

NATIONAL GALLERY OF ART

FINANCIAL STATEMENTS
for the year ended September 30, 2011
AND
REPORT THEREON



Report of Independent Auditors

To the Board of Trustees of
The National Gallery of Art

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows, present fairly, in all material respects, the financial position of the National Gallery of Art (the "Gallery") as of September 30, 2011 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Gallery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Gallery's 2010 financial statements and in our report dated November 15, 2010 we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2011 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PricewaterhouseCoopers LLP

November 14, 2011

NATIONAL GALLERY OF ART
STATEMENTS OF FINANCIAL POSITION
September 30, 2011 and 2010
with summarized financial information as of September 30, 2010

(in thousands)

ASSETS

	Private Funds	Federal Funds	Total	
			2011	2010
Assets:				
Cash and cash equivalents	\$ 8,612	\$ 98,114	\$ 106,726	\$ 82,252
Accounts receivable, net	905	-	905	629
Pledges receivable, net	6,991	-	6,991	10,979
Investments	610,462	-	610,462	630,488
Trusts held by others	10,535	-	10,535	12,665
Inventory and other assets	5,040	-	5,040	4,765
Fixed assets, net	57,820	166,758	224,578	198,607
Art collections	-	-	-	-
Total assets	\$ 700,365	\$ 264,872	\$ 965,237	\$ 940,385

LIABILITIES AND NET ASSETS

Liabilities:				
Accounts payable and accrued expenses	\$ 10,726	\$ 41,795	\$ 52,521	\$ 45,561
Capital lease obligation	-	1,330	1,330	1,532
Contractual obligations	7,874	-	7,874	15,800
Asset retirement obligation	-	19,989	19,989	19,612
Total liabilities	18,600	63,114	81,714	82,505
Net Assets:				
Unrestricted	204,218	132,027	336,245	310,406
Temporarily restricted	113,210	69,731	182,941	177,077
Permanently restricted	364,337	-	364,337	370,397
Total net assets	681,765	201,758	883,523	857,880
Total liabilities and net assets	\$ 700,365	\$ 264,872	\$ 965,237	\$ 940,385

The accompanying notes are an integral part of these financial statements

**NATIONAL GALLERY OF ART
STATEMENTS OF ACTIVITIES**
for the years ended September 30, 2011 and 2010
with summarized financial information for the year ended September 30, 2010
(in thousands)

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Private Funds	Federal Funds	Total			2011	2010
OPERATING							
Support and revenue:							
U.S. Government appropriation	\$ -	\$ 106,807	\$ 106,807	\$ 6,934	\$ -	\$ 113,741	\$ 110,755
Gifts and grants	2,896	-	2,896	5,797	-	8,693	15,431
Gallery shop sales, net	7,599	-	7,599	-	-	7,599	7,072
Investment return designated for operations	2,654	-	2,654	11,714	-	14,368	14,283
Royalties and other income	4,233	-	4,233	-	-	4,233	1,523
	17,382	106,807	124,189	24,445	-	148,634	149,064
Net assets released from restrictions to fund operating expenses	16,922	6,622	23,544	(23,544)	-	-	-
Total support and revenue	34,304	113,429	147,733	901	-	148,634	149,064
Operating expenses:							
Collections	3,235	35,308	38,543	-	-	38,543	38,791
Special exhibitions	3,567	14,987	18,554	-	-	18,554	18,150
Education, gallery shops and public programs	15,263	27,348	42,611	-	-	42,611	42,152
Editorial and photography	2,137	3,277	5,414	-	-	5,414	5,681
General and administrative	6,045	25,778	31,823	-	-	31,823	31,171
Development	3,043	1,571	4,614	-	-	4,614	4,734
Total expenses	33,290	108,269	141,559	-	-	141,559	140,679
Increase in net assets from operating activities	1,014	5,160	6,174	901	-	7,075	8,385
NON-OPERATING							
U.S. Government appropriation	-	-	-	44,570	-	44,570	52,856
Non-operating gifts and grants	-	-	-	4,118	860	4,978	9,723
Provision for bad debts	-	-	-	(25)	-	(25)	(500)
Changes in value of trusts held by others	(669)	-	(669)	(10)	(380)	(1,059)	(273)
Investment return in excess of amount designated for operations	(2,222)	-	(2,222)	(8,037)	-	(10,259)	44,887
Acquisition of works of art	(7,873)	-	(7,873)	-	-	(7,873)	(14,603)
Depreciation and amortization	(3,327)	(7,825)	(11,152)	-	-	(11,152)	(10,155)
Asset retirement obligation expense	-	(612)	(612)	-	-	(612)	(847)
Reclassifications of net asset balances	1,829	-	1,829	4,711	(6,540)	-	-
Net assets released from restrictions to fund non-operating expenses	8,308	32,056	40,364	(40,364)	-	-	-
(Decrease) increase in net assets from non-operating activities	(3,954)	23,619	19,665	4,963	(6,060)	18,568	81,088
(Decrease) increase in net assets	(2,940)	28,779	25,839	5,864	(6,060)	25,643	89,473
Net assets at beginning of the year	207,158	103,248	310,406	177,077	370,397	857,880	768,407
Net assets at end of the year	\$ 204,218	\$ 132,027	\$ 336,245	\$ 182,941	\$ 364,337	\$ 883,523	\$ 857,880

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
STATEMENTS OF CASH FLOWS
for the year ended September 30, 2011
with summarized financial information as of September 30, 2010
(in thousands)

	Private Funds	Federal Funds	Total	
			2011	2010
Cash flows from operating activities:				
(Decrease) increase in net assets	\$ (15,962)	\$ 41,605	\$ 25,643	\$ 89,473
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:				
Depreciation and amortization	3,327	7,825	11,152	10,155
Amortization of discount on pledges receivable	(250)	-	(250)	(390)
Amortization of discount on contractual obligations	399	-	399	725
Provision for bad debts	25	-	25	500
Contributions and net investment income for permanently restricted investments	(995)	-	(995)	(6,292)
U.S. Government appropriations for renovation projects	-	(44,570)	(44,570)	(56,259)
Gifts and grants for art acquisitions and capital projects	(7,434)	-	(7,434)	(8,636)
Acquisitions of works of art	7,459	-	7,459	14,614
Realized gains on sale of investments	(17,706)	-	(17,706)	(21,863)
Unrealized losses (gains) on investments	17,638	-	17,638	(34,106)
Decrease (increase) in value of trusts held by others	2,130	-	2,130	(1,458)
(Increase) decrease in accounts receivable, net	(276)	-	(276)	747
Decrease in pledges receivable, net	4,213	-	4,213	6,029
(Increase) decrease in inventory and other assets	(298)	23	(275)	432
(Decrease) increase in accounts payable and accrued expenses	(279)	5,239	4,960	4,610
Decrease in contractual obligations	-	-	-	(200)
Increase in asset retirement obligation	-	612	612	847
Asset retirement remediation payment	-	(235)	(235)	(981)
Net cash (used in) provided by operating activities	<u>(8,009)</u>	<u>10,499</u>	<u>2,490</u>	<u>(2,053)</u>
Cash flows from investing activities:				
Purchase of investments	(227,533)	-	(227,533)	(59,880)
Proceeds from sale of investments	247,627	-	247,627	69,371
Acquisitions of works of art	(7,459)	-	(7,459)	(14,614)
Purchase of fixed assets	(215)	(34,908)	(35,123)	(13,098)
Collection of notes receivable	-	-	-	650
Net cash provided by (used in) investing activities	<u>12,420</u>	<u>(34,908)</u>	<u>(22,488)</u>	<u>(17,571)</u>
Cash flows from financing activities:				
Contributions and net investment income for permanently restricted investments	995	-	995	6,292
U.S. Government appropriation for renovation projects	-	44,570	44,570	56,259
Gifts and grants for art acquisitions and capital projects	7,434	-	7,434	8,636
Principal payment on capital lease obligation	-	(202)	(202)	(184)
Payments on contractual obligations	(8,325)	-	(8,325)	(18,413)
Net cash provided by financing activities	<u>104</u>	<u>44,368</u>	<u>44,472</u>	<u>52,590</u>
Net increase in cash and cash equivalents	4,515	19,959	24,474	32,966
Cash and cash equivalents, at beginning of year	4,097	78,155	82,252	49,286
Cash and cash equivalents, at end of year	<u>\$ 8,612</u>	<u>\$ 98,114</u>	<u>\$ 106,726</u>	<u>\$ 82,252</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Art acquisitions under contractual obligations	\$ 8,325	\$ -	\$ 8,325	\$ 18,413
Interest on capital lease	\$ -	\$ 140	\$ 140	\$ 157
Income taxes	\$ 245	\$ -	\$ 245	\$ -
Supplemental disclosure of non-cash information:				
Donated investment securities	\$ 1,078	\$ -	\$ 1,078	\$ 1,350
Fixed asset additions included in accounts payable	\$ -	\$ 3,567	\$ 3,567	\$ 1,568

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(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 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 Gallery receives annual 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". All identified inter-fund transactions have been eliminated from the financial statements.

(b) Measure of operations

The Gallery includes in its measure of operations all federal and private support and revenue and expenses that are integral to its core program services: collections; special exhibitions; education, Gallery shops and public programs; and editorial and photography. The measure of operations excludes certain non-operating activities such as non-operating gifts and grants, investment return in excess of amounts designated for operations, acquisitions of works of art and depreciation expense.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

The Gallery's Board of Trustees designates only a portion of the Gallery's cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount designated which is computed under the spending policy is used to support current operations (see Note 5).

(c) Summarized financial information

The financial statements include certain summarized prior-year information in total only, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Gallery's financial statements for the year ended September 30, 2010 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. One-year federal appropriations which are not obligated or expended are retained by the Gallery in accordance with federal guidelines. 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.

The Gallery has recognized for U.S. Generally Accepted Accounting Principles (GAAP) reporting purposes liabilities for federal employee benefits and the asset retirement obligation. These future funded expenses are funded by U.S. government appropriations only when the expense is incurred at a date still to be determined in the future.

- *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
(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. Treasury. The Gallery considers all highly liquid investments with an original maturity of three months at the date of purchase or less to be cash equivalents, except where such cash equivalents are held as part of a long-term investment strategy (see Note 5).

(f) Pledges receivable

Unconditional promises to contribute to the Gallery in the future (pledges receivable) are recorded at the fair value of future cash flows, after providing an allowance for uncollectibility. 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 is used. Conditional promises to give are recognized as income when the conditions stipulated by the donor are substantially met.

(g) Investments

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

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average historical value (cost of securities if purchased or the fair market value at the date of gift if received by donation). Dividend and interest income is recorded when earned on an accrual basis. In accordance with the policy of stating investments at fair value, the net change in unrealized appreciation or depreciation for the year is reflected in the statement of activities (see Notes 5 and 17).

(h) Trusts held by others

The Gallery has been named as beneficiary in several irrevocable charitable trusts held by third parties. The Gallery's share of these trusts is 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 the value of trusts held by others" in the statement of activities.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

(i) Deferred charges and other assets

The Gallery defers recognition of private expenses incurred in connection with future special exhibitions and other activities until the period in which the exhibition or activity occurs. Other assets largely represent a private asset contribution to the Gallery which is recorded at fair value at the date of the gift.

Publications inventory is carried at the lower of cost or market. Cost is determined using the average cost method.

(j) Fixed assets

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. Buildings are recorded at cost and depreciated on a straight-line basis over the estimated useful life of fifty years. Building improvements, equipment, furniture and computer software are also recorded at cost and depreciated on a straight-line basis over the estimated useful lives ranging from five to twenty-five years. Upon retirement of fixed assets, the related cost and accumulated depreciation are removed from the accounts (see Note 7).

(k) Art collections

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

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

The Gallery acquires its art collections through purchase or by donation-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.

(l) 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.

(m) Employee benefits

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 5 (SFFAS No. 5), "*Accounting for Liabilities of the Federal Government*", which requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. The pension expense

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

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. This amount is considered imputed financing by the Gallery.

All permanent employees of the Gallery, both federal and non-federal, 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 14).

SFFAS No. 5 also requires that the Gallery recognize a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. The Gallery accounts for this expense in its financial statements in a manner similar to that used for pension expense, with the exception that employees and the Gallery do not make current contributions to fund these future benefits.

(n) Imputed financing sources

In certain cases, the operating 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 Treasury. Costs that are identifiable to the Gallery and directly attributable to the Gallery's operations are paid by these Federal agencies.

(o) Fair value measurements

Accounting Standards Codification (ASC) Topic 820, "*Fair Value Measurement and Disclosures*", defines fair value as 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 standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value (see Note 17). 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. Valuation adjustments and block discounts are not applied to Level 1 securities. 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.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly as of the reporting date.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement as of the reporting date. The determination of fair value for these financial instruments requires one or more inputs subject to significant management judgment or estimation.

As of September 30, 2011 and 2010, the carrying value of the Gallery's cash, cash equivalents and balances with U.S. Treasury, receivables, deferred charges and other assets, loan to the U.S Treasury, and accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturity of these assets and liabilities.

(p) 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 contained in ASC Topic 958, "*Not-for-Profit Entities*", 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.

(q) Functional allocation of expenses

The cost of providing various programs and other activities summarized on a functional basis is shown in Note 12. 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.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

(r) 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.

(s) Reclassifications

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

The following changes to the Statement of Activities were made to enhance the presentation of operating and non-operating results:

- Federal “no-year” funding (appropriations) related to leases were reclassified as operating to match lease expenses.
- Certain non-cash items (including depreciation) which are attributable to non-operating activities were reclassified from operating to non-operating.

(t) Revision

During the year ended September 30, 2011, the Gallery revised the presentation of the 2010 statement of cash flows to properly reflect payments for art purchases made under contractual obligations as financing activities.

The September 30, 2010 statement of cash flows has been revised as follows:

	September 30, 2010		September 30, 2010	
	As Reported	Adjustment	As Revised	
Cash Flows from Operating Activities:				
Acquisitions of works of art	\$ 33,627	\$ 19,013	\$ 14,614	
Net cash provided by (used in) operating activities	\$ 16,960	\$ 19,013	\$ (2,053)	
Cash Flows from Investing Activities:				
Acquisitions of works of art	\$ (33,627)	\$ 19,013	\$ (14,614)	
Net cash provided by (used in) investing activities	\$ (36,584)	\$ 19,013	\$ (17,571)	

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS
(in thousands)

(u) Recently Issued Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, “*Improving Disclosures about Fair Value Measurements*”. This amends ASC Topic 820 to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Level 1 and 2 of the fair value hierarchy, and the reasons for those transfers. In addition, the guidance requires the separate presentation of purchases and sales in the Level 3 Asset reconciliation. Adoption of this update did not have a material impact on the Gallery’s financial statements.

3. Accounts receivable, net

As of September 30, 2011 and 2010, accounts receivable consisted of the following:

	2011	2010
Accrued investment income	\$ 339	\$ 389
Special exhibition and other program receivables	551	235
Other	57	54
Subtotal	947	678
Less: allowances	(42)	(49)
Total	\$ 905	\$ 629

4. Pledges receivable, net

As of September 30, 2011 and 2010, pledges receivable consisted of the following:

	2011	2010
Due in one year or less	\$ 5,274	\$ 7,643
Due between one year and five years	1,975	4,032
Due in more than five years	100	200
Subtotal	7,349	11,875
Less: discounts of \$208 and \$446 and allowances of \$150 and \$450 respectively	(358)	(896)
Total	\$ 6,991	\$ 10,979

As of September 30, 2011 and 2010, \$373 and \$768 of the pledge receivable balance was receivable from related parties. The Gallery has received conditional promises to give of \$0 and \$1,758 as of September 30, 2011 and 2010, respectively.

NATIONAL GALLERY OF ART
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(in thousands)

5. Investments

As of September 30, 2011 and 2010, the fair value of investments consisted of the following:

	<u>2011</u>	<u>2010</u>
Loan to the U.S. Treasury	\$ 5,000	\$ 5,000
Common and preferred stocks	71,813	78,480
Mutual funds	116,050	147,330
Alternative investments	417,599	399,678
Total	<u>\$ 610,462</u>	<u>\$ 630,488</u>

In 1942, the Gallery, under authority of an Act of Congress, made a \$5,000 permanent loan to the U.S. Treasury. This loan bears interest at the higher of 4.00% or 0.25% below the average monthly rate for long-term funds paid by the U.S. Treasury (4.00% during fiscal year 2011). Interest income on this loan was \$203 and \$204 for the fiscal years ended September 30, 2011 and 2010, respectively.

Investments in common and preferred stocks and mutual funds, limited partnerships and limited liability companies consist of the Gallery's ownership interest in externally managed investment funds, which invest in market-traded equity and fixed income securities.

Alternative investments also include the Gallery's ownership interest in externally managed private equity, venture capital, multi-asset class, and hedge funds which are organized as limited partnerships.

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September, 30 2011 and 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Dividends and interest (net of expenses of \$3,540 and \$3,127, respectively)	\$ 166	\$ 3,939	\$ -	\$ 4,105	\$ 3,205
Net investment appreciation	266	(262)	-	4	55,965
	<u>432</u>	<u>3,677</u>	<u>-</u>	<u>4,109</u>	<u>59,170</u>
Appropriated for operations	<u>(2,654)</u>	<u>(11,714)</u>	<u>-</u>	<u>(14,368)</u>	<u>(14,283)</u>
Investment return in excess of amount designated for operations	<u>\$ (2,222)</u>	<u>\$ (8,037)</u>	<u>\$ -</u>	<u>\$ (10,259)</u>	<u>\$ 44,887</u>

NATIONAL GALLERY OF ART
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6. Inventory and other assets

As of September 30, 2011 and 2010, net publications inventory consisted of the following:

	2011		2010
Retail	\$ 1,558		\$ 1,229
Work-in-process	175		141
Consignment	248		228
Subtotal	1,981		1,598
Less: allowance for obsolescence	(382)		(384)
Subtotal Inventory	1,599		1,214
Other Assets	3,441		3,551
Total	\$ 5,040		\$ 4,765

Other assets include real and personal property with an estimated fair value of \$2,820 net of estimated selling costs in accordance with ASC Topic 360 “*Property, Plant and Equipment*”.

7. Fixed assets, net

As of September 30, 2011 and 2010, net fixed assets consisted of the following:

	2011			2010
	Private Funds	Federal Funds	Total	Total
Buildings and improvements	\$ 156,310	\$ 145,493	\$ 301,803	\$ 301,499
Equipment	4,616	56,840	61,456	56,302
Construction-in-progress	1,117	47,704	48,821	17,157
Equipment under capital lease	-	2,962	2,962	2,962
Subtotal	162,043	252,999	415,042	377,920
Less: accumulated depreciation and amortization	(104,223)	(86,241)	(190,464)	(179,313)
Total	\$ 57,820	\$ 166,758	\$ 224,578	\$ 198,607

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NOTES TO FINANCIAL STATEMENTS
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8. Accounts payable and accrued expenses

As of September 30, 2011 and 2010, accounts payable and accrued expenses consisted of the following:

	2011			2010
	Private Funds	Federal Funds	Total	Total
Accounts payable and accrued expenses \$	505	\$ 7,915	\$ 8,420	\$ 4,250
Employee benefits	5,841	17,609	23,450	23,220
Other accrued liabilities	4,380	4,121	8,501	6,465
Due to federal government	-	12,150	12,150	11,626
Total	\$ 10,726	\$ 41,795	\$ 52,521	\$ 45,561

9. Contractual obligations

The Gallery in 2007 entered into a number of contractual obligations with various parties for the acquisition of art for its collection. These contractual obligations are unsecured, non-interest bearing and require annual payments.

As of September 30, 2011 and 2010, contractual obligations consisted of the following:

	2011	2010
Contractual obligations	\$ 7,950	\$ 16,275
Less: discounts on contractual obligations	(76)	(475)
Total	\$ 7,874	\$ 15,800

The final payments for these contractual obligations will be made during the year ending September 30, 2012.

The annual discount amortization recognized on these contractual obligations has been recognized as art purchases.

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10. U.S. Government appropriations

The Gallery's U.S. Government appropriation revenue recognized in fiscal year 2011 is reconciled to the U.S. Government appropriations received as follows:

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
U.S. Government appropriation revenue recognized	\$ 110,186	\$ 48,125	\$ 158,311
Unexpended obligations	8,320	-	8,320
Amounts expended from prior year's appropriations	<u>(7,982)</u>	<u>-</u>	<u>(7,982)</u>
Total U.S. Government appropriations	<u>\$ 110,524</u>	<u>\$ 48,125</u>	<u>\$ 158,649</u>

The Gallery's U.S. Government appropriation in fiscal year 2011 is reconciled to the federal expenses for fiscal year 2011 as follows:

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
Total U.S. Government appropriations	\$ 110,524	\$ 48,125	\$ 158,649
Appropriations not expended in prior years	<u>4</u>	<u>57,748</u>	<u>57,752</u>
Appropriations available	110,528	105,873	216,401
Less appropriations:			
Unexpended	(8,320)	(70,287)	(78,607)
Accrued liabilities	-	(2,244)	(2,244)
Capitalized for GAAP purposes	<u>(768)</u>	<u>(31,523)</u>	<u>(32,291)</u>
Appropriations expensed	101,440	1,819	103,259
Add expenses recognized for GAAP purposes			
Expenses not funded by appropriations	(90)	(304)	(394)
Amounts expended from prior year's appropriations	<u>3,292</u>	<u>2,112</u>	<u>5,404</u>
Total federal expenses	<u>\$ 104,642</u>	<u>\$ 3,627</u>	<u>\$ 108,269</u>

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11. 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:

	2011			2010
	Operating	Non-operating	Total	Total
Acquisition of art	\$ -	\$ 8,131	\$ 8,131	\$ 21,852
Collections	2,206	-	2,206	2,075
Special exhibitions	3,853	-	3,853	2,361
Education and public programs	4,548	-	4,548	4,585
Editorial and photography	203	-	203	203
Capital projects	-	177	177	517
Operations	6,112	-	6,112	6,395
Subtotal private funds	<u>16,922</u>	<u>8,308</u>	<u>25,230</u>	<u>37,988</u>
Special exhibitions	3,395	-	3,395	3,427
Capital projects	-	32,056	32,056	11,132
Operations	3,227	-	3,227	3,228
Subtotal federal funds	<u>6,622</u>	<u>32,056</u>	<u>38,678</u>	<u>17,787</u>
Total	<u>\$ 23,544</u>	<u>\$ 40,364</u>	<u>\$ 63,908</u>	<u>\$ 55,775</u>

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12. Functional Classification of Expenses

Expenses by functional classification for fiscal years 2011 and 2010 are shown below:

	2011		2010	
	Private	Federal	Total	Total
Total operating expenses from the Statement of Activities	\$ 33,290	\$ 108,269	\$ 141,559	\$ 140,679
Expenses included in the non-operating section of the Statement of Activities:				
Depreciation and amortization	3,327	7,825	11,152	10,155
Asset retirement obligation expense	-	612	612	847
Total	<u>\$ 36,617</u>	<u>\$ 116,706</u>	<u>\$ 153,323</u>	<u>\$ 151,681</u>
Program expenses:				
Collections	4,599	38,628	43,227	43,187
Special exhibitions	4,093	16,220	20,313	19,829
Education, gallery shops and public programs	16,188	29,671	45,859	45,210
Editorial and photography	2,170	3,379	5,549	5,804
Subtotal program expenses	<u>27,050</u>	<u>87,898</u>	<u>114,948</u>	<u>114,030</u>
Supporting services:				
General and administration	6,489	27,126	33,615	32,787
Development	3,078	1,682	4,760	4,864
Subtotal supporting services	<u>9,567</u>	<u>28,808</u>	<u>38,375</u>	<u>37,651</u>
Total	<u>\$ 36,617</u>	<u>\$ 116,706</u>	<u>\$ 153,323</u>	<u>\$ 151,681</u>

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13. Endowments and Net Asset Classifications

The Gallery's endowment consists of 66 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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Endowment net assets were comprised of the following as of September 30, 2011 and 2010:

	2011		2010	
	Donor- restricted endowment funds	Board- designated endowment funds	Donor- restricted endowment funds	Board- designated endowment funds
Unrestricted	\$ (31,497)	\$ 18,537	\$ (31,494)	\$ 16,527
Temporarily restricted	37,657	-	41,870	-
Permanently restricted	364,337	-	370,397	-
Total funds	<u>\$ 370,497</u>	<u>\$ 18,537</u>	<u>\$ 380,773</u>	<u>\$ 16,527</u>

The following table summarizes the change in the endowment funds during the years ended September 30, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
	Endowment net assets as of October 1	\$ (14,967)	\$ 41,870	\$ 370,397	\$ 397,300
Investment return:					
Investment income	132	3,490	-	3,622	2,170
Net appreciation (depreciation)	(125)	151	(380)	(354)	35,118
Total investment return	<u>7</u>	<u>3,641</u>	<u>(380)</u>	<u>3,268</u>	<u>37,288</u>
Contributions	-	114	860	974	9,974
Appropriation of endowment assets for expenditures	(275)	(7,378)	(6,540)	(14,193)	(12,686)
Other	-	-	-	-	-
Reclassifications	<u>2,275</u>	<u>(590)</u>	<u>-</u>	<u>1,685</u>	<u>(2,204)</u>
Endowment net assets as of September 30	<u>\$ (12,960)</u>	<u>\$ 37,657</u>	<u>\$ 364,337</u>	<u>\$ 389,034</u>	<u>\$ 397,300</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 \$31,497 and \$31,596 as of September 30, 2011 and 2010, respectively. These deficiencies were the result of unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the Gallery. 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.

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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 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 5.00% of the average fair value of endowment investments at the end of the previous three-and-one quarter years. This spending rate constitutes the Board's annual appropriation for spending endowment earnings to support both the purchase of art and support of operations.

The following table summarizes the purpose of the net asset restrictions during the years ended September 30, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Acquisition of art	\$ 31,800	\$ 25,966	\$ 72,737	\$ 130,503	\$ 129,692
Collections	(4,330)	6,388	34,226	36,284	37,761
Special exhibitions	12,321	11,658	31,402	55,381	53,573
Education and public programs	11,723	34,107	81,924	127,754	131,579
Editorial and photography	12,468	539	3,498	16,505	19,120
Capital projects	15,764	-	-	15,764	16,050
Operations	66,653	34,551	140,550	241,754	249,020
Subtotal private funds	<u>146,399</u>	<u>113,209</u>	<u>364,337</u>	<u>623,945</u>	<u>636,795</u>
Special exhibitions and renovation funds	-	69,732	-	69,732	56,905
Subtotal federal funds	<u>-</u>	<u>69,732</u>	<u>-</u>	<u>69,732</u>	<u>56,905</u>
Subtotal net assets subject to restrictions	<u>146,399</u>	<u>182,941</u>	<u>364,337</u>	<u>693,677</u>	<u>693,700</u>
Fixed assets, net	223,248	-	-	223,248	197,075
Future funded federal expenses recognized	(33,402)	-	-	(33,402)	(32,895)
Subtotal net assets not subject to restrictions	<u>189,846</u>	<u>-</u>	<u>-</u>	<u>189,846</u>	<u>164,180</u>
Net assets as of September 30	<u>\$ 336,245</u>	<u>\$ 182,941</u>	<u>\$ 364,337</u>	<u>\$ 883,523</u>	<u>\$ 857,880</u>

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14. Employee benefits

Total pension expense recognized in the Gallery's financial statements was \$7,319 and \$7,035 for the years ended September 30, 2011 and 2010, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$2,730 and \$3,153 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, 2011 and 2010, were \$2,276 and \$2,214, 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 2011 and 2010, the Gallery contributed \$5,472 and \$5,159, 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 \$ 6,077 and \$6,071 during fiscal years 2011 and 2010 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 2011 and 2010 total \$303 and \$387, respectively, and is recognized as an expense in the statement of activities and as a liability included in accounts payable and accrued expenses in the accompanying statement of financial position.

15. 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.

ASC Topic 740-10-25, "*Income Taxes Recognition*" requires that a tax position be recognized or derecognized based on a more-likely-than-not threshold. This applies to positions taken or expected to be taken in a tax return. The Gallery does not believe its financial statements include any uncertain tax positions.

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16. 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 January 31, 2018. 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:

	2011	
	Capital Lease	Operating Leases
2012	\$ 342	\$ 3,763
2013	343	1,767
2014	343	889
2015	344	911
2016	345	933
Thereafter	-	2,179
Total minimum lease payments	1,717	\$ 10,442
Less: amount representing interest	(387)	
Present value of minimum capital lease payments	\$ 1,330	

Rental expense was approximately \$4,787 and \$4,800 for the years ended September 30, 2011 and 2010, respectively.

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17. Fair Value Measurements

The following tables summarize the fair value measurement as of September 30, 2011 and 2010 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 9/30/11
Common and preferred stocks	\$ 71,813	\$ -	\$ -	\$ 71,813
Mutual funds – equity	43,225	-	-	43,225
Mutual funds – fixed income	72,825	-	-	72,825
Public equity funds	-	178,838	-	178,838
Hedge funds	-	-	137,741	137,741
Multi-asset class fund	-	-	43,940	43,940
Private equity funds	-	-	40,166	40,166
Venture capital funds	-	-	16,914	16,914
Trust held by others	-	-	7,989	7,989
Assets measured at fair value on a recurring basis	<u>187,863</u>	<u>178,838</u>	<u>246,750</u>	<u>613,451</u>
Trust held by others	-	-	2,546	2,546
Assets measured at fair value on a non-recurring basis	<u>-</u>	<u>-</u>	<u>2,546</u>	<u>2,546</u>
Total assets measured at fair value	<u>\$ 187,863</u>	<u>\$ 178,838</u>	<u>\$ 249,296</u>	<u>\$ 615,997</u>

	Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value at 9/30/10
Common and preferred stocks	\$ 78,480	\$ -	\$ -	\$ 78,480
Mutual funds – equity	43,765	-	-	43,765
Mutual funds – fixed income	103,565	-	-	103,565
Public equity funds	-	204,440	-	204,440
Hedge funds	-	-	112,690	112,690
Multi-asset class fund	-	-	42,587	42,587
Private equity funds	-	-	29,148	29,148
Venture capital funds	-	-	10,813	10,813
Trust held by others	-	-	10,119	10,119
Assets measured at fair value on a recurring basis	<u>225,810</u>	<u>204,440</u>	<u>205,357</u>	<u>635,607</u>
Trust held by others	-	-	2,546	2,546
Assets measured at fair value on a non-recurring basis	<u>-</u>	<u>-</u>	<u>2,546</u>	<u>2,546</u>
Total assets measured at fair value	<u>\$ 225,810</u>	<u>\$ 204,440</u>	<u>\$ 207,903</u>	<u>\$ 638,153</u>

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Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds underlying holdings, which may be marketable. Because the net asset value reported for each fund is used as a practical expedient to estimate the fair value of the Gallery's interest therein, its classification in Level 2 or 3 is based on the Gallery's ability to redeem its interest at or near the date of the statement of financial position. If the investment can be redeemed in less than 120 days the investment is classified in Level 2. The classification in the fair value is not necessarily an indication of the risks, liquidity or degree of difficulty in estimating the fair value of each of the investments underlying assets and liabilities.

In general for Level 3 investments, the Gallery utilizes the investment manager of the asset to provide a valuation estimate based on previously disclosed techniques and processes which have been reviewed for propriety and consistency with consideration given to asset type and investment strategy. Management makes best estimates based on information available. The following estimates and assumptions were used to determine the fair value of each class of financial instruments listed above:

Fair value measured on a recurring basis

Alternative Investments - Investments include but are not limited to separately held accounts in hedge funds and limited partnership holdings. These assets which are grouped by investment objective consist of both publicly traded and privately-held securities, diversified globally. In the case of the private equity and venture capital investments there are limited options to transfer or withdraw from these funds prior to their termination. The portfolio holdings of underlying funds in partnerships may not be disclosed; therefore, the Gallery relies on the investment manager to provide a valuation estimate. Inputs to the valuation are unobservable and therefore included in Level 3. 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. This amount represents the best estimate of fair value of these investments at September 30, 2011.

Trusts Held by Others – Assets managed under trust agreements from donors where the Gallery is the beneficiary of the income are categorized as Level 3. These trusts are managed by external parties and are for the most part invested in cash equivalents, mutual funds, and publicly traded equities.

Fair value measured on a non-recurring basis

Trusts Held by Others – One trust is invested in real property based on property valuations that involve significant judgment and estimation.

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The following table summarizes the changes in Level 3 assets, measured at fair value on a recurring basis, as of September 30, 2011:

	Year ended September 30, 2011				
	Hedge Funds	Multi -Asset Class	Private Equity Funds	Venture Capital Funds	Trust Held by Others
Fair value of Level 3 assets at September 30, 2010	\$ 112,690	\$ 42,587	\$ 29,148	\$ 10,813	\$ 10,119
(Expenses) net of dividends and interest	(627)	(57)	(336)	(380)	-
Realized gains	4,777	1,869	4,133	1,156	-
Net unrealized (losses) gains	(5,958)	1,808	3,506	3,655	(390)
Proceeds from sales, redemptions and distributions	(34,141)	(2,267)	(5,030)	(871)	(1,758)
Purchase of investments	61,000	-	8,745	2,541	18
Fair value of Level 3 assets at September 30, 2011	<u>\$ 137,741</u>	<u>\$ 43,940</u>	<u>\$ 40,166</u>	<u>\$ 16,914</u>	<u>\$ 7,989</u>

The following table summarizes the changes in Level 3 assets, measured at fair value on a recurring basis, as of September 30, 2010:

	Year ended September 30, 2010				
	Hedge Funds	Multi -Asset Class	Private Equity Funds	Venture Capital Funds	Trust Held by Others
Fair value of Level 3 assets at September 30, 2009	\$ 108,934	\$ 40,468	\$ 22,027	\$ 8,545	\$ 8,661
(Expenses) net of dividends and interest	(599)	(263)	(465)	(466)	-
Realized gains (losses)	1,800	(298)	947	457	-
Net unrealized gains	5,655	4,799	2,223	689	1,458
Proceeds from sales, redemptions and distributions	(3,100)	(2,119)	(1,153)	(401)	-
Purchase of investments	-	-	5,569	1,989	-
Fair value of Level 3 assets at September 30, 2010	<u>\$ 112,690</u>	<u>\$ 42,587</u>	<u>\$ 29,148</u>	<u>\$ 10,813</u>	<u>\$ 10,119</u>

Realized and unrealized gains/(losses) for level 3 assets included in changes in net assets for the years ended September 30, 2011 and 2010 are reported as follows:

	2011	2010
Total gains (losses)	<u>\$ 14,556</u>	<u>\$ 17,730</u>
Change in unrealized gains (losses) relating to assets still held at reporting date	<u>\$ 2,621</u>	<u>\$ 14,824</u>

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The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 2011:

		Fair Value	Commitments	Redemption Frequency	Redemption Notice Period
				Daily to	
Public equity funds	(a)	\$ 178,838	\$ -	Quarterly	6 – 120 days
Hedge funds	(b)	137,741	-	1 to 3 years	90 – 95 days
Multi-asset class fund	(c)	43,940	-	Annually	365 days
Private equity funds	(d)	40,166	22,717	n/a	n/a
Venture capital funds	(e)	16,914	4,691	n/a	n/a
Trust held by others		7,989	-	n/a	n/a
		<u>\$ 425,588</u>	<u>\$ 27,408</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, 2010:

		Fair Value	Commitments	Redemption Frequency	Redemption Notice Period
				Monthly to	
Public equity funds	(a)	\$ 204,440	\$ -	Quarterly	15 – 120 days
Hedge funds	(b)	112,690	-	1 – 3 years	60 – 95 days
Multi-asset class fund	(c)	42,587	-	Annually	365 days
Private equity funds	(d)	29,148	31,362	n/a	n/a
Venture capital funds	(e)	10,813	7,332	n/a	n/a
Trust held by others		10,119	-	n/a	n/a
		<u>\$ 409,797</u>	<u>\$ 38,694</u>		

- (a) Public equity funds consist of investments in limited liability partnerships and limited liability corporations that invest in publicly traded stocks of domestic and international companies.
- (b) Hedge funds includes investments in hedge funds, one of which (representing 41% of this category) invests both long and short primarily in U.S. and international common stocks, and the other two (representing 59% of this category) pursue multiple strategies to diversify risks and reduce volatility.
- (c) Multi-asset fund is invested in all asset classes, including publicly traded U.S. and international stocks, fixed income, cash equivalents, private equity, venture capital, hedge funds, real estate, and natural resources.
- (d) Private equity funds includes funds that invest directly in private U.S. and international companies or conduct buyouts of public companies resulting in the delisting of public equity, as well as two funds which invest in U.S. and international real estate. These assets are invested through limited partnerships which have stated terms of typically 8-12 years. The remaining terms of the Gallery's private equity investments range from three to seven years.

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(in thousands)

These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund.

- (e) Venture capital funds include several funds that invest in early stage, high-potential, growth start-up U.S. and international companies. These assets are invested through limited partnerships which have stated terms of typically 8-12 years. The remaining terms of the Gallery's venture capital investments range from three to seven years. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund.

18. Subsequent Events

The Gallery has performed an evaluation of subsequent events through November 14, 2011, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2011.