

National Gallery of Art

Financial Statements

September 30, 2021

(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, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gallery as of September 30, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Gallery's 2020 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 13, 2020. In our opinion, the summarized



comparative information presented herein as of and for the year ended September 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary private and federal information on the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements.

Such information 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. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021 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 15, 2021

NATIONAL GALLERY OF ART

Statement of Financial Position

September 30, 2021

(with summarized financial information as of September 30, 2020)

(In thousands)

Assets	2021			2020
	Private	Federal	Total	Total
Cash and cash equivalents	\$ 5,531	110,723	116,254	118,003
Accounts receivable and other assets, net	3,368	–	3,368	3,749
Pledges receivable, net	3,510	–	3,510	18,289
Investments and trusts held by others	1,358,396	–	1,358,396	1,083,406
Property, plant and equipment, net	53,562	313,930	367,492	341,032
Art collections (Note 2)	–	–	–	–
Total assets	\$ 1,424,367	424,653	1,849,020	1,564,479
Liabilities and Net Assets				
Liabilities:				
Accounts payable and other liabilities	\$ 13,725	37,792	51,517	65,836
Unexpended federal multi-year appropriations	–	40,762	40,762	36,015
Environmental liability	–	34,580	34,580	28,660
Total liabilities	13,725	113,134	126,859	130,511
Net assets:				
Without donor restrictions	481,188	200,137	681,325	596,674
With donor restrictions	929,454	111,382	1,040,836	837,294
Total net assets	1,410,642	311,519	1,722,161	1,433,968
Total liabilities and net assets	\$ 1,424,367	424,653	1,849,020	1,564,479

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Statement of Activities

Year ended September 30, 2021

(with summarized financial information for the year ended September 30, 2020)

(In thousands)

	Without donor restrictions			With donor restrictions	Total 2021	Total 2020
	Private	Federal	Total			
Operating:						
Support and revenue:						
Federal appropriations	\$ –	132,609	132,609	8,702	141,311	138,115
Gifts and grants	3,083	–	3,083	3,954	7,037	4,571
Gallery shops sales, net	1,176	–	1,176	–	1,176	3,739
Spending policy appropriated for operations	4,452	–	4,452	21,122	25,574	24,547
Royalties and other income	673	–	673	–	673	590
	<u>9,384</u>	<u>132,609</u>	<u>141,993</u>	<u>33,778</u>	<u>175,771</u>	<u>171,562</u>
Net assets released from restrictions to fund operating expenses	<u>19,284</u>	<u>7,173</u>	<u>26,457</u>	<u>(26,457)</u>	<u>–</u>	<u>–</u>
Total support and revenue	<u>28,668</u>	<u>139,782</u>	<u>168,450</u>	<u>7,321</u>	<u>175,771</u>	<u>171,562</u>
Expenses:						
Collections	3,425	51,961	55,386	–	55,386	51,493
Special exhibitions	3,020	16,163	19,183	–	19,183	20,495
Education, Gallery shops and public programs	11,994	27,224	39,218	–	39,218	43,874
Editorial and photography	1,610	5,803	7,413	–	7,413	7,583
General and administrative	5,126	36,670	41,796	–	41,796	41,593
Development	2,539	2,363	4,902	–	4,902	4,687
Total operating expenses	<u>27,714</u>	<u>140,184</u>	<u>167,898</u>	<u>–</u>	<u>167,898</u>	<u>169,725</u>
Change in net assets from operating activities	<u>954</u>	<u>(402)</u>	<u>552</u>	<u>7,321</u>	<u>7,873</u>	<u>1,837</u>
Non-operating:						
Federal appropriations	–	11,977	11,977	18,201	30,178	38,131
Endowment gifts	–	–	–	21,304	21,304	11,885
Gifts for art acquisitions	–	–	–	6,744	6,744	5,783
Spending policy appropriated for art acquisitions	209	–	209	2,942	3,151	3,305
Change in value of split-interest agreements	(248)	–	(248)	1,766	1,518	311
Investment return less amounts appropriated for operations and art acquisitions	94,193	–	94,193	156,964	251,157	79,841
Other income	642	–	642	–	642	–
Acquisitions of works of art	(9,871)	–	(9,871)	–	(9,871)	(8,570)
Depreciation and amortization expense	(4,472)	(12,251)	(16,723)	–	(16,723)	(17,260)
Income tax expense	(634)	–	(634)	–	(634)	(201)
Environmental liability accretion	–	(1,348)	(1,348)	–	(1,348)	(1,306)
Environmental liability change in value	–	(5,248)	(5,248)	–	(5,248)	(1,467)
Bad debt expense	–	–	–	(550)	(550)	–
Net assets released from restrictions to fund non-operating expenses	<u>9,742</u>	<u>1,408</u>	<u>11,150</u>	<u>(11,150)</u>	<u>–</u>	<u>–</u>
Change in net assets from non-operating activities	<u>89,561</u>	<u>(5,462)</u>	<u>84,099</u>	<u>196,221</u>	<u>280,320</u>	<u>110,452</u>
Increase (decrease) in net assets	<u>90,515</u>	<u>(5,864)</u>	<u>84,651</u>	<u>203,542</u>	<u>288,193</u>	<u>112,289</u>
Net assets at beginning of year	<u>390,673</u>	<u>206,001</u>	<u>596,674</u>	<u>837,294</u>	<u>1,433,968</u>	<u>1,321,679</u>
Net assets at end of year	<u>\$ 481,188</u>	<u>200,137</u>	<u>681,325</u>	<u>1,040,836</u>	<u>1,722,161</u>	<u>1,433,968</u>

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Statement of Cash Flows
Year ended September 30, 2021
(with summarized financial information for the year ended September 30, 2020)
(In thousands)

	Private	Federal	Total 2021	Total 2020
Cash flows from operating activities:				
Federal operating appropriations	\$ —	146,058	146,058	134,967
Operating gifts and grants	6,490	—	6,490	5,899
Gallery shops sales	1,002	—	1,002	3,731
Investment income and dividends, net	901	—	901	895
Royalties and other income	597	—	597	1,098
Payments to employees	(22,404)	(92,104)	(114,508)	(113,210)
Payments to suppliers	(4,950)	(44,313)	(49,263)	(58,983)
Income tax payments	(634)	—	(634)	(201)
Net cash provided by (used in) operating activities	(18,998)	9,641	(9,357)	(25,804)
Cash flows from investing activities:				
Purchase of investments	(260,911)	—	(260,911)	(279,962)
Proceeds from sale of investments	287,141	—	287,141	309,547
Acquisitions of works of art	(11,634)	—	(11,634)	(10,505)
Purchase of property, plant and equipment	(800)	(40,768)	(41,568)	(34,854)
Net cash provided by (used in) investing activities	13,796	(40,768)	(26,972)	(15,774)
Cash flows from financing activities:				
Contributions and net investment income for donor restricted investments	12,928	—	12,928	9,281
Federal appropriations for capital projects	—	30,178	30,178	38,131
Gifts and grants for art acquisitions	9,462	—	9,462	3,148
Net cash provided by financing activities	22,390	30,178	52,568	50,560
Net change in cash and cash equivalents	17,188	(949)	16,239	8,982
Cash and cash equivalents at beginning of year	26,090	111,672	137,762	128,780
Cash and cash equivalents at end of year	\$ 43,278	110,723	154,001	137,762
Cash and cash equivalents reconciliation:				
Cash and cash equivalents included in Statement of Financial Position	\$ 5,531	110,723	116,254	118,003
Cash included in investments	37,747	—	37,747	19,759
Total cash and cash equivalents	\$ 43,278	110,723	154,001	137,762

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2021
(In thousands)

(1) Organization

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

A substantial portion of the National Gallery's operations is funded through annual federal appropriations approved annually by Congress and signed by the President. Since its founding, federal funds have supported the operations and maintenance and the protection and care of the nation's art collection, enabling the National Gallery to remain open 363 days a year at no charge to visitors. Federal appropriations are also received for the repair and restoration of the National Gallery's facilities.

In addition to federal appropriations, the National Gallery receives private donations from individuals, foundations, and corporations to support art acquisitions and conservation, scholarly and scientific research, exhibitions, and education outreach programs. 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".

(2) Summary of Significant Accounting Policies

(a) General

The National Gallery's financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) under *FASB ASC 958, Not-for-Profit Presentation of Financial Statements*, which requires the National Gallery to report its activities according to the following net asset classifications:

- *Without donor restrictions* – Net assets without donor restrictions consist of the National 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 National 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 fulfillment of the donor's stipulations. For gifts restricted for capital additions, net assets are released from restriction when assets are placed in service.

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Notes to Financial Statements
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(In thousands)

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.

(b) Measure of Operations

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

The National Gallery's Board of Trustees appropriates only a portion of the National 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 National 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 National Gallery's financial statements as of and for the year ended September 30, 2020, from which the summarized information was derived.

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

(e) Pledges Receivable

Unconditional promises to give to the National 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). Pledges are discounted at rates approximating the current market rate at the

NATIONAL GALLERY OF ART

Notes to Financial Statements
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(In thousands)

date of the gift. 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.

(f) 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 National 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 National 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 are 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 National Gallery has been named as beneficiary in several irrevocable charitable trusts held by third parties. The National 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.

(g) Property, Plant and Equipment

The land occupied by the National 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

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Notes to Financial Statements
September 30, 2021
(In thousands)

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

(h) Art Collections

The National Gallery's art collections focus upon European and American paintings, sculpture, decorative arts, works on paper, and photographs. The collections are maintained for public exhibition, education, and research in furtherance of public service rather than for financial gain.

The National 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. In conformity with accounting policies generally followed by art museums, the value of art has been excluded from the statement of financial position. The National Gallery does not deaccession any of its permanent collections.

(i) 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.

(j) Unexpended Federal Multi-Year Appropriations

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

(k) Revenue Recognition

Federal Appropriations

Multi-year appropriations received from the federal government are considered conditional contributions and are 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(j). Federal no-year appropriations are considered unconditional contributions restricted for the support of the National 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.

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Notes to Financial Statements
September 30, 2021
(In thousands)

Investment Earnings

Recognition of investment earnings is described in note 2(f). 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 and Membership Dues

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(e).

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 National 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 is derived primarily from sales of retail merchandise and royalties from contracted restaurant and, beginning in May 2021, outsourced retail operations. Revenues from retail sales prior to the outsourcing of operations were recognized at the time of sale to the customer. Royalties from outsourced retail and restaurant operations are received on a monthly basis and accrued as appropriate.

(l) Employee Benefits

The National 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 National 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 National Gallery.

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September 30, 2021

(In thousands)

The National 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 National 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 National 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 National Gallery.

Expense recognized in the National Gallery's financial statements includes current amounts invoiced and amounts expected to be invoiced by DOL, as well as the change in the actuarially 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 National Gallery. The cost associated with this liability cannot be met by the National Gallery without further appropriation action.

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Notes to Financial Statements
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(In thousands)

(m) Imputed Financing Sources

In certain cases, costs of the National 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 National 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 National 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 National 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 National Gallery and presented in note 14. The National 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.

(n) Contributed Services and Donated Assets

Volunteers provide assistance to various departments of the National 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.

(o) 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 National 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 National Gallery. General and administrative expenses include costs for executive management, financial administration, human resources and legal services. Development expenses include those costs associated with individual and corporate gifts and grants, annual appeals and other fundraising efforts.

(p) Estimates

The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported

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Notes to Financial Statements
September 30, 2021
(In thousands)

amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from these estimates.

(q) Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. Since this time, the National Gallery has followed the operating guidelines of the federal Office of Management and Budget and the Centers for Disease Control. Extensive measures have been implemented to protect the health and safety of both the National Gallery's employees and its visitors. Increasing numbers of staff have begun working on-site and operations are returning to pre-pandemic status with all campuses opening to the public during the fiscal year. The pandemic has not materially impacted the National Gallery's financial condition or financial statement presentation.

The National 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 National Gallery's investments and its financial position.

(r) Recent Accounting Pronouncements

Effective for the National Gallery's fiscal year 2021, FASB ASU 2019-03, *Updating the Definition of Collections* expands the manner in which proceeds from the sale of works of art may be used. The standard allows proceeds to be used for the direct care of existing collections, in addition to the acquisition of new collection items. Disclosure of the organizational policy on the use of proceeds and the organization's definition of "direct care" of its collections is also required by the standard. It is the National Gallery's policy to not deaccession works from its collection; therefore, the standard has no impact on the National Gallery's financial statements or disclosures.

Also effective for the National Gallery's fiscal year 2021 is ASU 2018-13, *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This standard eliminates, adds, and amends certain fair value disclosures, including the requirement to disclose purchases, sales, and transfers into and out of Level 3 investments in lieu of a rollforward of Level 3 activity. For the years ended September 30, 2021 and 2020, there were no material purchases, sales, or transfers into or out of Level 3 investments. Therefore, there were no additional disclosures in note 5, and the Level 3 rollforward was eliminated.

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Notes to Financial Statements
September 30, 2021
(In thousands)

(3) Financial Assets and Liquidity Resources

Federal appropriations provide for the daily operations and maintenance of the National Gallery, in addition to support for special exhibitions and renovation and repair of the National Gallery's buildings. Private donor endowments and gifts support Gallery programmatic activities and all art acquisitions. The National 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 National Gallery is invested in short-term accounts.

Following is a reconciliation of the National Gallery's total financial assets as of September 30, 2021 and 2020 to financial assets available to fund the National 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.

	2021		
	Private	Federal	Total
Financial assets:			
Cash and cash equivalents	\$ 5,531	110,723	116,254
Investments and trusts held by others	1,358,396	–	1,358,396
Pledges and accounts receivable	5,101	–	5,101
Total financial assets at year-end	1,369,028	110,723	1,479,751
Less financial assets unavailable for general expenditure within one year:			
Financial assets with donor restrictions	(940,035)	–	(940,035)
Trust held by others and charitable gift annuity assets	(8,342)	–	(8,342)
Board designations:			
Quasi-endowments	(82,085)	–	(82,085)
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	\$ 193,566	110,723	304,289

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	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

Quasi-endowment assets include unrestricted funds designated by the National Gallery's Board of Trustees to function as endowment funds supporting Gallery programs and operations, including the production of catalogues documenting the National 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 National 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 National 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, 2021 and 2020, net pledges receivable consisted of the following:

	2021	2020
Due in one year or less	\$ 1,780	14,823
Due between one year and five years	1,370	3,398
Due in more than five years	900	800
Subtotal	4,050	19,021
Less discounts of \$390 and \$582 and allowances of \$150 and \$150, respectively	(540)	(732)
Total	\$ 3,510	18,289

As of September 30, 2021 and 2020, \$280 and \$6,280 of the pledges receivable balance was receivable from related parties.

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

As of September 30, 2021 and 2020, investments and trusts held by others consisted of the following:

	2021	2020
Pooled investment portfolio	\$ 1,321,783	1,051,254
Trusts held by others	15,714	13,777
Charitable gift annuities and other	15,899	13,375
Subtotal	1,353,396	1,078,406
Loan to U.S. Treasury	5,000	5,000
Total	\$ 1,358,396	1,083,406

In 1942, the National 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 2021). Interest income on this loan was \$203 for the fiscal years ended September 30, 2021 and 2020. The fair value of the loan to the U.S. Treasury approximates the carrying value.

As of September 30, 2021 and 2020, the carrying value of the National 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 National Gallery's investments in

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private equity, venture 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 National 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 National 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 is valued based on property valuations that involve significant judgments and estimation. Another trust is a perpetual trust invested in equity, fixed income securities, and mutual funds where the National 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, 2021 and 2020 for financial assets by pricing observability levels:

	2021			Fair value at September 30, 2021
	Prices in active markets for identical assets (Level 1)	Unobservable inputs (Level 3)	Investments measured at net asset value ¹	
U.S. equities	\$ 217,501	–	236,536	454,037
International equities:				
Developed market equities	98,762	–	146,200	244,962
Emerging market equities	–	–	139,247	139,247
Real estate private investments	–	–	314	314
Private equity and venture capital funds	–	–	22,125	22,125
Hedge funds	–	–	343,280	343,280
Multi-asset fund	–	–	10,346	10,346
Fixed income securities	–	–	50,368	50,368
Cash	37,747	–	–	37,747
Money market fund	19,357	–	–	19,357
Trusts held by others	–	15,714	–	15,714
Charitable gift annuities and other	15,899	–	–	15,899
Total	<u>\$ 389,266</u>	<u>15,714</u>	<u>948,416</u>	<u>1,353,396</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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	2020			
	Prices in active markets for identical assets (Level 1)	Unobservable inputs (Level 3)	Investments measured at net asset value ¹	Fair value at September 30, 2020
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	\$ 332,035	13,777	732,594	1,078,406

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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The fair values of the following investments have been estimated using the net asset value per share of the investments as of September 30, 2021:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a)	\$ 236,536	4,517	Monthly to 5 years	60 to 90 days
International equities:	(b)				
Developed market equities		146,200	–	Weekly to monthly	3 to 30 days
Emerging market equities		139,247	–	Monthly	7 to 30 days
Real estate private investments	(c)	314	461	N/A	N/A
Private equity and venture capital funds	(d)	22,125	38,354	N/A	N/A
Hedge funds	(e)	343,280	–	Quarterly to rolling three years	45 to 95 days
Multi-asset fund	(f)	10,346	–	N/A	N/A
Fixed income securities	(g)	50,368	–	Daily	2 days
Total		<u>\$ 948,416</u>	<u>43,332</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, 2020:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a)	\$ 185,916	–	Monthly to 5 years	30 to 90 days
International equities:	(b)				
Developed market equities		113,585	–	Weekly to monthly	3 to 30 days
Emerging market equities		107,356	–	Monthly	7 to 30 days
Real estate private investments	(c)	507	461	N/A	N/A
Private equity and venture capital funds	(d)	19,376	5,778	N/A	N/A
Hedge funds	(e)	262,106	–	Monthly to rolling three years	45 to 181 days
Multi-asset fund	(f)	13,266	–	N/A	N/A
Fixed income securities	(g)	30,482	–	Daily	2 days
Total		<u>\$ 732,594</u>	<u>6,239</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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Notes to Financial Statements September 30, 2021 (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, 2021 and 2020:

	2021			2020 Total
	Without donor restrictions	With donor restrictions	Total	
Total net investment return	\$ 98,854	181,028	279,882	107,693
Appropriated for operations	(4,452)	(21,122)	(25,574)	(24,547)
Appropriated for art acquisitions	(209)	(2,942)	(3,151)	(3,305)
Investment return less amounts appropriated for operations and art acquisitions	<u>\$ 94,193</u>	<u>156,964</u>	<u>251,157</u>	<u>79,841</u>

(6) Property, Plant and Equipment, Net

As of September 30, 2021 and 2020, net property, plant and equipment consisted of the following:

	2021			2020 Total
	Private funds	Federal funds	Total	
Buildings and improvements	\$ 187,511	328,856	516,367	507,194
Equipment and computer software	7,222	99,809	107,031	107,416
Construction-in-progress	6	68,528	68,534	45,778
Equipment under capital lease	-	2,962	2,962	2,962
Subtotal	194,739	500,155	694,894	663,350
Less accumulated depreciation and amortization	<u>(141,177)</u>	<u>(186,225)</u>	<u>(327,402)</u>	<u>(322,318)</u>
Total	<u>\$ 53,562</u>	<u>313,930</u>	<u>367,492</u>	<u>341,032</u>

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(7) Accounts Payable and Other Liabilities

As of September 30, 2021 and 2020, accounts payable and other liabilities consisted of the following:

	2021			2020 Total
	Private funds	Federal funds	Total	
Accrued salaries and benefits	\$ 6,163	19,811	25,974	24,807
Accounts payable and accrued expenses	1,013	11,381	12,394	12,239
Other liabilities	6,549	6,600	13,149	9,255
Refundable advances	—	—	—	19,535
Total	<u>\$ 13,725</u>	<u>37,792</u>	<u>51,517</u>	<u>65,836</u>

Refundable advances represent a donor gift received in fiscal year 2017 contingent upon the National Gallery satisfying matching requirements by March 31, 2021 in accordance with the donor agreement. The matching conditions were fully satisfied in fiscal year 2021.

(8) Environmental Liability

In 2006 the National Gallery, in conjunction with third party consultants, determined the cost of removing asbestos and other hazardous materials from the National 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 National Gallery's financial statements reflect an unfunded liability for environmental remediation clean-up costs as follows:

	2021	2020
Beginning balance	\$ 28,660	26,423
Remediation accretion	1,348	1,306
Change in liability valuation	5,248	1,467
Remediation costs incurred	(676)	(536)
Total	<u>\$ 34,580</u>	<u>28,660</u>

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As of September 30, 2021 and 2020, the net remediation costs included in the National Gallery's property, plant and equipment consists of the following:

	2021	2020
Remediation costs	\$ 4,201	4,201
Less accumulated depreciation	(4,201)	(3,851)
Net capitalized remediation costs	\$ —	350

(9) Net Assets

As of September 30, 2021 and 2020, net assets consisted of the following:

	2021		Total
	Without donor restrictions	With donor restrictions	
Donor restricted endowment funds	\$ —	777,342	777,342
Add pledges receivable	—	1,086	1,086
Net donor restricted endowment funds	—	778,428	778,428
Perpetual trust held by a third party	—	13,154	13,154
Permanent loan from U.S. Treasury	—	5,000	5,000
Board-designated endowment funds	82,045	—	82,045
Total net assets subject to spending rules	82,045	796,582	878,627
Net assets with donor restrictions available for:			
Gallery programs and operations	—	135,841	135,841
Federal repair and renovation	—	43,807	43,807
Net investment in property, plant and equipment	302,886	64,606	367,492
Future-funded federal liabilities	(49,187)	—	(49,187)
Other board-designated net assets:			
Operating reserves	115,000	—	115,000
Capital reserves	30,000	—	30,000
Undesignated	200,581	—	200,581
Total	\$ 681,325	1,040,836	1,722,161

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	2020		
	Without donor restrictions	With donor restrictions	Total
Donor restricted endowment funds	\$ —	624,296	624,296
Add pledges receivable	—	12,795	12,795
Less refundable advances	—	(19,535)	(19,535)
Net donor restricted endowment funds	—	617,556	617,556
Perpetual trust held by a third party	—	11,133	11,133
Permanent loan from U.S. Treasury	—	5,000	5,000
Board-designated endowment funds	66,663	—	66,663
Total net assets subject to spending rules	66,663	633,689	700,352
Net assets with donor restrictions available for:			
Gallery programs and operations	—	111,984	111,984
Federal repair and renovation	—	56,681	56,681
Net investment in property, plant and equipment	306,092	34,940	341,032
Future-funded federal liabilities	(42,864)	—	(42,864)
Other board-designated net assets:			
Operating reserves	115,000	—	115,000
Capital reserves	30,000	—	30,000
Undesignated	121,783	—	121,783
Total	\$ 596,674	837,294	1,433,968

Donor restricted endowment funds include accumulated appreciation of \$473,897 and \$334,134 as of September 30, 2021 and 2020, 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 National Gallery in excess of insurance coverage. Capital reserves fund non-federal capital additions and renovations and related obligations.

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Net assets with donor restrictions are available for the purposes as follows as of September 30, 2021 and 2020:

		2021			
		Subject to spending policy	Spendable with purpose restrictions	Placement in service and time restrictions	Total
Acquisition of art	\$	151,832	4,470	–	156,302
Collections		94,439	515	–	94,954
Special exhibitions		73,706	23,816	–	97,522
Education and public programs		245,876	102,423	–	348,299
Editorial and photography		8,465	336	–	8,801
Operations		222,264	2,863	474	225,601
Capital projects		–	944	–	944
Federal repair and renovation projects		–	43,807	64,606	108,413
Total	\$	796,582	179,174	65,080	1,040,836
		2020			
		Subject to spending policy	Spendable with purpose restrictions	Placement in service and time restrictions	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	35,447	837,294

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(10) Endowment Funds

The National Gallery's endowment consists of 122 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and six 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.

The National 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 National Gallery to appropriate for expenditure or accumulate so much of an endowment fund as the National 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.

The National Gallery retains in perpetuity the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and 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 National Gallery in a manner consistent with the standard of prudence prescribed by UPMIFA.

The National 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. The National 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 National Gallery's spending policy is based on an annual endowment spending rate of 5% of the average fair value of endowment investments at June 30 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. Beginning in fiscal year 2021 through fiscal year 2026 additional unrestricted funds up to \$3.5 million a year will be appropriated for strategic initiatives as approved by the National Gallery's Board of Trustees. Funds appropriated for art acquisition may exceed the 5% based on the availability of works of art for acquisition.

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Notes to Financial Statements September 30, 2021 (In thousands)

The following table summarizes the change in the National Gallery's endowment funds during the years ended September 30, 2021 and 2020:

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Endowment funds at beginning of year	\$ 66,663	624,296	690,959	62,014	569,367	631,381
Contributions received	732	12,928	13,660	205	9,281	9,486
Investment return	16,890	158,930	175,820	6,881	63,961	70,842
Appropriation of endowment assets for expenditures	(2,240)	(18,812)	(21,052)	(2,437)	(18,313)	(20,750)
Endowment funds at end of year	<u>\$ 82,045</u>	<u>777,342</u>	<u>859,387</u>	<u>66,663</u>	<u>624,296</u>	<u>690,959</u>

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 National Gallery not to spend from underwater funds. There were no underwater endowment funds as of September 30, 2021 and 2020.

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(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 National Gallery as follows for the years ended September 30, 2021 and 2020.

	2021			2020
	Private	Federal	Total	Total
Operating Releases				
Purpose-restricted gifts released for programs and operations	\$ 1,392	7,173	8,565	9,946
Appropriated endowment spend released:				
Without purpose restrictions	2,726	–	2,726	2,647
With purpose restrictions	15,166	–	15,166	15,176
Total operating releases	<u>19,284</u>	<u>7,173</u>	<u>26,457</u>	<u>27,769</u>
Non-operating Releases				
Purpose-restricted gifts released for:				
Acquisition of art	6,363	–	6,363	5,075
Capital projects	–	1,408	1,408	851
Appropriated endowment spend released for:				
Acquisition of art	3,300	–	3,300	3,311
Capital projects	79	–	79	–
Total non-operating releases	<u>9,742</u>	<u>1,408</u>	<u>11,150</u>	<u>9,237</u>
Total releases	<u>\$ 29,026</u>	<u>8,581</u>	<u>37,607</u>	<u>37,006</u>

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(12) Federal Appropriations

The National Gallery is funded primarily by two Congressional appropriations: one appropriation covers the National 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 National 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 National Gallery's buildings is available until expended. The fiscal year 2021 salaries and expenses appropriation includes \$3,700 for no-year special exhibitions funding.

The National Gallery's federal appropriations received in the fiscal years ending 2021 and 2020 are reconciled to federal appropriation revenue recognized as follows:

	2021			2020 Total
	Salaries and expenses	Repairs, restoration and renovation	Total	
Federal appropriations received	\$ 153,242	23,203	176,445	173,225
Unexpended appropriations	(27,058)	–	(27,058)	(25,758)
Amounts expended from prior years' appropriations	22,102	–	22,102	28,779
Federal appropriation revenue recognized	<u>\$ 148,286</u>	<u>23,203</u>	<u>171,489</u>	<u>176,246</u>
Operating	\$ 136,309	5,002	141,311	138,115
Non-operating	11,977	18,201	30,178	38,131
Total federal appropriation revenue recognized	<u>\$ 148,286</u>	<u>23,203</u>	<u>171,489</u>	<u>176,246</u>

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(13) Functional Classification of Expenses

Expenses by functional and natural classification for the fiscal years ended September 30, 2021 and 2020 are shown below:

	2021						
	Collections	Special exhibitions	Education, Gallery shops and public programs	Editorial and photography	General and administrative	Development	Total
Compensation	\$ 39,994	12,861	27,051	6,176	24,993	3,851	114,926
Contractual services	8,488	3,035	5,950	765	9,773	640	28,651
Occupancy	4,487	1,204	1,521	151	5,450	126	12,939
Office expenses	1,625	845	2,451	225	1,160	238	6,544
Cost of sales	-	714	790	43	-	-	1,547
Other	792	524	1,455	53	420	47	3,291
Total operating expenses	<u>55,386</u>	<u>19,183</u>	<u>39,218</u>	<u>7,413</u>	<u>41,796</u>	<u>4,902</u>	<u>167,898</u>
Art acquisitions	9,871	-	-	-	-	-	9,871
Depreciation expense	8,500	1,737	2,991	328	2,947	220	16,723
Environmental liability accretion	795	149	216	13	162	13	1,348
Income tax expense	-	-	-	-	634	-	634
Bad debt expense	-	-	-	-	-	550	550
Total expenses	<u>\$ 74,552</u>	<u>21,069</u>	<u>42,425</u>	<u>7,754</u>	<u>45,539</u>	<u>5,685</u>	<u>197,024</u>
	2020						
	Collections	Special exhibitions	Education, Gallery shops and public programs	Editorial and photography	General and administrative	Development	Total
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>

NATIONAL GALLERY OF ART

Notes to Financial Statements
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(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 National Gallery's financial statements was \$12,816 and \$11,612 for the years ended September 30, 2021 and 2020, respectively. These amounts do not include pension expense financed by OPM and imputed to the National Gallery of \$1,075 and \$555, respectively. To the extent that Gallery employees are covered by the thrift savings component of FERS, the National Gallery's payments to the plan are recorded as operating expenses. The National Gallery's costs associated with the thrift savings component of FERS for the years ended September 30, 2021 and 2020, were \$3,470 and \$3,300, respectively.

In addition, the National Gallery makes matching contributions for all employees who are eligible for current health and life insurance benefits. The National Gallery's contributions for active employees are recognized as operating expenses. During fiscal years 2021 and 2020, the National Gallery contributed \$6,833 and \$6,740, respectively. Using the cost factors supplied by OPM, the National Gallery has not recognized as an expense in its financial statements the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$6,142 and \$5,801 during fiscal years 2021 and 2020, respectively, and are financed by OPM and imputed to the National Gallery.

The National Gallery has a commitment to certain key employees whereby the National 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 National Gallery. The cost of these benefits for fiscal years 2021 and 2020 total \$200 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 National 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 National Gallery is taxed only on income unrelated to its tax-exempt purpose, primarily certain investment earnings. In accordance with the guidance on accounting for uncertainty in income taxes, the National Gallery regularly evaluates its operations and tax positions and is not aware of any uncertain tax positions requiring financial statement adjustment or disclosure.

NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2021

(In thousands)

(16) Lease Commitments

The National 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:		
2022	\$	5,589
2023		5,717
2024		3,914
2025		1,262
2026		1,284
Thereafter		2,974
Total minimum lease payments	\$	<u>20,740</u>

Rental expense was approximately \$6,867 and \$7,002 for the years ended September 30, 2021 and 2020, respectively.

(17) Subsequent Events

The National Gallery has performed an evaluation of subsequent events through November 15, 2021, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2021.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
The National Gallery of Art:

We have audited, in accordance with 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, 2021, 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 15, 2021.

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 Gallery's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 15, 2021