133,009	121,672
Actual offsetting collections	<u>(9)</u>	<u>(10)</u>
Budget authority, net	<u>\$ 133,000</u>	<u>121,662</u>
Outlays, gross	\$ 123,860	145,417
Actual offsetting collections	<u>(9)</u>	<u>(10)</u>
Outlays, net	<u>\$ 123,851</u>	<u>145,407</u>

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, 2014 and 2013

(In thousands)

	2014	2013
Cumulative results of operations:		
Beginning balances	\$ 192,540	174,842
Budgetary financing sources:		
Appropriations used	122,178	137,087
Other financing sources:		
Imputed financing from costs absorbed by others	6,204	5,867
Total financing sources	128,382	142,954
Net cost of operations	(126,839)	(125,256)
Net change	1,543	17,698
Cumulative results of operations	194,083	192,540
Unexpended appropriations:		
Beginning balances	30,591	46,391
Budgetary financing sources:		
Appropriations received	133,000	128,376
Other adjustments	(441)	(7,089)
Appropriations used	(122,178)	(137,087)
Total budgetary financing sources	10,381	(15,800)
Total unexpended appropriations	40,972	30,591
Net position	\$ 235,055	223,131

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

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2014

(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 2014 actual budgetary execution information has not yet been published. *The Budget of the United States Government* is scheduled for publication in January 2015. Accordingly, information required for such disclosure is not available at the time of preparation of these schedules.

Instead, the Gallery's FY 2013 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	\$ 136,257	121,576	—	145,407
Other	(2,257)	424	—	(407)
Budget of the U.S. government	\$ 134,000	122,000	—	145,000

NATIONAL GALLERY OF ART
Notes to Federal Supplementary Schedules
September 30, 2014
(In thousands)

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

The net cost of operations for the years ended September 30, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	\$ 144,113	121,576
Less:		
Recoveries of prior year unpaid obligations	(1,850)	(4,595)
Spending authority from offsetting collections	<u>(9)</u>	<u>(10)</u>
Obligations net of offsetting collections	142,254	116,971
Other resources:		
Imputed financing from costs absorbed by others	<u>6,204</u>	<u>5,867</u>
Total resources used to finance activities	148,458	122,838
Total resources used to finance items not part of the cost of operations	<u>(32,640)</u>	<u>(8,935)</u>
Total resources used to finance the net cost of operations	115,818	113,903
Total component of net cost of operations that will not require or generate resources	<u>11,021</u>	<u>11,353</u>
Net cost of operations	<u>\$ 126,839</u>	<u>125,256</u>

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2014

(In thousands)

(3) Fund Balance with U.S. Treasury

As of September 30, 2014 and 2013, fund balance with U.S. Treasury consisted of the following:

	2014	2013
Appropriated funds	\$ 49,843	41,135
Status of fund balance with U.S. Treasury:		
Unobligated balance:		
Available	\$ 2,882	12,740
Unavailable	2,104	1,941
Obligated balance not yet disbursed	44,857	26,454
Total	\$ 49,843	41,135

(4) Heritage Assets

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

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

(5) Stewardship Assets

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

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

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2014

(In thousands)

For the year ended September 30, 2014 the changes in heritage assets were as follows:

	October 1, 2013	Increases	Decreases	September 30, 2014
Art collection	\$ 1	—	—	1
Image collection	1	—	—	1
Library collection	1	—	—	1
Total	\$ 3	—	—	3

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

(6) Liabilities Not Covered by Budgetary Resources

As of September 30, 2014 and 2013, liabilities not covered by budgetary resources consisted of the following:

	2014	2013
Actuarial FECA liability	\$ 8,987	8,664
Environmental liability	23,782	23,908
Other	5,220	5,268
Total liabilities not covered by budgetary resources	37,989	37,840
Total liabilities covered by budgetary resources	9,373	11,172
Total liabilities	\$ 47,362	49,012

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules

September 30, 2014

(In thousands)

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

The Gallery's net position is reconciled to the Federal net assets reported under U.S. generally accepted accounting principles for the years ended September 30, 2014 and 2013, as follows:

	<u>2014</u>	<u>2013</u>
Net position	\$ 235,055	223,131
Unexpended one-year appropriation	(18,116)	(9,589)
Capital lease obligation	<u>316</u>	<u>605</u>
Net assets under U.S. GAAP	<u>\$ 217,255</u>	<u>214,147</u>

(8) Undelivered Orders

The amount of budgetary resources obligated for undelivered orders at September 30, 2014 and 2013 is \$35,986 and \$15,910, respectively.

NATIONAL GALLERY OF ART

Other Supplementary Information

September 30, 2014

Unaudited

(In thousands)

Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2014

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

NATIONAL GALLERY OF ART

Other Supplementary Information

September 30, 2014

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	<u>(374)</u>	<u>—</u>	<u>(374)</u>
Unobligated balance from prior year budget authority, net	978	13,607	14,585
Appropriations	107,927	13,735	121,662
Spending authority from offsetting collections	<u>10</u>	<u>—</u>	<u>10</u>
Total budgetary resources	<u>\$ 108,915</u>	<u>27,342</u>	<u>136,257</u>
Status of budgetary resources:			
Obligations incurred	\$ 107,993	13,583	121,576
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	<u>(332)</u>	<u>(4,263)</u>	<u>(4,595)</u>
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, 2014
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>2014</u>	<u>2013</u>
Buildings	\$ 45,926	43,036
Facilities equipment	<u>11,481</u>	<u>10,759</u>
Total deferred maintenance	<u>\$ 57,407</u>	<u>53,795</u>

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



KPMG LLP
1676 International Drive
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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
The National Gallery of Art:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the National Gallery of Art (the Gallery), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gallery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,



providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

November 14, 2014

Please send your comments to:

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

Cover Images

(top)

National Gallery of Art, West and East Buildings, U.S. Capitol in distance

(bottom, left to right)

From the collections of the National Gallery of Art:

Vincent van Gogh

Self-Portrait, 1889

Collection of Mr. and Mrs. John Hay Whitney

Johannes Vermeer

Girl with the Red Hat, c.1665/1666

Andrew W. Mellon Collection

Paul Cézanne

Louis Guillaume, c. 1882

Chester Dale Collection

All photographs courtesy of the National Gallery of Art