

**National Gallery of Art**

Financial Statements

September 30, 2022

(With Independent Auditors' Reports Thereon)



KPMG LLP  
Suite 900  
8350 Broad Street  
McLean, VA 22102

## Independent Auditors' Report

The Board of Trustees  
The National Gallery of Art

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the National Gallery of Art (the Gallery), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Gallery as of September 30, 2022, 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Gallery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gallery's ability to continue as a going concern for one year after the date the financial statements are issued.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Gallery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gallery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### *Report on Summarized Comparative Information*

We have previously audited the Gallery's 2021 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### *Other Matter*

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

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2022, on our consideration of the Gallery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Gallery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gallery's internal control over financial reporting and compliance.

**KPMG LLP**

McLean, Virginia  
November 10, 2022

**NATIONAL GALLERY OF ART**

Statement of Financial Position

September 30, 2022

(with summarized financial information as of September 30, 2021)

(In thousands)

<b>Assets</b>	2022			2021
	Private	Federal	Total	Total
Cash and cash equivalents	\$ 3,706	104,020	107,726	116,254
Accounts receivable and other assets, net	2,889	2,017	4,906	3,368
Pledges receivable, net	7,016	–	7,016	3,510
Investments and trusts held by others	1,028,899	–	1,028,899	1,358,396
Property, plant and equipment, net	50,047	331,957	382,004	367,492
Art collections (Note 2)	–	–	–	–
Total assets	\$ 1,092,557	437,994	1,530,551	1,849,020
 <b>Liabilities and Net Assets</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 12,296	37,637	49,933	51,517
Unexpended federal multi-year appropriations	–	43,234	43,234	40,762
Environmental liability	–	37,248	37,248	34,580
Total liabilities	12,296	118,119	130,415	126,859
Net assets:				
Without donor restrictions	374,092	197,508	571,600	681,325
With donor restrictions	706,169	122,367	828,536	1,040,836
Total net assets	1,080,261	319,875	1,400,136	1,722,161
Total liabilities and net assets	\$ 1,092,557	437,994	1,530,551	1,849,020

See accompanying notes to financial statements.

**NATIONAL GALLERY OF ART**  
Statement of Activities  
Year ended September 30, 2022  
(with summarized financial information for the year ended September 30, 2021)  
(In thousands)

	Without donor restrictions			With donor restrictions	Total 2022	Total 2021
	Private	Federal	Total			
<b>Operating:</b>						
Support and revenue:						
Federal appropriations	\$ –	136,873	136,873	8,553	145,426	141,311
Gifts and grants	6,856	–	6,856	2,504	9,360	7,037
Spending policy appropriated for operations	5,461	–	5,461	23,588	29,049	25,574
Royalties and other income	1,547	–	1,547	–	1,547	1,849
	<u>13,864</u>	<u>136,873</u>	<u>150,737</u>	<u>34,645</u>	<u>185,382</u>	<u>175,771</u>
Net assets released from restrictions to fund operating expenses	<u>23,911</u>	<u>6,507</u>	<u>30,418</u>	<u>(30,418)</u>	<u>–</u>	<u>–</u>
Total support and revenue	<u>37,775</u>	<u>143,380</u>	<u>181,155</u>	<u>4,227</u>	<u>185,382</u>	<u>175,771</u>
<b>Expenses:</b>						
Collections	3,890	54,593	58,483	–	58,483	55,386
Special exhibitions	6,471	16,070	22,541	–	22,541	19,183
Education and public programs	11,492	27,864	39,356	–	39,356	39,218
Editorial and photography	1,629	6,158	7,787	–	7,787	7,413
General and administrative	5,951	36,474	42,425	–	42,425	41,796
Development	3,815	2,150	5,965	–	5,965	4,902
Total operating expenses	<u>33,248</u>	<u>143,309</u>	<u>176,557</u>	<u>–</u>	<u>176,557</u>	<u>167,898</u>
Change in net assets from operating activities	<u>4,527</u>	<u>71</u>	<u>4,598</u>	<u>4,227</u>	<u>8,825</u>	<u>7,873</u>
<b>Non-operating:</b>						
Federal appropriations	–	12,993	12,993	19,303	32,296	30,178
Interagency appropriation transfer	–	–	–	(7,000)	(7,000)	–
Endowment gifts	–	–	–	2,043	2,043	21,304
Gifts for art acquisitions	–	–	–	14,869	14,869	6,744
Spending policy appropriated for art acquisitions	153	–	153	7,660	7,813	3,151
Change in value of split-interest agreements	553	–	553	(2,497)	(1,944)	1,518
Investment return less amounts appropriated for operations and art acquisitions	(108,759)	–	(108,759)	(229,597)	(338,356)	251,157
Other income	291	–	291	–	291	642
Acquisitions of works of art	(17,612)	–	(17,612)	–	(17,612)	(9,871)
Depreciation and amortization expense	(4,155)	(12,207)	(16,362)	–	(16,362)	(16,723)
Environmental liability accretion	–	(1,418)	(1,418)	–	(1,418)	(1,348)
Environmental liability change in value	–	(2,098)	(2,098)	–	(2,098)	(5,248)
Other expense	(37)	(3,335)	(3,372)	–	(3,372)	(1,184)
Net assets released from restrictions to fund non-operating expenses	<u>17,943</u>	<u>3,365</u>	<u>21,308</u>	<u>(21,308)</u>	<u>–</u>	<u>–</u>
Change in net assets from non-operating activities	<u>(111,623)</u>	<u>(2,700)</u>	<u>(114,323)</u>	<u>(216,527)</u>	<u>(330,850)</u>	<u>280,320</u>
Increase (decrease) in net assets	<u>(107,096)</u>	<u>(2,629)</u>	<u>(109,725)</u>	<u>(212,300)</u>	<u>(322,025)</u>	<u>288,193</u>
Net assets at beginning of year	<u>481,188</u>	<u>200,137</u>	<u>681,325</u>	<u>1,040,836</u>	<u>1,722,161</u>	<u>1,433,968</u>
Net assets at end of year	<u>\$ 374,092</u>	<u>197,508</u>	<u>571,600</u>	<u>828,536</u>	<u>1,400,136</u>	<u>1,722,161</u>

See accompanying notes to financial statements.

**NATIONAL GALLERY OF ART**

Statement of Cash Flows

Year ended September 30, 2022

(with summarized financial information for the year ended September 30, 2021)

(In thousands)

	Private	Federal	Total 2022	Total 2021
<b>Cash flows from operating activities:</b>				
Federal operating appropriations	\$ —	147,898	147,898	146,058
Operating gifts and grants	10,207	—	10,207	6,490
Investment income and dividends, net	919	—	919	901
Cash received from split interest agreements	3,985	—	3,985	—
Royalties and other income	1,353	—	1,353	1,599
Payments to employees	(21,790)	(98,649)	(120,439)	(114,508)
Payments to suppliers	(9,296)	(49,216)	(58,512)	(49,263)
Income tax refund (payments)	291	—	291	(634)
Net cash used in operating activities	(14,331)	33	(14,298)	(9,357)
<b>Cash flows from investing activities:</b>				
Purchase of investments	(253,019)	—	(253,019)	(260,911)
Proceeds from sale of investments	244,994	—	244,994	287,141
Acquisitions of works of art	(18,625)	—	(18,625)	(11,634)
Purchase of property, plant and equipment	(515)	(32,032)	(32,547)	(41,568)
Net cash used in investing activities	(27,165)	(32,032)	(59,197)	(26,972)
<b>Cash flows from financing activities:</b>				
Contributions and net investment income for donor restricted investments	2,572	—	2,572	12,928
Federal appropriations for capital projects	—	25,296	25,296	30,178
Gifts and grants for art acquisitions	9,959	—	9,959	9,462
Net cash provided by financing activities	12,531	25,296	37,827	52,568
Net change in cash and cash equivalents	(28,965)	(6,703)	(35,668)	16,239
Cash and cash equivalents at beginning of year	43,278	110,723	154,001	137,762
Cash and cash equivalents at end of year	\$ 14,313	104,020	118,333	154,001
<b>Cash and cash equivalents reconciliation:</b>				
Cash and cash equivalents included in Statement of Financial Position	\$ 3,706	104,020	107,726	116,254
Cash included in investments	10,607	—	10,607	37,747
Total cash and cash equivalents	\$ 14,313	104,020	118,333	154,001

See accompanying notes to financial statements.

# NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2022  
(In thousands)

## (1) Organization

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

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

In addition to federal appropriations, the National Gallery receives private donations from individuals, foundations, and corporations to support art acquisitions and conservation, scholarly and scientific research, exhibitions, and education outreach programs. All monies, related activities and balances from federal sources are referred to herein as "federal", while all other monies, related activities and balances are referred to herein as "private".

## (2) Summary of Significant Accounting Policies

### (a) General

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

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

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
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(In thousands)

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

### **(b) Measure of Operations**

The National Gallery includes in its measure of operations federal and private support and revenue and expenses that are integral to its core program services: collections; special exhibitions; education and public programs; and editorial and photography. The measure of operations excludes certain non-operating activities such as non-operating gifts and grants (endowment gifts and gifts for art acquisitions and capital projects), investment return less amounts designated for operations, acquisitions of works of art, depreciation and income tax expense, and changes in the environmental liability.

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

### **(c) Summarized Financial Information**

The financial statements include certain summarized prior-year information in total only. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the National Gallery's financial statements as of and for the year ended September 30, 2021, from which the summarized information was derived.

### **(d) Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing demand deposits and appropriated amounts yet to be disbursed remaining on deposit with the U.S. Department of Treasury (or U.S. Treasury). The National Gallery considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents, except where such cash equivalents are held as part of a long-term investment strategy (see note 5).

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

### **(e) Pledges Receivable**

Unconditional promises to give to the National Gallery in the future (pledges receivable) are recorded at the fair value of future cash flows, after providing an allowance for uncollectibility (Level 3 inputs). Pledges are discounted at rates approximating the current market rate at the

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
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(In thousands)

date of the gift. The resulting discount rates range from 2.0% to 4.6%. Conditional promises to give are recognized as income when the conditions stipulated by the donor are substantially met.

### **(f) Investments and Trusts Held by Others**

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

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

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

### **(g) Property, Plant and Equipment**

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

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

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Notes to Financial Statements  
September 30, 2022  
(In thousands)

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

### **(h) Art Collections**

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

The National Gallery acquires its art collections through purchase or by donations-in-kind. Only current year purchases made from specifically designated funds, not donations-in-kind, are reflected in the statement of activities. In conformity with accounting policies generally followed by art museums, the value of art has been excluded from the statement of financial position. The National Gallery does not deaccession any of its permanent collections.

### **(i) Accrued Leave**

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

### **(j) Unexpended Federal Multi-Year Appropriations**

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

### **(k) Revenue Recognition**

#### *Federal Appropriations*

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

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
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(In thousands)

### *Investment Earnings*

Recognition of investment earnings is described in note 2(f). Dividend and interest income and realized and unrealized gains and losses are recognized as either net assets without donor restrictions or net assets with donor restrictions, in accordance with applicable donor and legal requirements.

### *Donor Gifts and Membership Dues*

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

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

### *Auxiliary Services*

Revenue from auxiliary activities is derived primarily from outsourced retail shops and restaurant operations. Royalties from these operations are received on a monthly basis and accrued as appropriate.

### **(l) Employee Benefits**

The National Gallery offers its employees a comprehensive set of benefits including pension, health and life insurance, and workers compensation for injuries sustained on the job. All permanent employees of the National Gallery, both federal and nonfederal, hired subsequent to January 1, 1984 participate in the Federal Employees' Retirement System (FERS). Employees hired prior to January 1, 1984 had the option of remaining under the Civil Service Retirement System (CSRS) or electing FERS.

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

The National Gallery's current year contributions to the pension plans are recognized in the statement of activities, using rates established by the Office of Personnel Management (OPM), the agency with Government-wide responsibility for the oversight and administration of the

## NATIONAL GALLERY OF ART

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plans. Consistent with reporting under multi-employer pension plans, the National Gallery does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by OPM (see note 14).

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

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

Expense recognized in the National Gallery's financial statements includes current amounts invoiced and amounts expected to be invoiced by DOL, as well as the change in the actuarially determined cost of expected future benefits. The actuarial FECA liability represents the liability for expected future benefits for death, disability, medical, and miscellaneous costs for approved cases. The actuarial liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period, wage inflation factors, medical inflation factors and other variables. This liability constitutes an extended future estimate of cost which will not be obligated against budgetary resources until the fiscal year in which DOL bills the cost to the National Gallery. The cost associated with this liability cannot be met by the National Gallery without further appropriation action.

### **(m) Imputed Financing Sources**

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

Imputed costs and offsetting federal funding sources for pension and post-retirement health and life insurance benefits are computed by the National Gallery and presented in note 14. The National Gallery does not recognize these imputed costs and off-setting financing sources

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
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(In thousands)

in the statement of activities, as the amounts represent costs to be funded in future years by OPM.

### **(n) Contributed Services and Donated Assets**

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

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

### **(o) Functional Allocation of Expenses**

The cost of providing various programs and other activities summarized on a functional and natural basis is shown in note 13. Included under the Collections category are the costs of the care and display of the National Gallery's collections. Special exhibition expenses include travel, transportation of items, and other services necessary for the display of special exhibitions. Included in Education and public programs expense is the cost of providing a wide array of lectures, tours, films, music, symposia and academic programs to the general public. Editorial and photography expenses include the costs to produce the many publications produced by the National Gallery. General and administrative expenses include costs for executive management, financial administration, human resources, and legal services. Costs associated with individual and corporate gifts and grants, annual appeals and other fundraising efforts are included in Development expenses.

### **(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**

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

The National Gallery invests in a variety of investment securities. Investment securities are exposed to risks such as interest rate, market, and credit risks. As a result, changes in the

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
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values of investment securities may occur that could materially affect the value of the National Gallery's investments and its financial position.

**(r) Reclassifications**

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

**(s) Recent Accounting Pronouncements**

Effective for the National Gallery's fiscal year 2022, FASB issued Accounting Standards Update (ASU) 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which is intended to align the accounting for implementation costs incurred in a hosting arrangement that is a service contract, with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The National Gallery adopted ASU 2018-15 effective as of the beginning of fiscal year 2022 and has elected to apply the guidance prospectively to applicable implementation costs incurred after the date of adoption.

Under ASU 2018-15, capitalized costs are recognized as assets in the Statement of Financial Position and are amortized into expenses over the life of the hosting service arrangement. As a result, \$2.0 million of costs incurred in fiscal year 2022 have been capitalized and included in Accounts receivable and other assets, net on the Statement of Financial Position.

Also effective for the National Gallery's fiscal year 2022, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to increase transparency for contributed nonfinancial assets (also known as gifts in kind) through enhancements to financial statement presentation and disclosures. The ASU has no impact on the National Gallery's fiscal year 2022 financial statements.

ASU 2020-10, *Codification Improvements*, was issued by FASB to improve consistency in financial reporting by amending the Accounting Standards Codification (ASC) to include all disclosure guidance in the appropriate disclosure sections and clarify application of various provisions in the ASC by amending and adding new headings, cross referencing to other guidance, and refining or correcting terminology. The ASU is effective for the National Gallery's fiscal year 2023, with early adoption permitted. The National Gallery adopted ASU 2020-10 in fiscal year 2022. The ASU has no impact on the National Gallery's fiscal year 2022 financial statements.

Effective for the National Gallery's fiscal year 2023, ASU 2016-02, *Leases (Topic 842)*, as amended by subsequent ASUs, requires a lessee to recognize an asset, representing its right to use the underlying asset for the lease term, and a liability to make lease payments for all leases with a lease term of more than twelve months. The ASU is intended to increase transparency and comparability among organizations. Additional qualitative and quantitative

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disclosures are required for key leasing arrangements. Management is currently evaluating the impact of the provisions of ASU 2016-02, as amended, on the National Gallery's financial statements.

### (3) Financial Assets and Liquidity Resources

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

Following is a reconciliation of the National Gallery's total financial assets as of September 30, 2022 and 2021 to financial assets available to fund the National Gallery's general expenditures for the following fiscal year. General expenditures include all programmatic and supporting operating expenses, including expenditures for capital renovations but not including art acquisitions.

	2022		
	Private	Federal	Total
Financial assets:			
Cash and cash equivalents	\$ 3,706	104,020	107,726
Investments and trusts held by others	1,028,899	–	1,028,899
Pledges and accounts receivable	8,010	–	8,010
Total financial assets at year-end	1,040,615	104,020	1,144,635
Less financial assets unavailable for general expenditure within one year:			
Financial assets with donor restrictions	(698,844)	–	(698,844)
Trust held by others and charitable gift annuity assets	(19,792)	–	(19,792)
Board designations:			
Quasi-endowments	(68,652)	–	(68,652)
Operating reserve	(115,000)	–	(115,000)
Capital reserve	(30,000)	–	(30,000)
Financial assets available to meet cash needs for general expenditure within one year	\$ 108,327	104,020	212,347

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	2021		
	Private	Federal	Total
Financial assets:			
Cash and cash equivalents	\$ 5,531	110,723	116,254
Investments and trusts held by others	1,358,396	–	1,358,396
Pledges and accounts receivable	5,101	–	5,101
Total financial assets at year-end	1,369,028	110,723	1,479,751
Less financial assets unavailable for general expenditure within one year:			
Financial assets with donor restrictions	(919,328)	–	(919,328)
Trust held by others and charitable gift annuity assets	(29,049)	–	(29,049)
Board designations:			
Quasi-endowments	(82,085)	–	(82,085)
Operating reserve	(115,000)	–	(115,000)
Capital reserve	(30,000)	–	(30,000)
Financial assets available to meet cash needs for general expenditure within one year	\$ 193,566	110,723	304,289

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

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**(4) Pledges Receivable, Net**

As of September 30, 2022 and 2021, net pledges receivable consisted of the following:

	2022	2021
Due in one year or less	\$ 2,894	1,780
Due between one year and five years	4,176	1,370
Due in more than five years	600	900
Subtotal	7,670	4,050
Less discounts of \$504 and \$390 and allowances of \$150 and \$150, respectively	(654)	(540)
Total	\$ 7,016	3,510

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

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

As of September 30, 2022 and 2021, investments and trusts held by others consisted of the following:

	2022	2021
Pooled investment portfolio	\$ 1,001,900	1,321,783
Trusts held by others	12,659	15,714
Charitable gift annuities and other	9,340	15,899
Subtotal	1,023,899	1,353,396
Loan to U.S. Treasury	5,000	5,000
Total	\$ 1,028,899	1,358,396

In 1942, the National Gallery, under authority of an Act of Congress, made a \$5,000 permanent loan to the U.S. Treasury. This loan bears interest at the higher of 4.00% or 0.25% below the average monthly rate for long-term funds paid by the U.S. Treasury (4% during fiscal year 2022). Interest income on this loan was \$203 for the fiscal years ended September 30, 2022 and 2021. The fair value of the loan to the U.S. Treasury approximates the carrying value.

As of September 30, 2022 and 2021, the carrying value of the National Gallery's cash, cash equivalents and balances with U.S. Treasury, receivables, deferred charges and other assets, and accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturity of these assets and liabilities. The National Gallery's investments in

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

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

- *Level 1* – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the National Gallery has the ability to access as of the reporting date. Investments include investments in equity, real estate, and fixed income mutual funds that are traded in an active exchange market.
- *Level 2* – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly as of the reporting date.
- *Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement as of the reporting date. The determination of fair value for these financial instruments requires one or more inputs subject to significant management judgment or estimation. Investments in trusts held by others are valued using Level 3 inputs. These investments include a trust invested in real property that is valued based on property valuations involving significant judgments and estimation. Another trust is a perpetual trust invested in equity, fixed income securities, and mutual funds where the National Gallery receives annual distributions but will never receive the trust's principal.

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The following tables summarize the fair values of investments and trusts held by others as of September 30, 2022 and 2021 for financial assets by pricing observability levels:

	2022			
	Prices in active markets for identical assets (Level 1)	Unobservable inputs (Level 3)	Investments measured at net asset value <sup>1</sup>	Fair value at September 30, 2022
U.S. equities	\$ 145,894	–	180,860	326,754
International equities:				
Developed market equities	60,459	–	130,182	190,641
Emerging market equities	–	–	61,717	61,717
Real estate private investments	–	–	177	177
Private equity and venture capital funds	–	–	26,741	26,741
Hedge funds	–	–	284,623	284,623
Multi-asset fund	–	–	8,768	8,768
Fixed income securities	–	–	91,872	91,872
Cash	10,607	–	–	10,607
Money market fund	251	–	–	251
Trusts held by others	–	12,659	–	12,659
Charitable gift annuities and other	9,089	–	–	9,089
Total	<u>\$ 226,300</u>	<u>12,659</u>	<u>784,940</u>	<u>1,023,899</u>

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

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### Notes to Financial Statements September 30, 2022 (In thousands)

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

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

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### Notes to Financial Statements

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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, 2022:

		<u>Fair value</u>	<u>Commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
U.S. equities	(a)	\$ 180,860	3,415	Monthly to 5 years	30 to 90 days
International equities:	(b)				
Developed market equities		130,182	–	Weekly to monthly	3 to 30 days
Emerging market equities		61,717	–	Monthly	7 to 30 days
Real estate private investments	(c)	177	–	N/A	N/A
Private equity and venture capital funds	(d)	26,741	102,594	N/A	N/A
Hedge funds	(e)	284,623	–	Quarterly to rolling three years	45 to 181 days
Multi-asset fund	(f)	8,768	–	N/A	N/A
Fixed income securities	(g)	91,872	–	Daily	2 days
Total		<u>\$ 784,940</u>	<u>106,009</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, 2021:

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

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- (a) U.S. equities: Investments in limited partnerships and limited liability companies that invest in the equity securities of U.S. companies.
- (b) International equities: Investments in equity securities of international companies in both developed and emerging markets comprised of investments in limited partnerships and limited liability companies.
- (c) Real estate: Investments in limited partnerships which invest in privately held real estate. The limited partnerships are organized as funds of funds.
- (d) Private equity and venture capital funds: Investments in limited partnerships which invest in shares of operating companies that are not listed on a publicly traded stock exchange, including leveraged buyouts, growth capital, distressed investments, and venture capital. The limited partnerships are organized as funds of funds.
- (e) Hedge funds: Investments in limited partnerships and limited liability companies which employ investment strategies such as long/short equity, long/short credit, and distressed assets or that are organized as funds of funds.
- (f) Multi-asset fund: Investment in a side pocket of a limited partnership which contains shares of funds engaged in private equity, venture capital, hedge funds, real estate, and natural resources.
- (g) Fixed income securities: Investment in a limited partnership which invests in investment grade fixed income securities issued by U.S. government and corporate entities.

## NATIONAL GALLERY OF ART

### Notes to Financial Statements

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The following schedule summarizes the investment return, net of expenses, and its classification in the statement of activities for the years ended September 30, 2022 and 2021:

	2022			2021 Total
	Without donor restrictions	With donor restrictions	Total	
Total net investment return	\$ (103,145)	(198,349)	(301,494)	279,882
Appropriated for operations	(5,461)	(23,588)	(29,049)	(25,574)
Appropriated for art acquisitions	(153)	(7,660)	(7,813)	(3,151)
Investment return less amounts appropriated for operations and art acquisitions	<u>\$ (108,759)</u>	<u>(229,597)</u>	<u>(338,356)</u>	<u>251,157</u>

### (6) Property, Plant and Equipment, Net

As of September 30, 2022 and 2021, net property, plant and equipment consisted of the following:

	2022			2021 Total
	Private funds	Federal funds	Total	
Buildings and improvements	\$ 187,985	340,174	528,159	516,367
Equipment and computer software	7,221	99,728	106,949	107,031
Construction-in-progress	173	87,525	87,698	68,534
Equipment under capital lease	-	-	-	2,962
Subtotal	<u>195,379</u>	<u>527,427</u>	<u>722,806</u>	<u>694,894</u>
Less accumulated depreciation and amortization	<u>(145,332)</u>	<u>(195,470)</u>	<u>(340,802)</u>	<u>(327,402)</u>
Total	<u>\$ 50,047</u>	<u>331,957</u>	<u>382,004</u>	<u>367,492</u>

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Notes to Financial Statements

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(In thousands)

**(7) Accounts Payable and Other Liabilities**

As of September 30, 2022 and 2021, accounts payable and other liabilities consisted of the following:

	2022			2021 Total
	Private funds	Federal funds	Total	
Accrued salaries and benefits	\$ 5,890	20,160	26,050	25,974
Accounts payable and accrued expenses	1,413	9,965	11,378	12,394
Other liabilities	4,993	7,512	12,505	13,149
Total	\$ 12,296	37,637	49,933	51,517

**(8) Environmental Liability**

In 2006 the National Gallery, in conjunction with third party consultants, determined the cost of removing asbestos and other hazardous materials from the National Gallery's buildings pursuant to the Clean Air Act as amended. The environmental liability was initially recorded at the estimated fair value calculated using inflation rates ranging from 1.9% to 2.6% and discount rates ranging from 4.6% to 4.9% (Level 3 inputs). The cost of the remediation is amortized over the useful life of the asset. The actual cost may vary from the current estimated cost at completion in the future due to inflation and the timing of implementing the various remedies. Management annually updates the total estimated costs for completion.

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

	2022	2021
Beginning balance	\$ 34,580	28,660
Remediation accretion	1,418	1,348
Change in liability valuation	2,098	5,248
Remediation costs incurred	(848)	(676)
Total	\$ 37,248	34,580

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### Notes to Financial Statements

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#### (9) Net Assets

As of September 30, 2022 and 2021, net assets consisted of the following:

	2022		Total
	Without donor restrictions	With donor restrictions	
Donor restricted endowment funds	\$ —	580,742	580,742
Add pledges receivable	—	806	806
Net donor restricted endowment funds	—	581,548	581,548
Perpetual trust held by a third party and charitable gift annuity	—	9,997	9,997
Permanent loan from U.S. Treasury	—	5,000	5,000
Board-designated endowment funds	68,622	—	68,622
Total net assets subject to spending rules	68,622	596,545	665,167
Net assets with donor restrictions available for:			
Gallery programs and operations	—	114,639	114,639
Federal repair and renovation	—	32,670	32,670
Net investment in property, plant and equipment and software asset	299,339	84,682	384,021
Future-funded federal liabilities	(51,784)	—	(51,784)
Other board-designated net assets:			
Operating reserves	115,000	—	115,000
Capital reserves	30,000	—	30,000
Undesignated	110,423	—	110,423
Total	\$ 571,600	828,536	1,400,136

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

Donor restricted endowment funds include accumulated appreciation of \$274,698 and \$473,897 as of September 30, 2022 and 2021, respectively. Future-funded federal liabilities represent environmental remediation, accrued vacation, and workers compensation liabilities to be funded with future fiscal year federal appropriations. Board designated reserves have been established to provide necessary resources in the event of potential extended market declines, as well as shortfalls in donor support and earned revenue during periods of economic recession, and to offset potential losses for damage or theft of art works on loan to the National Gallery in excess of insurance coverage. Capital reserves fund non-federal capital additions and renovations and related obligations.

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Net assets with donor restrictions are available for the purposes as follows as of September 30, 2022 and 2021:

	2022			
	Subject to spending policy	Spendable with purpose restrictions	Placement in service and time restrictions	Total
Acquisition of art	\$ 111,918	10,520	–	122,438
Collections	71,112	558	–	71,670
Special exhibitions	55,147	23,349	–	78,496
Education and public programs	186,609	77,713	–	264,322
Editorial and photography	6,283	256	–	6,539
Operations	165,476	1,667	147	167,290
Capital projects	–	429	–	429
Federal repair and renovation projects	–	32,670	84,682	117,352
Total	\$ 596,545	147,162	84,829	828,536

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

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### (10) Endowment Funds

The National Gallery's endowment consists of 124 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and six funds designated by the Board of Trustees to function as endowment funds supporting Gallery programs and operations. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The National Gallery's Board of Trustees has resolved to be guided by the standards in the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted by the District of Columbia on January 23, 2008, in the management, investment, and expenditure of Gallery endowment funds although it is not required to do so as a matter of law. The Board has interpreted UPMIFA as allowing the National Gallery to appropriate for expenditure or accumulate so much of an endowment fund as the National Gallery determines is prudent for the uses, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

The National Gallery retains in perpetuity the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Earnings and accumulated appreciation of the endowment funds remain restricted until appropriated for expenditure by the National Gallery in a manner consistent with the standard of prudence prescribed by UPMIFA.

The National Gallery has adopted investment and spending policies for endowment assets that are intended to provide a predictable stream of funding for programs while maintaining the purchasing power of the endowment. Under the investment policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that reduces risk through diversification while obtaining a competitive rate of return. The National Gallery targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

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

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### Notes to Financial Statements September 30, 2022 (In thousands)

The following table summarizes the change in the National Gallery's endowment funds during the years ended September 30, 2022 and 2021:

	2022			2021		
	Without donor	With donor	Total	Without donor	With donor	Total
	restrictions	restrictions		restrictions	restrictions	
Endowment funds at beginning of year	\$ 82,045	777,342	859,387	66,663	624,296	690,959
Contributions received	4,461	2,572	7,033	732	12,928	13,660
Charitable gift annuity distribution	3,960	-	3,960	-	-	-
Investment return	(20,499)	(173,562)	(194,061)	16,890	158,930	175,820
Appropriation of endowment assets for expenditures	(1,345)	(25,610)	(26,955)	(2,240)	(18,812)	(21,052)
Endowment funds at end of year	<u>\$ 68,622</u>	<u>580,742</u>	<u>649,364</u>	<u>82,045</u>	<u>777,342</u>	<u>859,387</u>

### Funds with Deficiencies

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

There were no underwater endowment funds as of September 30, 2021. The following table summarizes the Gallery's funds with deficiencies as of September 30, 2022:

	2022
Fair value of endowment funds	\$ 14,891
Original gift corpus	<u>(16,755)</u>
Underwater deficiency	<u>\$ (1,864)</u>

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**(11) Net Assets Released from Restrictions**

Net assets are released from donor restrictions as expenses are incurred to satisfy the restricted purposes or by occurrence of the passage of time or other events specified by donors. Restrictions of net assets were released by the National Gallery as follows for the years ended September 30, 2022 and 2021.

	2022			2021
	Private	Federal	Total	Total
<b>Operating Releases</b>				
Purpose-restricted gifts released for programs and operations	\$ 4,066	6,507	10,573	8,565
Appropriated endowment spend released:				
Without purpose restrictions	2,808	–	2,808	2,726
With purpose restrictions	17,037	–	17,037	15,166
Total operating releases	<u>23,911</u>	<u>6,507</u>	<u>30,418</u>	<u>26,457</u>
<b>Non-operating Releases</b>				
Purpose-restricted gifts released for:				
Acquisition of art	9,015	–	9,015	6,363
Capital projects	515	3,365	3,880	1,408
Appropriated endowment spend released for:				
Acquisition of art	8,413	–	8,413	3,300
Capital projects	–	–	–	79
Total non-operating releases	<u>17,943</u>	<u>3,365</u>	<u>21,308</u>	<u>11,150</u>
Total releases	<u>\$ 41,854</u>	<u>9,872</u>	<u>51,726</u>	<u>37,607</u>

## NATIONAL GALLERY OF ART

Notes to Financial Statements

September 30, 2022

(In thousands)

### (12) Federal Appropriations

The National Gallery is funded primarily by two Congressional appropriations: one appropriation covers the National Gallery's salaries, benefits and expenses, a portion of which is designated for special exhibitions, and the second appropriation provides funds necessary for the repair, restoration and renovation of the National Gallery's buildings. The appropriation received for salaries, benefits and expenses is a two-year appropriation that must be obligated by the end of the second fiscal year, with the exception of the portion of the appropriation designated for special exhibitions expenses, which is available until it is expended. The appropriation for the repair, restoration, and renovation of the National Gallery's buildings is available until expended. The fiscal year 2022 salaries and expenses appropriation includes \$3,775 for no-year special exhibitions funding.

The National Gallery's federal appropriations received in the fiscal years ending 2022 and 2021 are reconciled to federal appropriation revenue recognized as follows:

	2022			2021 Total
	Salaries and expenses	Repairs, restoration and renovation	Total	
Federal appropriations received	\$ 156,419	24,081	180,500	176,445
Interagency appropriation transfer	–	(7,000)	(7,000)	–
Unexpended appropriations	(28,476)	–	(28,476)	(27,058)
Amounts expended from prior years' appropriations	25,698	–	25,698	22,102
Federal appropriation revenue recognized	\$ 153,641	17,081	170,722	171,489
Operating	\$ 140,648	4,778	145,426	141,311
Non-operating	12,993	19,303	32,296	30,178
Non-operating interagency appropriation transfer	–	(7,000)	(7,000)	–
Total federal appropriation revenue recognized	\$ 153,641	17,081	170,722	171,489

**NATIONAL GALLERY OF ART**

Notes to Financial Statements

September 30, 2022

(In thousands)

**(13) Functional Classification of Expenses**

Expenses by functional and natural classification for the fiscal years ended September 30, 2022 and 2021 are shown below:

	2022						
	Collections	Special exhibitions	Education and public programs	Editorial and photography	General and administrative	Development	Total
Compensation	\$ 42,085	12,574	26,763	6,164	25,674	4,564	117,824
Contractual services	9,128	5,352	6,835	945	9,716	832	32,808
Occupancy	4,355	1,319	1,338	212	5,313	127	12,664
Office expenses	1,863	1,555	2,646	325	1,243	336	7,968
Other	1,052	1,741	1,774	141	479	106	5,293
Total operating expenses	<u>58,483</u>	<u>22,541</u>	<u>39,356</u>	<u>7,787</u>	<u>42,425</u>	<u>5,965</u>	<u>176,557</u>
Art acquisitions	17,612	–	–	–	–	–	17,612
Depreciation expense	9,077	1,706	2,426	372	2,581	200	16,362
Environmental liability accretion	851	156	199	28	170	14	1,418
Other expenses	726	167	745	133	1,501	100	3,372
Total expenses	<u>\$ 86,749</u>	<u>24,570</u>	<u>42,726</u>	<u>8,320</u>	<u>46,677</u>	<u>6,279</u>	<u>215,321</u>
	2021						
	Collections	Special exhibitions	Education and public programs	Editorial and photography	General and administrative	Development	Total
Compensation	\$ 39,994	12,861	27,051	6,176	24,993	3,851	114,926
Contractual services	8,488	3,035	5,950	765	9,773	640	28,651
Occupancy	4,487	1,204	1,521	151	5,450	126	12,939
Office expenses	1,625	845	2,451	225	1,160	238	6,544
Other	792	1,238	2,245	96	420	47	4,838
Total operating expenses	<u>55,386</u>	<u>19,183</u>	<u>39,218</u>	<u>7,413</u>	<u>41,796</u>	<u>4,902</u>	<u>167,898</u>
Art acquisitions	9,871	–	–	–	–	–	9,871
Depreciation expense	8,500	1,737	2,991	328	2,947	220	16,723
Environmental liability accretion	795	149	216	13	162	13	1,348
Other expenses	–	–	–	–	634	550	1,184
Total expenses	<u>\$ 74,552</u>	<u>21,069</u>	<u>42,425</u>	<u>7,754</u>	<u>45,539</u>	<u>5,685</u>	<u>197,024</u>

## NATIONAL GALLERY OF ART

Notes to Financial Statements  
September 30, 2022  
(In thousands)

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

### **(14) Employee Benefits**

Total pension expense recognized in the National Gallery's financial statements was \$13,695 and \$12,816 for the years ended September 30, 2022 and 2021, respectively. These amounts do not include pension expense financed by OPM and imputed to the National Gallery of \$800 and \$1,075, respectively. To the extent that Gallery employees are covered by the thrift savings component of FERS, the National Gallery's payments to the plan are recorded as operating expenses. The National Gallery's costs associated with the thrift savings component of FERS for the years ended September 30, 2022 and 2021 were \$3,527 and \$3,470, respectively.

In addition, the National Gallery makes matching contributions for all employees who are eligible for current health and life insurance benefits. The National Gallery's contributions for active employees are recognized as operating expenses. During fiscal years 2022 and 2021, the National Gallery contributed \$6,568 and \$6,833, respectively. Using the cost factors supplied by OPM, the National Gallery has not recognized as an expense in its financial statements the future cost of post-retirement health benefits and life insurance for its employees. These costs amounted to approximately \$5,911 and \$6,142 during fiscal years 2022 and 2021, respectively, and are financed by OPM and imputed to the National Gallery.

The National Gallery has a commitment to certain key employees whereby the National Gallery will pay those employees a specified amount at a future point in time. The cost of these benefits is accrued over the key employees' future years of service to the National Gallery. The cost of these benefits for fiscal years 2022 and 2021 total \$200 and is recognized as an expense in the statement of activities and as a liability included in accounts payable and other liabilities in the accompanying statement of financial position.

### **(15) Income Taxes**

The National Gallery is a nonprofit organization exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. As a 501(c)(3) organization, the National Gallery is taxed only on income unrelated to its tax-exempt purpose, primarily certain investment earnings. In accordance with the guidance on accounting for uncertainty in income taxes, the National Gallery regularly evaluates its operations and tax positions and is not aware of any uncertain tax positions requiring financial statement adjustment or disclosure.

**NATIONAL GALLERY OF ART**

Notes to Financial Statements

September 30, 2022

(In thousands)

**(16) Lease Commitments**

The National Gallery has entered into several operating leases for warehouse and office space, which continue through December 31, 2028. The terms of these operating leases include additional rent for operating expenses, real estate taxes, utilities, and maintenance. Future minimum lease payments under these leases are as follows:

Fiscal Year Ending:		
2023	\$	5,717
2024		3,914
2025		1,262
2026		1,284
2027		1,308
Thereafter		1,666
Total minimum lease payments	\$	<u>15,151</u>

Rental expense was approximately \$6,803 and \$6,867 for the years ended September 30, 2022 and 2021, respectively.

**(17) Subsequent Events**

The National Gallery has performed an evaluation of subsequent events through November 15, 2022, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of September 30, 2022.



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

The Board of Trustees  
The National Gallery of Art:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the National Gallery of Art (the Gallery), which comprise the Gallery's statement of financial position as of September 30, 2022, 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 10, 2022.

**Report on Internal Control Over Financial Reporting**

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

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

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

**Report on Compliance and Other Matter**

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



### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

McLean, Virginia  
November 10, 2022