



NATIONAL GALLERY OF ART

FY 2020 Performance and Accountability Report



NATIONAL GALLERY OF ART



PERFORMANCE AND ACCOUNTABILITY REPORT

for the year ended September 30, 2020



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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 2020 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 2020 Annual Performance Plan.

The National Gallery of Art serves the nation by welcoming all people to explore and experience art, creativity, and our shared humanity. Our mission is central to every activity of the Gallery, from caring for and strengthening the collection to presenting special exhibitions and organizing public programs.

In response to the COVID-19 pandemic and in an effort to protect the health and safety of staff, visitors, and volunteers, the Gallery closed to the public on March 13, 2020. During the temporary closure, all public programming and events, films, concerts and talks were canceled or postponed. Staff transitioned to a maximum telework posture, and the Gallery vastly increased its digital presence to serve the public. The Sculpture Garden reopened with visitor capacity limits in place on June 20th followed by portions of the West Building in accordance with social distancing and safety protocols. Resuming normal public operations will take place as health and safety conditions permit.

We are proud of the progress the Gallery has made in FY 2020 towards achieving our long-term goals and objectives.

Performance Highlights

This PAR discusses Gallery achievements in FY 2020 and reviews progress towards the key annual performance goals and objectives established in the performance plan by:

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

Excellence in Financial management

The Gallery received an unmodified opinion on its FY 2020 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 2020 has been a very productive year. Building on these accomplishments, the Gallery 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.

Kaywin Feldman
Director
November 16, 2020

Message from the CFO

This Performance and Accountability Report (PAR) discusses the Gallery's achievements in FY 2020, provides performance and financial information, and reviews progress towards the key annual performance goals and objectives established in the 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 2020 towards achieving those long-term goals and objectives.

The performance section of this report discusses the Gallery's programmatic activities conducted in FY 2020 in relation to the Gallery's annual performance goals. The Gallery was closed to the public in Spring 2020 due to the COVID-19 pandemic and partially reopened beginning in June with reduced capacity and the introduction of timed-tickets resulting in a dramatic decrease in attendance in FY 2020. The cancellation or postponement of on-site public programs and exhibitions resulted in slightly lower program costs and reduced performance metrics for certain on-site activities. This was largely offset by increased investments to augment the Gallery's digital presence supporting increased online audiences as well as staff working remotely. During the pandemic, the Gallery continued to refine its financial system to further enhance governance, improve planning processes and provide more accurate, timely financial data for all performance goals and measures.

The Gallery received an unmodified audit opinion on its FY 2020 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*.

Building on the accomplishments of FY 2020, the Gallery will continue to focus on increasing operating efficiency and enhancing the stewardship of its limited resources to meet the challenges that lie ahead.

William W. McClure
Treasurer
November 16, 2020

**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'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.

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, the Andrew W. Mellon Memorial Fountain, 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 with construction funding and several sculptures donated by the Morris and Gwendolyn Cafritz Foundation. The Andrew W. Mellon Fountain designed by Sidney Waugh was dedicated in 1952 and transferred from the National Park Service to the National Gallery in 2016.



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 as well as 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 eight Executive Officers of the Gallery oversee the general operations and programs of the Gallery. The Executive Officers are the Director, Chief Curator, Dean of the Center for Advanced Study in the Visual Arts, Collections and Exhibitions and Public Programs Officer, Administrator, Treasurer, External Affairs and Audience Engagement Officer, 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 2019 accomplishments, the Gallery continued to make significant progress during FY 2020 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 2020 on the following four key performance goals:

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

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

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



- Address the backlog of deferred maintenance:

The National Gallery of Art is committed to maintaining its buildings, equipment and grounds in excellent condition. The West Building, opened in March 1941, and the East Building, opened in June 1978, have both reached an age where the buildings, systems and components have exceeded their useful life, and significant repair and refurbishment is required.

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 implementation of the MFP achieves cost efficiencies and reduces disruptions to ongoing Gallery public programs and operations. The success of this initiative will be measured against the goals of providing optimum operational effectiveness and efficiency.

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.



- 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 objectives: 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) implement a governance structure to prioritize and monitor IT performance. The success of this goal will be measured by the results of the four initiatives stated above.

- 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 outlined above. The Gallery reports nine metrics as statistical information only, as well as six established objectives for FY 2020 related to capital repairs, deferred maintenance, and information technology. The Gallery met three objectives and did not meet three objectives. The Gallery met the standard for the Condition Index (CI), facilities appearance, and planned maintenance. The objectives not met include progress on the Master Facilities Plan (MFP), reduction to the deferred maintenance backlog, and progress toward the Information Technology funding allocations.

Federal Financial Statements Summary and Analysis

Summarized operating results and net position for the years ended September 30, 2020 and 2019 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 2020 and 2019
(amounts in thousands)

| | <u>2020</u> | <u>2019</u> | Increase/(Decrease) | |
|------------------------------------|-------------------|--------------------|---------------------|--------------|
| | | | <u>\$</u> | <u>%</u> |
| Results of Operations | | | | |
| Total Financing Sources | \$ 183,665 | \$ 152,727 | 30,938 | 20% |
| Less Net Costs | <u>159,799</u> | <u>162,996</u> | <u>(3,197)</u> | <u>-2%</u> |
| Net Operating Results | <u>\$ 23,866</u> | <u>\$ (10,269)</u> | <u>34,135</u> | <u>-332%</u> |
| Net Position | | | | |
| Assets | | | | |
| Fund balance with U.S. Treasury | \$ 111,672 | \$ 112,502 | (830) | -1% |
| Property, plant and equipment, net | <u>283,805</u> | <u>256,641</u> | <u>27,164</u> | <u>11%</u> |
| Total Assets | <u>395,477</u> | <u>369,143</u> | <u>26,334</u> | <u>7%</u> |
| Liabilities | | | | |
| Intragovernmental | 1,387 | 1,645 | (258) | -16% |
| Accounts payable | 6,809 | 7,450 | (641) | -9% |
| Actuarial FECA liability | 6,775 | 7,311 | (536) | -7% |
| Environmental liability | 28,660 | 26,423 | 2,237 | 8% |
| Other | <u>16,770</u> | <u>10,893</u> | <u>5,877</u> | <u>54%</u> |
| Total Liabilities | <u>60,401</u> | <u>53,722</u> | <u>6,679</u> | <u>12%</u> |
| Net Position | <u>\$ 335,076</u> | <u>\$ 315,421</u> | <u>19,655</u> | <u>6%</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 FY 2020 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 2020 was \$173.2 million, a \$4.8 million increase above the FY 2019 appropriation of \$168.4 million. The appropriation included \$143.3 million for salaries, benefits and expenses, \$3.7 million for special exhibitions and \$26.2 million for the repair, restoration and renovation of the buildings.

The Gallery's net cost of operations totaled \$159.8 million for the year versus \$163.0 in the prior year. Program costs represented \$118.3 million or 74% of total net costs, with the remaining \$41.5 million in "costs not assigned to programs" primarily representing general and administrative expenses. The decrease in net costs over the prior year is due primarily to the cancellation of 2020 exhibitions and programming due to the closure of the Gallery during the Covid-19 pandemic.

Net Position

The Gallery's net position totaled \$335.1 million, increasing \$19.7 million or 6% over the prior year. Net property, plant and equipment increased \$27.2 million with renovation work completed under the Master Facilities Plan. Total liabilities increased by \$6.7 million, mostly due to increases in contract holdbacks on renovation projects and accrued annual leave.

Liabilities not funded with budgetary resources include the environmental liability, future funded and actuarial FECA liabilities, and liabilities for accrued annual leave 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 2020 financial statements. The auditors did not report any material weaknesses or instances of non-compliance with laws, regulations, contracts, and grant agreements that are required to be reported in accordance with *Government Auditing Standards*.

Systems, Controls and Legal Compliance

Management Integrity: Controls and Compliance

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

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

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

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

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

Goals and the supporting financial systems strategies

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

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

Limitations of the Financial Statements

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

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

National Gallery of Art Management Assurances

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

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

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

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

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

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

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

Kaywin Feldman
Director
November 16, 2020

Table 1

| | | | | | |
|---------------------|-------------------|-----|----------|--------------|----------------|
| 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 requirements |

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

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

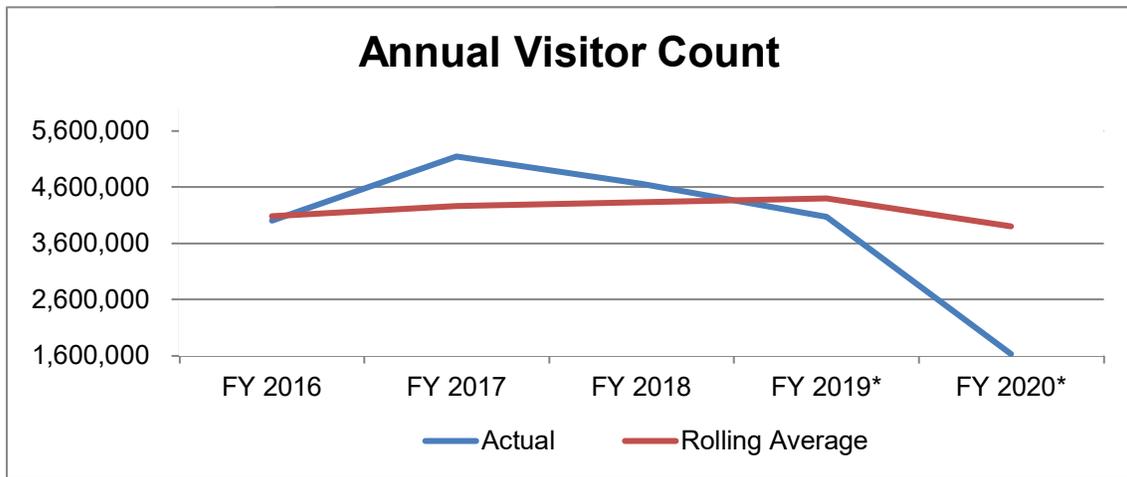
National Gallery of Art Performance Report

The Gallery's FY 2020 Federal funds appropriations supported the following key annual performance goals outlined below.

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

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

The Gallery welcomed 1,632,400 visitors in FY 2020.



| | FY 2016 | FY 2017 | FY 2018 | FY 2019* | FY 2020* |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Actual | 4,008,500 | 5,148,400 | 4,659,800 | 4,070,400 | 1,632,400 |
| Rolling Average | 4,084,200 | 4,267,900 | 4,330,400 | 4,397,900 | 3,903,900 |

*In FY 2019 the Gallery was closed for 26 days during a government shutdown. During the COVID-19 pandemic in FY 2020 the Gallery was closed completely from March 14 through June 20 and reopened the Sculpture Garden on June 20th and a portion of the West Building on July 20th with limited daily visitor capacity allowances.

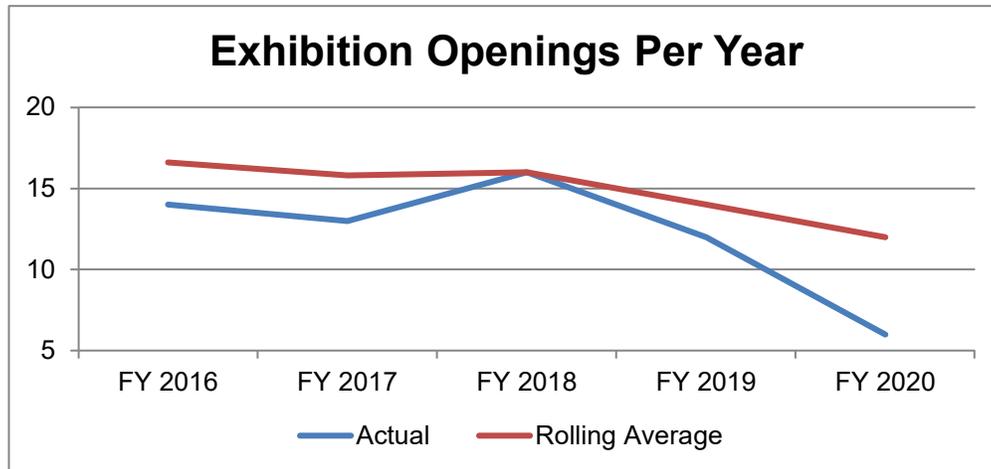
- Offer visitors the widest range of visual experience through a schedule of special exhibitions that are organized and presented by the Gallery to augment existing strengths in the collection and to provide the opportunity to focus on material of exceptional merit from other cultures and periods.***

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 2020, the Gallery organized and presented 6 special exhibitions. The number of exhibitions decreased due to closures and travel restrictions related to the COVID-19 pandemic.

Exhibitions presented in FY 2020 included:

- *Degas at the Opéra*
- *True to Nature: Open-Air Painting in Europe, 1780–1870*
- *By the Light of the Silvery Moon: A Century of Lunar Photographs*
- *The Touch of Color: Pastels at the National Gallery of Art*
- *Verrocchio: Sculptor and Painter of Renaissance Florence*
- *Alonso Berruguete: First Sculptor of Renaissance Spain*





| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|---------|---------|---------|---------|---------|
| Actual | 14 | 13 | 16 | 12 | 6 |
| Rolling Average | 17 | 16 | 16 | 14 | 12 |

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

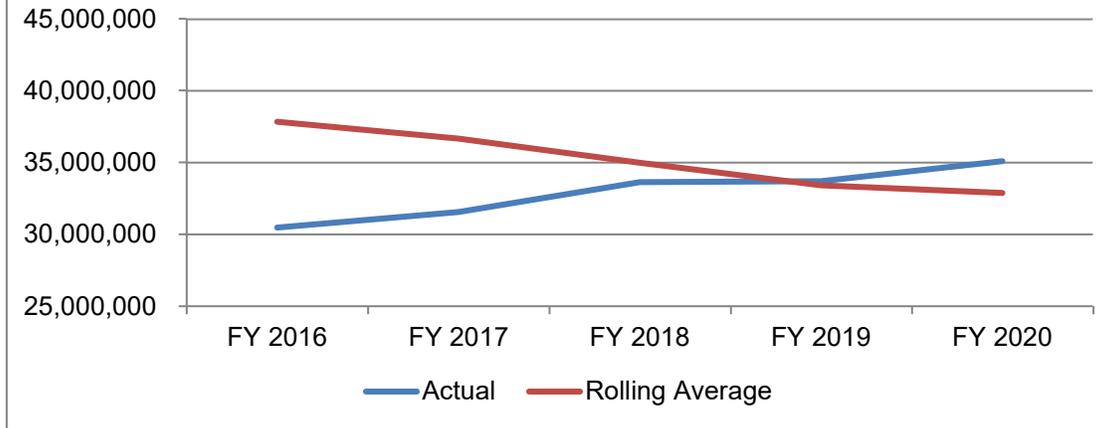
The Gallery’s commitment to fostering the understanding of art at the highest possible scholarly levels continued in FY 2020 through its many educational program activities. The education resources outreach program provided films, videotapes and other long-distance learning materials free of charge to an audience of over 35 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 89,900 participants prior to cancellation of all on-site programming in March 2020 due to the COVID-19 pandemic. The Gallery had over 86,300 subscriptions to its online education 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 FY 2020 the web site received over 7.0 million unique visitors. An additional 1,571,000 visited the Gallery through various social media.

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 66,400 reference inquiries. The new integrated library system on the web has enhanced the visibility of library offerings and increased the total number of web site users.

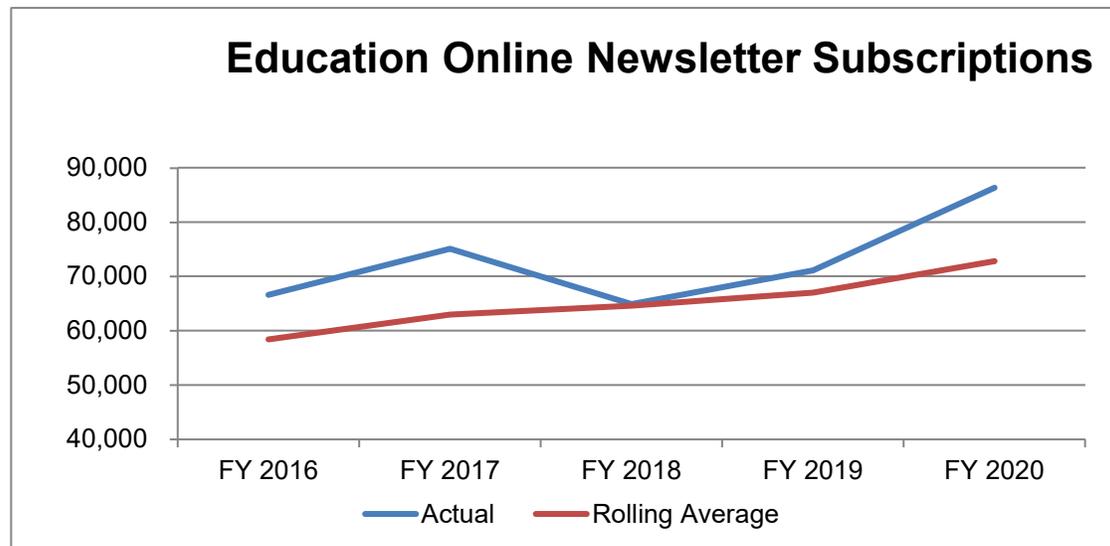
The following pages provide statistical metrics for education outreach.

National Education Resource Extension Program (Audiences per Year)

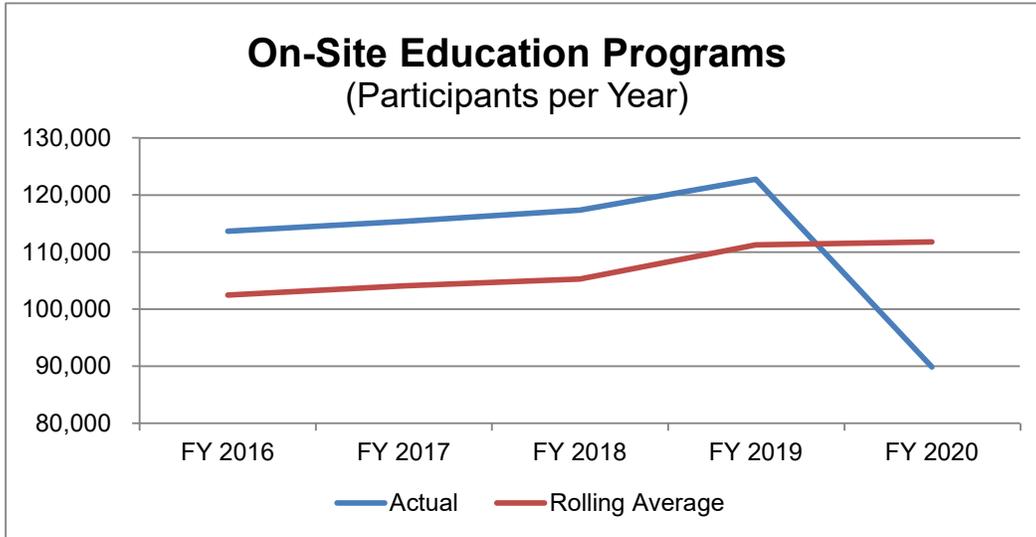


| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|------------|------------|------------|------------|------------|
| Actual | 30,490,500 | 31,560,000 | 33,652,000 | 33,706,500 | 35,113,300 |
| Rolling Average | 37,844,200 | 36,669,900 | 35,004,500 | 33,419,400 | 32,904,500 |

Education Online Newsletter Subscriptions

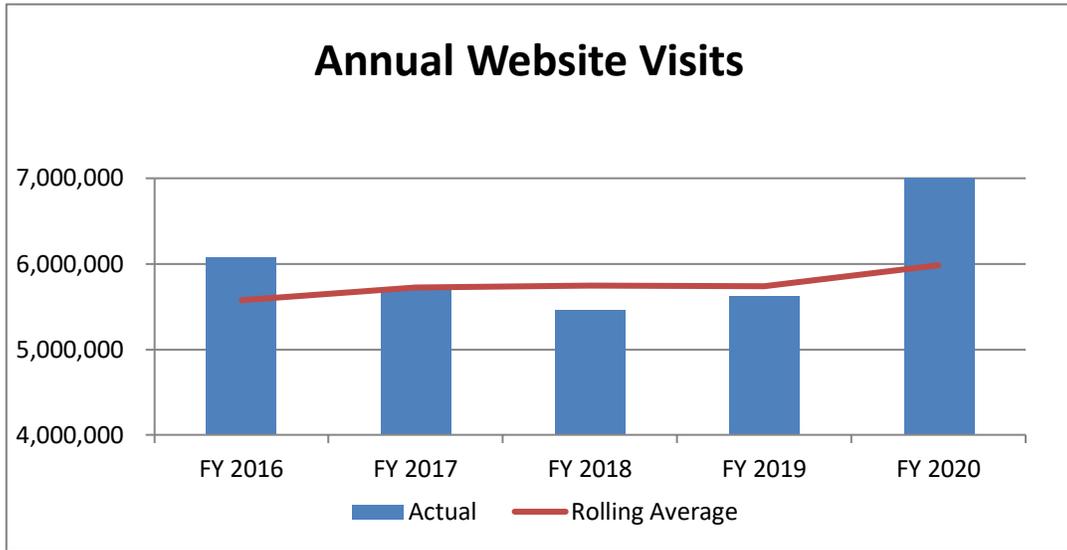


| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|---------|---------|---------|---------|---------|
| Actual | 66,600 | 75,100 | 64,900 | 71,100 | 86,300 |
| Rolling Average | 58,400 | 63,000 | 64,600 | 67,000 | 72,800 |

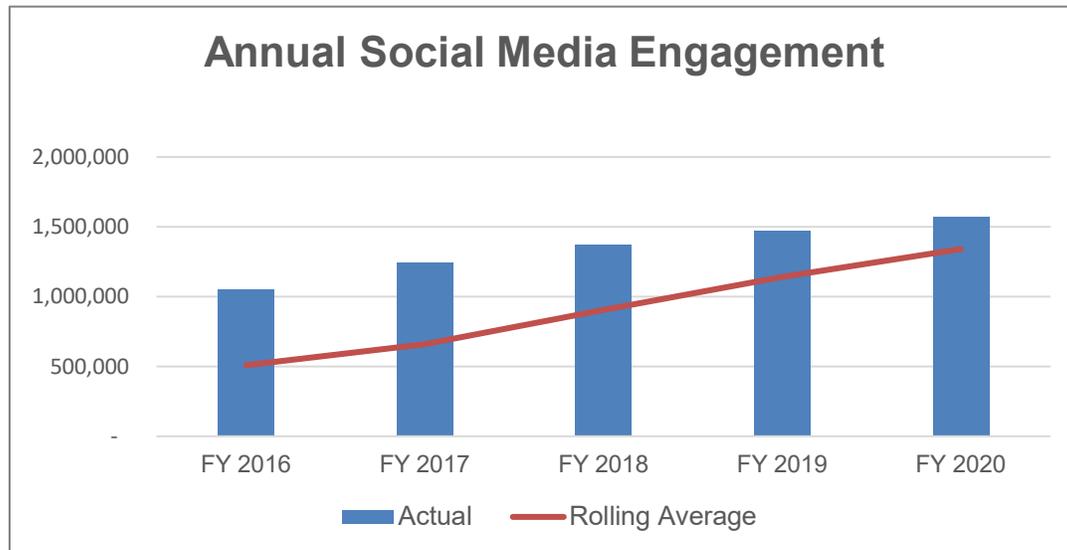


| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|---------|---------|---------|---------|---------|
| Actual | 113,700 | 115,400 | 117,400 | 122,800 | 89,900 |
| Rolling Average | 102,500 | 104,100 | 105,300 | 111,300 | 111,800 |



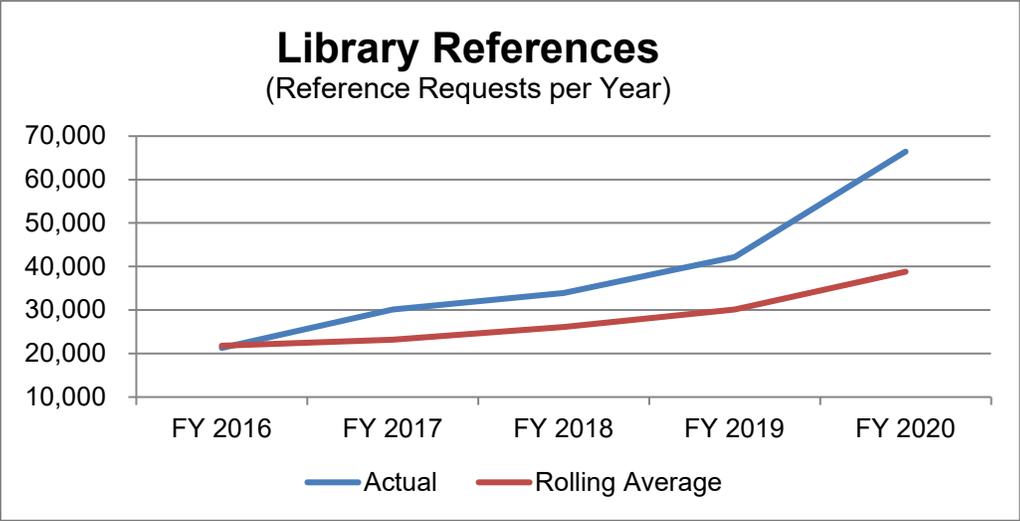


| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Actual | 6,072,900 | 5,721,900 | 5,461,500 | 5,624,300 | 7,035,300 |
| Rolling Average | 5,576,900 | 5,721,100 | 5,745,800 | 5,741,000 | 5,983,200 |



| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Actual | 1,051,000 | 1,246,000 | 1,371,000 | 1,470,000 | 1,571,000 |
| Rolling Average | 509,300 | 656,600 | 903,000 | 1,139,600 | 1,341,800 |

* Social Media includes Facebook Likes, Twitter, Pinterest and Instagram Followers

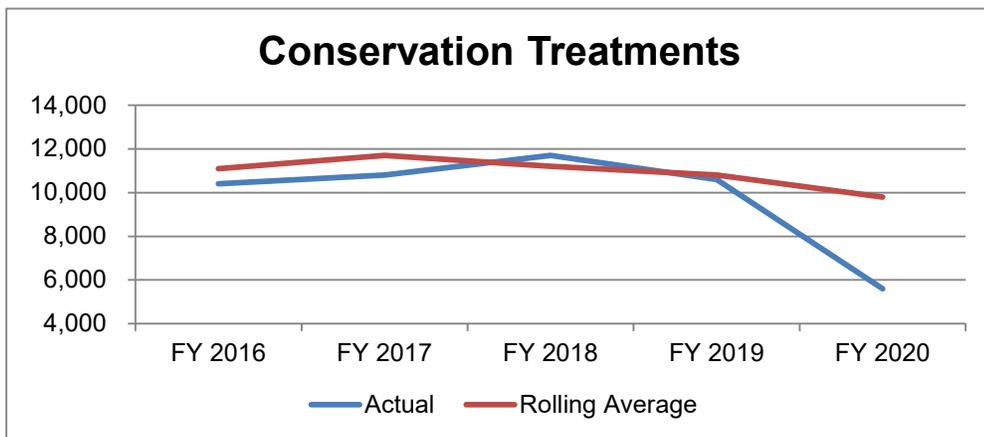


| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|---------|---------|---------|---------|---------|
| Actual | 21,300 | 30,100 | 33,900 | 42,200 | 66,400 |
| Rolling Average | 21,800 | 23,200 | 26,100 | 30,100 | 38,800 |



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 2020, the Gallery's painting, object, paper, photography and textile conservators and scientific researchers undertook 5,600 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. Year to year fluctuation in the total number of treatments is due primarily to the number of artwork examinations required for special exhibitions. The Gallery closures in FY 2020 during the COVID-19 pandemic reduced exhibitions and the ability of conservators to work on site.



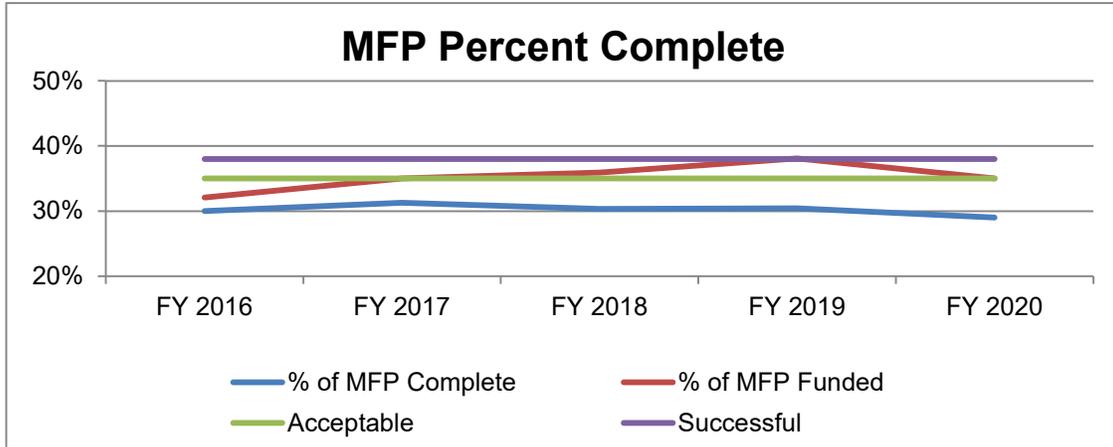
| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------|---------|---------|---------|---------|---------|
| Actual | 10,400 | 10,800 | 11,700 | 10,600 | 5,600 |
| Rolling Average | 11,100 | 11,700 | 11,200 | 10,800 | 9,800 |



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.



| Actual: | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-------------------|---------|---------|---------|---------|---------|
| % of MFP Complete | 30% | 31% | 30% | 30% | 29% |
| % of MFP Funded | 32% | 35% | 36% | 38% | 35% |
| Target: | | | | | |
| Acceptable | 35% | 35% | 35% | 35% | 35% |
| Successful | 38% | 38% | 38% | 38% | 38% |
| Assessment: | Not Met |

Funding has not been sufficient to allow the Gallery to meet the minimally acceptable target and has resulted in an increase of total plan costs.

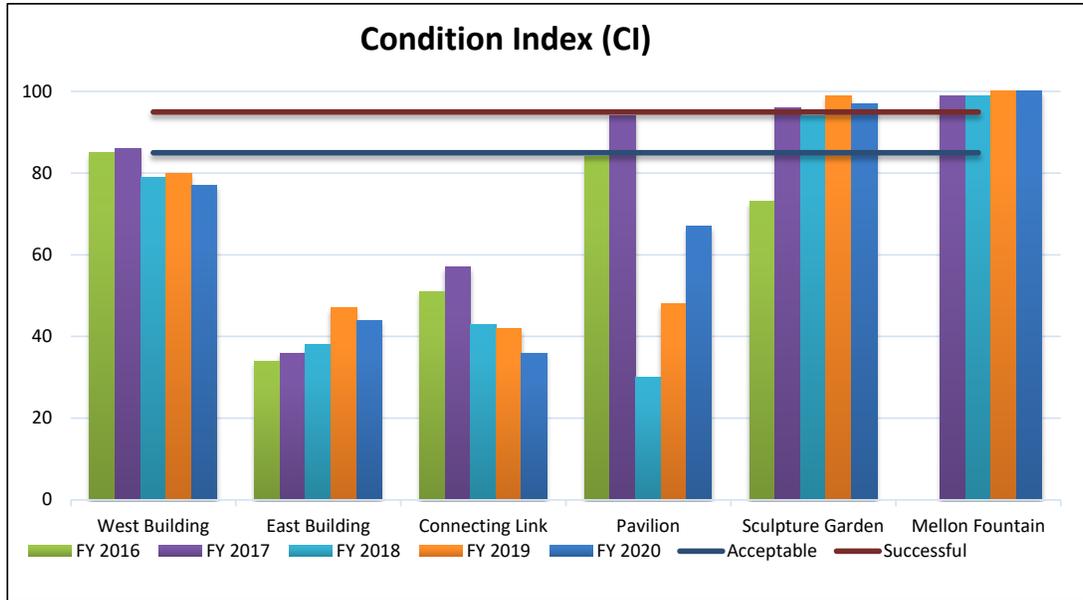
2. Maintain the physical condition of the East and West Buildings to the highest standard.

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

- a) Facilities Condition Index (CI): The Condition Index is the GSA-defined measure of a constructed asset’s physical condition at a specific point in time. The index is calculated as:

$$CI = [1 - (\$Repair Needs / \$Replacement Value)] \times 100$$

This measure is reported to GSA individually for each physical asset shown in the table below. The Mellon Fountain was added as of FY 2017, the first year its condition is reported after being transferred from the National Park Service in 2016:



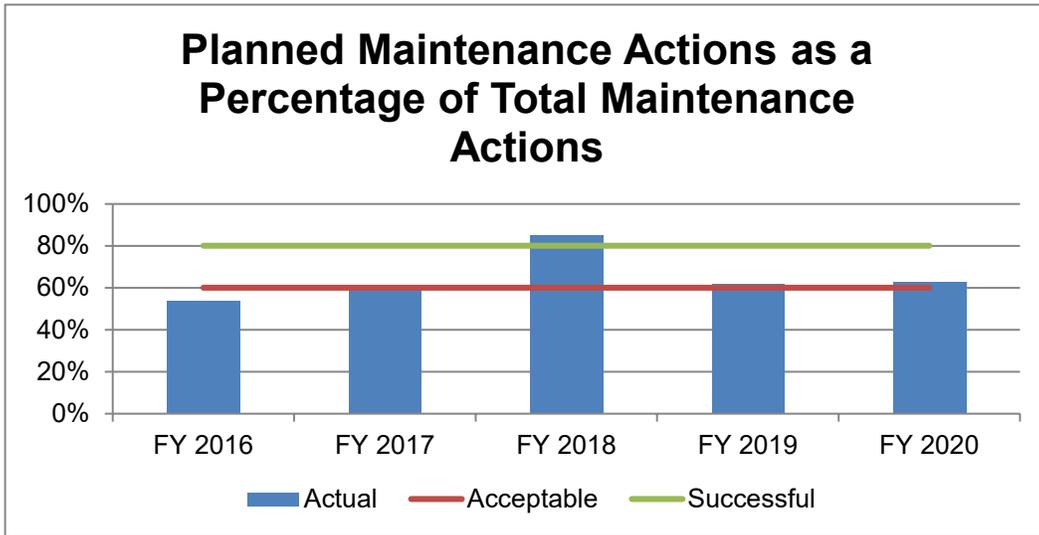
| | West Building | East Building | Connecting Link | Pavilion | Sculpture Garden | Mellon Fountain |
|------------|---------------|---------------|-----------------|----------|------------------|-----------------|
| FY 2016 | 85 | 34 | 51 | 84 | 73 | |
| FY 2017 | 86 | 36 | 57 | 94 | 96 | 99 |
| FY 2018 | 79 | 38 | 43 | 30 | 94 | 99 |
| FY 2019 | 80 | 47 | 42 | 48 | 99 | 100 |
| FY 2020 | 77 | 44 | 36 | 67 | 97 | 100 |
| Acceptable | 85 | 85 | 85 | 85 | 85 | 85 |
| Successful | 95 | 95 | 95 | 95 | 95 | 95 |
| Assessment | Not Met | Not Met | Not Met | Not Met | Met | Met |

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

| | FY 2016 | FY 2017 | FY 2018* | FY 2019 | FY 2020 |
|-------------|---|---------|----------|---------|---------|
| Actual: | +1% | -6% | +14% | -2% | +10% |
| Acceptable: | The deferred maintenance backlog decreases during the year | | | | |
| Successful: | The deferred maintenance backlog decreases by at least 3% during the year | | | | |
| Assessment: | Not Met | Met | Not Met | Met | Not Met |

* The increase in FY 2018 reflects a completely revised and more comprehensive Facility Assessment Program.

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



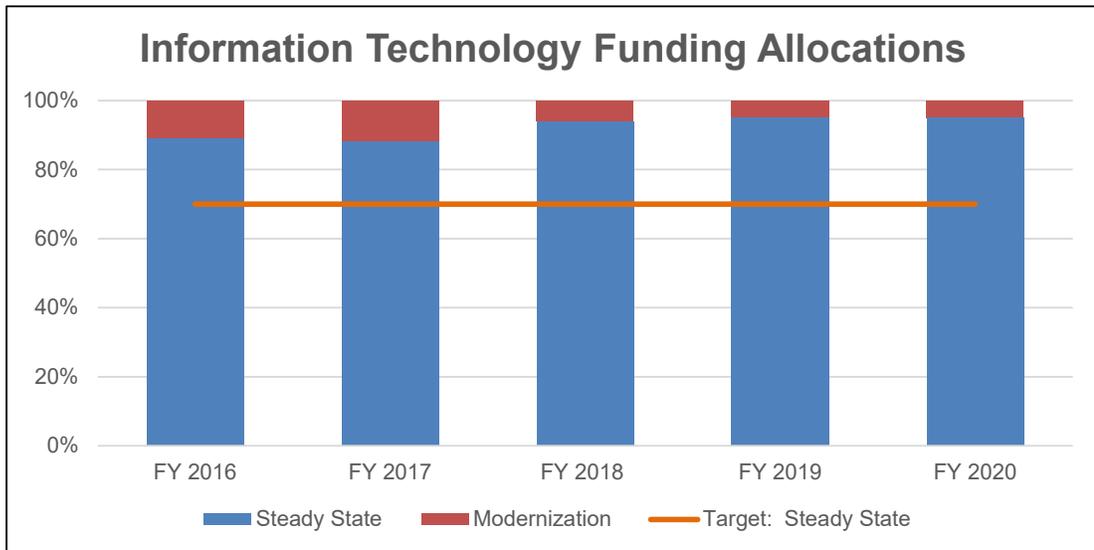
| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|------------|---------|---------|---------|---------|---------|
| Actual | 54% | 59% | 85% | 62% | 63% |
| Acceptable | 60% | 60% | 60% | 60% | 60% |
| Successful | 80% | 80% | 80% | 80% | 80% |
| Assessment | Not Met | Not Met | Met | Met | Met |

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

- Provide a robust and secure information technology environment to support the mission and administrative functions of the Gallery with funding allocations for both steady state and modernization efforts that is consistent with industry benchmarks.***

Performance Measure: Percent of total enacted information technology funding allocated to steady state operations versus system modernization.

Target: No more than 70% of funding is allocated to steady state system operations.



| Actual: | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---------------|---------|---------|---------|---------|---------|
| Steady State | 89% | 88% | 94% | 95% | 95% |
| Modernization | 11% | 12% | 6% | 5% | 5% |
| Target: | | | | | |
| Steady State | 70% | 70% | 70% | 70% | 70% |
| Modernization | 30% | 30% | 30% | 30% | 30% |
| Assessment | Not Met |

Maintaining the Gallery's security readiness:

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

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



NATIONAL GALLERY OF ART

Financial Statements

September 30, 2020

(With Independent Auditors' Reports Thereon)



KPMG LLP
Suite 900
8350 Broad Street
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, 2020, and the related statements of activities and cash flows for the years 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

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, 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2(t) to the financial statements, in fiscal year 2020 the Gallery adopted new accounting guidance, Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.



Report on Summarized Comparative Information

We have previously audited the Gallery's 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 14, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-18. As part of our audit of the 2020 financial statements, we also audited the adjustments described in Note 2(s) that were applied to adopt ASU 2016-18 retrospectively in the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Matters

Supplementary and Other Information

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

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

The other information in the September 30, 2020 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 13, 2020 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 solely 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 effectiveness of the Gallery's 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

McLean, Virginia
November 13, 2020

NATIONAL GALLERY OF ART

Statement of Financial Position

September 30, 2020

(with summarized financial information as of September 30, 2019)

(In thousands)

| Assets | 2020 | | | 2019 |
|--|--------------|---------|-----------|-----------|
| | Private | Federal | Total | Total |
| Cash and cash equivalents | \$ 6,331 | 111,672 | 118,003 | 121,588 |
| Accounts receivable and other assets, net | 3,749 | – | 3,749 | 4,483 |
| Pledges receivable, net | 18,289 | – | 18,289 | 14,424 |
| Investments and trusts held by others | 1,083,406 | – | 1,083,406 | 993,753 |
| Property, plant and equipment, net | 57,227 | 283,805 | 341,032 | 318,116 |
| Art collections (Note 2) | – | – | – | – |
| Total assets | \$ 1,169,002 | 395,477 | 1,564,479 | 1,452,364 |
| Liabilities and Net Assets | | | | |
| Liabilities: | | | | |
| Accounts payable and other liabilities | \$ 34,095 | 31,741 | 65,836 | 65,099 |
| Unexpended federal multi-year appropriations | – | 36,015 | 36,015 | 39,163 |
| Environmental liability | – | 28,660 | 28,660 | 26,423 |
| Total liabilities | 34,095 | 96,416 | 130,511 | 130,685 |
| Net assets: | | | | |
| Without donor restrictions | 390,673 | 206,001 | 596,674 | 570,729 |
| With donor restrictions | 744,234 | 93,060 | 837,294 | 750,950 |
| Total net assets | 1,134,907 | 299,061 | 1,433,968 | 1,321,679 |
| Total liabilities and net assets | \$ 1,169,002 | 395,477 | 1,564,479 | 1,452,364 |

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART
Statement of Activities
Year ended September 30, 2020
(with summarized financial information for the year ended September 30, 2019)
(In thousands)

| | Without donor restrictions | | | With donor restrictions | Total 2020 | Total 2019 |
|---|----------------------------|----------|----------|-------------------------|------------|------------|
| | Private | Federal | Total | | | |
| Operating: | | | | | | |
| Support and revenue: | | | | | | |
| Federal appropriations | \$ – | 129,436 | 129,436 | 8,679 | 138,115 | 136,557 |
| Gifts and grants | 2,636 | – | 2,636 | 1,935 | 4,571 | 7,446 |
| Gallery shops sales, net | 3,739 | – | 3,739 | – | 3,739 | 6,789 |
| Spending policy appropriated for operations | 4,033 | – | 4,033 | 20,514 | 24,547 | 22,730 |
| Royalties and other income | 590 | – | 590 | – | 590 | 1,383 |
| | 10,998 | 129,436 | 140,434 | 31,128 | 171,562 | 174,905 |
| Net assets released from restrictions to fund operating expenses | 20,600 | 7,169 | 27,769 | (27,769) | – | – |
| Total support and revenue | 31,598 | 136,605 | 168,203 | 3,359 | 171,562 | 174,905 |
| Expenses: | | | | | | |
| Collections | 3,406 | 48,087 | 51,493 | – | 51,493 | 53,031 |
| Special exhibitions | 3,753 | 16,742 | 20,495 | – | 20,495 | 24,473 |
| Education, Gallery shops and public programs | 14,373 | 29,501 | 43,874 | – | 43,874 | 44,424 |
| Editorial and photography | 1,397 | 6,186 | 7,583 | – | 7,583 | 7,171 |
| General and administrative | 6,579 | 35,014 | 41,593 | – | 41,593 | 40,394 |
| Development | 2,559 | 2,128 | 4,687 | – | 4,687 | 4,522 |
| Total operating expenses | 32,067 | 137,658 | 169,725 | – | 169,725 | 174,015 |
| Change in net assets from operating activities | (469) | (1,053) | (1,522) | 3,359 | 1,837 | 890 |
| Non-operating: | | | | | | |
| Federal appropriations | – | 16,947 | 16,947 | 21,184 | 38,131 | 23,722 |
| Endowment gifts | – | – | – | 11,885 | 11,885 | 7,122 |
| Gifts for art acquisitions | – | – | – | 5,783 | 5,783 | 6,869 |
| Spending policy appropriated for art acquisitions | 184 | – | 184 | 3,121 | 3,305 | 6,154 |
| Change in value of split-interest agreements | (211) | – | (211) | 522 | 311 | (571) |
| Investment return less amounts appropriated for operations and art acquisitions | 30,114 | – | 30,114 | 49,727 | 79,841 | (14,709) |
| Acquisitions of works of art | (8,570) | – | (8,570) | – | (8,570) | (13,035) |
| Depreciation and amortization expense | (4,248) | (13,012) | (17,260) | – | (17,260) | (15,410) |
| Income tax expense | (201) | – | (201) | – | (201) | (205) |
| Environmental liability accretion | – | (1,306) | (1,306) | – | (1,306) | (1,188) |
| Environmental liability change in value | – | (1,467) | (1,467) | – | (1,467) | (5,402) |
| Net assets released from restrictions to fund non-operating expenses | 8,386 | 851 | 9,237 | (9,237) | – | – |
| Change in net assets from non-operating activities | 25,454 | 2,013 | 27,467 | 82,985 | 110,452 | (6,653) |
| Increase (decrease) in net assets | 24,985 | 960 | 25,945 | 86,344 | 112,289 | (5,763) |
| Net assets at beginning of year | 365,688 | 205,041 | 570,729 | 750,950 | 1,321,679 | 1,327,442 |
| Net assets at end of year | \$ 390,673 | 206,001 | 596,674 | 837,294 | 1,433,968 | 1,321,679 |

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Statement of Cash Flows

Year ended September 30, 2020

(with summarized financial information for the year ended September 30, 2019)

(In thousands)

| | <u>Private</u> | <u>Federal</u> | <u>Total 2020</u> | <u>Total 2019</u> |
|--|------------------|-----------------|-----------------------|-----------------------|
| Cash flows from operating activities: | | | | |
| Federal operating appropriations | \$ – | 134,967 | 134,967 | 144,683 |
| Operating gifts and grants | 5,899 | – | 5,899 | 8,749 |
| Gallery shops sales | 3,731 | – | 3,731 | 6,847 |
| Investment income and dividends, net | 895 | – | 895 | 745 |
| Royalties and other income | 1,098 | – | 1,098 | 1,212 |
| Payments to employees | (22,964) | (90,246) | (113,210) | (110,511) |
| Payments to suppliers | (10,155) | (48,828) | (58,983) | (59,681) |
| Income tax payments | <u>(201)</u> | <u>–</u> | <u>(201)</u> | <u>(205)</u> |
| Net cash used in operating activities | <u>(21,697)</u> | <u>(4,107)</u> | <u>(25,804)</u> | <u>(8,161)</u> |
| Cash flows from investing activities: | | | | |
| Purchase of investments | (279,962) | – | (279,962) | (324,013) |
| Proceeds from sale of investments | 309,547 | – | 309,547 | 334,739 |
| Proceeds from sale of property in trust held by others | – | – | – | 700 |
| Acquisitions of works of art | (10,505) | – | (10,505) | (8,478) |
| Purchase of property, plant and equipment | <u>–</u> | <u>(34,854)</u> | <u>(34,854)</u> | <u>(7,659)</u> |
| Net cash provided by (used in) investing activities | <u>19,080</u> | <u>(34,854)</u> | <u>(15,774)</u> | <u>(4,711)</u> |
| Cash flows from financing activities: | | | | |
| Contributions and net investment income for donor restricted investments | 9,281 | – | 9,281 | 11,522 |
| Federal appropriations for capital projects | – | 38,131 | 38,131 | 23,722 |
| Gifts and grants for art acquisitions | <u>3,148</u> | <u>–</u> | <u>3,148</u> | <u>7,195</u> |
| Net cash provided by financing activities | <u>12,429</u> | <u>38,131</u> | <u>50,560</u> | <u>42,439</u> |
| Net change in cash and cash equivalents | 9,812 | (830) | 8,982 | 29,567 |
| Cash and cash equivalents at beginning of year | <u>16,278</u> | <u>112,502</u> | <u>128,780</u> | <u>99,213</u> |
| Cash and cash equivalents at end of year | \$ <u>26,090</u> | <u>111,672</u> | <u>137,762</u> | <u>128,780</u> |
| Cash and cash equivalents reconciliation: | | | | |
| Cash and cash equivalents included in Statement of Financial Position | \$ 6,331 | 111,672 | 118,003 | 121,588 |
| Cash included in investments | <u>19,759</u> | <u>–</u> | <u>19,759</u> | <u>7,192</u> |
| Total cash and cash equivalents | \$ <u>26,090</u> | <u>111,672</u> | <u>137,762</u> | <u>128,780</u> |

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2020
(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 fostering 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 non-operating activities such as non-operating gifts and grants (endowment gifts and gifts for art acquisitions and capital projects), investment return less

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2020
(In thousands)

amounts designated for operations, acquisitions of works of art, depreciation and income tax expense, and changes in the environmental liability.

The Gallery's Board of Trustees appropriates only a portion of the Gallery's cumulative investment return for support of current operations and art acquisitions; the remainder is retained to support operations of future years and to offset potential market declines. The amount appropriated is computed under the Gallery's spending policy and is appropriated for use based on the underlying donor-imposed restrictions (see notes 5 and 10).

(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 as of and for the year ended September 30, 2019, from which the summarized information was derived.

(d) **Net Assets**

The Gallery's net assets, support and revenue, expenses, and 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:

- *Without donor restrictions* – Net assets without donor restrictions consist of the Gallery's net investment in building improvements and other equipment purchased or constructed using federal funds less unfunded liabilities, and all other resources which are not subject to donor-imposed restrictions. At the discretion of the Gallery's Board of Trustees, private funds which are not expended for operating activities may be set aside in designated reserves and earmarked to cover future program costs or other contingencies.
- *With donor restrictions* – Net assets with donor restrictions carry specific donor-imposed stipulations on the expenditure or other use of the contributed funds, including unexpended "no-year" federal appropriations received for special exhibitions and for the repair, renovation and restoration of its buildings. Donor-imposed 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 from restriction when assets are placed in service.

Other net assets with donor restrictions include net assets with stipulations that require that the corpus of the gifts be retained permanently with only the income to be used to support operations or another specified purpose.

(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

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2020
(In thousands)

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 5).

The fund balances with U.S. Treasury consist 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 4.6%. 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 that the underlying asset values agree with quoted market prices. Due to the inherent uncertainties of valuation of alternative investments, estimated values may differ from values that would have been used had a readily available market for the investments existed.

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

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

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2020
(In thousands)

(h) Property, Plant and Equipment

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

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

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

(i) Art Collections

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

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

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

(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 Multi-Year Appropriations

The Gallery's federal multi-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 five years after the expiration of the two-year obligation

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2020

(In thousands)

period. The remaining unexpended balances of these funds are classified as a liability on the statement of financial position.

(I) Revenue Recognition

In accordance with ASC 606, *Revenue from Contracts with Customers*, the Gallery recognizes revenue upon delivery of goods or services in an amount that reflects the consideration the Gallery expects to receive in exchange for the goods or services. The Gallery's revenue streams that fall under this guidance are derived primarily from membership dues and Gallery shops sales and other auxiliary services.

Membership Dues

Annual memberships with varying contribution amounts, anniversary dates, and levels of donor benefits are offered to the public. The valuation of benefits provided to donors is based on the fair value of the benefits offered for each membership level. The Gallery recognizes contribution revenue for the entire amount of the membership dues received, as the recognition of the benefit portion of the membership has been determined to be materially consistent with the recognition of the benefit portion as computed on a pro-rata basis over the varying membership periods.

Auxiliary Services

Revenue from auxiliary activities primarily includes sales from the Gallery's retail shops and commissions from contracted restaurant operations. Revenues from retail operations are recognized at the time of sale to the customer. Potential returns of merchandise under the Gallery's sales return policy are considered insubstantial in amount and are therefore not reflected in the Gallery's financial statements. Royalties from restaurant sales are received on a monthly basis and accrued as appropriate.

The Gallery's revenue streams falling outside the scope of ASC 606 include investment earnings, donor contributions, and federal appropriations. Recognition of investment earnings is described in note 2(g). Dividend and interest income and realized and unrealized gains and losses are recognized as either net assets without donor restrictions or net assets with donor restrictions, in accordance with applicable donor and legal requirements.

Donor Gifts

Donor contributions and unconditional pledges are recognized in the statement of activities according to the existence or absence of donor restrictions when received from the donor. Recognition of conditional donor pledges is deferred until the underlying conditions are substantially satisfied. See also note 2(f).

Federal Appropriations

Multi-year appropriations received from the federal government are conditional contributions as defined in ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting*

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Guidance for Contributions Received and Contributions Made. Multi-year appropriation revenue is recognized when qualifying expenditures are incurred and conditions of the appropriations are met. The unexpended balances are deferred until expended or returned to the federal government. See also note 2(k). Federal no-year appropriations are recognized as unconditional contributions restricted for the support of the Gallery's special exhibitions and for the repair, renovation, and restoration of its buildings. These appropriations are recognized in full as restricted revenue when received from the federal government.

(m) Employee Benefits

The Gallery offers its employees a comprehensive set of benefits including pension, health and life insurance, and workers compensation for injuries sustained on the job. All permanent employees of the Gallery, both federal and nonfederal, hired subsequent to January 1, 1984 participate in 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.

The FERS retirement plan provides benefits from three sources: a basic defined benefit plan, social security, and the Thrift Savings Plan (TSP), a defined contribution plan similar to a 401(k). The TSP is administered by the Federal Retirement Thrift Investment Board, an independent agency of the U.S. government. All employees have the option to make tax-deferred contributions to the TSP and, in some instances, receive a matching portion from the Gallery.

The Gallery's current year contributions to the pension plans are recognized in the statement of activities, using rates established by the Office of Personnel Management (OPM), the agency with Government-wide responsibility for the oversight and administration of the plans. Consistent with reporting under multi-employer pension plans, the Gallery does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by OPM (see note 14).

Gallery employees are also eligible to participate in the Federal Employees Health Benefit (FEHB) and the Federal Employees Group Life Insurance (FEGLI) programs, and may continue to participate in these programs after retirement. The Gallery's current year contributions to the retirement and healthcare and life insurance programs are recognized in the statement of activities.

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

Expense recognized in the Gallery's financial statements includes current amounts invoiced and amounts expected to be invoiced by DOL, as well as the change in the actuarially

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determined cost of expected future benefits. The actuarial FECA liability represents the liability for expected future benefits 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. This liability constitutes an extended future estimate of cost which will not be obligated against budgetary resources until the fiscal year in which DOL bills the cost to the Gallery. The cost associated with this liability cannot be met by the Gallery without further appropriation action.

(n) Imputed Financing Sources

In certain cases, costs of the Gallery, such as post-retirement pension and benefits, are paid out of funds appropriated to other federal agencies. As an example, OPM is required to administer and pay the costs of federal post-retirement pension programs. Actuarially derived cost factors are provided annually by OPM to the Gallery for use in the calculation of current period service cost. The excess of the computed service cost over employee withholding and amounts contributed by the Gallery represents imputed costs to be financed directly through the Civil Service Retirement and Disability Fund administered by OPM. Similarly, OPM provides cost factors to the Gallery for use in the calculation of the estimated cost of providing health and life insurance benefits to retired employees.

Imputed costs and offsetting federal funding sources for pension and post-retirement health and life insurance benefits are computed by the Gallery and presented in note 14. The Gallery does not recognize these imputed costs and off-setting financing sources in the statement of activities, as the amounts represent costs to be funded in future years by OPM.

(o) Contributed Services and Donated Assets

Volunteers provide assistance to various departments of the Gallery. The services provided by such volunteers do not meet the criteria for recognition of contributed services, and accordingly are not reflected in the accompanying financial statements.

Donated assets other than donations of art are recorded at fair value on the date of the gift. Gifts of long-lived assets are recorded as unrestricted revenue in the absence of donor-imposed restrictions.

(p) Functional Allocation of Expenses

The cost of providing various programs and other activities summarized on a functional and natural basis is shown in note 13. 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

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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.

(q) Estimates

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

(r) Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. Since this time, the Gallery has followed the operating guidelines of the federal Centers for Disease Control and Prevention and the government of the District of Columbia. Extensive measures have been implemented to protect the health and safety of both the Gallery's employees and its visitors. While some staff are currently working on-site to ensure continuity of essential operations and in conjunction with the process of a gradual, orderly re-opening to the public, most Gallery employees have transitioned to working remotely. Given the uncertainty over the progression of the virus and governmental directives, there is no clear timetable for when Gallery operations will return to pre-pandemic status. COVID-19 has not materially impacted the Gallery's financial condition or financial statement presentation.

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

(s) Reclassifications

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

(t) Recent Accounting Pronouncements

In fiscal year 2020, the Gallery adopted FASB Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU is intended to clarify and further the consistent treatment of accounting for grants and other transactions as contributions versus exchange transactions, and to improve guidance to better distinguish between conditional and unconditional contributions.

The Gallery has determined that its accounting treatment and financial statement presentation of federal appropriations, donor contributions, and other transactions are consistent with the guidance in ASU 2018-08, and as a result the adoption of this guidance has no impact on the Gallery's financial statements.

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The Gallery also adopted ASC 606, *Revenue from Contracts with Customers*, as amended, during the fiscal year. This guidance provides the framework for recognizing revenue from the delivery of goods and services in an amount that reflects the consideration expected to be received in exchange for those goods and services, and is intended to improve the consistency and comparability of revenue recognition practices across both for-profit and not-for-profit entities. The core principle of ASC 606 requires the recognition of revenue from the transfer of promised goods or services to customers as the entity's identified performance obligations are satisfied.

The Gallery has determined that its revenue recognition practices are materially consistent with the requirements of ASC 606, and therefore adoption of this standard has no impact on the Gallery's financial statements. However, revenue disclosures have been enhanced in accordance with the guidance in this standard.

ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, was adopted during the fiscal year. The standard requires the inclusion of all cash balances in total cash and cash equivalents presented in the statement of cash flows, irrespective of classification on the balance sheet and irrespective of restrictions. Therefore, the cash balance in the Gallery's investment portfolio held by a custodian for future investment or operating purposes is included in total cash and cash equivalents presented in the statement of cash flows. The provisions of the ASU have been applied retrospectively to all periods presented.

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(3) Financial Assets and Liquidity Resources

Federal appropriations provide for the daily operations and maintenance of the Gallery, in addition to support for special exhibitions and renovation and repair of the Gallery's buildings. Private donor endowments and gifts support Gallery programmatic activities and all art acquisitions. The Gallery maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash required to meet operating needs of the Gallery is invested in short-term accounts.

Following is a reconciliation of the Gallery's total financial assets as of September 30, 2020 and 2019 to financial assets available to fund the Gallery's general expenditures for the following fiscal year. General expenditures include all programmatic and supporting operating expenses, including expenditures for capital renovations but not including art acquisitions.

| | 2020 | | |
|---|------------|---------|-----------|
| | Private | Federal | Total |
| Financial assets: | | | |
| Cash and cash equivalents | \$ 6,331 | 111,672 | 118,003 |
| Investments and trusts held by others | 1,083,406 | – | 1,083,406 |
| Pledges and accounts receivable | 18,843 | – | 18,843 |
| Total financial assets at year-end | 1,108,580 | 111,672 | 1,220,252 |
| Less financial assets unavailable for general expenditure within one year: | | | |
| Financial assets with donor restrictions | (774,285) | – | (774,285) |
| Trust held by others and charitable gift annuity assets | (6,987) | – | (6,987) |
| Board designations: | | | |
| Quasi-endowments | (66,684) | – | (66,684) |
| Operating reserve | (115,000) | – | (115,000) |
| Capital reserve | (30,000) | – | (30,000) |
| Financial assets available to meet cash needs for general expenditure within one year | \$ 115,624 | 111,672 | 227,296 |

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| | 2019 | | |
|---|-----------|---------|-----------|
| | Private | Federal | Total |
| Financial assets: | | | |
| Cash and cash equivalents | \$ 9,086 | 112,502 | 121,588 |
| Investments and trusts held by others | 993,753 | – | 993,753 |
| Pledges and accounts receivable | 15,774 | – | 15,774 |
| Total financial assets at year-end | 1,018,613 | 112,502 | 1,131,115 |
| Less financial assets unavailable for general expenditure within one year: | | | |
| Financial assets with donor restrictions | (711,847) | – | (711,847) |
| Trust held by others and charitable gift annuity assets | (6,794) | – | (6,794) |
| Board designations: | | | |
| Quasi-endowments | (62,045) | – | (62,045) |
| Operating reserve | (115,000) | – | (115,000) |
| Capital reserve | (30,000) | – | (30,000) |
| Financial assets available to meet cash needs for general expenditure within one year | \$ 92,927 | 112,502 | 205,429 |

Quasi-endowment assets include unrestricted funds designated by the Gallery's Board of Trustees to function as endowment funds supporting Gallery programs and operations, including the production of catalogues documenting the Gallery's collection, and operations of the library and music program, among others. The operating reserve has been established to provide necessary resources in the event of the following: 1) potential extended market declines, as it is the Gallery's policy to not spend from underwater endowment funds, 2) shortfalls in donor support and earned revenue during periods of economic recession, and 3) risk of potential losses for damage or theft of art works on loan to the Gallery in excess of insurance coverage. Capital reserves are required for non-federal capital additions and renovations and related obligations.

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(4) Pledges Receivable, Net

As of September 30, 2020 and 2019, net pledges receivable consisted of the following:

| | 2020 | 2019 |
|---|-----------|---------|
| Due in one year or less | \$ 14,823 | 6,975 |
| Due between one year and five years | 3,398 | 7,731 |
| Due in more than five years | 800 | 800 |
| Subtotal | 19,021 | 15,506 |
| Less discounts of \$582 and \$932 and allowances of \$150 and \$150, respectively | (732) | (1,082) |
| Total | \$ 18,289 | 14,424 |

As of September 30, 2020 and 2019, \$6,280 and \$857 of the pledges receivable balance was receivable from related parties.

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

As of September 30, 2020 and 2019, investments and trusts held by others consisted of the following:

| | 2020 | 2019 |
|-------------------------------------|--------------|---------|
| Pooled investment portfolio | \$ 1,051,254 | 961,990 |
| Trusts held by others | 13,777 | 13,204 |
| Charitable gift annuities and other | 13,375 | 13,559 |
| Subtotal | 1,078,406 | 988,753 |
| Loan to U.S. Treasury | 5,000 | 5,000 |
| Total | \$ 1,083,406 | 993,753 |

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 2020). Interest income on this loan was \$203 for the fiscal years ended September 30, 2020 and 2019. The fair value of the loan to the U.S. Treasury approximates the carrying value.

As of September 30, 2020 and 2019, 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

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capital, and real estate are valued based on the most current net asset value (NAV) adjusted for cash flows when the reported NAV is not at the measurement date.

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

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The following tables summarize the fair values of investments and trusts held by others as of September 30, 2020 and 2019 for financial assets by pricing observability levels:

| | 2020 | | | | Fair value at September 30, 2020 |
|--|---|-----------------------------------|-------------------------------|--|----------------------------------|
| | Prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) | Investments measured at net asset value ¹ | |
| U.S. equities | \$ 159,214 | – | – | 185,916 | 345,130 |
| International equities: | | | | | |
| Developed market equities | 80,338 | – | – | 113,585 | 193,923 |
| Emerging market equities | – | – | – | 107,356 | 107,356 |
| Real estate: | | | | | |
| Private Investments | – | – | – | 507 | 507 |
| Private equity and venture capital funds | – | – | – | 19,376 | 19,376 |
| Hedge funds | – | – | – | 262,106 | 262,106 |
| Multi-asset fund | – | – | – | 13,266 | 13,266 |
| Fixed income securities | – | – | – | 30,482 | 30,482 |
| Cash | 19,759 | – | – | – | 19,759 |
| Money market fund | 59,349 | – | – | – | 59,349 |
| Trusts held by others | – | – | 13,777 | – | 13,777 |
| Charitable gift annuities and other | 13,375 | – | – | – | 13,375 |
| Total | <u>\$ 332,035</u> | <u>–</u> | <u>13,777</u> | <u>732,594</u> | <u>1,078,406</u> |

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

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Notes to Financial Statements September 30, 2020 (In thousands)

| | 2019 | | | | Fair value at September 30, 2019 |
|---|--|--|-------------------------------------|---|--|
| | Prices in active markets for identical assets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) | Investments measured at net asset value ¹ | |
| U.S. equities | \$ 150,275 | – | – | 138,813 | 289,088 |
| International equities: | | | | | |
| Developed market equities | 80,086 | – | – | 109,040 | 189,126 |
| Emerging market equities | – | – | – | 99,024 | 99,024 |
| Real estate: | | | | | |
| Private Investments | – | – | – | 571 | 571 |
| Private equity and venture capital funds | – | – | – | 26,075 | 26,075 |
| Hedge funds | – | – | – | 243,613 | 243,613 |
| Multi-asset fund | – | – | – | 17,957 | 17,957 |
| Fixed income securities | – | – | – | 28,658 | 28,658 |
| Cash | 7,192 | – | – | – | 7,192 |
| Money market fund | 60,686 | – | – | – | 60,686 |
| Trusts held by others | – | – | 13,204 | – | 13,204 |
| Charitable gift annuities and other | 13,559 | – | – | – | 13,559 |
| Total | \$ 311,798 | – | 13,204 | 663,751 | 988,753 |

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

The following table summarizes the changes in Level 3 assets, trusts held by others, measured at fair value on a recurring basis for the years ended September 30, 2020 and 2019:

| | 2020 | 2019 |
|---|-----------|--------|
| Fair value of Level 3 assets, beginning of year | \$ 13,204 | 14,144 |
| Unrealized (losses)/gains | 573 | (240) |
| Proceeds from distributions | – | (700) |
| Fair value of Level 3 assets, end of year | \$ 13,777 | 13,204 |

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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, 2020:

| | | <u>Fair value</u> | <u>Commitments</u> | <u>Redemption frequency</u> | <u>Redemption notice period</u> |
|--|-----|-------------------|--------------------|----------------------------------|---------------------------------|
| U.S. equities | (a) | \$ 138,813 | – | Monthly to quarterly | 30 to 60 days |
| International equities: | (b) | | | | |
| Developed market equities | | 109,040 | – | Weekly to monthly | 3 to 30 days |
| Emerging market equities | | 99,024 | – | Monthly | 7 to 30 days |
| Real estate: | (c) | | | | |
| Private Investments | | 571 | 461 | N/A | N/A |
| Private equity and venture capital funds | (d) | 26,075 | 6,314 | N/A | N/A |
| Hedge funds | (e) | 243,613 | – | Quarterly to rolling three years | 45 to 181 days |
| Multi-asset fund | (f) | 17,957 | – | N/A | N/A |
| Fixed income securities | (g) | 28,658 | – | Daily | 2 days |
| Total | | <u>\$ 663,751</u> | <u>6,775</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, 2019:

| | | <u>Fair value</u> | <u>Commitments</u> | <u>Redemption frequency</u> | <u>Redemption notice period</u> |
|--|-----|-------------------|--------------------|--------------------------------|---------------------------------|
| U.S. equities | (a) | \$ 138,813 | – | Monthly to quarterly | 30 to 60 days |
| International equities: | (b) | | | | |
| Developed market equities | | 109,040 | – | Weekly to monthly | 3 to 30 days |
| Emerging market equities | | 99,024 | – | Monthly | 7 to 30 days |
| Real estate: | (c) | | | | |
| Private Investments | | 571 | 461 | N/A | N/A |
| Private equity and venture capital funds | (d) | 26,075 | 6,314 | N/A | N/A |
| Hedge funds | (e) | 243,613 | – | Monthly to rolling three years | 45 to 181 days |
| Multi-asset fund | (f) | 17,957 | – | N/A | N/A |
| Fixed income securities | (g) | 28,658 | – | Daily | 2 days |
| Total | | <u>\$ 663,751</u> | <u>6,775</u> | | |

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- (a) U.S. equities: Investments in limited partnerships and limited liability companies that invest in the equity securities of U.S. companies.
- (b) International equities: Investments in equity securities of international companies in both developed and emerging markets comprised of investments in limited partnerships and limited liability companies.
- (c) Real estate: Investments in limited partnerships which invest in privately held real estate. The limited partnerships are organized as funds of funds.
- (d) 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 venture capital. The limited partnerships are organized as funds of funds.
- (e) Hedge funds: Investments in limited partnerships and limited liability companies which employ investment strategies such as long/short equity, long/short credit, and distressed assets or that are organized as funds of funds.
- (f) Multi-asset fund: Investment in a side pocket of a limited partnership which contains shares of funds engaged in private equity, venture capital, hedge funds, real estate, and natural resources.
- (g) 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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(In thousands)

The following schedule summarizes the investment return, net of expenses, and its classification in the statement of activities for the years ended September 30, 2020 and 2019:

| | 2020 | | | 2019 Total |
|--|-------------------------------|----------------------------|---------------|-----------------|
| | Without donor restrictions | With donor restrictions | Total | |
| Total net investment return | \$ 34,331 | 73,362 | 107,693 | 14,175 |
| Appropriated for operations | (4,033) | (20,514) | (24,547) | (22,730) |
| Appropriated for art acquisitions | (184) | (3,121) | (3,305) | (6,154) |
| Investment return less amounts appropriated for operations and art acquisitions | <u>\$ 30,114</u> | <u>49,727</u> | <u>79,841</u> | <u>(14,709)</u> |

(6) Property, Plant and Equipment, Net

As of September 30, 2020 and 2019, net property, plant and equipment consisted of the following:

| | 2020 | | | 2019 Total |
|---|------------------|------------------|----------------|----------------|
| | Private funds | Federal funds | Total | |
| Buildings and improvements | \$ 187,252 | 319,942 | 507,194 | 504,807 |
| Equipment and computer software | 9,098 | 98,318 | 107,416 | 102,428 |
| Construction-in-progress | - | 45,778 | 45,778 | 12,977 |
| Equipment under capital lease | - | 2,962 | 2,962 | 2,962 |
| Subtotal | 196,350 | 467,000 | 663,350 | 623,174 |
| Less accumulated depreciation and amortization | (139,123) | (183,195) | (322,318) | (305,058) |
| Total | <u>\$ 57,227</u> | <u>283,805</u> | <u>341,032</u> | <u>318,116</u> |

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(In thousands)

(7) Accounts Payable and Other Liabilities

As of September 30, 2020 and 2019, accounts payable and other liabilities consisted of the following:

| | 2020 | | | 2019 Total |
|--|------------------|------------------|--------|---------------|
| | Private funds | Federal funds | Total | |
| Employee-related liabilities | \$ 5,709 | 19,098 | 24,807 | 22,945 |
| Refundable advances | 19,535 | – | 19,535 | 19,535 |
| Accounts payable and accrued expenses | 3,475 | 8,764 | 12,239 | 15,704 |
| Other liabilities | 5,376 | 3,879 | 9,255 | 6,915 |
| Total | \$ 34,095 | 31,741 | 65,836 | 65,099 |

Refundable advances represent a donor gift received in FY 2017 contingent upon the Gallery satisfying matching requirements by March 31, 2021 in accordance with the donor agreement. The donor accepted \$3,135 of matching gifts in FY 2019.

(8) Environmental Liability

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

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

| | 2020 | 2019 |
|-------------------------------|-----------|--------|
| Beginning balance | \$ 26,423 | 19,863 |
| Remediation accretion | 1,306 | 1,188 |
| Change in liability valuation | 1,467 | 5,402 |
| Remediation costs incurred | (536) | (30) |
| Total | \$ 28,660 | 26,423 |

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As of September 30, 2020 and 2019, the net remediation costs included in the Gallery's property, plant and equipment consists of the following:

| | 2020 | 2019 |
|-----------------------------------|----------|---------|
| Remediation costs | \$ 4,201 | 4,201 |
| Less accumulated depreciation | (3,851) | (3,775) |
| Net capitalized remediation costs | \$ 350 | 426 |

(9) Net Assets

As of September 30, 2020 and 2019, net assets consisted of the following:

| | 2020 | | | 2019 | | |
|---|-------------------------------|----------------------------|-----------|-------------------------------|----------------------------|-----------|
| | Without donor restrictions | With donor restrictions | Total | Without donor restrictions | With donor restrictions | Total |
| Donor restricted endowment funds | \$ - | 624,296 | 624,296 | - | 569,367 | 569,367 |
| Add pledges receivable | - | 12,795 | 12,795 | - | 10,191 | 10,191 |
| Less refundable advances | - | (19,535) | (19,535) | - | (19,535) | (19,535) |
| Net donor restricted endowment funds | - | 617,556 | 617,556 | - | 560,023 | 560,023 |
| Perpetual trust held by a third party | - | 11,133 | 11,133 | - | 10,284 | 10,284 |
| Permanent loan from U.S. Treasury | - | 5,000 | 5,000 | - | 5,000 | 5,000 |
| Total funds restricted in perpetuity | - | 633,689 | 633,689 | - | 575,307 | 575,307 |
| Board-designated endowment funds | 66,663 | - | 66,663 | 62,014 | - | 62,014 |
| Total net assets subject to spending rules | 66,663 | 633,689 | 700,352 | 62,014 | 575,307 | 637,321 |
| Net assets with donor restrictions available for: | | | | | | |
| Gallery programs and operations | - | 111,984 | 111,984 | - | 104,355 | 104,355 |
| Federal repair and renovation | - | 56,681 | 56,681 | - | 59,264 | 59,264 |
| Net investment in property, plant and equipment | 306,093 | 34,940 | 341,033 | 306,092 | 12,024 | 318,116 |
| Future-funded federal liabilities | (42,865) | - | (42,865) | (39,576) | - | (39,576) |
| Other board-designated net assets: | | | | | | |
| Operating reserves | 115,000 | - | 115,000 | 115,000 | - | 115,000 |
| Capital reserves | 30,000 | - | 30,000 | 30,000 | - | 30,000 |
| Undesignated | 121,783 | - | 121,783 | 97,199 | - | 97,199 |
| Total | \$ 596,674 | 837,294 | 1,433,968 | 570,729 | 750,950 | 1,321,679 |

Donor restricted endowment funds include accumulated appreciation of \$334,134 and \$288,031 for the years ended September 30, 2020 and 2019, respectively. Future-funded federal liabilities represent environmental remediation, accrued vacation, and workers compensation liabilities to be funded with future fiscal year federal appropriations. Board designated reserves have been established to provide necessary resources in the event of potential extended market declines, as well as shortfalls in donor support and earned revenue during periods of economic recession, and to offset potential losses for damage or theft of art works on loan to the Gallery in excess of insurance coverage. Capital reserves fund non-federal capital additions and renovations and related obligations.

NATIONAL GALLERY OF ART

Notes to Financial Statements September 30, 2020 (In thousands)

Net assets with donor restrictions are restricted as follows as of September 30, 2020 and 2019:

| | 2020 | | | | |
|--|--|--------------------------------------|--|--------------------------------|---------|
| | Restricted in perpetuity subject to spending policy | Subject to purpose restriction | Subject to release for assets placed in service | Subject to time restriction | Total |
| Acquisition of art | \$ 123,004 | 4,389 | – | – | 127,393 |
| Collections | 74,489 | 652 | – | – | 75,141 |
| Special exhibitions | 60,415 | 19,295 | – | – | 79,710 |
| Education and public programs | 183,181 | 83,300 | – | – | 266,481 |
| Editorial and photography | 6,898 | 317 | – | – | 7,215 |
| Operations | 185,702 | 2,349 | – | 507 | 188,558 |
| Capital projects | – | 1,175 | – | – | 1,175 |
| Federal repair and renovation projects | – | 56,681 | 34,940 | – | 91,621 |
| Total | \$ 633,689 | 168,158 | 34,940 | 507 | 837,294 |
| | | | | | |
| | 2019 | | | | |
| | Restricted in perpetuity subject to spending policy | Subject to purpose restriction | Subject to release for assets placed in service | Subject to time restriction | Total |
| Acquisition of art | \$ 113,747 | 3,679 | – | – | 117,426 |
| Collections | 68,509 | 810 | – | – | 69,319 |
| Special exhibitions | 54,600 | 17,376 | – | – | 71,976 |
| Education and public programs | 164,583 | 77,852 | – | – | 242,435 |
| Editorial and photography | 6,288 | 397 | – | – | 6,685 |
| Operations | 167,580 | 2,379 | – | 687 | 170,646 |
| Capital projects | – | 1,175 | – | – | 1,175 |
| Federal repair and renovation projects | – | 59,264 | 12,024 | – | 71,288 |
| Total | \$ 575,307 | 162,932 | 12,024 | 687 | 750,950 |

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2020
(In thousands)

(10) Endowment Funds

The Gallery's endowment consists of 122 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and four funds designated by the Board of Trustees to function as endowment funds supporting Gallery programs and operations. 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.

Interpretation of Relevant Law

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 corpus of the Gallery's endowment funds consist of (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Earnings and accumulated appreciation of the endowment funds remain restricted until 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

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

NATIONAL GALLERY OF ART

Notes to Financial Statements September 30, 2020 (In thousands)

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

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

The following table summarizes the change in the Gallery's endowment funds during the years ended September 30, 2020 and 2019:

| | 2020 | | | 2019 | | |
|--|-------------------------------|----------------------------|----------|-------------------------------|----------------------------|----------|
| | Without donor restrictions | With donor restrictions | Total | Without donor restrictions | With donor restrictions | Total |
| Endowment funds at beginning of year | \$ 62,014 | 569,367 | 631,381 | 64,296 | 568,581 | 632,877 |
| Contributions received | 205 | 9,281 | 9,486 | - | 11,522 | 11,522 |
| Investment return | 6,881 | 63,961 | 70,842 | 938 | 7,781 | 8,719 |
| Appropriation of endowment assets for expenditures | (2,437) | (18,313) | (20,750) | (3,220) | (18,517) | (21,737) |
| Endowment funds at end of year | \$ 66,663 | 624,296 | 690,959 | 62,014 | 569,367 | 631,381 |

Funds with Deficiencies

From time to time the fair value of assets of individual donor-restricted endowment funds may fall below the level required to be maintained in perpetuity in accordance with UPMIFA or the applicable donor gift document, creating an "underwater" endowment fund. It is the policy of the Gallery not to spend from underwater funds.

There were no underwater endowment funds as of September 30, 2020. The following table summarizes the Gallery's funds with deficiencies as of September 30, 2019:

| | |
|-------------------------------|----------|
| | 2019 |
| Fair value of endowment funds | \$ 4,597 |
| Original gift corpus | (4,650) |
| Underwater deficiency | \$ (53) |

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Notes to Financial Statements
September 30, 2020
(In thousands)

(11) Net Assets Released from Restrictions

Net assets are released from donor restrictions as expenses are incurred to satisfy the restricted purposes or by occurrence of the passage of time or other events specified by donors. Restrictions of net assets were released by the Gallery as follows for the years ended September 30, 2020 and 2019.

| | 2020 | | | 2019 |
|--|-----------|---------|--------|--------|
| | Private | Federal | Total | Total |
| Operating Releases | | | | |
| Purpose-restricted gifts released for: | | | | |
| Collections | \$ 244 | – | 244 | 481 |
| Special exhibitions | 1,208 | 2,150 | 3,358 | 8,387 |
| Education and public programs | 932 | – | 932 | 1,405 |
| Editorial and photography | 110 | – | 110 | 76 |
| Operations | 283 | 5,019 | 5,302 | 4,727 |
| Total | 2,777 | 7,169 | 9,946 | 15,076 |
| Release of appropriated endowment spend without purpose restrictions | 2,647 | – | 2,647 | 2,570 |
| Release of appropriated endowment spend with purpose restrictions | 15,176 | – | 15,176 | 14,482 |
| Total operating releases | 20,600 | 7,169 | 27,769 | 32,128 |
| Non-operating Releases | | | | |
| Purpose-restricted gifts released for: | | | | |
| Acquisition of art | 5,075 | – | 5,075 | 6,617 |
| Capital projects | – | 851 | 851 | 991 |
| Total | 5,075 | 851 | 5,926 | 7,608 |
| Release of appropriated endowment spend with purpose restrictions | 3,311 | – | 3,311 | 6,218 |
| Total non-operating releases | 8,386 | 851 | 9,237 | 13,826 |
| Total releases | \$ 28,986 | 8,020 | 37,006 | 45,954 |

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2020
(In thousands)

(12) 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 2020 salaries and expenses appropriation includes \$3,660 for no-year special exhibitions funding.

The Gallery's federal appropriations received in the fiscal years ending 2020 and 2019 are reconciled to federal appropriation revenue recognized as follows:

| | 2020 | | | 2019 Total |
|---|--------------------------|---|----------------|----------------|
| | Salaries and expenses | Repairs, restoration and renovation | Total | |
| Federal appropriations received | \$ 147,022 | 26,203 | 173,225 | 168,405 |
| Unexpended appropriations | (25,758) | - | (25,758) | (26,709) |
| Amounts expended from prior years' appropriations | 28,779 | - | 28,779 | 18,583 |
| Federal appropriation revenue recognized | <u>\$ 150,043</u> | <u>26,203</u> | <u>176,246</u> | <u>160,279</u> |
| Operating | \$ 133,096 | 5,019 | 138,115 | 136,557 |
| Non-operating | 16,947 | 21,184 | 38,131 | 23,722 |
| Total federal appropriation revenue recognized | <u>\$ 150,043</u> | <u>26,203</u> | <u>176,246</u> | <u>160,279</u> |

NATIONAL GALLERY OF ART

Notes to Financial Statements September 30, 2020 (In thousands)

(13) Functional Classification of Expenses

Expenses by functional and natural classification for the fiscal year ended September 30, 2020 and 2019 are shown below:

| | 2020 | | | | | | Total |
|-----------------------------------|------------------|---------------------|--|---------------------------|----------------------------|--------------|----------------|
| | Collections | Special exhibitions | Education, Gallery shops and public programs | Editorial and photography | General and administrative | Development | |
| Compensation | \$ 38,776 | 13,401 | 29,068 | 5,926 | 24,699 | 3,525 | 115,395 |
| Contractual services | 6,118 | 3,065 | 6,972 | 942 | 9,555 | 778 | 27,430 |
| Occupancy | 3,737 | 1,197 | 1,608 | 204 | 5,372 | 123 | 12,241 |
| Office expenses | 2,005 | 1,932 | 2,550 | 409 | 1,366 | 190 | 8,452 |
| Cost of sales | – | 376 | 1,998 | – | – | – | 2,374 |
| Other | 857 | 524 | 1,678 | 102 | 601 | 71 | 3,833 |
| Total operating expenses | <u>51,493</u> | <u>20,495</u> | <u>43,874</u> | <u>7,583</u> | <u>41,593</u> | <u>4,687</u> | <u>169,725</u> |
| Art acquisitions | 8,570 | – | – | – | – | – | 8,570 |
| Depreciation expense | 8,388 | 1,752 | 3,528 | 448 | 2,945 | 199 | 17,260 |
| Environmental liability accretion | 705 | 144 | 261 | 26 | 157 | 13 | 1,306 |
| Income tax expense | – | – | – | – | 201 | – | 201 |
| Total expenses | <u>\$ 69,156</u> | <u>22,391</u> | <u>47,663</u> | <u>8,057</u> | <u>44,896</u> | <u>4,899</u> | <u>197,062</u> |
| | 2019 | | | | | | |
| | Collections | Special exhibitions | Education, Gallery shops and public programs | Editorial and photography | General and administrative | Development | Total |
| Compensation | \$ 38,287 | 11,740 | 27,606 | 5,458 | 24,241 | 3,165 | 110,497 |
| Contractual services | 6,860 | 7,547 | 7,154 | 1,060 | 8,671 | 841 | 32,133 |
| Occupancy | 4,132 | 915 | 1,619 | 195 | 5,250 | 115 | 12,226 |
| Office expenses | 2,614 | 2,828 | 3,106 | 327 | 1,667 | 309 | 10,851 |
| Cost of sales | – | 326 | 2,978 | 19 | – | – | 3,323 |
| Other | 1,138 | 1,117 | 1,961 | 112 | 565 | 92 | 4,985 |
| Total operating expenses | <u>53,031</u> | <u>24,473</u> | <u>44,424</u> | <u>7,171</u> | <u>40,394</u> | <u>4,522</u> | <u>174,015</u> |
| Art acquisitions | 13,035 | – | – | – | – | – | 13,035 |
| Depreciation expense | 7,633 | 1,553 | 3,133 | 392 | 2,524 | 175 | 15,410 |
| Environmental liability accretion | 641 | 131 | 237 | 24 | 143 | 12 | 1,188 |
| Income tax expense | – | – | – | – | 205 | – | 205 |
| Total expenses | <u>\$ 74,340</u> | <u>26,157</u> | <u>47,794</u> | <u>7,587</u> | <u>43,266</u> | <u>4,709</u> | <u>203,853</u> |

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2020

(In thousands)

Certain costs including depreciation expense, utilities, building maintenance, security, information systems, and other operating costs have been allocated among program and supporting services. These costs are allocated based on various factors such as square footage, head count, direct labor dollars, and desktop locations.

(14) Employee Benefits

Total pension expense recognized in the Gallery's financial statements was \$11,612 and \$9,724 for the years ended September 30, 2020 and 2019, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$555 and \$2,716, 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, 2020 and 2019, were \$3,300 and \$3,116, 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 2020 and 2019, the Gallery contributed \$6,740 and \$6,728, 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 \$5,801 and \$5,471 during fiscal years 2020 and 2019, 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 2020 and 2019 total \$200 and \$107, respectively, and is recognized as an expense in the statement of activities and as a liability included in accounts payable and other liabilities in the accompanying statement of financial position.

(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. As a 501(c)(3) organization, the Gallery is taxed only on unrelated business income. Investment earnings are the primary source of the Gallery's unrelated business income. 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.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2020

(In thousands)

(16) Lease Commitments

The Gallery has entered into several operating leases for warehouse and office space, which continue through December 31, 2028. 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 are as follows:

| Fiscal Year Ending: | |
|------------------------------|-------------------------|
| 2021 | \$ 5,465 |
| 2022 | 5,589 |
| 2023 | 5,717 |
| 2024 | 3,914 |
| 2025 | 1,262 |
| Thereafter | <u>4,258</u> |
| Total minimum lease payments | \$ <u><u>26,205</u></u> |

Rental expense was approximately \$7,002 and \$6,607 for the years ended September 30, 2020 and 2019, respectively.

(17) Subsequent Events

The Gallery has performed an evaluation of subsequent events through November 12, 2020, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2020.

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Federal Supplementary Schedules
September 30, 2020
(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, 2020 and 2019
 (In thousands)

| | <u>2020</u> | <u>2019</u> |
|------------------------------------|-------------------|----------------|
| Assets | | |
| Intragovernmental: | | |
| Fund balance with U.S. Treasury | \$ 111,672 | 112,502 |
| Total intragovernmental | 111,672 | 112,502 |
| Property, plant and equipment, net | 283,805 | 256,641 |
| Total assets | <u>\$ 395,477</u> | <u>369,143</u> |
| Liabilities | | |
| Intragovernmental: | | |
| Other | \$ 1,387 | 1,645 |
| Total intragovernmental | 1,387 | 1,645 |
| Accounts payable | 6,809 | 7,450 |
| Actuarial FECA liability | 6,775 | 7,311 |
| Environmental liability | 28,660 | 26,423 |
| Other | 16,770 | 10,893 |
| Total liabilities | <u>60,401</u> | <u>53,722</u> |
| Net position | | |
| Unexpended appropriations | 95,220 | 99,431 |
| Cumulative results of operations | <u>239,856</u> | <u>215,990</u> |
| Total net position | <u>335,076</u> | <u>315,421</u> |
| Total liabilities and net position | <u>\$ 395,477</u> | <u>369,143</u> |

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

Supplementary Schedule 2

NATIONAL GALLERY OF ART
Federal Schedule of Net Cost
Years ended September 30, 2020 and 2019
(In thousands)

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|-------------------|----------------|
| Program costs: | | |
| Collections | \$ 58,112 | 61,777 |
| Special exhibitions | 18,996 | 20,045 |
| Education | 34,243 | 34,236 |
| Editorial and photography | 6,973 | 6,655 |
| Total program costs | <u>118,324</u> | <u>122,713</u> |
| Costs not assigned to programs | 41,475 | 40,283 |
| Net cost of operations | <u>\$ 159,799</u> | <u>162,996</u> |

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

Supplementary Schedule 3

NATIONAL GALLERY OF ART

Federal Schedule of Changes in Net Position

Years ended September 30, 2020 and 2019

(In thousands)

| | 2020 | 2019 |
|---|------------|-----------|
| Unexpended appropriations: | | |
| Beginning balances | \$ 99,431 | 75,565 |
| Budgetary financing sources: | | |
| Appropriations received | 173,225 | 168,405 |
| Other adjustments | (127) | - |
| Appropriations used | (177,309) | (144,539) |
| Total budgetary financing sources | (4,211) | 23,866 |
| Total unexpended appropriations | 95,220 | 99,431 |
| Cumulative results of operations: | | |
| Beginning balances | 215,990 | 226,259 |
| Budgetary financing sources: | | |
| Appropriations used | 177,309 | 144,539 |
| Other financing sources: | | |
| Imputed financing from costs absorbed by others | 6,356 | 8,188 |
| Total financing sources | 183,665 | 152,727 |
| Net cost of operations | (159,799) | (162,996) |
| Net change | 23,866 | (10,269) |
| Cumulative results of operations | 239,856 | 215,990 |
| Net position | \$ 335,076 | 315,421 |

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

Supplementary Schedule 4

NATIONAL GALLERY OF ART

Federal Schedule of Budgetary Resources
Years ended September 30, 2020 and 2019
(In thousands)

| | 2020 | 2019 |
|---|------------|-----------|
| Budgetary resources: | | |
| Unobligated balance, bought forward, October 1 | \$ 14,968 | 8,033 |
| Recoveries of prior year unpaid obligations | 962 | 1,435 |
| Other changes in unobligated balance | (104) | 17 |
| Unobligated balance from prior year budget authority, net | 15,826 | 9,485 |
| Appropriations | 173,225 | 168,405 |
| Total budgetary resources | \$ 189,051 | 177,890 |
| Status of budgetary resources: | | |
| Obligations incurred | \$ 172,170 | 162,922 |
| Unobligated balance, end of year: | | |
| Apportioned | 16,109 | 14,315 |
| Unapportioned | 772 | 653 |
| Total unobligated balance, end of year | 16,881 | 14,968 |
| Total budgetary resources | \$ 189,051 | 177,890 |
| Change in obligated balance: | | |
| Unpaid obligations brought forward, October 1 (gross) | \$ 97,534 | 77,419 |
| Obligations incurred | 172,170 | 162,922 |
| Outlays, gross | (173,951) | (141,372) |
| Recoveries of prior year unpaid obligations | (962) | (1,435) |
| Obligated balance, end of year (net) | \$ 94,791 | 97,534 |
| Budget authority and outlays, net: | | |
| Budget authority, gross | \$ 173,225 | 168,405 |
| Budget authority, net | \$ 173,225 | 168,405 |
| Outlays, gross | \$ 173,951 | 141,372 |
| Actual offsetting collections | (23) | (17) |
| Outlays, net | \$ 173,928 | 141,355 |

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

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2020
(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 2020 actual budgetary execution information has not yet been published. *The Budget of the United States Government* is scheduled for publication in February 2021. Accordingly, information required for such disclosure is not available at the time of preparation of these schedules.

Instead, the Gallery's FY 2019 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 receipts | Net outlays |
|---------------------------------|------------------------|-------------------------|---------------------------------------|-------------|
| Schedule of budgetary resources | \$ 177,890 | 162,922 | – | 141,355 |
| Other | 890 | (78) | – | (645) |
| Budget of the U.S. government | \$ 177,000 | 163,000 | – | 142,000 |

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2020
(In thousands)

(2) Budget and Accrual Reconciliation

Federal accounting incorporates the use of both budgetary accounting which is based on the receipt and use of cash, and financial accounting. Financial accounting is based on the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when goods and services are received. Following is a reconciliation of the Gallery's net costs, presented in accordance with the accrual basis of accounting, to net outlays as of September 30, 2020 and 2019, respectively.

| | FY 2020 | | |
|--|------------------------|----------|----------|
| | Intra- governmental | Public | Total |
| Net cost | \$ 11,785 | 148,014 | 159,799 |
| Components of net cost that are not part of net outlays: | | | |
| Depreciation expense | – | (13,012) | (13,012) |
| Environmental liability accretion | – | (1,306) | (1,306) |
| Environmental liability change in value | – | (1,467) | (1,467) |
| Imputed costs absorbed by others | (6,356) | – | (6,356) |
| Components of net outlays that are not part of net cost: | | | |
| Acquisitions of property, plant and equipment | – | 40,176 | 40,176 |
| Remediation costs incurred | – | 536 | 536 |
| Other reconciling items: | | | |
| (Increase) decrease in liabilities: | | | |
| Accounts payable | 260 | 641 | 901 |
| Actuarial FECA liability | – | 536 | 536 |
| Other liabilities | (2) | (5,877) | (5,879) |
| Net outlays | \$ 5,687 | 168,241 | 173,928 |

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2020
(In thousands)

| | FY 2019 | | |
|--|------------------------|----------|----------|
| | Intra- governmental | Public | Total |
| Net cost | \$ 13,677 | 149,319 | 162,996 |
| Components of net cost that are not part of net outlays: | | | |
| Depreciation expense | – | (11,019) | (11,019) |
| Environmental liability accretion | – | (1,188) | (1,188) |
| Environmental liability change in value | – | (5,402) | (5,402) |
| Imputed costs absorbed by others | (8,188) | – | (8,188) |
| Components of net outlays that are not part of net cost: | | | |
| Acquisitions of property, plant and equipment | – | 8,103 | 8,103 |
| Remediation costs incurred | – | 30 | 30 |
| Other reconciling items: | | | |
| (Increase) decrease in liabilities: | | | |
| Accounts payable | 246 | (2,540) | (2,294) |
| Actuarial FECA liability | – | 95 | 95 |
| Other liabilities | – | (1,778) | (1,778) |
| Net outlays | \$ 5,735 | 135,620 | 141,355 |

(3) Fund Balance with U.S. Treasury

As of September 30, 2020 and 2019, fund balance with U.S. Treasury consisted of the following:

| | 2020 | 2019 |
|-------------------------------------|------------|---------|
| Unobligated balance: | | |
| Available | 16,109 | 14,315 |
| Unavailable | 772 | 653 |
| Obligated balance not yet disbursed | 94,791 | 97,534 |
| Total appropriated funds | \$ 111,672 | 112,502 |

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2020
(In thousands)

(4) Heritage Assets

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

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

(5) Stewardship Assets

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

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

For the year ended September 30, 2020 the changes in heritage assets were as follows:

| | October 1, 2019 | Increases | Decreases | September 30, 2020 |
|--------------------|--------------------|-----------|-----------|-----------------------|
| Art collection | 1 | – | – | 1 |
| Image collection | 1 | – | – | 1 |
| Library collection | 1 | – | – | 1 |
| Total | 3 | – | – | 3 |

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

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2020
(In thousands)

(6) Liabilities Not Covered by Budgetary Resource

As of September 30, 2020 and 2019, liabilities not covered by budgetary resources consisted of the following:

| | 2020 | 2019 |
|--|-----------|--------|
| Environmental liability | \$ 28,660 | 26,423 |
| Actuarial FECA liability | 6,775 | 7,311 |
| Unfunded leave | 6,463 | 4,684 |
| Unfunded FECA liability | 1,086 | 1,240 |
| Total liabilities not covered by budgetary resources | 42,984 | 39,658 |
| Total liabilities covered by budgetary resources | 16,451 | 13,071 |
| Total liabilities not requiring budgetary resources | 966 | 993 |
| Total liabilities | \$ 60,401 | 53,722 |

(7) Reconciliation of Net Position to Net Assets

The Gallery's net position presented in the Federal Balance Sheet (Supplementary Schedule 1) is reconciled to federal net assets presented in the Statement of Financial Position for the years ended September 30, 2020 and 2019, as follows:

| | 2020 | 2019 |
|---|------------|----------|
| Net position presented in Federal Balance Sheet | \$ 335,076 | 315,421 |
| Unexpended federal multi-year appropriations | (36,015) | (39,163) |
| Net assets presented in Statement of Financial Position | \$ 299,061 | 276,258 |

(8) Undelivered Orders

The amount of budgetary resources obligated for undelivered orders as of September 30, 2020 and 2019 consisted of the following:

| | 2020 | 2019 |
|--------------------------|-----------|--------|
| Intragovernmental | \$ 1,471 | 910 |
| Other | 76,868 | 83,552 |
| Total undelivered orders | \$ 78,339 | 84,462 |

NATIONAL GALLERY OF ART

Other Supplementary Information

Unaudited

September 30, 2020

(In thousands)

Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2020

| | <u>Operating</u> | <u>Renovation</u> | <u>Total</u> |
|---|--------------------------|----------------------|-----------------------|
| Budgetary resources: | | | |
| Unobligated balance, bought forward, October 1 | \$ 8,292 | 6,676 | 14,968 |
| Recoveries of prior year unpaid obligations | 878 | 84 | 962 |
| Other changes in unobligated balance | <u>(104)</u> | <u>—</u> | <u>(104)</u> |
| Unobligated balance from prior year budget authority, net | 9,066 | 6,760 | 15,826 |
| Appropriations | <u>147,022</u> | <u>26,203</u> | <u>173,225</u> |
| Total budgetary resources | \$ <u><u>156,088</u></u> | <u><u>32,963</u></u> | <u><u>189,051</u></u> |
| Status of budgetary resources: | | | |
| Obligations incurred | \$ 147,073 | 25,097 | 172,170 |
| Unobligated balance, end of year: | | | |
| Apportioned | 8,243 | 7,866 | 16,109 |
| Unapportioned | <u>772</u> | <u>—</u> | <u>772</u> |
| Total unobligated balance, end of year | <u>9,015</u> | <u>7,866</u> | <u>16,881</u> |
| Total budgetary resources | \$ <u><u>156,088</u></u> | <u><u>32,963</u></u> | <u><u>189,051</u></u> |
| Change in obligated balance: | | | |
| Unpaid obligations brought forward, October 1 (gross) | \$ 41,909 | 55,625 | 97,534 |
| Obligations incurred | 147,073 | 25,097 | 172,170 |
| Outlays, gross | (149,835) | (24,116) | (173,951) |
| Recoveries of prior year unpaid obligations | <u>(878)</u> | <u>(84)</u> | <u>(962)</u> |
| Obligated balance, end of year (net) | \$ <u><u>38,269</u></u> | <u><u>56,522</u></u> | <u><u>94,791</u></u> |
| Budget authority and outlays, net: | | | |
| Budget authority, gross | \$ <u>147,022</u> | <u>26,203</u> | <u>173,225</u> |
| Budget authority, net | \$ <u><u>147,022</u></u> | <u><u>26,203</u></u> | <u><u>173,225</u></u> |
| Outlays, gross | \$ 149,835 | 24,116 | 173,951 |
| Actual offsetting collections | <u>(23)</u> | <u>—</u> | <u>(23)</u> |
| Outlays, net | \$ <u><u>149,812</u></u> | <u><u>24,116</u></u> | <u><u>173,928</u></u> |

NATIONAL GALLERY OF ART
Other Supplementary Information
Unaudited
September 30, 2020
(In thousands)

Schedule of Budgetary Resources by Appropriation Accounts
Year ended September 30, 2019

| | <u>Operating</u> | <u>Renovation</u> | <u>Total</u> |
|---|-------------------|-------------------|----------------|
| Budgetary resources: | | | |
| Unobligated balance, bought forward, October 1 | \$ 7,316 | 717 | 8,033 |
| Recoveries of prior year unpaid obligations | 1,329 | 106 | 1,435 |
| Other changes in unobligated balance | <u>17</u> | <u>–</u> | <u>17</u> |
| Unobligated balance from prior year budget authority, net | 8,662 | 823 | 9,485 |
| Appropriations | <u>144,202</u> | <u>24,203</u> | <u>168,405</u> |
| Total budgetary resources | <u>\$ 152,864</u> | <u>25,026</u> | <u>177,890</u> |
| Status of budgetary resources: | | | |
| Obligations incurred | \$ 144,572 | 18,350 | 162,922 |
| Unobligated balance, end of year: | | | |
| Apportioned | 7,639 | 6,676 | 14,315 |
| Unapportioned | <u>653</u> | <u>–</u> | <u>653</u> |
| Total unobligated balance, end of year | <u>8,292</u> | <u>6,676</u> | <u>14,968</u> |
| Total budgetary resources | <u>\$ 152,864</u> | <u>25,026</u> | <u>177,890</u> |
| Change in obligated balance: | | | |
| Unpaid obligations brought forward, October 1 (gross) | \$ 34,208 | 43,211 | 77,419 |
| Obligations incurred | 144,572 | 18,350 | 162,922 |
| Outlays, gross | (135,542) | (5,830) | (141,372) |
| Recoveries of prior year unpaid obligations | <u>(1,329)</u> | <u>(106)</u> | <u>(1,435)</u> |
| Obligated balance, end of year (net) | <u>\$ 41,909</u> | <u>55,625</u> | <u>97,534</u> |
| Budget authority and outlays, net: | | | |
| Budget authority, gross | \$ 144,202 | 24,203 | 168,405 |
| Budget authority, net | <u>\$ 144,202</u> | <u>24,203</u> | <u>168,405</u> |
| Outlays, gross | \$ 135,542 | 5,830 | 141,372 |
| Actual offsetting collections | <u>(17)</u> | <u>–</u> | <u>(17)</u> |
| Outlays, net | <u>\$ 135,525</u> | <u>5,830</u> | <u>141,355</u> |

NATIONAL GALLERY OF ART
 Other Supplementary Information
 Unaudited
 September 30, 2020
 (In thousands)

Deferred Maintenance

The Gallery's buildings and grounds include two landmark buildings, the East and West buildings, joined by an underground connecting link, and an adjacent sculpture garden and pavilion. As required by SFFAS 42, *Deferred Maintenance and Repairs*, a condition assessment survey method is used to evaluate the condition of the Gallery's buildings and facilities equipment to determine the future repair and maintenance requirements to maintain the buildings, systems, and equipment in an acceptable working condition.

A comprehensive update of the Gallery's facilities condition assessment was conducted in FY 2017 using current industry standards to identify and evaluate the condition and lifecycle of all Gallery real property assets, including projects covered under the Gallery's Master Facilities Plan. The deferred maintenance estimates as of FY 2020 and FY 2019 are as follows:

| | 2020 | 2019 |
|----------------------------|------------|---------|
| Buildings | \$ 69,664 | 68,268 |
| Facilities equipment | 77,957 | 66,449 |
| Total deferred maintenance | \$ 147,621 | 134,717 |

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.



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8350 Broad Street
McLean, VA 22102

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 the 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, 2020, 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 13, 2020.

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) as a basis for designing 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 a 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 financial statements. 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

McLean, Virginia
November 13, 2020

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, East and West Bldg.

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

George Catlin

The Female Eagle – Shawano, 1830

Paul Mellon Collection

Auguste Renoir

Young Woman Braiding Her Hair, 1876

Ailsa Mellon Bruce Collection

Andy Warhol

Green Marilyn

Gift of William C. Seitz and Irma S. Seitz, in Honor of the 50th Anniversary of the
National Gallery of Art

All photographs courtesy of the National Gallery of Art