

NATIONAL GALLERY OF ART

PERFORMANCE AND ACCOUNTABILITY REPORT

for the year ended September 30, 2011

National Gallery of Art
Performance and Accountability Report
for the year ended September 30, 2011

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Director's Message

On behalf of the National Gallery of Art (the Gallery), I am submitting the Gallery's *Performance and Accountability Report* (PAR) for FY 2011. 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 2011 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 2011 towards achieving our long term goals and objectives.

Performance Highlights

This PAR discusses our achievements in FY 2011 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 repair the East Building facade
- 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 again received an unqualified opinion on its FY 2011 Financial Statements and remains committed to pursuing improvements in our business processes. We have made significant strides in improving our financial management systems and operations. We have no material weaknesses, significant deficiencies or non-compliance issues to address.

Conclusion

FY 2011 has been a very productive year enhancing and strengthening our financial management programs. Building on our accomplishments, we will continue 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.

A handwritten signature in black ink, appearing to read "Earl A. Powell III". The signature is fluid and cursive, with a large initial "E" and "P".

Earl A. Powell III
Director
November 15, 2011

CFO's Message

This *Performance and Accountability Report* (PAR) discusses our achievements in FY 2011, 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 (the Gallery) is committed to managing effectively and efficiently the government resources we are provided to fulfill that mission. The Gallery continued to make progress in FY 2011 towards achieving those long term goals and objectives.

The performance section of this report discusses the Gallery's programmatic activities conducted in FY 2011 as discussed in the Gallery's annual performance goals. The Gallery has continued to refine its state-of-the art financial system to further enhance our governance structure and improve our planning process as the Gallery strives to provide more accurate, timely financial data for all performance goals and measures.

Enclosed are the Gallery's appropriated fund financial statements and footnotes. The Gallery's independent certified public accounting firm does not separately audit and report on the appropriated fund financial statements. Instead the Gallery's appropriated fund financial position and results of operation are audited with the Gallery's non-appropriated financial position and results of operations.

The Gallery again received an unqualified opinion on its Financial Statements as of September 30, 2011. We have no material weaknesses, significant deficiencies or non-compliance issues to report or address.

FY 2011 has been a very productive year in our effort to enhance and strengthen our financial management programs. Building on our accomplishments, we will continue to focus on the challenges that lie ahead as we strive to increase our efficiency and enhance the stewardship of our limited resources.



William M. McClure
Treasurer
November 15, 2011

National Gallery of Art Management's Discussion and Analysis

The Gallery and its Mission

The Gallery

The National Gallery of Art (the Gallery) is considered one of the world's premiere art museums with a renowned collection of American and European master 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 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, was a gift from Paul Mellon and Ailsa Mellon Bruce, the children of the founder, and The Andrew W. Mellon Foundation and opened in 1978. The Sculpture Garden opened in 1999; the Morris and Gwendolyn Cafritz Foundation provided funds for its construction and for several of the sculptures.

Mission

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.

Organizational Structure

The Gallery is headed by its Board of Trustees composed of the Chief Justice of the United States, the Secretary of State, the Secretary of the Treasury, and the Secretary of the Smithsonian Institution, ex officio, and 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 seven Executive Officers of the Gallery oversee the execution of 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, Secretary and General Counsel, and Development and External Affairs Officer.

The Gallery is funded primarily by Congressional appropriations with a full-time equivalent employment ceiling of 885.

Performance Goals, Objectives and Results

Building on fiscal year 2010 accomplishments, the Gallery continued significant progress during fiscal year 2011 in continuing to achieve 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;
- 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.

Performance Goals and Objectives

To achieve its mission, the Gallery focused in fiscal year 2011 on the following five key annual performance goals:

- Provide the public with increased and continuing 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) organizing and presenting a comprehensive program of special exhibitions focusing on master works of art from all cultures and periods; 2) an extensive program of tours, lectures, and family programs; 3) the Gallery's web site; 4) a national summer Teacher Institute; and 5) education extension programs. A key goal is the continued ability to deliver these critical educational programs in order to support the Gallery's mission. 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.

- Perform repairs to the East Building façade:

A request to continue the repair of the National Gallery's East Building facade was included in the FY 2011 budget request. As first discovered in 2005, the large stone veneer panels on the East Building exterior began tilting at the top, and in some extreme cases had been displaced over one inch. The Gallery hired a forensic structural engineer to investigate the cause. The investigation concluded that the Gallery must undertake remedial repair work as soon as possible to replace the supports for 16,200 panels that cover the East Building exterior. The Gallery's FY 2010 budget included \$40,000,000 to develop construction documents and begin construction on this project. The FY 2011 budget request included additional funding necessary to complete the repair of the façade by FY 2013 as planned.

- Address the backlog of deferred maintenance:

The National Gallery of Art is committed to maintaining its buildings, equipment and grounds in excellent condition. 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 were begun in 1999. The phased plan of the MFP achieves cost efficiencies and reduces disruptions to ongoing Gallery public programs and operations.

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 maintenance of the complex systems and operations necessary for the Gallery to function efficiently as an art museum open daily to the public. The West Building is 71 years old and has reached an age where the building, its systems and components have exceeded their useful life and significant repair and refurbishment is required.

The East Building, now 34 years old, is already reaching the point where significant refurbishment is required due to the nature of its design and construction. The success of this initiative will be measured against the goals of providing optimum operational effectiveness and efficiency.

- Advance the Gallery's Information Technology (IT) Strategic Plan:

The improvement and replacement of the National Gallery of Art's IT infrastructure, as well as the mission critical art care, administrative and financial management systems, advances one of the Gallery's long-term strategies. The Gallery's IT Strategic Plan, updated annually, identifies numerous initiatives to support the Gallery's mission of serving the American people. The IT Strategic Plan identifies the following initiatives: 1) institute a Gallery-wide IT governance; 2) provide a robust, reliable, available, and secure IT infrastructure; 3) modernize the critical art care IT systems; 4) modernize the critical IT administrative systems, including the security and financial management systems; and 5) maintain and improve the offerings on the web site to ensure its continued responsiveness to the public, employees, and government agencies. The success of this initiative is measured against the goal of supporting the Gallery's IT strategy.

- Maintain the Gallery's security readiness:

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. In light of the Gallery's valuable collection and buildings and its stature in Washington and in the international art museum community, a vulnerability assessment and threat analysis identified numerous initiatives for systems, equipment, and procedures. Following the terrorist attacks of September 11, 2001, and numerous Code Orange alerts, security at the Gallery is significantly heightened.

The Gallery's anti-terrorism plan has two main components: to enhance the physical security and to upgrade the electronic security systems and programs, all designed for emergency preparedness and response and to protect the Gallery's infrastructure and key assets. 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. The success of this initiative is measured against the goals cited in the anti-terrorism plan.

In the following Performance Report, the Gallery has detailed its key annual performance goals relating to the areas detailed above. The Gallery had 19 established objectives for FY 2011 related to outreach, programming, deferred maintenance and infrastructure support. The Gallery met or exceeded 14 objectives, partially met 3 objectives, and did not meet the remaining 2 objectives. The objectives not met relate to deferred maintenance and the Gallery has requested additional funding to address this need.

Financial Statements

The accompanying financial statements summarize the Gallery's federal financial position, the net cost of operations and changes in net position and provide information on budgetary resources for the years ended September 30, 2011 and 2010. These financial statements summarize the federal financial activity and position of the Gallery. Highlights of the financial information presented in the principal statements are provided below.

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 the crucial funds necessary for the repair, restoration and renovation of the Gallery's buildings. The appropriation received for salaries, benefits and expenses is a one-year appropriation that must be obligated by the end of the 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 of the Gallery's appropriations for fiscal year 2011 was \$159.0 million (\$8.0 million lower than the fiscal year 2010 appropriation of \$167.0 million), including \$107.4 million for salaries, benefits and expenses, \$3.4 million for special exhibitions, and \$48.2 million for the repair, restoration and renovation of the buildings.

The net cost of operations totaled \$124.0 million for the year ended September 30, 2011, \$0.3 million (0.2%) higher than the \$123.7 million, for the prior year. Most of the increase in fiscal year 2011 was the result of increased federal support for repairs and maintenance, and information technology improvements. Program costs represented \$93.2 million of the \$124.0 million, with the remaining \$30.8 million in "costs not assigned to programs" primarily representing general and administrative expenses. As reflected in the Statement of Net Cost, the Gallery continued its educational mission by presenting fourteen special exhibitions in fiscal year 2011.

Balance Sheet

The Gallery's total assets as of September 30, 2011 were \$264.9 million, representing an increase of \$49.0 million or 22.7% over total assets of \$215.9 million as of September 30, 2010. This increase is largely attributable to the \$20.0 million increase in fund balance with Treasury related to the appropriation for the replacement of the façade on the East Building and the \$31.5 million increase in the cost of construction-in-progress related to the renovation of the Gallery's buildings..

Total liabilities as of September 30, 2011 were \$52.1 million, which was \$6.9 million or 15.3% higher than September 30, 2010. Of the \$52.1 million of liabilities, \$20.0 million represented estimated environmental clean-up liability (compared with \$19.6 million for the prior year), \$15.9 million represented accounts payable (compared with \$8.8 million in accounts payable for the prior year), \$4.3 million represented accrued annual leave (compared with \$4.1 million for the prior year), \$1.1 million represented a capital lease obligation (compared with \$1.3 million for the prior year). All of these liabilities, with the exception of the environmental clean-up liability, accrued annual leave and the capital lease obligation, were covered by budgetary resources.

The total net position of the Gallery as of September 30, 2011 was \$212.8 million, \$42.1 million (or 24.7%) higher than at September 30, 2010. The increase is largely attributable to the unexpended appropriation for the replacement of the façade of the East Building. This total net position was comprised of \$82.2 million in unexpended appropriations and \$130.6 million in cumulative results of operations, compared with \$69.4 million and \$101.3 million, respectively, for the prior year.

Auditor's Report on the Gallery's Financial Statements

The Gallery received an unqualified audit opinion on its FY2011 financial statements. The auditor reported no material weaknesses.

Possible Future Effects of Existing Events and Conditions

There are a number of significant demands, risks, uncertainties, events, conditions, and trends that may affect the future operations of the Gallery:

Security Activities

Due to the Gallery's location on the National Mall near the Capitol Building, as well as its prominence as the nation's art gallery, the Gallery has implemented increased security measures to correspond with varying elevations established by the Department of Homeland Security.

Current Status of the Gallery's IT Environment

The Gallery depends heavily on its IT systems to support its interaction with the public and its staff. The Gallery's IT environment is a complex infrastructure consisting of 10 major IT systems serving the multi-faceted requirements of the Gallery including acquisition, care, protection and display of works of art, special exhibitions and educational programs, as well as financial and administrative management. The basic daily operations, beginning with opening the Gallery to the public each morning, require a variety of systems such as those for security, building automation, collections management, education, financial management and retail operations.

IT support is also central to the Gallery's risk management strategy as many of the systems require a sophisticated IT network with numerous safeguards to protect the integrity and security of data. These systems handle advanced climate control, security for the collection, library services, and financial management. The failure of any of these mission critical systems would jeopardize the security and safety of the works of art.

Goals and the supporting financial systems strategies

The Gallery has identified the following financial management goals and strategies that support the Gallery's mission and the initiatives of the President's Management Agenda:

- Produce timely, accurate, and useful financial information in the most efficient manner feasible;
- Produce comparative quarterly and annual financial statements;
- Receive timely and unqualified audit opinions;
- Manage financial processes in accordance with federal and other regulations, and generally accepted accounting principles;
- Meet federal quarterly and year-end reporting requirements; and
- Analyze, track, and evaluate projects and program activities to facilitate management decisions.

The Gallery's ability to produce timely, accurate, and useful financial information in an efficient manner and its analysis, tracking, and evaluation of projects and program activities was enhanced in fiscal years 2007 and 2008 by the phased replacement of its legacy financial management system with a new OFFM-compliant Financial Management System. The externally-hosted system employs web-based technologies, re-engineered business processes, "self-service" reporting capabilities, and full integration with the procurement, retail, and travel system modules. It has significantly improved productivity and procurement as well as to provide more timely, useful, and reliable information to support operational and managerial decisions. The new system interfaces with external payroll and other systems, and the Gallery's Intranet.

The Gallery does not have any further projects and plans to maintain compliance going forward other than upgrading the software in accordance with the software vendor's upgrade policy.

Limitations of the Financial Statements

The principal financial statements have been prepared only to report the federal financial position and results of operation of the Gallery, pursuant to the requirement of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Gallery in accordance with general accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports the Gallery used to monitor and control budgetary resources which are prepared from the same books and records.

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

National Gallery of Art Management Assurances

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

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

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

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

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

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

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



Earl A. Powell III
Director
November 1X, 2011

National Gallery of Art Performance Report

The Gallery's fiscal year 2011 Federal funds appropriations supported the following key annual performance goals by:

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

1. Presenting 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 4.5 million visitors in fiscal year 2011.

Performance Measure: Visitor Count					
Fiscal Year	2007	2008	2009	2010	2011
Actual	4.1 million	5.0 million	4.8 million	4.6 million	4.5 million
Target	Minimal acceptable: 4.0 million	Minimal acceptable: 4.0 million	Minimal acceptable: 4.0 million	Minimal acceptable: 4.0 million	Minimal acceptable: 4.0 million
	Successful: 4.4 million	Successful: 4.4 million	Successful: 4.4 million	Successful: 4.4 million	Successful: 4.25 million
Assessment	Target met	Target met	Target met	Target met	Target met

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 fiscal year 2011, the Gallery organized and presented 14 special exhibitions, meeting its target of 10-15 special exhibitions per year. Among the highlights presented in FY 2011 were: Gauguin: maker of Myths, Venice: Canaletto and His Rivals, Warhol: Headlines, The Pre-Raphaelite Lens: British Photography and Painting, 1848 – 1875, The Invention of Glory: Alfonso V and the Pastrana Tapestries, Gabriel Mestru: 1629 – 1667 and Lewis Batlz: Protoypes / Ronde de Nuit.

Performance Measure: Organization and presentation of between ten and fifteen special exhibitions.					
Fiscal Year	2007	2008	2009	2010	2011
Actual	14 Exhibitions	14 Exhibitions	17 Exhibitions	16 Exhibitions	14 Exhibitions
Target	Minimal acceptable: 8 Exhibitions	Minimal acceptable: 8 Exhibitions	Minimal acceptable: 8 Exhibitions	Minimal acceptable: 8 Exhibitions	Minimal acceptable: 10 Exhibitions
	Successful: 12 Exhibitions	Successful: 12 Exhibitions	Successful: 12 Exhibitions	Successful: 12 Exhibitions	Successful: 12 Exhibitions
Assessment	Target met	Target met	Target met	Target met	Target met

3. Providing increased and continued access to the collection and educational materials.

In fiscal year 2011, over 3,000 adult tours were given accommodating over 37,500 adults, and over 24,300 students of all grade levels. The Gallery's acclaimed web site received over 42,700 visits per day during fiscal year 2011. The Gallery's commitment to fostering the understanding of art at the highest possible scholarly levels continued via the education resources extension programs, which provided films, videotapes and other long-distance learning materials free of charge to over 85,700 organizations, including schools, district media centers, colleges, universities, museums, health facilities, correctional facilities, and community groups with estimated viewing audiences of 35.9 million. The Gallery's Art Research Library continued its longstanding practice of facilitating the interest in and scholarly research of various topics in art and architecture by facilitating over 23,800 reference inquiries in fiscal year 2011.

Performance Measure: Gallery Web Site Visits					
Fiscal Year	2007	2008	2009	2010	2011
Actual	48,000 visitors per day	58,600 visitors per day	45,800 visitors per day	50,200 visitors per day	42,700 visitors per day
Target	Minimal acceptable: 26,000 visitors per day	Minimal acceptable: 30,000 visitors per day	Minimal acceptable: 30,000 visitors per day	Minimal acceptable: 30,000 visitors per day	Minimal acceptable: 35,000 visitors per day
	Successful: 29,000 visitors per day	Successful: 53,000 visitors per day	Successful: 53,000 visitors per day	Successful: 45,000 visitors per day	Successful: 45,000 visitors per day
Assessment	Target met	Target met	Target met	Target met	Target met

Performance Measure: Adult Tours					
Fiscal Year	2007	2008	2009	2010	2011
Actual	4,200 tours; 44,000 adults	3,000 tours; 57,000 adults	4,100 tours; 45,900 adults	3,700 tours; 47,100 adults	3,000 tours; 37,500 adults
Target	Minimal acceptable: 3,400 tours annually; 40,000 attendees annually	Minimal acceptable: 3,400 tours annually; 40,000 attendees annually	Minimal acceptable: 3,100 tours annually; 40,000 attendees annually	Minimal acceptable: 3,000 tours annually; 35,000 attendees annually	Minimal acceptable: 2,400 tours annually; 35,000 attendees annually
	Successful: 3,500 tours annually; 52,000 attendees annually	Successful: 4,200 tours annually; 63,000 attendees annually	Successful: 4,200 tours annually; 63,000 attendees annually	Successful: 3,200 tours annually; 46,000 attendees annually	Successful: 3,100 tours annually; 45,000 attendees annually
Assessment	Target met	Target met for attendees – not met for tours	Target met	Target met	Target met for tours – not met for attendees

Performance Measure: Student Programs					
Fiscal Year	2007	2008	2009	2010	2011
Actual	1,900 programs	2,200 programs; 26,900 attendees annually	2,240 programs; 40,900 attendees annually	2,200 programs; 35,800 attendees annually	1,970 programs; 24,300 attendees annually
Target	Minimal acceptable: 2,500 programs annually; 45,000 attendees annually	Minimal acceptable: 2,300 programs annually; 33,000 attendees annually	Minimal acceptable: 2,100 programs annually; 33,000 attendees annually	Minimal acceptable: 1,500 programs annually; 24,000 attendees annually	Minimal acceptable: 1,300 programs annually; 17,000 attendees annually
	Successful: 2,700 programs annually; 50,000 attendees annually	Successful: 3,000 programs annually; 43,000 attendees annually	Successful: 3,000 programs annually; 43,000 attendees annually	Successful: 1,700 programs annually; 21,900 attendees annually	Successful: 1,700 programs annually; 22,000 attendees annually
Assessment	Improved over prior year but target not met	Improved over prior year but target not met	Target met	Target met	Target met

Performance Measure: Family Programs					
Fiscal Year	2007	2008	2009	2010	2011
Actual	N/A	119 programs	123 programs	240 programs; 12,600 attendees	283 programs; 18,800 attendees
Target	N/A	Minimal acceptable: 104 programs annually; 11,700 attendees annually	Minimal acceptable: 104 programs annually; 11,700 attendees annually	Minimal acceptable: 90 programs annually; 14,000 attendees annually	Minimal acceptable: 80 programs annually; 12,000 attendees annually
	N/A	Successful: 130 programs annually; 28,000 attendees annually	Successful: 130 programs annually; 28,000 attendees annually	Successful: 100 programs annually; 15,600 attendees annually	Successful: 100 programs annually; 15,000 attendees annually
Assessment	N/A	Target met	Target met	Target met for programs not for attendees	Target met

Performance Measure: Education Resource Extension Programs					
Fiscal Year	2007	2008	2009	2010	2011
Actual	121,100 showings annually; 24 million audience	128,000 showings annually; 28 million audience	184,000 showings annually; 30.8 million audience	78,600 showings annually; 37.3 million audience	85,700 showings annually; 35.9 million audience
Target	Minimal acceptable: 103,000 showings annually; 15 million audience	Minimal acceptable: 103,000 showings annually; 15 million audience	Minimal acceptable: 103,000 showings annually; 15 million audience	Minimal acceptable: 103,000 showings annually; 19 million audience	Minimal acceptable: 91,000 showings annually; 17 million audience
	Successful: 130,000 showings annually; 17 million audience	Successful: 130,000 showings annually; 18 million audience	Successful: 130,000 showings annually; 18 million audience	Successful: 118,000 showings annually; 21 million audience	Successful: 117,000 showings annually; 22 million audience
Assessment	Target met	Target met for audience – not met for showings	Target met	Target met for audience – not met for showings	Target met for audience – not met for showings

Performance Measure: Teacher Institute Program					
Fiscal Year	2007	2008	2009	2010	2011
Actual	Not available	Not available	90% of Attendees rated the program Superior	90% of Attendees rated the program Superior	75% of Attendees rated the program Superior
Target	Minimal acceptable:75% of attendees rate program Above Average	Minimal acceptable:75% of attendees rate program Above Average	Minimal acceptable:75% of attendees rate program Above Average	Minimal acceptable:75% of attendees rate program Above Average	Minimal acceptable:75% of attendees rate program Above Average
	Successful: 75% of attendees rate program Superior	Successful: 75% of attendees rate program Superior	Successful: 75% of attendees rate program Superior	Successful: 75% of attendees rate program Superior	Successful: 75% of attendees rate program Superior
Assessment	Not available	Not available	Target met	Target met	Target met

Performance Measure : Library References Provided to the General Public					
Fiscal Year	2007	2008	2009	2010	2011
Actual	23,500 questions	23,300 questions	23,300 questions	23,300 questions	23,800 questions
Target	Minimal acceptable: 20,000 questions annually	Minimal acceptable: 20,000 questions annually	Minimal acceptable: 20,000 questions annually	Minimal acceptable: 20,000 questions annually	Minimal acceptable: 16,000 questions annually
	Successful: 21,300 questions annually	Successful: 22,000 questions annually	Successful: 22,000 questions annually	Successful: 22,000 questions annually	Successful: 21,000 questions annually
Assessment	Target met	Target met	Target met	Target met	Target met

4. *Maintaining 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 fiscal year 2011, the Gallery's painting, object, paper, and textile conservators and scientific researchers undertook over 7,600 major and minor treatments and examinations. In addition, new technologies were studied and devised that further the Gallery's mission of preserving the works of art with which it is entrusted.

Performance Measure : Conservation treatments					
Fiscal Year	2007	2008	2009	2010	2011
Actual	10,128 treatments	10,130 treatments	9,002 treatments	9,200 treatments	7,600 treatments
Target	Minimal acceptable: 7,400 treatments annually	Minimal acceptable: 7,400 treatments annually	Minimal acceptable: 7,400 treatments annually	Minimal acceptable: 7,400 treatments annually	Minimal acceptable: 7,100 treatments annually
	Successful: 8,000 treatments or more annually	Successful: 8,000 treatments or more annually	Successful: 8,000 treatments or more annually	Successful: 8,000 treatments or more annually	Successful: 9,100 treatments or more annually
Assessment	Target met	Target met	Target met	Target met	Target met

- Perform repairs to the East Building façade

1. *Manage the stone repairs to the East Building Stone Repair (EBSR) so that they proceed on schedule and on budget.*

Performance Measure: The planned completion date for the EBSR project is September 30, 2013.		
Fiscal Year	2007 - 2010	2011
Actual	N/A	Targeted completion date is November 15, 2013
Target	N/A	Minimal: Completion date is no later than December 31, 2013
	N/A	Successful: Completion date is no later than September 30, 2013
Assessment	N/A	Target met

Performance Measure: That 33% of the total projected EBSR construction costs (consisting of costs incurred to date plus anticipated costs to complete) will be incurred by the end of FY 2011.		
Fiscal Year	2007 - 2010	2011
Actual	N/A	26.8% of the total projected EBSR construction costs have been completed at the end of FY 2011
Target	N/A	Minimal: 25% of the total projected EBSR construction costs will be completed by the end of FY 2011
	N/A	Successful: 30% of the total projected EBSR construction costs will be completed by the end of FY 2011
Assessment	N/A	Target met

Performance Measure: EBSR construction costs are budgeted at \$85 million.		
Fiscal Year	2007 - 2010	2011
Actual	N/A	Total projected EBSR construction costs (incurred to date plus anticipated costs to complete) are projected to be on or under budget.
Target	N/A	Minimal: Total projected EBSR construction costs (incurred to date plus anticipated costs to complete) are projected to be no more than 5% over budget.
	N/A	Successful: Total projected EBSR construction costs (incurred to date plus anticipated costs to complete) are projected to be on or under budget.
Assessment	N/A	Target met

- Addressing the backlog of deferred maintenance:

1. *Manage the MFP so that significant facilities repairs and replacements projects proceed on schedule and on budget.*

Performance Measure: Performance will be determined by the extent to which significant projects within the MFP Program are on schedule and on budget		
Fiscal Year	2007 - 2010	2011
Actual	N/A	52% of costs for the East Building and Connecting Link Master Facilities Plan Update and 38% of costs for West Building Exterior Repairs Design have been completed by the end of FY 2011.
Target	N/A	Minimal: <ul style="list-style-type: none"> • 56% of costs for the East Building and Connecting Link Master Facilities Plan Update will be completed by the end of FY 2011; • 38% of costs for West Building Exterior Repairs Design will be completed by the end of FY 2011.
	N/A	Successful: <ul style="list-style-type: none"> • 68% of costs for the East Building and Connecting Link Master Facilities Plan Update will be completed by the end of FY 2011; • 45% of costs for West Building Exterior Repairs Design will be completed by the end of FY 2011.
Assessment	N/A	Target only met for West Building Exterior Repairs Design.

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

Performance Measure: <u>Appearance Index</u> : maintain a minimum standard of appearance based on the APPA (Association of Higher Education Facilities Officers) scale of appearance standards.		
Fiscal Year	2007 - 2010	2011
Actual	N/A	APPA minimal index of 2 achieved
Target	N/A	Minimal: Achieve an APPA minimal index of 2 (Ordinary Tidiness) based on weekly inspections.
	N/A	Successful: Achieve an APPA minimal index of 2 (Ordinary Tidiness) based on weekly inspections.
Assessment	N/A	Target met

Performance Measure: <u>Facility Condition Index (FCI)</u> An industry benchmark; equals the sum of the total deferred maintenance costs plus the capital renewal costs, expressed as a percentage of the current replacement value of the building		
Fiscal Year	2007 - 2010	2011
Actual	N/A	FCI index calculated was less than 85%
Target	N/A	Minimal: FCI of no less than 85%.
	N/A	Successful: FCI of no more than 95%.
Assessment	N/A	Target not met

Performance Measure: <u>Deferred Maintenance Backlog</u> : measures the change in the deferred maintenance backlog		
Fiscal Year	2007 - 2010	2011
Actual	N/A	The deferred maintenance backlog increased
Target	N/A	Minimal: The deferred maintenance backlog decreases by less than 3% during the year
	N/A	Successful: The deferred maintenance backlog decreases by at least 3% during the year.
Assessment	N/A	Target not met

Prior year performance measure:

Performance Measure: Continue to implement preventative maintenance					
Fiscal Year	2007	2008	2009	2010	2011
Actual	Completed 100% of goals set	Completed 100% of goals set	Completed 100% of goals set	Completed 100% of goals set	NA
Target	Minimal: continue to implement the preventative maintenance plan initiatives	Minimal: continue to implement the preventative maintenance plan initiatives	Minimal: continue to implement the preventative maintenance plan initiatives	Minimal: continue to implement the preventative maintenance plan initiatives	NA
	Successful: complete 100% of the goals set in FY 2006	Successful: complete 100% of the goals set in FY 2007	Successful: complete 100% of the goals set in FY 2008	Successful: complete 100% of the goals set in FY 2009	NA
Assessment	Target met	Target met	Target met	Target met	NA

- Advancing the Gallery’s Information Technology (IT) Strategic Plan:
 1. *Maintaining superior IT systems to support collection management, financial, data, and the Gallery’s web site by implementing the Gallery’s IT Strategic Plan.*

Crucial funding supported additional IT security projects including certification and accreditation of the Gallery’s art care and building automated system, in addition to supporting the Gallery’s steady state operations.

Performance Measure: Continue to implement the IT Strategic Plan initiatives					
Fiscal Year	2007	2008	2009	2010	2011
Actual	Completed 100% of goals set	Completed 100% of goals set	Completed 100% of goals set	Completed 100% of goals set	Completed 100% of goals set
Target	Minimal: continue to implement the IT Strategic Plan initiatives	Minimal: continue to implement the IT Strategic Plan initiatives	Minimal: continue to implement the IT Strategic Plan initiatives	Minimal: continue to implement the IT Strategic Plan initiatives	Minimal: continue to implement the IT Strategic Plan initiatives
	Successful: complete 100% of the goals set in FY 2007	Successful: complete 100% of the goals set in FY 2008	Successful: complete 100% of the goals set in FY 2009	Successful: complete 100% of the goals set in FY 2010	Successful: complete 100% of the goals set in FY 2011
Assessment	Target met	Target met	Target met	Target met	Target met

- Maintain the Gallery’s security readiness:
 1. *Protecting 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 performance goal for Fiscal 2011 was to enhance Gallery security by issuing Personnel Identity Verification (PIV) cards as required by HSPD 12, to all Gallery staff and contractors by September 30, 2011.

Performance Measure: Performance will be measured by the percentage of Gallery staff and contractors receiving PIV cards by September 30, 2011.		
Fiscal Year	2007 - 2010	2011
Actual	N/A	99% of Gallery staff and contractors receive PIV cards by September 30, 2011.
Target	N/A	Minimal: 75% of Gallery staff and contractors receive PIV cards by September 30, 2011.
	N/A	Successful: 95% of Gallery staff and contractors receive PIV cards by September 30, 2011.
Assessment	N/A	Target met

Prior year performance measure:

Performance Measure : Maintain security readiness					
Fiscal Year	2007	2008	2009	2010	2011
Actual	Completed 100% of goals set	Completed 100% of goals set	Completed 100% of goals set	Completed 100% of goals set	N/A
Target	Minimal: continue to maintain security readiness initiatives	Minimal: continue to maintain security readiness initiatives	Minimal: continue to maintain security readiness initiatives	Minimal: continue to maintain security readiness initiatives	N/A
	Successful: complete 100% of the goals set in FY 2007	Successful: complete 100% of the goals set in FY 2008	Successful: complete 100% of the goals set in FY 2009	Successful: complete 100% of the goals set in FY 2010	N/A
Assessment	Target met	Target met	Target met	Target met	N/A

NATIONAL GALLERY OF ART
BALANCE SHEETS

as of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 98,113,841	\$ 78,155,735
Total intragovernmental	<u>98,113,841</u>	<u>78,155,735</u>
General property, plant and equipment, net (Note 3)	166,758,562	137,674,717
Other assets	<u>-</u>	<u>22,820</u>
Total assets	<u>\$ 264,872,403</u>	<u>\$ 215,853,272</u>
Liabilities:		
Intragovernmental:		
Other	<u>\$ 9,234,646</u>	<u>\$ 9,420,630</u>
Total Intragovernmental	9,234,646	9,420,630
Accounts payable	6,378,628	2,574,013
Environmental liability (Note 7)	19,988,756	19,612,352
Other	<u>16,471,676</u>	<u>13,595,701</u>
Total liabilities	<u>52,073,706</u>	<u>45,202,696</u>
Commitments and contingencies (Note 10)		
Net position:		
Unexpended appropriations – other funds	82,217,005	69,380,620
Cumulative results of operations – other funds	<u>130,581,692</u>	<u>101,269,956</u>
Total net position	<u>212,798,697</u>	<u>170,650,576</u>
Total liabilities and net position	<u>\$ 264,872,403</u>	<u>\$ 215,853,272</u>

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
STATEMENTS OF NET COST

for the years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Program costs:		
Collections	\$ 42,051,364	\$ 42,160,509
Special exhibitions	16,558,182	16,639,876
Education	30,806,367	30,662,651
Editorial and photography	<u>3,751,004</u>	<u>3,809,406</u>
Total program costs	93,166,917	93,272,442
Costs not assigned to programs	<u>30,795,463</u>	<u>30,447,899</u>
Net cost of operations	<u>\$ 123,962,380</u>	<u>\$ 123,720,341</u>

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
STATEMENTS OF CHANGES IN NET POSITION
for the years ended September 30, 2011 and 2010

	2011	2010
Cumulative Results of Operations:		
Beginning Balances	\$ 101,269,956	\$ 95,182,513
Budgetary Financing Sources:		
Appropriations used	145,797,205	122,019,418
Other Financing Sources:		
Imputed financing from costs absorbed by others	7,476,911	7,788,366
Total Financing Sources	153,274,116	129,807,784
Net Cost of Operations	(123,962,380)	(123,720,341)
Net Change	29,311,736	6,087,443
Cumulative Results of Operations	130,581,692	101,269,956
Unexpended Appropriations:		
Beginning Balances	69,380,620	24,771,019
Budgetary Financing Sources:		
Appropriations received	158,967,000	167,005,000
Other adjustments	(333,410)	(375,981)
Appropriations used	(145,797,205)	(122,019,418)
Total Budgetary Financing Sources	12,836,385	44,609,601
Total Unexpended Appropriations	82,217,005	69,380,620
Net Position	\$ 212,798,697	\$ 170,650,576

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
STATEMENTS OF BUDGETARY RESOURCES
for the years ended September 30, 2011 and 2010

	<u>2011</u> <u>Budgetary</u>	<u>2010</u> <u>Budgetary</u>
Budgetary Resources:		
Unobligated balance bought forward, October 1:	\$ 4,407,499	\$ 9,146,610
Budget authority		
Appropriations received	<u>158,967,000</u>	<u>167,005,000</u>
Subtotal	<u>163,374,499</u>	<u>176,151,610</u>
Permanently not available	<u>(333,410)</u>	<u>(375,981)</u>
Total budgetary resources	<u>\$ 163,041,089</u>	<u>\$ 175,775,629</u>
Status of Budgetary Resources:		
Obligations incurred:		
Direct	<u>\$ 148,361,074</u>	<u>\$ 171,368,130</u>
Subtotal	148,361,074	171,368,130
Unobligated balance:		
Apportioned	13,723,989	3,679,172
Unobligated balance not available	<u>956,026</u>	<u>728,327</u>
Total status of budgetary resources	<u>\$ 163,041,089</u>	<u>\$ 175,775,629</u>
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations bought forward, October 1	<u>\$ 73,748,236</u>	<u>\$ 23,356,128</u>
Total unpaid obligated balance, net	<u>73,748,236</u>	<u>23,356,128</u>
Obligations incurred, net	148,361,074	171,368,130
Gross outlays	<u>(138,675,484)</u>	<u>(120,976,022)</u>
Total, unpaid obligated, balance, net, end of period	<u>\$ 83,433,826</u>	<u>\$ 73,748,236</u>
Net Outlays:		
Gross outlays	\$ 138,675,484	\$ 120,976,022
Offsetting collections	<u>-</u>	<u>-</u>
Net outlays	<u>\$ 138,675,484</u>	<u>\$ 120,976,022</u>

The accompanying notes are an integral part of these financial statements

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Reporting entity

The National Gallery of Art (the Gallery) was created for the people of the United States in 1937 by a joint resolution of Congress. The Gallery receives an annual appropriation to cover its core program as part of the budget approved annually by Congress and signed by the President.

Basis of presentation

The financial statements present the financial position, net cost of operations, changes in net position and budgetary resources of the Gallery, in accordance with accounting principles generally accepted in the United States of America and the form and content requirement of OMB Circular A-136. They have been prepared from the books and records of the Gallery and include only the accounts of federal funds under the control of the Gallery. These financial statements are therefore different from the financial statements also prepared by the Gallery that are used to monitor and control the finances of the Gallery.

The accompanying financial statements have been prepared on the accrual method of accounting in addition to recognizing certain budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls that guide the use of federal funds.

Budget authority

Congress annually passes appropriations that provide the Gallery with authority to obligate funds for necessary expenses and to carry out its program activities. These funds include “one-year” and “no-year” federal appropriations. One-year federal appropriations which are not obligated or expended are retained by the Gallery in accordance with federal guidelines. No-year federal appropriations are retained until used for special exhibitions, emergency response, and for the repair, renovation and restoration of the Gallery’s buildings.

Fund balance with Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. Fund Balances with 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 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 Treasury.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

Accounts receivable

Accounts receivable consists of amounts due from governmental agencies, private organizations and individuals. The Gallery establishes an allowance for accounts for receivables that are deemed uncollectible but regards amounts due from other federal agencies as fully collectible.

Property, plant and equipment

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 (see Note 3). 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.

The land occupied by the Gallery's buildings was appropriated and reserved by the Congress of the United States for that purpose.

Property and equipment with a cost of \$5,000 or more is capitalized at cost and depreciated using the straight-line method over the useful life of the assets. Other property items are expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

Buildings are depreciated over the estimated useful life of fifty years. Building improvements, equipment, furniture and computer software are depreciated over estimated useful lives ranging from five to twenty-five years. Upon retirement of fixed assets, the related cost and accumulated depreciation are removed from the accounts.

Accounts payable

Accounts payable consists of liabilities to commercial vendors and contractors.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

Accrued leave

Annual leave is accrued as it is earned by employees and paid when the leave is taken. An unfunded liability as of the date of the financial statements is recognized for earned but unused annual leave by employees since this annual leave will be paid from future appropriations when the leave is used by employees. At year end, the balance in the accrued leave account is adjusted to reflect the liability at current pay rates and leave balances. Since accrued annual leave is paid from future funding sources, it is reflected as a liability not covered by budgetary resources. Sick and other types of non-vested leave are expensed when taken.

Employee benefits

The Gallery recognizes the cost of pensions and other retirement benefits during the employee's active years of service. The pension expense recognized in the Gallery's financial statements is equal to the current service cost for the Gallery's employees for the accounting period less the amount contributed by the employees. The measurement of the pension service cost requires the use of an actuarial cost method and assumptions with factors applied by the Gallery. These factors are supplied by the Office of Personnel Management (OPM), the agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the Gallery represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This amount is considered imputed financing by the Gallery.

All permanent employees of the Gallery hired subsequent to January 1, 1984 participate in both the Social Security Retirement System and the Federal Employees' Retirement System (FERS). Employees hired prior to January 1, 1984 had the option of remaining under the Civil Service Retirement System (CSRS) or electing FERS. All employees have the option to make tax-deferred contributions to a Thrift Savings Plan and, in some instances, receive a matching portion from the Gallery. The Gallery funds all retirement contributions on a current basis, and accordingly there are no unfunded retirement costs (see Note 6).

The Gallery also recognizes a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. The Gallery accounts for and reports this expense in its financial statements in a manner similar to that used for pension expense, with the exception that employees and the Gallery do not make current contributions to fund these future benefits.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

Imputed financing sources

In certain cases, the operating costs of the Gallery are paid out of funds appropriated to other Federal agencies. As an example, the law requires certain costs of retirement programs to be paid by OPM and certain legal judgments against the Gallery be paid from the Judgment Fund maintained by Treasury. Costs that are identifiable to the Gallery and directly attributable to the Gallery's operation are paid by these Federal agencies.

Estimates

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

Reclassification

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

2. Fund Balance with Treasury

As of September 30, 2011 and 2010, fund balance with Treasury consisted of the following:

	2011	2010
Appropriated funds	<u>\$ 98,113,841</u>	<u>\$ 78,155,735</u>
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 13,723,989	\$ 3,679,172
Unavailable	956,026	728,327
Obligated balance not yet disbursed	<u>83,433,826</u>	<u>73,748,236</u>
Total	<u>\$ 98,113,841</u>	<u>\$ 78,155,735</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

3. General Property, Plant and Equipment, net

As of September 30, 2011 and 2010, general property, plant and equipment, net consisted of the following:

Asset Class	Service Lives	Acquisition Values	Accumulated Depreciation and Amortization	2011 Net Book Value	2010 Net Book Value
Buildings and improvements	25-50 Years	\$ 145,493,396	\$ 46,242,376	\$ 99,251,020	\$ 102,375,541
Equipment	5-25 Years	56,839,567	38,860,214	17,979,353	17,059,679
Construction in Progress	N/A	47,704,389	-	47,704,389	16,247,992
Equipment under capital lease	25 Years	2,962,380	1,138,580	1,823,800	1,991,505
Total		<u>\$ 252,999,732</u>	<u>\$ 86,241,170</u>	<u>\$ 166,758,562</u>	<u>\$ 137,674,717</u>

Depreciation and amortization expense was \$7,825,240 and \$6,681,827 for fiscal years 2011 and 2010 respectively.

4. Stewardship Assets

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

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

For the year ended September 30, 2011 the changes in heritage assets were as follows:

	Balance October 1, 2010	Increase	(Decrease)	Balance September 30, 2011
Art collection	1	-	-	1
Image collection	1	-	-	1
Library collection	1	-	-	1
Total	<u>3</u>	<u>-</u>	<u>-</u>	<u>3</u>

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

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

5. Liabilities Not Covered by Budgetary Resources

As of September 30, 2011 and 2010, liabilities not covered by budgetary resources consisted of the following:

	2011	2010
Intragovernmental:		
Other	\$ 1,110,014	\$ 1,330,483
Total Intragovernmental	1,110,014	1,330,483
Federal employee benefits payable	8,969,030	9,001,960
Environmental liability	19,988,756	19,612,352
Other	6,109,070	6,459,966
Total liabilities not covered by budgetary resources	36,176,870	36,404,761
Total liabilities covered by budgetary resources	15,896,836	8,797,935
Total liabilities	\$ 52,073,706	\$ 45,202,696

6. Employee benefits

Total pension expense recognized in the Gallery's financial statements was \$5,986,335 and \$5,689,456 for the years ended September 30, 2011 and 2010, respectively. These amounts do not include pension expense financed by OPM and imputed to the Gallery of \$2,402,756 and \$2,764,074, respectively. To the extent that Gallery employees are covered by the Thrift Saving Plan component of FERS, the Gallery's payments to the plan are recorded as operating expenses. The Gallery's cost associated with the Thrift Savings Plan component of FERS for the years ended September 30, 2011 and 2010, was \$1,821,622 and \$1,731,980, respectively.

In addition, the Gallery makes matching contributions for all employees who are eligible for current health and life insurance benefits. The Gallery's contributions for active employees are recognized as operating expenses. During fiscal years 2011 and 2010, the Gallery contributed \$4,678,541 and \$4,386,691, respectively. Using cost factors supplied by OPM, the Gallery has 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 \$5,074,155 and \$5,024,292 during fiscal years 2011 and 2010 respectively, and are financed by OPM and imputed to the Gallery.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

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 cost of the remediation is amortized over the useful life of the asset.

As of September 30, 2011 and 2010 the capitalized, net remediation costs consists of the following:

	2011	2010
Remediation costs included within fixed assets	\$ 4,201,304	\$ 4,201,304
Less: Accumulated depreciation	(3,108,857)	(3,025,574)
Net remediation costs	\$ 1,092,447	\$ 1,175,730

The Gallery's financial statements reflect a liability for environmental remediation clean-up costs of \$19,988,756 and \$19,612,352 which is unfunded as of September 30, 2011 and 2010, respectively.

The change in liability for the years ended September 30, 2011 and 2010 were as follows:

	2011	2010
Beginning balance	\$ 19,612,352	\$ 19,745,746
Liability recorded for the period	612,131	847,731
Costs incurred to date for the period	(235,727)	(981,125)
Total liability	\$ 19,988,756	\$ 19,612,352

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.

8. Income taxes

The Gallery as an independent trust establishment of the United States and as an organization described in sections 509(a)(1) and 170(b)(1)(A) of the Internal Revenue Code is not subject to federal, state or local income taxes and accordingly, no provision for income taxes has been recorded.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

9. Leases

The Gallery has entered into a capital lease obligation in connection with the installation of equipment. The Gallery has also entered into several operational leases for warehouse and office space which continue through December 31, 2018. The terms of these operating leases include additional rent for operating expenses, real estate taxes, utilities and maintenance. Future minimum lease payments under these leases for fiscal years ending September 30 are as follows:

	<u>Capital Lease</u>	<u>Operating Leases</u>
2012	\$ 342,208	\$ 3,608,922
2013	342,837	1,728,507
2014	343,485	889,380
2015	344,152	910,909
2016	344,839	932,647
Thereafter	<u>-</u>	<u>2,179,242</u>
Total minimum lease payments	1,717,521	<u>\$ 10,249,607</u>
Less amount representing interest	<u>(387,038)</u>	
Present value of minimum capital lease payments	<u>\$ 1,330,483</u>	
Lease liability covered by budgetary resources	<u>\$ -</u>	
Lease liability not covered by budgetary resources	<u>\$ 1,330,483</u>	

Rental expense was approximately \$4,291,062 and \$4,275,034 for the years ended September 30, 2011 and 2010, respectively.

10. Commitments and Contingencies

The Gallery has entered into agreements involving financial obligations. The Gallery is committed to pay for goods and services that have been ordered but have not yet been delivered.

The Gallery is a party to various legal actions and claims brought against it. In the opinion of Gallery management and legal counsel, the ultimate resolution of the actions and claims will not materially affect the financial position or operations of the Gallery. The Gallery recognizes a contingency in the financial statements when claims are expected to result in a material loss involving the Gallery's appropriations and the payment amounts can be reasonably estimated.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

11. Explanation of Differences between the Statement 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 Statement 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 2011 actual budgetary execution information has not yet been published. The *Budget of the United States Government* is scheduled for publication in January 2012. Accordingly, information required for such disclosure is not available at the time of preparation of these financial statements.

Instead, the Gallery's FY 2010 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 rounding and to reporting requirement differences for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance used to prepare the President's Budget. The SBR includes both unexpired and expired appropriations, while the President's Budget discloses only unexpired budgetary resources that are available for new obligations.

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 175,755,265	\$ 171,368,130	\$ -	\$ 120,976,022
Other	(755,265)	631,870	-	23,978
Budget of the US Government	\$ 175,000,000	\$ 172,000,000	\$ -	\$ 121,000,000

12. Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at September 30, 2011 and 2010 is \$67,536,989 and \$64,950,301, respectively.

NATIONAL GALLERY OF ART
NOTES TO FINANCIAL STATEMENTS

13. Reconciliation of Net Cost of Operations to Budget

The net cost of operations for the years ended September 30, 2011 and 2010, consisted of the following:

	2011	2010
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 148,361,074	\$ 171,368,130
Less: Spending authority from offsetting collections	-	-
Obligations net of offsetting collections	148,361,074	171,368,130
Other Resources		
Imputed financing from costs absorbed by others	7,476,911	7,788,366
Net other resources used to finance activities	7,476,911	7,788,366
Total resources used to finance activities	155,837,985	179,156,496
Total resources used to finance items not part of the net cost of operations	(39,929,149)	(63,705,790)
Total resources used to finance the net cost of operations	115,908,836	115,450,706
Total components of net cost of operations that will not require or generate resources	8,053,544	8,269,635
Net Cost of Operations	\$ 123,962,380	\$ 123,720,341

NATIONAL GALLERY OF ART
REQUIRED SUPPLEMENTARY INFORMATION

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>2011</u>	<u>2010</u>
Buildings	\$ 36,694,000	\$ 36,410,000
Facilities equipment	<u>8,972,000</u>	<u>6,971,000</u>
Total deferred maintenance	<u>\$ 45,666,000</u>	<u>\$ 43,381,000</u>

The current estimate is a realistic measure of the maintenance and repair work that must be done to buildings and equipment in order to bring them to where the Gallery believes they should be.

NATIONAL GALLERY OF ART
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Budgetary Resources by Budget Accounts

For the year ended September 30, 2011

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
Budgetary Resources:			
Unobligated balance bought forward	\$ 3,666,505	\$ 740,994	\$ 4,407,499
Appropriations received	110,746,000	48,221,000	158,967,000
Permanently not available	<u>(236,968)</u>	<u>(96,442)</u>	<u>(333,410)</u>
Total budgetary resources	<u>\$ 114,175,537</u>	<u>\$ 48,865,552</u>	<u>\$ 163,041,089</u>
Status of Budgetary Resources:			
Obligations Incurred:			
Direct	<u>\$ 110,263,345</u>	<u>\$ 38,097,729</u>	<u>\$ 148,361,074</u>
Subtotal	110,263,345	38,097,729	148,361,074
Unobligated balance:			
Apportioned	30,655	13,693,334	13,723,989
Unobligated balance not available	<u>956,026</u>	<u>-</u>	<u>956,026</u>
Total status of budgetary resources	<u>\$ 111,250,026</u>	<u>\$ 51,791,063</u>	<u>\$ 163,041,089</u>
Change in Obligated Balance:			
Unpaid obligations brought forward	\$ 17,981,881	\$ 55,766,355	\$ 73,748,236
Obligations incurred, net	110,263,345	38,097,729	148,361,074
Gross outlays	<u>(108,270,589)</u>	<u>(30,404,895)</u>	<u>(138,675,484)</u>
Total unpaid obligated balance, net, end of period	<u>\$ 19,974,637</u>	<u>\$ 63,459,189</u>	<u>\$ 83,433,826</u>
Net Outlays:			
Gross outlays	\$ 108,270,589	\$ 30,404,895	\$ 138,675,484
Offsetting collections	<u>-</u>	<u>-</u>	<u>-</u>
Net outlays	<u>\$ 108,270,589</u>	<u>\$ 30,404,895</u>	<u>\$ 138,675,484</u>

NATIONAL GALLERY OF ART
REQUIRED SUPPLEMENTARY INFORMATION

For the year ended September 30, 2010

	<u>Operating</u>	<u>Renovation</u>	<u>Total</u>
Budgetary Resources:			
Unobligated balance brought forward	\$ 903,239	\$ 8,243,371	\$ 9,146,610
Appropriations received	110,746,000	56,259,000	167,005,000
Permanently not available	<u>(375,981)</u>	<u>-</u>	<u>(375,981)</u>
Total budgetary resources	<u>\$ 111,273,258</u>	<u>\$ 64,502,371</u>	<u>\$ 175,775,629</u>
Status of Budgetary Resources:			
Obligations Incurred:			
Direct	<u>\$ 110,532,264</u>	<u>\$ 60,835,866</u>	<u>\$ 171,368,130</u>
Subtotal	110,532,264	60,835,866	171,368,130
Unobligated balance:			
Apportioned	12,667	3,666,505	3,679,172
Unobligated balance not available	<u>728,327</u>	<u>-</u>	<u>728,327</u>
Total status of budgetary resources	<u>\$ 111,273,258</u>	<u>\$ 64,502,371</u>	<u>\$ 175,775,629</u>
Change in Obligated Balance:			
Unpaid obligations brought forward	\$ 14,169,076	\$ 9,187,052	\$ 23,356,128
Obligations incurred, net	110,532,264	60,835,866	171,368,130
Gross outlays	<u>(106,719,459)</u>	<u>(14,256,563)</u>	<u>(120,976,022)</u>
Total unpaid obligated balance, net, end of period	<u>\$ 17,981,881</u>	<u>\$ 55,766,355</u>	<u>\$ 73,748,236</u>
Net Outlays:			
Gross outlays	\$ 106,719,459	\$ 14,256,563	\$ 120,976,022
Offsetting collections	<u>-</u>	<u>-</u>	<u>-</u>
Net outlays	<u>\$ 106,719,459</u>	<u>\$ 14,256,563</u>	<u>\$ 120,976,022</u>

**NATIONAL GALLERY OF ART
OTHER ACCOMPANYING INFORMATION**

Summary of Financial Statement Audit and Management Assurances

Table 1
Summary of Financial Statement Audit

Audit Opinion	Unqualified
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	Statement of no assurance

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	Statement of no assurance

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	Systems conform 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)	
	Agency
Overall Substantial Compliance	Yes
1. System Requirements	Yes
2. Accounting Standards	Yes
3. USSGL at Transaction Level	Yes