



NATIONAL GALLERY OF ART

FY 2017 Performance and Accountability Report



NATIONAL GALLERY OF ART

PERFORMANCE AND ACCOUNTABILITY REPORT

for the year ended September 30, 2017

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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 2017 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 2017 Annual Performance Plan.

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

We are proud of the progress the Gallery has made in FY 2017 towards achieving our long term goals and objectives.

Performance Highlights

This PAR discusses our achievements in FY 2017 and reviews our progress towards the key annual performance goals and objectives established in our performance plan by:

- Providing the public with increased and continuing access to the Gallery's collection and educational materials
- Continuing to 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 2017 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 2017 has been a very productive year. Building on our accomplishments, we will continue to focus on the challenges that lie ahead as we provide our visitors with an enjoyable and rewarding experience with the world's artistic heritage through the Gallery's collection and special exhibitions.

Earl A. Powell III
Director
November 15, 2017

Message from the CFO

This Performance and Accountability Report (PAR) discusses our achievements in FY 2017, provides performance and financial information, and reviews our progress towards the key annual performance goals and objectives established in our performance plan. As we fulfill our mission of preserving, collecting, exhibiting, interpreting and encouraging the understanding by the American public of original, great works of art, the National Gallery of Art is committed to effectively and efficiently managing the government resources provided to fulfill that mission. The Gallery continued to make progress in FY 2017 towards achieving those long term goals and objectives.

The performance section of this report discusses the Gallery's programmatic activities conducted in FY 2017 in relation to the Gallery's annual performance goals. The Gallery has continued to refine its financial system to further enhance our governance, improve our planning process and provide more accurate, timely financial data for all performance goals and measures.

The Gallery received an unmodified audit opinion on its FY 2017 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 our accomplishments in FY 2017, we will continue to focus on increasing our efficiency and enhancing the stewardship of our limited resources to meet the challenges that lie ahead.

William W. McClure
Treasurer
November 15, 2017

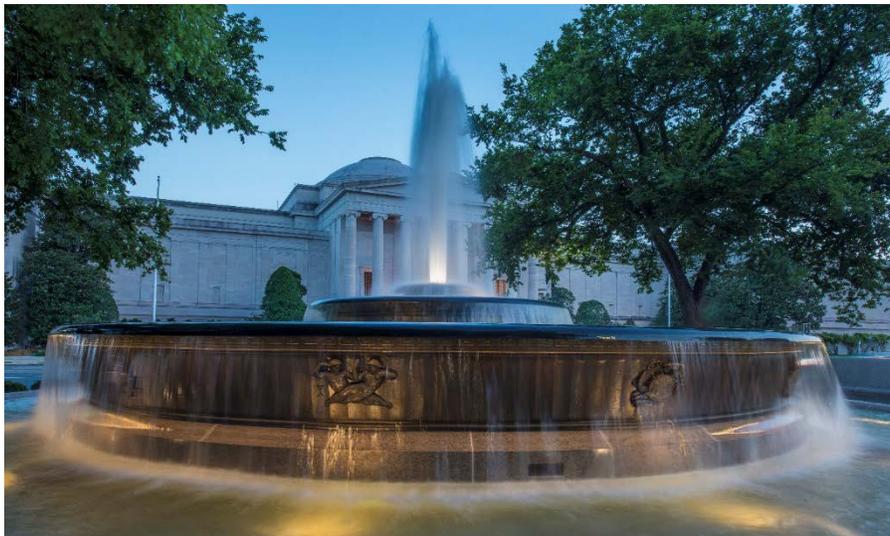
National Gallery of Art Management's Discussion and Analysis (unaudited)

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

The Gallery is funded with Congressional appropriations and private funding.

Performance Goals, Objectives and Results

Building on FY 2016 accomplishments, the Gallery continued to make significant progress during FY 2017 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 2017 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 plan 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 detailed above. The Gallery reports eight metrics as statistical information only, as well as six established objectives for FY 2017 related to capital repairs, deferred maintenance, and information technology. The Gallery met two objectives, partially met one objective and did not meet three objectives. The Gallery met the standard for facilities appearance and reduction of deferred maintenance, and partially met the objective for the Facilities Condition Index (FCI). The objectives not met include progress on the Master Facilities Plan (MFP), Planned versus Unplanned Maintenance and progress toward the Information Technology strategic plan.

Federal Financial Statements Summary and Analysis

Summarized operating results and net position for the years ended September 30, 2016 and 2017 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 2017 and 2016
(amounts in thousands)

Results of Operations	2017	2016	Increase/Decrease	
			\$	%
Total Financing Sources	\$ 143,796	160,138	(16,342)	-10%
Less Net Costs	(145,460)	(140,600)	4,860	3%
Net Operating Results	\$ (1,664)	19,538	(21,202)	-109%
Net Position				
Assets				
Fund balance with U.S. Treasury	\$ 58,212	41,048	17,164	42%
Property, plant and equipment, net	261,771	262,322	(551)	0%
Total Assets	319,983	303,370	16,613	5%
Liabilities				
Intragovernmental	1,697	238	1,459	613%
Accounts payable	5,164	2,475	2,689	109%
Actuarial FECA liability	7,625	7,811	(186)	-2%
Environmental liability	22,978	22,981	(3)	0%
Other	9,096	11,356	(2,260)	-20%
Total Liabilities	46,560	44,861	1,699	4%
Net Position	\$ 273,423	258,509	14,914	6%

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 2017 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 2017 was \$155.5 million, a \$7.9 million increase above the FY 2016 appropriation of \$147.6 million. The appropriation included \$129.3 million for salaries, benefits and expenses, \$3.6 million for special exhibitions and \$22.6 million for the repair, restoration and renovation of the buildings.

The Gallery's net cost of operations totaled \$145.5 million for the year, an increase of \$4.9 million or 3% over the prior year. Program costs represented \$108.6 million or 75% of total net costs, with the remaining \$36.9 million in "costs not assigned to programs" primarily representing general and administrative expenses.

Net Position

The Gallery's net position totaled \$273.4 million, increasing \$14.9 million or 6% over the prior year. Assets increased \$16.6 million primarily as a result of an increase in the fund balance with the US Treasury. The increase in the fund balance was due to a delay in awarding contracts for new projects as a result of a continuing resolution that extended until May 4, 2017.

Total liabilities increased by \$1.7 million. 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 2017 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:

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

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

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

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

Earl A. Powell III
Director
November 15, 2017

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

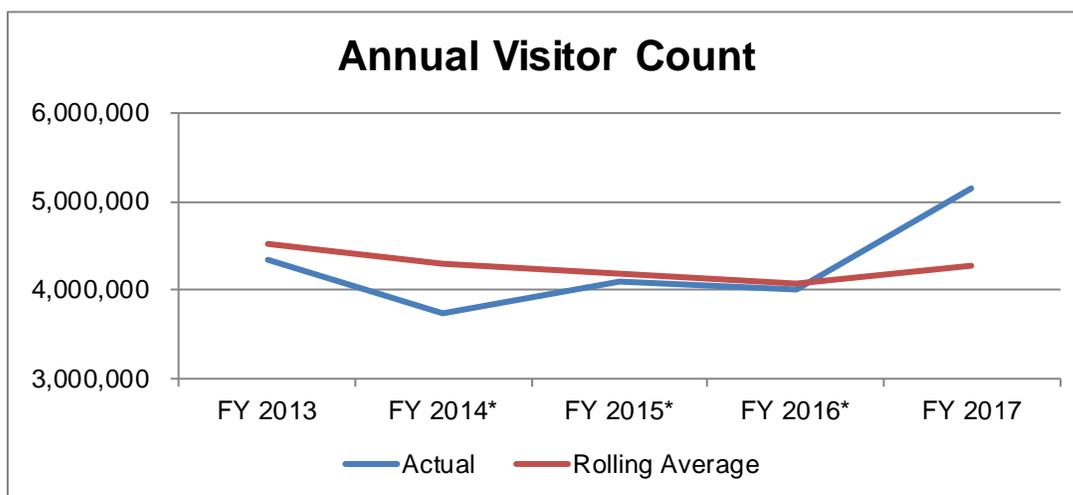
National Gallery of Art Performance Report

The Gallery's FY 2017 Federal funds appropriations supported the following key annual performance goals outlined below.

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

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

The Gallery welcomed 5,148,400 visitors in FY 2017, 21% above the average for the past five years and 1.1 million more than the prior year.



	FY 2013	FY 2014*	FY 2015*	FY 2016*	FY 2017
Actual	4,346,900	3,733,000	4,102,500	4,008,500	5,148,400
Rolling Average	4,513,200	4,293,500	4,192,300	4,084,200	4,267,900

*In FY 2014 the Gallery was closed for 16 days during a government shutdown and for 5 days due to severe weather. The visitor count remained below average for FY 2015 and FY 2016 due to the continued closure of the public galleries in the East Building for renovation.

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

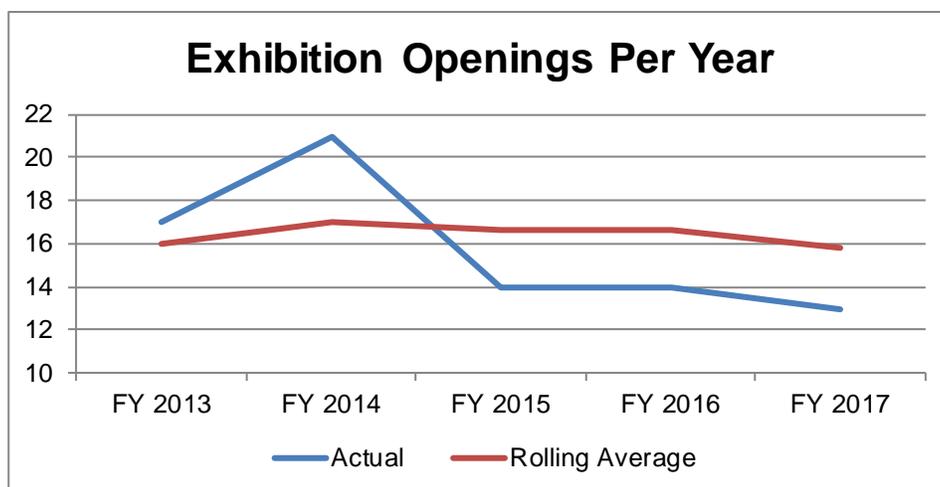
The Gallery's goal of presenting a schedule of special exhibitions that offers visitors the widest range of visual experience was achieved again this year. Special exhibitions gave visitors the opportunity to enjoy hundreds of masterpieces loaned by public and private collections throughout the world. During FY 2017, the Gallery

organized and presented 13 special exhibitions. The decreased number of exhibitions compared to the past is due to extending the period each exhibition is on view in order to maximize public access and to fewer gallery spaces in the East Building being dedicated to special exhibitions in order to increase the number of permanent collection artworks on public display. It is anticipated that the annual number of special exhibitions will remain in the range of 12–14 per year.

Among the highlights presented in FY 2017 were:

- *Stuart Davis: In Full Swing*
- *Los Angeles to New York: Dwan Gallery, 1959-1971*
- *Photography Reinvented: The Collection of Robert E. Meyerhoff and Rheda Becker*
- *Della Robbia: Sculpting with Color in Renaissance Florence*
- *East of the Mississippi: Nineteenth Century American Landscape Photography*
- *The Woodner Collections: Master Drawings from Seven Centuries*
- *Frederic Bazille and the Birth of Impressionism*
- *America Collects Eighteenth-Century French Painting*





	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	17	21	14	14	13
Rolling Average	16	17	17	17	16

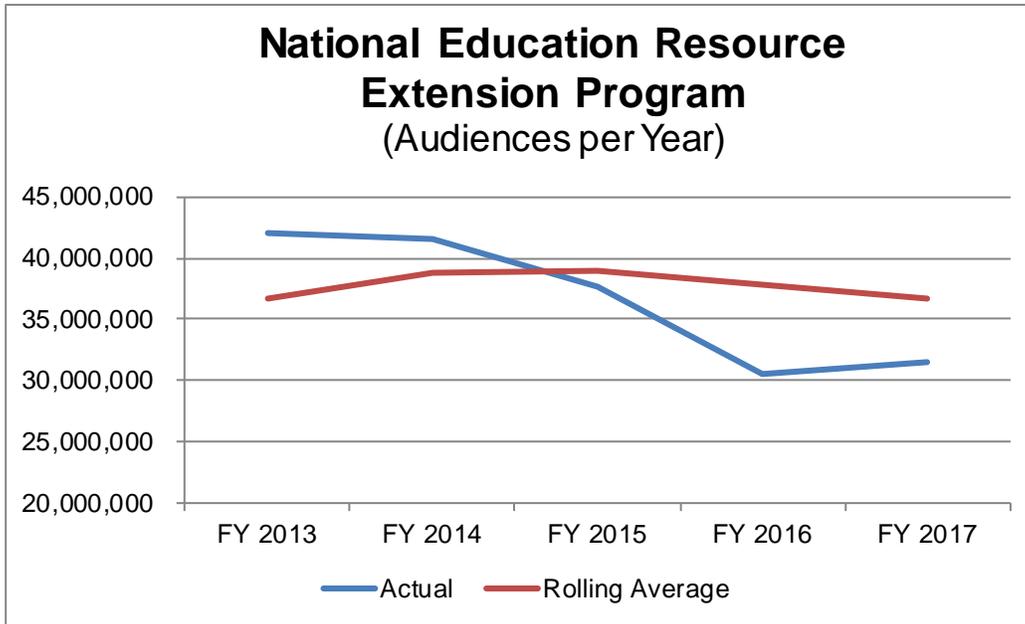
3. Foster awareness of the visual arts by providing increased and continued access to the collection and educational materials.

The Gallery's commitment to fostering the understanding of art at the highest possible scholarly levels continued in FY 2017 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 31 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 115,400 participants. The Gallery had over 75,000 subscriptions to its education on-line newsletter.

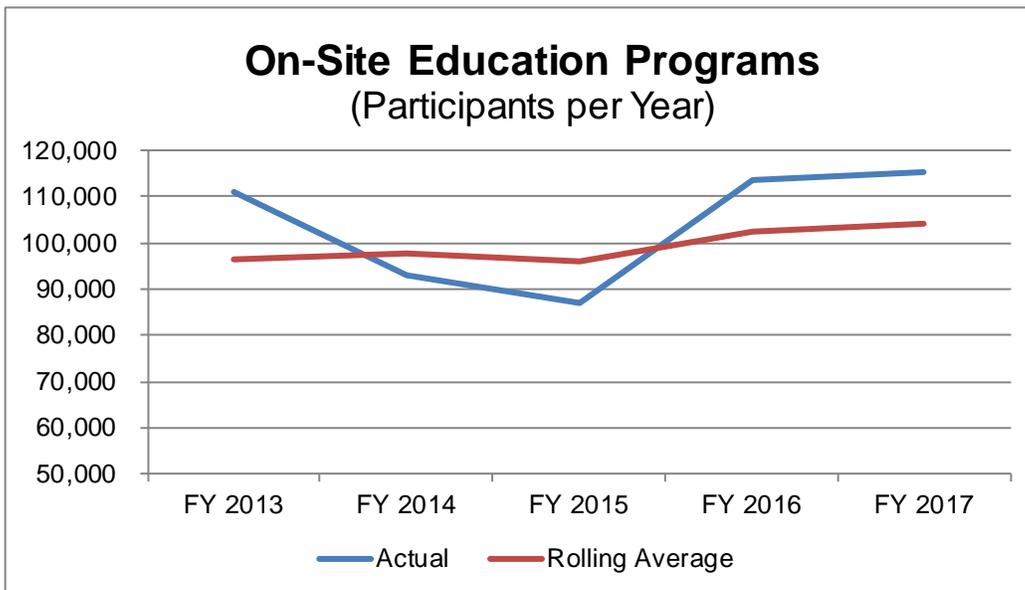
The National Gallery of Art public website is an in-depth resource that allows people from all over the world access to the Gallery's collections, exhibitions, educational resources and schedule of events. In FY 2017 the web site received over 5.7 million unique visitors.

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 30,100 reference inquiries.

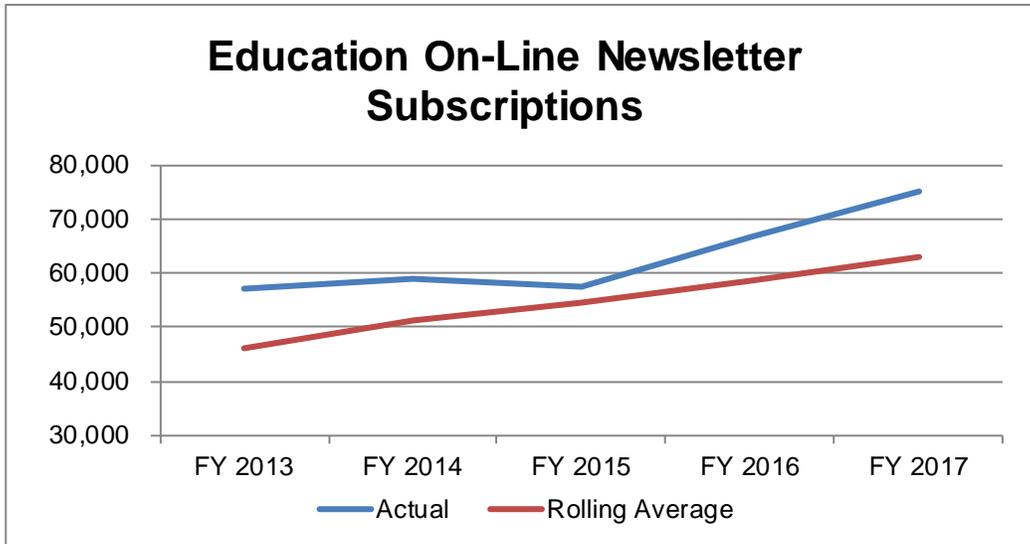
The following pages provide statistical metrics for education outreach.



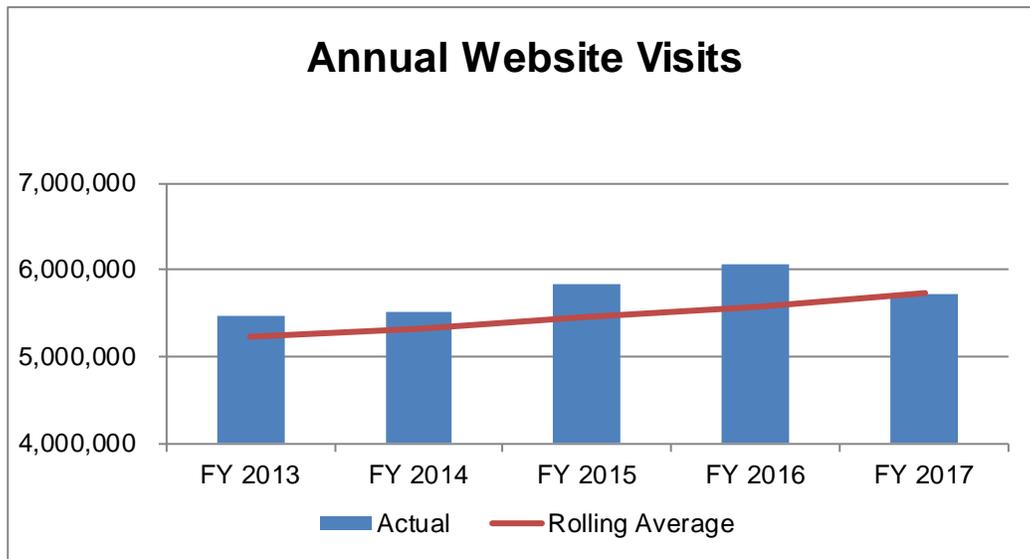
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	41,979,000	41,632,100	37,688,100	30,490,500	31,560,000
Rolling Average	36,675,800	38,842,200	38,919,800	37,844,200	36,669,900



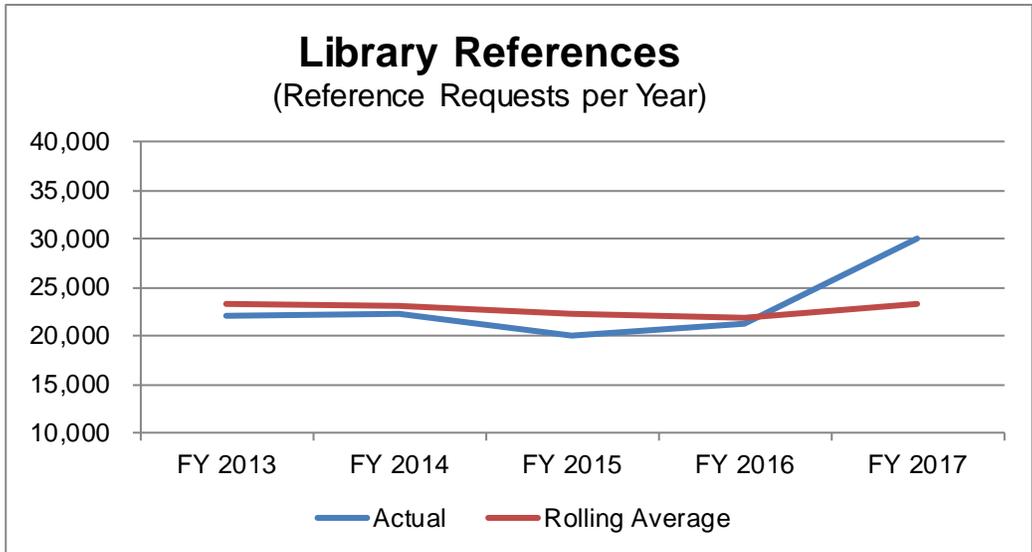
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	111,200	93,100	87,100	113,700	115,400
Rolling Average	96,300	97,600	95,900	102,500	104,100



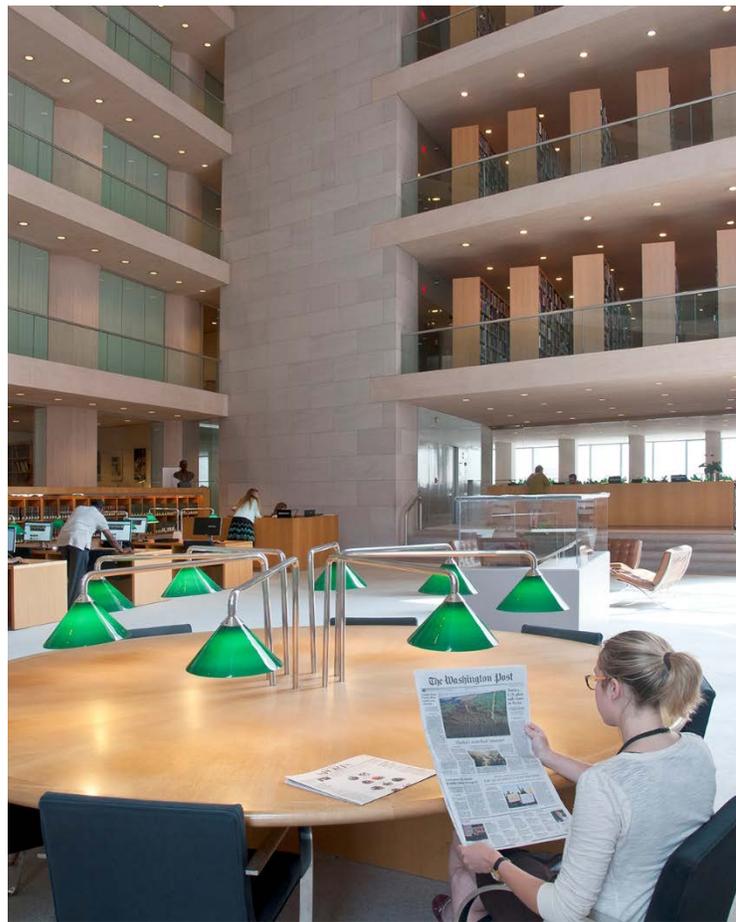
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	57,000	58,900	57,300	66,600	75,100
Rolling Average	46,200	51,200	54,500	58,400	63,000



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	5,475,000	5,511,500	5,824,400	6,072,900	5,721,900
Rolling Average	5,237,800	5,329,000	5,452,800	5,576,900	5,721,100

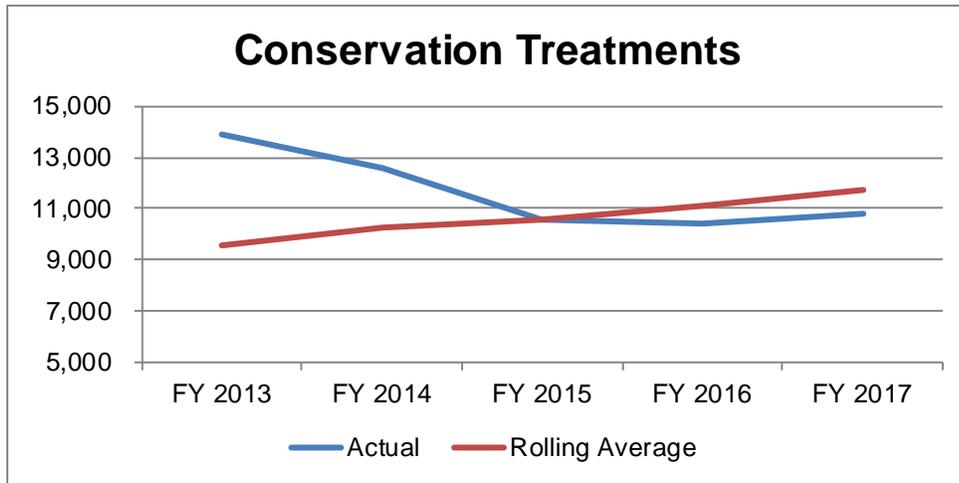


	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	22,000	22,300	20,100	21,300	30,100
Rolling Average	23,200	23,000	22,300	21,800	23,200



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 2017, the Gallery's painting, object, paper, photography and textile conservators and scientific researchers undertook 10,800 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 art work examinations required for special exhibitions.



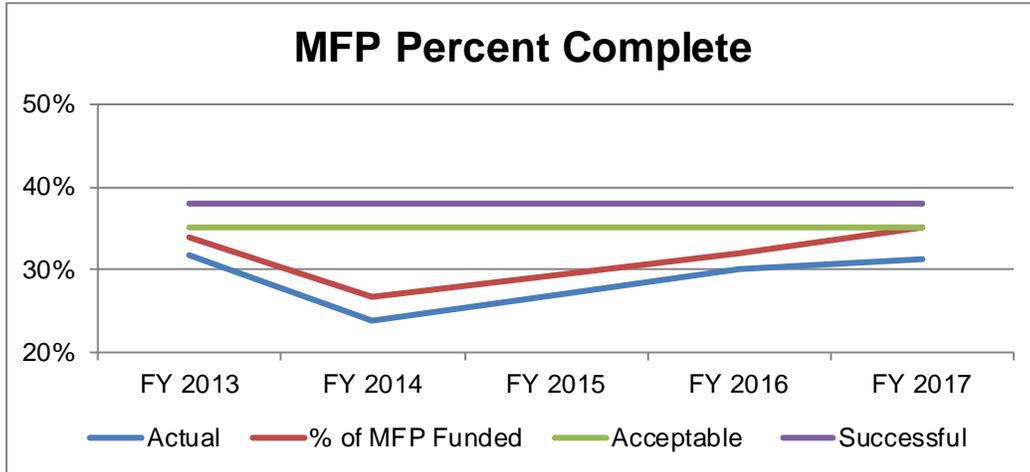
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	13,900	12,600	10,600	10,400	10,800
Rolling Average	9,600	10,300	10,600	11,100	11,700



Continuing to address the backlog of deferred maintenance

1. ***Manage the Master Facilities Plan (MFP) so that significant facilities repairs and replacements projects proceed on schedule.***

Performance Measure: Performance is determined by the extent to which cumulative MFP costs incurred to date are on schedule, based on amount expended vs. total plan costs as identified in the Congressional Request for the identified year.



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	32%	24%	27%	30%	31%
% of MFP Funded	34%	27%	29%	32%	35%
Acceptable	35%	35%	35%	35%	35%
Successful	38%	38%	38%	38%	38%
Assessment:	Not Met				

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

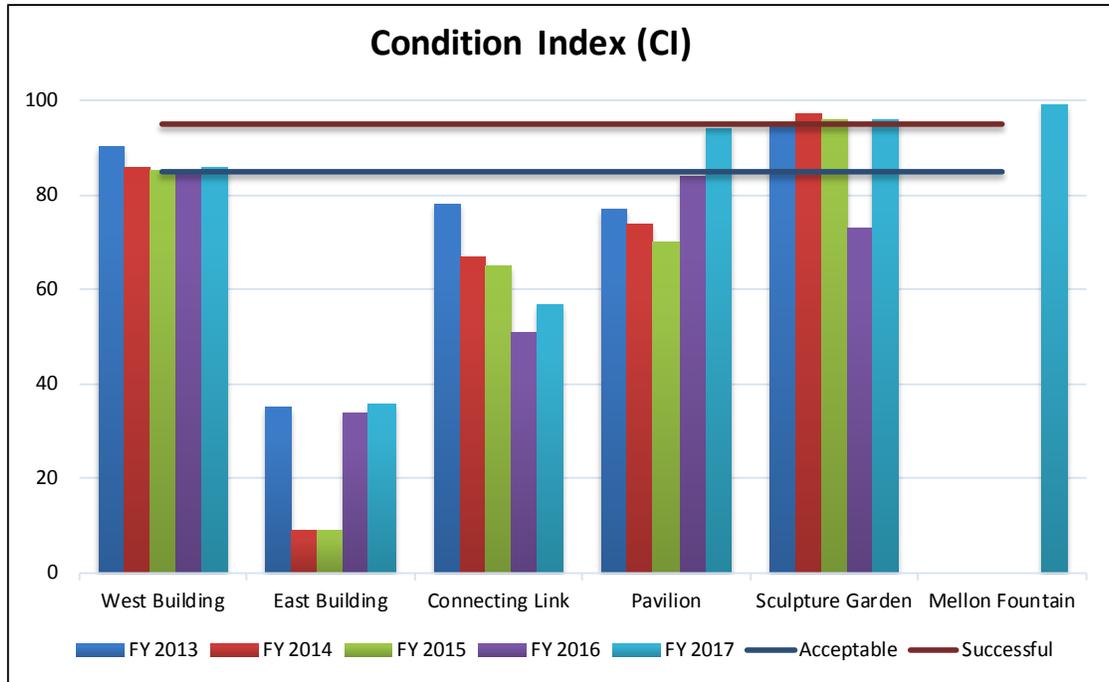
2. Maintain the physical condition of the East and West Buildings to the highest standard.

Performance 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 2013	90	35	78	77	95	
FY 2014	86	9	67	74	97	
FY 2015	85	9	65	70	96	
FY 2016	85	34	51	84	73	
FY 2017	86	36	57	94	96	99
Acceptable	85	85	85	85	85	85
Successful	95	95	95	95	95	95
Assessment	Met	Not Met	Not Met	Met	Met	Met

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

Actual:	<u>FY 2013</u>	<u>FY 2014 *</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
	+8.8%	+45%	+3%	+1%	-6%

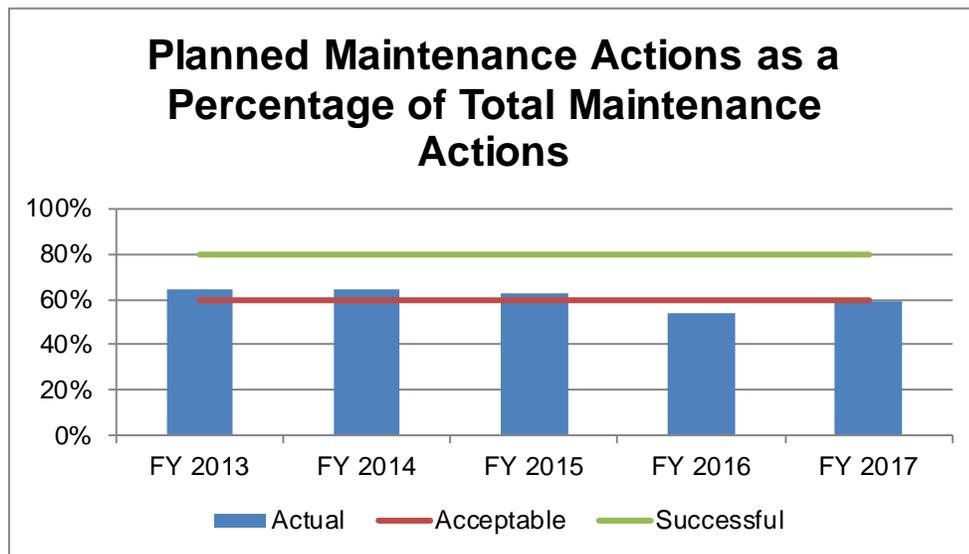
Acceptable: The deferred maintenance backlog decreases during the year

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

Assessment: Not Met Not Met Not Met Not Met Met

*The increase in FY 2014 reflects updated total for MFP program.

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

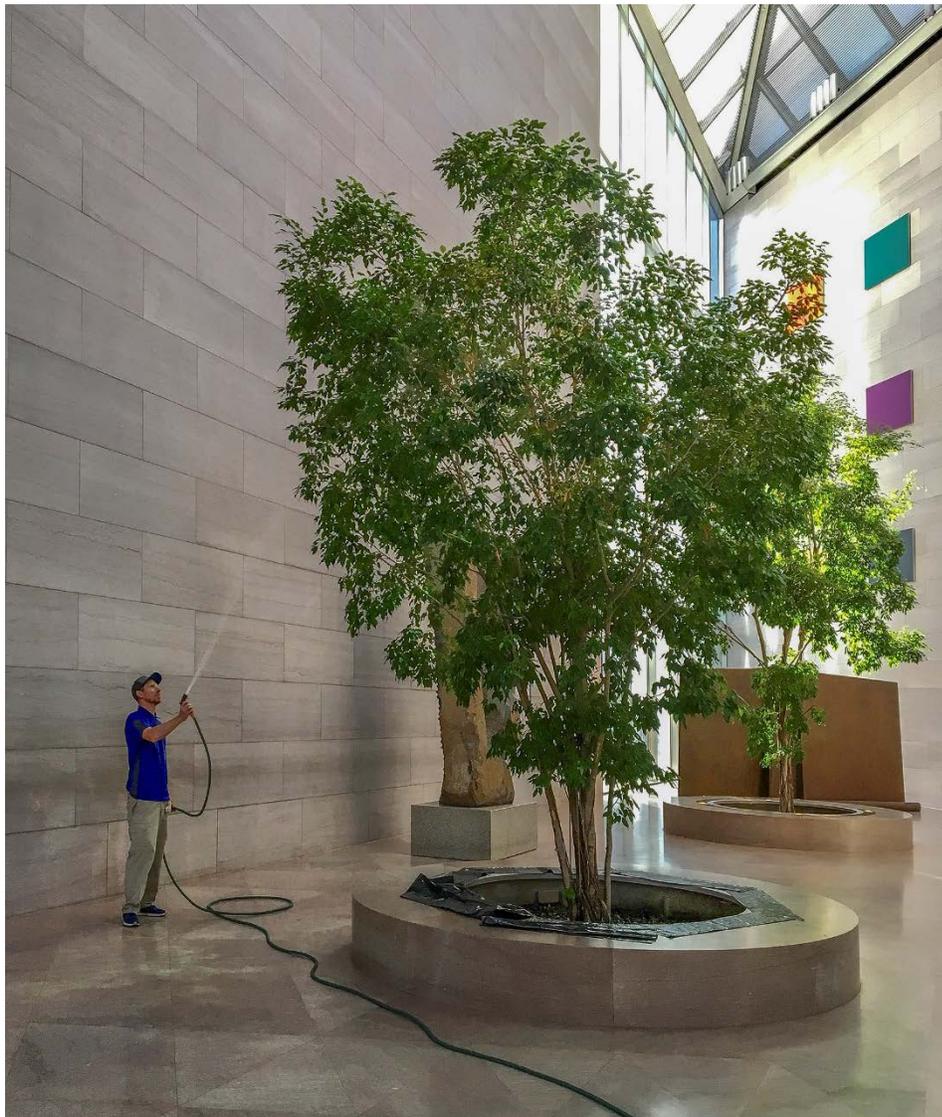


	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Actual	64%	64%	63%	54%	59%
Acceptable	60%	60%	60%	60%	60%
Successful	80%	80%	80%	80%	80%
Assessment	Met	Met	Met	Not Met	Not Met

d) Appearance Index. Maintain a minimum standard of appearance based on the Association of Higher Education Facilities Officers (APPA) scale of appearance standards.

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual	2	2	2	2	2
Acceptable	2	2	2	2	2
Successful	2	2	2	2	2

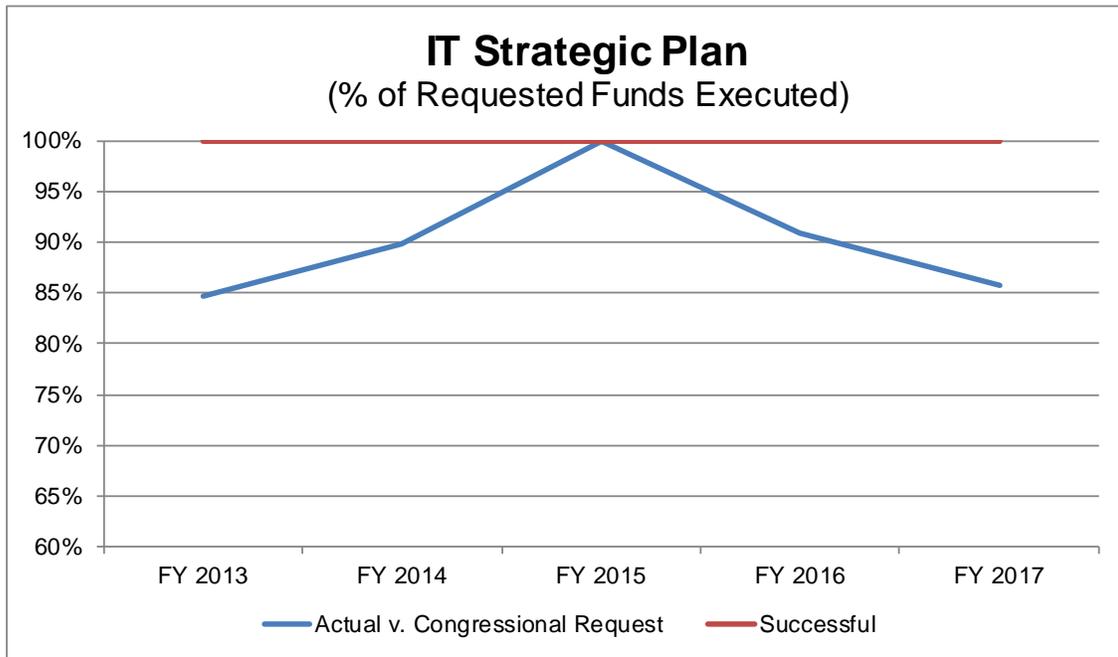
Assessment Met Met Met Met Met



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

- 1. Implement the Gallery’s IT initiatives as documented in the Gallery’s IT Strategic Plan.***

Performance Measure: This metric measures the funds provided against the budget request.



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual v. Congressional Request	85%	90%	100%	91%	86%
Successful	100%	100%	100%	100%	100%
Assessment	Not Met	Not Met	Met	Not Met	Not Met

NOTE: NGA executed all funds allocated in this category for all years shown.

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, 2017

(With Independent Auditors' Reports Thereon)



KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Trustees
The National Gallery of Art:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Gallery of Art (the Gallery), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Gallery of Art as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Gallery's 2016 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary private and federal information on the financial statements, the 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, 2017 Management's Discussion and Analysis, Performance Report, and the Other Supplementary Information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017 on our consideration of the Gallery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gallery's internal control over financial reporting and compliance.

KPMG LLP

McLean, Virginia
November 14, 2017

NATIONAL GALLERY OF ART

Statement of Financial Position

September 30, 2017

(with summarized financial information as of September 30, 2016)

(In thousands)

Assets	2017			2016
	Private	Federal	Total	Total
Cash and cash equivalents	\$ 11,714	58,212	69,926	54,774
Accounts receivable and other assets, net	5,847	—	5,847	6,338
Pledges receivable, net	20,151	—	20,151	21,497
Investments and trusts held by others	936,470	—	936,470	808,105
Property, plant and equipment, net	69,656	261,771	331,427	332,157
Art collections	—	—	—	—
Total assets	\$ 1,043,838	319,983	1,363,821	1,222,871
 Liabilities and Net Assets				
Liabilities:				
Accounts payable and other liabilities	\$ 39,375	23,582	62,957	42,235
Unexpended federal one-year and two-year appropriations	—	20,734	20,734	14,891
Environmental liability	—	22,978	22,978	22,981
Total liabilities	39,375	67,294	106,669	80,107
Net assets:				
Unrestricted	357,127	225,260	582,387	549,768
Temporarily restricted	197,295	27,429	224,724	184,801
Permanently restricted	450,041	—	450,041	408,195
Total net assets	1,004,463	252,689	1,257,152	1,142,764
Total liabilities and net assets	\$ 1,043,838	319,983	1,363,821	1,222,871

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Statement of Activities

Year ended September 30, 2017

(with summarized financial information for the year ended September 30, 2016)

(In thousands)

	Unrestricted private	Unrestricted federal	Total Unrestricted	Temporarily restricted	Permanently restricted	Total 2017	Total 2016
Operating:							
Support and revenue:							
Federal appropriations	\$ —	118,581	118,581	8,003	—	126,584	122,946
Gifts and grants	3,511	—	3,511	8,345	—	11,856	6,353
Gallery shops sales, net	8,085	—	8,085	—	—	8,085	7,822
Spending policy appropriated for operations	2,613	—	2,613	17,072	—	19,685	19,157
Royalties and other income	1,374	—	1,374	—	—	1,374	1,232
	<u>15,583</u>	<u>118,581</u>	<u>134,164</u>	<u>33,420</u>	<u>—</u>	<u>167,584</u>	<u>157,510</u>
Net assets released from restrictions to fund operating expenses	<u>20,811</u>	<u>8,592</u>	<u>29,403</u>	<u>(29,403)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>36,394</u>	<u>127,173</u>	<u>163,567</u>	<u>4,017</u>	<u>—</u>	<u>167,584</u>	<u>157,510</u>
Expenses:							
Collections	3,525	47,415	50,940	—	—	50,940	49,702
Special exhibitions	5,493	15,656	21,149	—	—	21,149	20,812
Education, gallery shops, and public programs	16,179	26,598	42,777	—	—	42,777	41,370
Editorial and photography	1,702	5,369	7,071	—	—	7,071	6,587
General and administrative	6,131	31,617	37,748	—	—	37,748	34,843
Development	2,431	1,633	4,064	—	—	4,064	4,168
Total operating expenses	<u>35,461</u>	<u>128,288</u>	<u>163,749</u>	<u>—</u>	<u>—</u>	<u>163,749</u>	<u>157,482</u>
Change in net assets from operating activities	<u>933</u>	<u>(1,115)</u>	<u>(182)</u>	<u>4,017</u>	<u>—</u>	<u>3,835</u>	<u>28</u>
Nonoperating:							
Federal appropriations	—	4,520	4,520	18,181	—	22,701	28,338
Nonoperating gifts and grants	—	—	—	5,235	18,450	23,685	35,900
Spending policy appropriated for art acquisitions	—	—	—	399	—	399	3,257
Change in value of split-interest agreements	(680)	—	(680)	2	724	46	499
Investment return less amounts appropriated for operations and art acquisitions	34,773	—	34,773	28,887	22,672	86,332	41,003
Acquisitions of works of art	(6,274)	—	(6,274)	—	—	(6,274)	(17,670)
Depreciation and amortization expense	(4,360)	(11,929)	(16,289)	—	—	(16,289)	(15,522)
Income tax expense	(50)	—	(50)	—	—	(50)	(595)
Change in environmental liability	—	3	3	—	—	3	612
Net assets released from restrictions to fund nonoperating expenses	<u>9,939</u>	<u>6,859</u>	<u>16,798</u>	<u>(16,798)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets from nonoperating activities	<u>33,348</u>	<u>(547)</u>	<u>32,801</u>	<u>35,906</u>	<u>41,846</u>	<u>110,553</u>	<u>75,822</u>
Increase (decrease) in net assets	<u>34,281</u>	<u>(1,662)</u>	<u>32,619</u>	<u>39,923</u>	<u>41,846</u>	<u>114,388</u>	<u>75,850</u>
Net assets at beginning of year	<u>322,846</u>	<u>226,922</u>	<u>549,768</u>	<u>184,801</u>	<u>408,195</u>	<u>1,142,764</u>	<u>1,066,914</u>
Net assets at end of year	<u>\$ 357,127</u>	<u>225,260</u>	<u>582,387</u>	<u>224,724</u>	<u>450,041</u>	<u>1,257,152</u>	<u>1,142,764</u>

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Statement of Cash Flows
Year ended September 30, 2017
(with summarized financial information for the year ended September 30, 2016)
(In thousands)

	Private	Federal	Total 2017	Total 2016
Cash flows from operating activities:				
Federal operating appropriations	\$ -	132,427	132,427	118,978
Operating gifts and grants	11,033	-	11,033	8,442
Gallery shops sales	8,085	-	8,085	7,824
Investment income and dividends, net	4,266	-	4,266	3,548
Royalties and other income	2,402	-	2,402	833
Payments to employees	(20,017)	(86,643)	(106,660)	(101,769)
Payments to suppliers	(12,879)	(37,905)	(50,784)	(54,537)
Interest payments	-	(2)	(2)	(29)
Income tax payments	(50)	-	(50)	(595)
Net cash provided by (used in) operating activities	<u>(7,160)</u>	<u>7,877</u>	<u>717</u>	<u>(17,305)</u>
Cash flows from investing activities:				
Purchase of investments	(164,235)	-	(164,235)	(87,588)
Proceeds from sale of investments	138,618	-	138,618	99,786
Acquisitions of works of art	(12,366)	-	(12,366)	(11,264)
Purchase of property, plant and equipment	(6,868)	(13,414)	(20,282)	(39,404)
Net cash used in investing activities	<u>(44,851)</u>	<u>(13,414)</u>	<u>(58,265)</u>	<u>(38,470)</u>
Cash flows from financing activities:				
Contributions and net investment income for permanently restricted investments	38,691	-	38,691	7,753
Federal appropriations for capital projects	-	22,701	22,701	28,338
Gifts and grants for art acquisitions and capital projects	11,308	-	11,308	14,673
Principal payment on capital lease obligation	-	-	-	(316)
Net cash provided by financing activities	<u>49,999</u>	<u>22,701</u>	<u>72,700</u>	<u>50,448</u>
Net change in cash and cash equivalents	(2,012)	17,164	15,152	(5,327)
Cash and cash equivalents, at beginning of year	<u>13,726</u>	<u>41,048</u>	<u>54,774</u>	<u>60,101</u>
Cash and cash equivalents, at end of year	\$ <u>11,714</u>	<u>58,212</u>	<u>69,926</u>	<u>54,774</u>

NATIONAL GALLERY OF ART

Statement of Cash Flows

Year ended September 30, 2017

(with summarized financial information for the year ended September 30, 2016)

(In thousands)

Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:	<u>Private</u>	<u>Federal</u>	<u>Total 2017</u>	<u>Total 2016</u>
Increase in net assets	\$ 105,318	9,070	114,388	75,850
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	4,360	11,929	16,289	15,522
Amortization of discount on pledges receivable	(466)	-	(466)	(339)
Contributions and net investment income for permanently restricted investments	(38,691)	-	(38,691)	(7,753)
Federal appropriations for capital projects	-	(22,701)	(22,701)	(28,338)
Gifts and grants for art acquisitions and capital projects	(11,308)	-	(11,308)	(14,673)
Acquisitions of works of art	12,366	-	12,366	11,264
Realized and unrealized (gains) losses on investments, net	(97,623)	-	(97,623)	(59,238)
Reinvested dividends and interest, net	(4,576)	-	(4,576)	(1,289)
Donated investment securities	(5,857)	-	(5,857)	(1,692)
Proceeds from donated investment securities	5,844	-	5,844	1,688
Change in value of split-interest agreements	144	-	144	144
Change in accounts receivable and other assets, net	491	-	491	(1,245)
Change in pledges receivable, net	1,812	-	1,812	(12,046)
Change in accounts payable and other liabilities	21,026	3,739	24,765	9,498
Change in unexpended one-year and two-year federal appropriations	-	5,843	5,843	(3,968)
Change in environmental liability	-	(3)	(3)	(690)
Net cash provided by (used in) operating activities	<u>\$ (7,160)</u>	<u>7,877</u>	<u>717</u>	<u>(17,305)</u>
Supplemental disclosure of non-cash information:				
Capital additions included in accounts payable	\$ 77	1,165	1,242	5,964

See accompanying notes to financial statements.

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

(1) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) General

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

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

(b) Measure of Operations

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

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

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

The Gallery's Board of Trustees appropriates only a portion of the Gallery's cumulative investment return for support of current operations and art acquisitions; the remainder is retained to support operations of future years and to offset potential market declines. The amount appropriated is computed under the Gallery's spending policy and is appropriated for use based on the underlying donor-imposed restrictions (see notes 4 and 11).

(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, 2016, 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:

- *Unrestricted* net assets 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.
- *Temporarily restricted* net assets carry specific donor-imposed stipulations on the expenditure or other use of the contributed funds. In addition, the Gallery's unexpended "no-year" federal appropriations for special exhibitions and for the repair, renovation and restoration of its buildings are classified as temporarily restricted net assets.

Temporary restrictions may expire by the passage of time or as a result of fulfillment of the donor's stipulations. For gifts restricted for capital additions, net assets are released when capital expenditures are incurred.

- *Permanently restricted* net assets have donor-imposed stipulations that require that the corpus of the gifts be retained permanently. In some cases, the donor has also permanently restricted the use of excess income and any realized or unrealized gains attributable to the corpus. When the investment earnings in subsequent years are not sufficient to support expenditures under the Gallery's endowment spending policy, the necessary funds are transferred from permanently restricted net assets not to exceed the original corpus.

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

(e) Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing demand deposits and appropriated amounts yet to be disbursed remaining on deposit with the U.S. Department of Treasury (or U.S. Treasury). The Gallery considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents, except where such cash equivalents are held as part of a long-term investment strategy (see note 4).

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

(f) Pledges Receivable

Unconditional promises to give to the Gallery in the future (pledges receivable) are recorded at the fair value of future cash flows, after providing an allowance for uncollectibility (Level 3 inputs). For unconditional promises to give recognized prior to October 1, 2008, a risk-free rate of return at the date of the gift was used. For unconditional promises to give recognized on or after October 1, 2008, a discount rate approximating the current market rate at the date of the gift is used. The resulting discount rates range from 2.5% to 3.9%. Conditional promises to give are recognized as income when the conditions stipulated by the donor are substantially met.

(g) Investments and Trusts Held by Others

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

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

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

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

the value of these trusts are recorded as “change in value of split-interest agreements” in the statement of activities.

(h) Property, Plant and Equipment

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

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

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

(i) Art Collections

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

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

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

(j) Accrued Leave

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

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

The Gallery’s federal one-year and two-year appropriations are recognized as revenue as expenditures are incurred throughout the year. The portion of these appropriations which are not obligated or expended are retained by the Gallery in accordance with federal guidelines

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

and returned to the U.S. Department of Treasury five years after the expiration of the obligation period. The remaining unexpended balances of these funds are classified as a liability on the statement of financial position.

(I) 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 12).

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 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

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

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.

(m) 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 12. 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.

(n) 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, as the Gallery does not imply time restrictions for gifts of long-lived assets.

(o) Functional Allocation of Expenses

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

Included under the Collections category are the costs of the care and display of the Gallery's collections. Special exhibition expenses include travel, transportation of items, and other services necessary for the display of special exhibitions. Education, Gallery shops and public programs includes the cost of providing a wide array of lectures, tours, films, music, symposia and academic programs to the general public, in addition to Gallery shops' cost of goods sold and expenses. Editorial and photography expenses include the costs to produce the many publications produced by the Gallery. General and administrative expenses include costs for

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executive management, financial administration, human resources and legal services. Development expenses include those costs associated with individual and corporate gifts and grants, annual appeals and other fundraising efforts.

(p) *Estimates*

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

(q) *Risks and Uncertainties*

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

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(3) Pledges Receivable, Net

As of September 30, 2017 and 2016, pledges receivable, net, consisted of the following:

	2017	2016
Due in one year or less	\$ 7,970	8,882
Due between one year and five years	12,945	12,973
Due in more than five years	200	500
Subtotal	21,115	22,355
Less discounts of \$814 and \$708 and allowances of \$150 and \$150, respectively	(964)	(858)
Total	\$ 20,151	21,497

The fiscal year 2017 balance includes \$626 of pledges receivable from related parties.

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

As of September 30, 2017 and 2016, investments and trust held by others consisted of the following:

	2017	2016
Investments	\$ 918,479	790,696
Trusts held by others	12,991	12,409
Subtotal	931,470	803,105
Loan to U.S. Treasury	5,000	5,000
Total	\$ 936,470	808,105

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 2017). Interest income on this loan was \$203 for the fiscal years ended September 30, 2017 and 2016. The fair value of the loan to the U.S. Treasury approximates the carrying value.

As of September 30, 2017 and 2016, the carrying value of the Gallery's cash, cash equivalents and balances with U.S. Treasury, receivables, deferred charges and other assets, and accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturity of these assets and liabilities. The Gallery's investments in private equity, venture capital, and real estate are generally valued based on the most current net asset value (NAV) adjusted for cash flows when the reported NAV is not at the measurement date.

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

- *Level 1* – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Gallery has the ability to access as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment. Investments include investments in equity, real estate, and fixed income mutual funds that are traded in an active exchange market.
- *Level 2* – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly as of the reporting date.
- *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 value of investments and trusts held by others as of September 30, 2017 and 2016 for financial assets by pricing observability levels:

	Prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Investments measured at net asset value ¹	Fair value at September 30, 2017
U.S. equities	\$ 144,803	–	–	126,452	271,255
International equities:					
Developed market equities	68,289	–	–	106,160	174,449
Emerging market equities	47,406	–	–	53,260	100,666
Real estate:					
Mutual fund	26,179	–	–	–	26,179
Private Investments	–	–	–	1,246	1,246
Inflation hedging securities	–	–	–	22,585	22,585
Private equity and venture capital funds	–	–	–	36,888	36,888
Hedge fund of funds	–	–	–	133,066	133,066
Multi-asset fund	–	–	–	28,186	28,186
Fixed income securities	–	–	–	73,855	73,855
Money market fund	37,836	–	–	–	37,836
Charitable gift annuities and other	12,268	–	–	–	12,268
Trusts held by others	–	–	12,991	–	12,991
Total	\$ 336,781	–	12,991	581,698	931,470

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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	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	Fair value at September 30, 2016
U.S. equities	\$ 117,903	–	–	105,304	223,207
International equities:					
Developed market equities	53,819	–	–	83,448	137,267
Emerging market equities	32,765	–	–	44,211	76,976
Real estate:					
Mutual fund	19,274	–	–	–	19,274
Private Investments	–	–	–	1,765	1,765
Inflation hedging securities	–	–	–	18,897	18,897
Private equity and venture capital funds	–	–	–	41,689	41,689
Hedge fund of funds	–	–	–	162,154	162,154
Multi-asset fund	–	–	–	33,533	33,533
Fixed income securities	–	–	–	69,640	69,640
Charitable gift annuities and other	6,294	–	–	–	6,294
Trusts held by others	–	–	12,409	–	12,409
	<u>–</u>	<u>–</u>	<u>12,409</u>	<u>–</u>	<u>12,409</u>
 Total	 <u>\$ 230,055</u>	 <u>–</u>	 <u>12,409</u>	 <u>560,641</u>	 <u>803,105</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.

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, 2017 and 2016:

	2017	2016
Fair value of Level 3 assets, beginning of year	\$ 12,409	11,877
Unrealized gains (losses)	1,139	1,087
Proceeds from distributions	(557)	(555)
Fair value of Level 3 assets, end of year	<u>\$ 12,991</u>	<u>12,409</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, 2017:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a) \$	126,452	–	Monthly to Quarterly	30 to 60 days
International equities:	(b)				
Developed market equities		106,160	–	Semi-monthly to monthly	8 to 30 days
Emerging market equities		53,260	–	Monthly	30 to 120 days
Real estate:	(c)				
Private Investments		1,246	519	N/A	N/A
Inflation hedging securities	(d)	22,585	–	Monthly	30 days
Private equity and venture capital funds	(e)	36,888	7,705	N/A	N/A
Hedge fund of funds	(f)	133,066	–	Semi-annually to triennially	90 to 95 days
Multi-asset fund	(g)	28,186	–	Annually	365 days
Fixed income securities	(h)	73,855	–	Daily	2 days
Total		<u>\$ 581,698</u>	<u>8,224</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, 2016:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a) \$	105,304	–	Monthly to Quarterly	30 to 60 days
International equities:	(b)				
Developed market equities		83,448	–	Semi-monthly to monthly	8 to 30 days
Emerging market equities		44,211	–	Monthly	30 to 120 days
Real estate:	(c)				
Private Investments		1,765	549	N/A	N/A
Inflation hedging securities	(d)	18,897	–	Monthly	30 days
Private equity and venture capital funds	(e)	41,689	9,358	N/A	N/A
Hedge fund of funds	(f)	162,154	–	Semi-annually to triennially	90 to 95 days
Multi-asset fund	(g)	33,533	–	Annually	365 days
Fixed income securities	(h)	69,640	–	Daily	2 days
Total	\$	<u>560,641</u>	<u>9,907</u>		

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- (a) U.S. equities: Investments in equity securities of large cap and small cap U.S. companies comprised of a fund that invests long and short in U.S. equities.
- (b) International equities: Investments in equity securities of international companies in both developed and emerging markets comprised of investments in limited partnerships and limited liability companies.
- (c) Real estate: Investments in privately held real estate comprised of investments in private limited partnerships.
- (d) Inflation hedging securities: Investments in securities which are expected to perform well in periods of high inflation, including precious metals, energy, commodities, natural resources, U.S. Treasury Inflation Protected Securities (TIPS) and energy infrastructure Master Limited Partnership (MLP) comprised of an investment in a limited partnership.
- (e) Private equity and venture capital funds: Investments in limited partnerships which invest in shares of operating companies that are not listed on a publicly traded stock exchange, including leveraged buyouts, growth capital, distressed investments, and start-ups. The limited partnerships are organized as funds of funds.
- (f) Hedge fund of funds: Investments in limited partnerships which invest in shares of hedge funds which employ strategies such as long/short equity, credit and distressed assets, and multi-strategy. The limited partnerships are organized as funds of funds.
- (g) 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.
- (h) Fixed income securities: Investment in a limited partnership which invests in investment grade fixed income securities issued by U.S. government and corporate entities.

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The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September 30, 2017 and 2016:

	2017			2016 Total	
	Unrestricted	Temporarily restricted	Permanently restricted		Total
Dividends and interest (net of expenses of \$3,954 and \$3,642, respectively)	\$ 2,746	6,103	–	8,849	4,678
Net investment appreciation	34,640	40,255	22,672	97,567	58,739
	<u>37,386</u>	<u>46,358</u>	<u>22,672</u>	<u>106,416</u>	<u>63,417</u>
Appropriated for operations	(2,613)	(17,072)	–	(19,685)	(19,157)
Appropriated for art acquisitions	–	(399)	–	(399)	(3,257)
Investment return less amounts appropriated for operations and art acquisitions	\$ 34,773	28,887	22,672	86,332	41,003

(5) Property, Plant and Equipment, Net

As of September 30, 2017 and 2016, net property, plant and equipment consisted of the following:

	2017			2016 Total
	Private funds	Federal funds	Total	
Buildings and improvements	\$ 187,132	314,894	502,026	494,338
Equipment and computer software	8,575	86,298	94,873	90,356
Construction-in-progress	71	5,806	5,877	2,523
Equipment under capital lease	–	2,962	2,962	2,962
Subtotal	195,778	409,960	605,738	590,179
Less accumulated depreciation and amortization	(126,122)	(148,189)	(274,311)	(258,022)
Total	\$ 69,656	261,771	331,427	332,157

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(6) Accounts Payable and Other Liabilities

As of September 30, 2017 and 2016, accounts payable and other liabilities consisted of the following:

	2017			2016 Total
	Private funds	Federal funds	Total	
Refundable advances	\$ 25,000	–	25,000	–
Employee-related liabilities	5,739	16,808	22,547	20,836
Accounts payable and accrued expenses	2,487	6,711	9,198	14,406
Other liabilities	6,149	63	6,212	6,993
Total	\$ 39,375	23,582	62,957	42,235

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. Revenue will be recognized as the matching conditions are met by the Gallery.

(7) Environmental Liability

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

	2017	2016
Beginning balance	\$ 22,981	23,671
Change in liability	(3)	(612)
Remediation costs incurred	–	(78)
Total	\$ 22,978	22,981

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As of September 30, 2017 and 2016 the net remediation costs included in the Gallery's property, plant and equipment consists of the following:

	2017	2016
Remediation costs	\$ 4,201	4,201
Less accumulated depreciation	(3,609)	(3,525)
Net remediation costs	\$ 592	676

(8) Federal Appropriations

The Gallery is funded primarily by two Congressional appropriations: one appropriation covers the Gallery's salaries, benefits and expenses, a portion of which is designated for special exhibitions, and the second appropriation provides funds necessary for the repair, restoration and renovation of the Gallery's buildings. The appropriation received for salaries, benefits and expenses is a two-year appropriation that must be obligated by the end of the second fiscal year, with the exception of the portion of the appropriation designated for special exhibitions expenses, which is available until it is expended. The appropriation for the repair, restoration, and renovation of the Gallery's buildings is available until expended. The fiscal year 2017 salaries and expenses appropriation includes \$3,620 for no-year special exhibitions funding.

The Gallery's federal appropriations received in the fiscal years ending 2017 and 2016 are reconciled to federal appropriation revenue recognized as follows:

	2017			
	Salaries and expenses	Repairs, restoration and renovation	Total	2016
Federal appropriations received	\$ 132,961	22,564	155,525	147,552
Unexpended appropriations	(16,967)	-	(16,967)	(12,455)
Amounts expended from prior years' appropriations	10,727	-	10,727	16,187
Federal appropriation revenue recognized	\$ 126,721	22,564	149,285	151,284
Operating	\$ 122,201	4,383	126,584	122,946
Nonoperating	4,520	18,181	22,701	28,338
Total federal appropriation revenue recognized	\$ 126,721	22,564	149,285	151,284

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(9) Net Assets Released from Restrictions

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

	2017			2016
	Private	Federal	Total	Total
Collections	\$ 2,614	–	2,614	2,470
Special exhibitions	4,258	4,209	8,467	7,973
Education and public programs	6,218	–	6,218	5,969
Editorial and photography	132	–	132	98
Operations	7,589	4,383	11,972	11,862
Subtotal operating	<u>20,811</u>	<u>8,592</u>	<u>29,403</u>	<u>28,372</u>
Acquisition of art	6,069	–	6,069	17,433
Capital projects	3,870	6,859	10,729	26,927
Subtotal nonoperating	<u>9,939</u>	<u>6,859</u>	<u>16,798</u>	<u>44,360</u>
Total	<u>\$ 30,750</u>	<u>15,451</u>	<u>46,201</u>	<u>72,732</u>

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(10) Functional Classification of Expenses

Expenses by functional classification for fiscal years 2017 and 2016 are shown below:

	2017			2016
	Private	Federal	Total	Total
Total operating expenses from the statement of activities	\$ 35,461	128,288	163,749	157,482
Expenses included in the nonoperating section of the statement of activities:				
Depreciation and amortization	4,360	11,929	16,289	15,522
Income tax expense	50	-	50	595
Total expenses	<u>\$ 39,871</u>	<u>140,217</u>	<u>180,088</u>	<u>173,599</u>
Program services:				
Collections	\$ 3,999	51,527	55,526	57,199
Special exhibitions	5,608	16,639	22,247	22,621
Education, Gallery shops and public programs	16,424	28,302	44,726	44,343
Editorial and photography	1,742	5,621	7,363	6,981
Subtotal program expenses	<u>27,773</u>	<u>102,089</u>	<u>129,862</u>	<u>131,144</u>
Supporting services:				
General and administrative	9,650	36,390	46,040	38,112
Development	2,448	1,738	4,186	4,343
Subtotal supporting services	<u>12,098</u>	<u>38,128</u>	<u>50,226</u>	<u>42,455</u>
Total expenses	<u>\$ 39,871</u>	<u>140,217</u>	<u>180,088</u>	<u>173,599</u>

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(11) Endowments and Net Asset Classifications

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

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

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

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Endowment net assets were comprised of the following as of September 30, 2017 and 2016:

	2017			2016		
	Donor- restricted endowment funds	Board- designated endowment funds	Total	Donor- restricted endowment funds	Board- designated endowment funds	Total
Unrestricted	\$ 6	9,379	9,385	(2,589)	8,029	5,440
Temporarily restricted	90,067	–	90,067	67,353	–	67,353
Permanently restricted	450,041	–	450,041	408,195	–	408,195
Total	<u>\$ 540,114</u>	<u>9,379</u>	<u>549,493</u>	<u>472,959</u>	<u>8,029</u>	<u>480,988</u>

The following table summarizes the change in the endowment funds during the years ended September 30, 2017 (with summarized comparative totals for 2016):

	2017				2016 Total
	Unrestricted	Temporarily restricted	Permanently restricted	Total	
Endowment net assets at beginning of year	\$ 5,440	67,353	408,195	480,988	444,090
Investment return	3,642	37,228	23,396	64,266	38,331
Contributions	626	–	18,450	19,076	15,395
Appropriation of endowment assets for expenditures	(323)	(14,514)	–	(14,837)	(16,828)
Endowment net assets at end of year	<u>\$ 9,385</u>	<u>90,067</u>	<u>450,041</u>	<u>549,493</u>	<u>480,988</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Gallery to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$2,607 as of September 30, 2016. Subsequent gains restored the fair value of the assets of the endowment funds to the required level in fiscal year 2017.

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

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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 purpose of the net asset restrictions as of September 30, 2017 (with summarized comparative totals for 2016):

	2017			2016 Total
	Temporarily restricted	Permanently restricted	Total	
Acquisition of art	\$ 39,721	80,451	120,172	109,111
Collections	10,826	50,454	61,280	50,328
Special exhibitions	37,905	32,366	70,271	64,743
Education and public programs	93,611	123,403	217,014	188,288
Editorial and photography	536	5,845	6,381	5,733
Capital projects	1,298	-	1,298	4,711
Federal repair and renovation projects	27,429	-	27,429	16,696
Operations	13,398	157,522	170,920	153,386
Total	<u>\$ 224,724</u>	<u>450,041</u>	<u>674,765</u>	<u>592,996</u>

(12) Employee Benefits

Total pension expense recognized in the Gallery's financial statements was \$9,459 and \$9,097 for the years ended September 30, 2017 and 2016, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$1,033 and \$1,695, 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, 2017 and 2016, were \$2,951 and \$2,776, 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 2017 and 2016, the Gallery contributed \$6,675 and \$6,301, respectively. Using the cost factors supplied by OPM, the Gallery has not recognized as an expense in its financial statements the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$4,213 and \$4,549 during fiscal years 2017 and 2016, respectively, and are financed by OPM and imputed to the Gallery.

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

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 2017 and 2016 total \$87 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.

(13) Income Taxes

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

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

(14) Lease Commitments

The Gallery has entered into several operating leases for warehouse and office space, which continue through April 30, 2024. The terms of these operating leases include additional rent for operating expenses, real estate taxes, utilities and maintenance. Future minimum lease payments under these leases are as follows:

Fiscal Year Ending:

2018	\$	4,968
2019		2,283
2020		1,411
2021		1,443
2022		1,475
Thereafter		2,405
Total minimum lease payments	\$	<u>13,985</u>

Rental expense was approximately \$6,248 and \$6,031 for the years ended September 30, 2017 and 2016, respectively.

NATIONAL GALLERY OF ART

Notes to Financial Statements
September 30, 2017
(In thousands)

(15) Subsequent Events

The Gallery has performed an evaluation of subsequent events through November 14, 2017 which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2017.

NATIONAL GALLERY OF ART

Federal Supplementary Schedules
September 30, 2017
(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, 2017 and 2016
(In thousands)

	2017	2016
Assets:		
Intragovernmental:		
Fund balance with U.S. Treasury	\$ 58,212	41,048
Total intragovernmental	58,212	41,048
Property, plant and equipment, net	261,771	262,322
Total assets	\$ 319,983	303,370
Liabilities:		
Intragovernmental:		
Other	\$ 1,697	238
Total intragovernmental	1,697	238
Accounts payable	5,164	2,475
Actuarial FECA liability	7,625	7,811
Environmental liability	22,978	22,981
Other	9,096	11,356
Total liabilities	46,560	44,861
Net position:		
Unexpended appropriations	48,241	31,663
Cumulative results of operations	225,182	226,846
Total net position	273,423	258,509
Total liabilities and net position	\$ 319,983	303,370

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, 2017 and 2016
(In thousands)

	<u>2017</u>	<u>2016</u>
Program costs:		
Collections	\$ 55,539	54,092
Special exhibitions	17,406	17,384
Education	29,778	28,858
Editorial and photography	<u>5,892</u>	<u>5,634</u>
Total program costs	108,615	105,968
Costs not assigned to programs	<u>36,845</u>	<u>34,632</u>
Net cost of operations	<u>\$ 145,460</u>	<u>140,600</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, 2017 and 2016
(In thousands)

	2017	2016
Cumulative results of operations:		
Beginning balances	\$ 226,846	207,308
Budgetary financing sources:		
Appropriations used	138,550	153,894
Other financing sources:		
Imputed financing from costs absorbed by others	5,246	6,244
Total financing sources	143,796	160,138
Net cost of operations	(145,460)	(140,600)
Net change	(1,664)	19,538
Cumulative results of operations	225,182	226,846
Unexpended appropriations:		
Beginning balances	31,663	38,241
Budgetary financing sources:		
Appropriations received	155,525	147,552
Other adjustments	(397)	(236)
Appropriations used	(138,550)	(153,894)
Total budgetary financing sources	16,578	(6,578)
Total unexpended appropriations	48,241	31,663
Net position	\$ 273,423	258,509

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, 2017 and 2016
(In thousands)

	2017	2016
Budgetary resources:		
Unobligated balance, bought forward, October 1	\$ 9,021	6,089
Recoveries of prior year unpaid obligations	1,396	1,694
Other changes in unobligated balance	(377)	(100)
Unobligated balance from prior year budget authority, net	10,040	7,683
Appropriations	155,525	147,552
Total budgetary resources	\$ 165,565	155,235
Status of budgetary resources:		
Obligations incurred	\$ 139,329	146,214
Unobligated balance, end of year:		
Apportioned	25,715	8,240
Unapportioned	521	781
Total unobligated balance, end of year	26,236	9,021
Total budgetary resources	\$ 165,565	155,235
Change in obligated balance:		
Unpaid obligations brought forward, October 1 (gross)	\$ 32,027	41,893
Obligations incurred	139,329	146,214
Outlays, gross	(137,984)	(154,386)
Recoveries of prior year unpaid obligations	(1,396)	(1,694)
Obligated balance, end of year (net)	\$ 31,976	32,027
Budget authority and outlays, net:		
Budget authority, gross	\$ 155,525	147,552
Budget authority, net	\$ 155,525	147,552
Outlays, gross	\$ 137,984	154,386
Actual offsetting collections	(20)	(136)
Outlays, net	\$ 137,964	154,250

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

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2017
(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 2017 actual budgetary execution information has not yet been published. *The Budget of the United States Government* is scheduled for publication in February 2018. Accordingly, information required for such disclosure is not available at the time of preparation of these schedules.

Instead, the Gallery's FY 2016 SBR balances and the related President's Budget are shown in a table below for each major budget account in which a difference exists. The differences are primarily due to rounding and to reporting requirement differences for expired and unexpired appropriations between the U.S. Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

	Budgetary resources	Obligations incurred	Distributed offsetting receipt	Net outlays
Schedule of budgetary resources	\$ 155,235	146,214	–	154,250
Other	(235)	(214)	–	750
Budget of the U.S. government	\$ 155,000	146,000	–	155,000

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2017
(In thousands)

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

The net cost of operations for the years ended September 30, 2017 and 2016, consisted of the following:

	2017	2016
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	\$ 139,329	146,214
Less:		
Recoveries of prior year unpaid obligations	(1,396)	(1,694)
Spending authority from offsetting collections	(20)	(136)
Obligations net of offsetting collections	137,913	144,384
Other resources:		
Imputed financing from costs absorbed by others	5,246	6,244
Total resources used to finance activities	143,159	150,628
Total resources used to finance items not part of the cost of operations	(10,742)	(20,865)
Total resources used to finance the net cost of operations	132,417	129,763
Total component of net cost of operations that will not require or generate resources	13,043	10,837
Net cost of operations	\$ 145,460	140,600

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2017
(In thousands)

(3) Fund Balance with U.S. Treasury

As of September 30, 2017 and 2016, fund balance with U.S. Treasury consisted of the following:

	2017	2016
Appropriated funds	\$ <u>58,212</u>	<u>41,048</u>
Status of fund balance with U.S. Treasury:		
Unobligated balance:		
Available	25,715	8,240
Unavailable	521	781
Obligated balance not yet disbursed	<u>31,976</u>	<u>32,027</u>
Total	\$ <u>58,212</u>	<u>41,048</u>

(4) Heritage Assets

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

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

(5) Stewardship Assets

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

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

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2017
(In thousands)

For the year ended September 30, 2017 the changes in heritage assets were as follows:

	October 1, 2016	Increases	Decreases	September 30, 2017
Art collection	\$ 1	–	–	1
Image collection	1	–	–	1
Library collection	1	–	–	1
Total	<u>\$ 3</u>	<u>–</u>	<u>–</u>	<u>3</u>

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

(6) Liabilities Not Covered by Budgetary Resources

As of September 30, 2017 and 2016, liabilities not covered by budgetary resources consisted of the following:

	2017	2016
Environmental liability	\$ 22,978	22,981
Actuarial FECA liability	7,625	7,811
Other	<u>5,986</u>	<u>4,684</u>
Total liabilities not covered by budgetary resources	36,589	35,476
Total liabilities covered by budgetary resources	<u>9,971</u>	<u>9,385</u>
Total liabilities	<u>\$ 46,560</u>	<u>44,861</u>

NATIONAL GALLERY OF ART

Notes to Federal Supplementary Schedules
September 30, 2017
(In thousands)

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

The Gallery's net position is reconciled to the Federal net assets reported under U.S. generally accepted accounting principles for the years ended September 30, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
Net position	\$ 273,423	258,509
Unexpended federal one-year and two-year appropriations	<u>(20,734)</u>	<u>(14,891)</u>
Net assets under U.S. GAAP	<u>\$ 252,689</u>	<u>243,618</u>

(8) Undelivered Orders

The amount of budgetary resources obligated for undelivered orders at September 30, 2017 and 2016 is \$22,005 and \$22,642 respectively.

NATIONAL GALLERY OF ART

Other Supplementary Information
September 30, 2017
Unaudited
(In thousands)

Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2017

	Operating	Renovation	Total
Budgetary resources:			
Unobligated balance brought forward, October 1	\$ 4,409	4,612	9,021
Recoveries of prior year unpaid obligations	1,123	273	1,396
Other changes in unobligated balance	(377)	-	(377)
Unobligated balance from prior year budget authority, net	5,155	4,885	10,040
Appropriations	132,961	22,564	155,525
Total budgetary resources	\$ 138,116	27,449	165,565
Status of budgetary resources:			
Obligations incurred	\$ 131,852	7,477	139,329
Unobligated balance, end of year:			
Apportioned	5,809	19,906	25,715
Unapportioned	455	66	521
Total unobligated balance, end of year	6,264	19,972	26,236
Total budgetary resources	\$ 138,116	27,449	165,565
Change in obligated balance:			
Unpaid obligations brought forward, October 1 (gross)	\$ 17,670	14,357	32,027
Obligations incurred	131,852	7,477	139,329
Outlays, gross	(125,037)	(12,947)	(137,984)
Recoveries of prior year unpaid obligations	(1,123)	(273)	(1,396)
Obligated balance, end of year (net)	\$ 23,362	8,614	31,976
Budget authority and outlays, net:			
Budget authority, gross	\$ 132,961	22,564	155,525
Budget authority, net	\$ 132,961	22,564	155,525
Outlays, gross	\$ 125,037	12,947	137,984
Actual offsetting collections	(20)	-	(20)
Outlays, net	\$ 125,017	12,947	137,964

NATIONAL GALLERY OF ART

Other Supplementary Information
September 30, 2017
Unaudited
(In thousands)

Schedule of Budgetary Resources by Appropriation Accounts

Year ended September 30, 2016

	Operating	Renovation	Total
Budgetary resources:			
Unobligated balance brought forward, October 1	\$ 4,832	1,257	6,089
Recoveries of prior year unpaid obligations	1,547	147	1,694
Other changes in unobligated balance	(100)	-	(100)
Unobligated balance from prior year budget authority, net	6,279	1,404	7,683
Appropriations	124,988	22,564	147,552
Total budgetary resources	\$ 131,267	23,968	155,235
Status of budgetary resources:			
Obligations incurred	\$ 126,857	19,357	146,214
Unobligated balance, end of year:			
Apportioned	3,628	4,612	8,240
Unapportioned	781	-	781
Total unobligated balance, end of year	4,409	4,612	9,021
Total budgetary resources	\$ 131,266	23,969	155,235
Change in obligated balance:			
Unpaid obligations brought forward, October 1 (gross)	\$ 21,598	20,295	41,893
Obligations incurred	126,858	19,356	146,214
Outlays, gross	(129,239)	(25,147)	(154,386)
Recoveries of prior year unpaid obligations	(1,547)	(147)	(1,694)
Obligated balance, end of year (net)	\$ 17,670	14,357	32,027
Budget authority and outlays, net:			
Budget authority, gross	\$ 124,988	22,564	147,552
Budget authority, net	\$ 124,988	22,564	147,552
Outlays, gross	\$ 129,239	25,147	154,386
Actual offsetting collections	(136)	-	(136)
Outlays, net	\$ 129,103	25,147	154,250

NATIONAL GALLERY OF ART

Other Supplementary Information
September 30, 2017
Unaudited
(In thousands)

Deferred Maintenance

The Gallery occupies two landmark buildings at one location. A condition assessment survey method is used to evaluate the asset's condition, and determines the repair and maintenance requirements for the buildings.

SFFAS No. 6, *Accounting for Property, Plant and Equipment*, requires that deferred maintenance (measured using the condition survey method) and the description of the requirements or standards for acceptable operating condition be disclosed. Fundamentally, the Gallery considers its facilities and equipment to be in an "acceptable condition" in that they serve their required mission. Adopting standard criteria for a classification of acceptable condition is difficult due to the complex environment in which the Gallery operates.

As a result, the Gallery has identified a current maintenance and repair backlog for:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 39,700	42,076
Facilities equipment	<u>9,925</u>	<u>10,519</u>
Total deferred maintenance	<u>\$ 49,625</u>	<u>52,595</u>

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



KPMG LLP
1676 International Drive
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 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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gallery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

KPMG LLP

McLean, Virginia
November 14, 2017

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. and Andrew Mellon Memorial Fountain

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

Mary Cassatt

Children Playing on the Beach, 1884

Ailsa Mellon Bruce Collection

Claude Monet

Woman with a Parasol – Madame Monet and Her Son, 1875

Collection of Mr. and Mrs. Paul Mellon

Paul Cézanne

The Artist's Father, Reading. The Artist's Father, Reading "L'Événement", 1866

Collection of Mr. and Mrs. Paul Mellon

All photographs courtesy of the National Gallery of Art