



**National
Endowment
for the Arts**
arts.gov

**AGENCY FINANCIAL REPORT
FISCAL YEAR 2016**

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 2016

BLANK PAGE



**Agency Financial Report for Fiscal Year 2016
November 2016**

TABLE OF CONTENTS

A Message from the Chairman	1
I. Management’s Discussion and Analysis	
Mission, Organizational Structure, and Internal Operations	7
Performance Goals, Objectives, and Results	8
Improper Payments Reporting	19
Analysis of Financial Statements.....	19
Table of Key Measures	21
Systems, Controls, and Legal Compliance	22
Other Management Information, Initiatives, and Issues.....	22
Organization Chart.....	23
Summary of Goals and Objectives	24
II. Management Assurances	
Overall Internal Control.....	25
Internal Control over Financial Reporting.....	25
III. Financial Information	
A Message from the Director of Finance	29
Financial Statements and Related Auditor’s Report.....	31
IV. Other Accompanying Information	
Inspector General’s Summary of Top Management Challenges	

BLANK PAGE

Fiscal Year 2016
Agency Financial Report
~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2016 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

Organizational Overview

Over the course of 2015 and continuing into 2016, the [National Endowment for the Arts](#) (NEA) celebrated its 50th anniversary. From September 29, 1965, when President Lyndon B. Johnson signed legislation authorizing the Arts Endowment, to the present day, the agency's record of cultural, civic, and economic enrichment reflect the arts' enduring impact on the lives of all Americans.

The NEA's vital support of the arts acts as a catalyst and collaborator as it makes key investments throughout the nation, leveraging resources, and providing strategic leadership through core programs, including those for dance, design, folk and traditional arts, literature, local arts agencies, media arts, multidisciplinary arts, music, theater, visual arts, and other programs.

NEA research indicates that the *ways* Americans are participating in the arts are expanding, along with the demographics of those who participate. There is more racial/ethnic diversity reflected in the pool of Americans who are most likely to approach art in new ways, such as through electronic media. In this, the digital age, 74% of American adults use mobile devices, computers and tablets to view and listen to art. Rural and underserved communities are also presented with more opportunities to participate. Based on recent figures, nearly 14% of the NEA's direct grantmaking dollars¹ go to projects that feature some rural component.² Further, 38% of recent NEA-supported projects reached high-poverty neighborhoods.

The arts also play a significant role in equalizing educational opportunities; students with an education rich in the arts have higher GPAs and standardized test scores, lower drop-out rates, and even better attitudes about community service – benefits reaped by students regardless of socio-economic status.

Art is an irreplaceable way of understanding and expressing the world, and it links our ability to create and innovate in ways beyond compare. As Albert Einstein (one of the greatest physicists of all time and a fine amateur pianist and violinist) said, "The greatest scientists are artists as well." The NEA similarly believes in and supports the connection of arts, science, engineering, and the

¹ Does not include awards to State & Regional Partnerships or to individuals.

² As defined by the U.S. Census, this analysis defines "urban" as metropolitan statistical area (MSA). An MSA consists of one or more counties that contain a city of 50,000 or more inhabitants. Counties containing the principal concentration of population – the largest city and surrounding densely settled area – are components of the MSA.

*National Endowment for the Arts – FY 2016 Agency Financial Report
A Message from the Chairman*

humanities to catalyze new insights and solutions which over time will address some of our nation's highest priorities.

In recognition of our 50th year, we put this belief into action by launching a multi-faceted leadership initiative, [*Creativity Connects*](#).³ This initiative has provided the framework for the NEA to investigate the conditions and trends affecting, shaping, and promoting creativity in the U.S., and examine the ways in which the arts sector, government, for-profit sector, and philanthropic community can collaborate to support the arts, grow our nation's creative economy, and enhance the contributions of creative workers to our society. *Creativity Connects* has three components:

- ***Creativity Connects: Trends and Conditions Affecting U.S. Artists*** is a report that investigates the current conditions for artists and trends affecting their ability to create work and contribute to their communities. [Download the report](#) and learn about the process of creating it (including roundtables and blog essays).
- **Art Works: Creativity Connects** is a pilot grant opportunity to support partnerships between arts organizations and organizations from non-arts sectors. Please [see the grant guidelines](#) for complete information.
- An **interactive digital graphic** that examines how the arts connect to the nation's creative ecosystem. The arts sector embodies creativity, but there are other sectors that also partner with artists or use arts-based creativity: sectors such as science, technology start-ups, business schools, and many more. The [interactive graphic](#) showcases "bright spots" – successful projects across the country where arts and non-arts collaborators work to further common goals.

The more than \$5 billion awarded over our 50-year history represents the NEA's continuing commitment to making the arts a vital part of the lifeblood of this nation. The NEA extends its work through partnerships with state arts agencies, regional arts organizations, local leaders, other federal agencies, and the philanthropic sector, reaching rural, suburban, and metropolitan areas in all 50 states, the District of Columbia, special jurisdictions, and military installations.

The NEA relies on a simple, straightforward credo: "Art works."

- "Art works" refers to works of art themselves – the performances, objects, and texts that are the creations of artists.
- "Art works" represents the ways that art works on individuals and communities to change, confront, challenge, and inspire us; to allow us to imagine and to aspire to something more.
- "Art works" declares that with a sector comprising 4.2 percent – or \$704 billion – of GDP, and nearly five million workers in U.S. arts and cultural industries, arts jobs are real jobs that are part of the real economy. Arts workers pay taxes, and art contributes to economic growth. Since 2007, arts and cultural trade surpluses have been growing sharply, climbing to

³ *Creativity Connects*TM is used with permission from Crayola, LLC.

*National Endowment for the Arts – FY 2016 Agency Financial Report
A Message from the Chairman*

\$24 billion in 2013.⁴ Trade surpluses, driven by exports, tend to inject income and jobs into the U.S. economy. Beyond economic impacts, the arts contribute to neighborhood revitalization and the livability of American towns and cities.

Those three elements taken together – the works of art themselves, the ways that art works on individuals and communities, and art as work – are the guiding principles underpinning the agency’s Strategic Plan FY 2014-2018; they have shaped our grant guidelines; and they guide implementation of initiatives such as *Our Town*, which invests in partnerships among arts, cultural, or design organizations and local governments for creative placemaking projects. These planning, design, or arts engagement projects contribute toward the livability of communities and help transform them into lively, beautiful, and sustainable places with the arts at their core.

Mission, Goals, and Accomplishments

During this reporting period, the NEA has operated within the framework of our FY 2014-2018 Strategic Plan, which includes the following components:

Vision: A nation in which every American benefits from arts engagement, and every community recognizes and celebrates its aspirations and achievements through the arts.

Mission: To strengthen the creative capacity of our communities by providing all Americans with diverse opportunities for arts participation.

Goals:

1. Support the creation of art that meets the highest standards of excellence.
2. Foster public engagement with diverse and excellent art.
3. Promote public knowledge and understanding about the contributions of the arts.
4. Enable the NEA mission through organizational excellence.

Objectives:

- Expand the portfolio of American art by investing in projects dedicated to the creation of excellent art.
- Provide all Americans with opportunities for arts engagement by funding projects that create arts experiences.
- Enable Americans of all ages to acquire knowledge or skills in the arts by funding projects that address lifelong learning in the arts.
- Strengthen American communities by investing in projects that seek to improve the livability of places through the arts.
- Expand and promote evidence of the value and/or impact of the arts by fulfilling a long-term research agenda and by using traditional and social media channels to distribute findings and new information.
- Increase the domestic and international impact of the arts by establishing strategic partnerships with public and private organizations.

⁴ Figures derived from the Arts and Cultural Production Satellite Account (ACPSA), a partnership between the NEA and the Department of Commerce's Bureau of Economic Analysis.

*National Endowment for the Arts – FY 2016 Agency Financial Report
A Message from the Chairman*

- Ensure that NEA-funded activities reach Americans throughout the country by making awards for projects that address a diverse spectrum of artistic disciplines, geographic locations, and underserved populations.
- Provide the American people with outstanding service by attracting, maintaining, and optimizing a diverse, creative, productive, and motivated workforce.
- Be an effective and vigilant steward of public funds by sustaining transparent and efficient grant-making and administrative processes.

A wide array of Agency programs and initiatives are providing Americans with opportunities to experience the best of the arts. These include:

- A five-year national research agenda, focused on 1) new data collections for public access; 2) analyses of the arts' value and impact; and 3) strategic research alliances, one example being the 18-member federal Interagency Task Force on the Arts and Human Development.
- *Our Town*, an initiative built on the premise – confirmed through experience and empirical research – that the arts are an essential element of the lives of individuals and the livability of our communities.
- Collaborations with other Federal agencies (e.g., the Departments of Defense, Commerce, Education, Agriculture, and Interior, and the National Science Foundation) in recognition of the ability of the arts to help them achieve their goals. Key initiatives include [Creative Forces: NEA Military Healing Arts Network](#), which supports service members dealing with Traumatic Brain Injury, post-traumatic stress, and other psychological health conditions; and a partnership with the Department of Commerce's Bureau of Economic Analysis to measure the value of the creative sector on a macroeconomic level.
- Other program leadership initiatives such as *Blue Star Museums*; *The Big Read*; *Poetry Out Loud: National Recitation Contest*; *Shakespeare for a New Generation*; and the *Mayors' Institute for City Design*.
- Outreach through programs such as *Challenge America*; grant information workshops (now conducted largely through online media); an online newsletter; our completely redesigned Web site; and increased use of webinars, webcasting, and social media such as blogs, Twitter, and Facebook.
- Efficiency improvements obtained through expanded use of technology, including the use of remote grant application review panels – conducted via the Internet – thereby reducing travel costs and further enhancing the efficiency and effectiveness of the application review process.

*National Endowment for the Arts – FY 2016 Agency Financial Report
A Message from the Chairman*

Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable. I am very pleased to report that during the course of our FY 2016 audit, the auditors identified no material weaknesses. Thus, the Agency has received its fourteenth consecutive unmodified opinion.

A handwritten signature in cursive script that reads "Jane Chu". The signature is written in black ink and is positioned above a horizontal line.

Jane Chu

Chairman

November 15, 2016

BLANK PAGE

Fiscal Year 2016
Agency Financial Report
~ Management's Discussion and Analysis ~

The National Endowment for the Arts has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). The NEA will include its FY 2016 Annual Performance Report with its FY 2018 Congressional Budget Justification in February 2017 and will post it on the NEA Web site at www.arts.gov.

Mission, Organizational Structure, and Internal Operations

The mission of the National Endowment for the Arts is *to strengthen the creative capacity of our communities by providing all Americans with diverse opportunities for arts participation*. We envision a nation in which every American benefits from arts engagement, and every community recognizes and celebrates its aspirations and achievements through the arts.

An independent federal agency, the NEA was established by Congress in 1965 and is led by a Chairman – appointed by the President and confirmed by the United States Senate – and advised by the National Council on the Arts. Up to eighteen private citizens are appointed by the President and confirmed by the Senate; six ex officio members are Members of Congress appointed by the Senate and House leadership. Currently, the Council has seventeen Presidential appointees and three ex officio members.

During FY 2016, the NEA continued to operate under a revised organizational structure, established in FY 2015, which eliminated the position of Deputy Chairman for Programs & Partnerships, consolidating certain responsibilities under the Senior Deputy Chairman. The other major programmatic and administrative Divisions continued to be headed by a Deputy Chairman, a Chief Information Officer (CIO), and several other office heads – all of whom reported to either the Senior Deputy Chairman (the Agency's Chief Operating Officer) or to the Chairman. The Senior Deputy Chairman reports to the Chairman, who also oversees a support staff and several direct-report office heads. The major program Division, Programs and Partnerships, is chiefly responsible for handling the review of grant applications and management of cooperative agreements and leadership initiatives. An organizational chart can be found at the end of this section. Currently, the Senior Deputy Chairman and Director of Programs & Partnerships positions are vacant. In FY 2016, the NEA operated with a staffing level of 156 full-time equivalents, below the 162 FTE requested in the budget.

Here are some highlights of key activities, accomplishments, and issues from FY 2016:

1. Enhanced Use of Technology

During FY 2016, we continued our joint development with the National Endowment for the Humanities of a new Web-based grants management system (eGMS) that will provide significant new capabilities and efficiencies in the management of our grant application, award, and monitoring processes. The partnership has now expanded to include the Institute of Museum and Library Services (IMLS) and the National Historical Publications and

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

Records Commission. We expect to have the new system fully operational in the third quarter of FY 2017.

2. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency’s Strategic Plan. We manage our HC programs consistent with applicable internal controls and merit-based principles, and we build our budgets and programs consistent with our available HC resources. We conduct assessments on an ongoing basis to ensure that our staffing level and competency mix are sufficient to operate effectively and achieve our mission.

The results of the 2016 Federal Employee Viewpoint Survey confirm the high engagement of our work force. Among small agencies, the NEA had one of the largest increases in the overall Employee Engagement Index (+12%). Similarly, the NEA was the third-highest ranking small agency in the overall New IQ Index.

3. Improved Financial Management

With our use of the U.S. Department of Transportation’s (DOT) Oracle-based fully-compliant financial system (Delphi), we continue to realize improvements in reliability and timeliness of financial information. We also continue to participate in the Delphi users’ group to ensure that Agency needs are considered in the development of system enhancements and upgrades, particularly in light of DATA Act initiatives and Treasury mandates starting in FY 2015. In regard to the former, we are on track to meet all requirements of the DATA Act in FY 2017, and we continue to explore opportunities to enhance our financial management operations.

4. Integration of Budget and Performance

We prepare our budget requests as performance budgets, with performance data integrated throughout. This integration ensures that Agency goals, programs, and budget categories are aligned with and mirror one another. Along with other federal agencies, we published a revised Strategic Plan, covering FY 2014-2018, which provides the foundation for all of our activities, and we have begun laying the groundwork for the next iteration of our Plan.

Performance Goals, Objectives, and Results

The National Endowment for the Arts supports excellent art with broad public reach in multiple disciplines across all 50 states, the District of Columbia, and special jurisdictions, reaching rural, suburban, and metropolitan areas, as well as military facilities. We are committed to providing the American people with access to the best of their artistic legacy. NEA support of the arts encourages artistic creativity and productivity that boosts the economies of our local communities and our nation. More than 4.7 million Americans work in industries that produce arts and cultural goods and services, receiving \$339 billion in compensation. This contribution made up 4.2% of our nation’s GDP (\$704 billion) in 2013, a 32.5% growth since 1998.⁵

⁵ The Arts and Cultural Production Satellite Account (ACPSA), a partnership between the NEA and the Department of Commerce’s Bureau of Economic Analysis.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

Through our efforts on behalf of the American people, we strive to achieve the following:

Goals:

1. Support the creation of art that meets the highest standards of excellence.
2. Foster public engagement with diverse and excellent art.
3. Promote public knowledge and understanding about the contributions of the arts.
4. Enable the NEA mission through organizational excellence.

Objectives:

- Expand the portfolio of American art by investing in projects dedicated to the creation of excellent art.
- Provide all Americans with opportunities for arts engagement by funding projects that create arts experiences.
- Enable Americans of all ages to acquire knowledge or skills in the arts by funding projects that address lifelong learning in the arts.
- Strengthen American communities by investing in projects that seek to improve the livability of places through the arts.
- Expand and promote evidence of the value and/or impact of the arts by fulfilling a long-term research agenda and by using traditional and social media channels to distribute findings and new information.
- Increase the domestic and international impact of the arts by establishing strategic partnerships with public and private organizations.
- Ensure that NEA-funded activities reach Americans throughout the country by making awards for projects that address a diverse spectrum of artistic disciplines, geographic locations, and underserved populations.
- Provide the American people with outstanding service by attracting, maintaining, and optimizing a diverse, creative, productive, and motivated workforce.
- Be an effective and vigilant steward of public funds by sustaining transparent and efficient grant-making and administrative processes.

Core Grant Programs

Through its direct grant-making, the NEA annually supports in the range of 30,000 concerts, readings, and performances and more than 3,000 exhibitions of visual and media arts with annual, live attendance of 20 million. NEA-supported broadcast performances on television, radio, and cable will have additional audiences of at least 300 million. In FY 2016, the NEA made nearly 2,500 awards totaling \$124 million. Other funders annually provide more than \$500 million in further support of these NEA-funded projects; in our direct grant-making categories alone, the ratio of matching to federal funds currently approaches 9:1, far surpassing the required non-federal match of at least one to one. In addition to the above, the NEA’s reach is extended through the 40% of our grantmaking funds that, by statute, are awarded to the State Arts Agencies and Regional Arts Organizations, reaching millions more people in thousands of communities throughout the country.

Grantees’ final reports – supplemented by selected post-award reviews conducted by the Office of Research and Analysis – provide the bulk of the information that allows us to report what we actually achieved across the country with our programmatic activities. We have found the actual

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

results to be consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data. Thus, we believe that the performance data we receive (which will be reported in our Annual Performance Report in February 2017) indicate that our goals for these programs are being met and that our programs are effective.

The NEA's core grant programs include signature initiatives, such as *Poetry Out Loud*, the *NEA Big Read*, and *Shakespeare in American Communities*, which extend the reach of the agency through partnerships with State Arts Agencies and Regional Arts Organizations; *Our Town*, a grant program that supports creative placemaking projects that help to transform communities into lively, beautiful, and sustainable places with the arts at their core; and *Challenge America*, which helps the agency carry out its commitment of ensuring a direct grant in every Congressional district.

Our Town, which has achieved considerable success since its launch in 2011, builds on the NEA's longstanding support for communities and the ability of the arts to strengthen them. The NEA has now awarded more than \$30 million in grants to fund 390 *Our Town* projects, reaching all 50 states plus the District of Columbia and Puerto Rico. The *Our Town* grants reinforce the NEA's belief that the arts are as fundamental to a community's success as safety, land use, transportation, education, and housing, and help build stronger communities in cities and rural areas alike. In addition, the NEA has created the web resource [Exploring Our Town](#) that features case studies and lessons learned on more than 70 *Our Town* projects, held convenings and released reports on how the performing arts can transform place, and has launched a pilot technical assistance initiative for *Our Town* grantees.

Arts Education

The NEA's arts education strategic plan is grounded in collective impact, a concept described by John Kania and Mark Kramer as “the commitment of a group of important actors from different sectors to a common agenda for solving a specific social problem.”⁶ The strategic plan helps implement the NEA's vision that every student is engaged and empowered through an excellent arts education. This statement reflects a fundamental belief that all students should have the opportunity to participate in the arts, both in school and out of school. It also acknowledges the very real benefits of an arts education; students participating in the arts are engaged in life and are empowered to be fulfilled, responsible citizens who make a profound, positive impact on this world.

In addition to funding direct learning and professional development projects, the agency supports collective impact projects to leverage NEA investments for deeper impact. These projects are longer term, larger in scale, and use a systemic approach to provide arts education for students across entire neighborhoods, schools, school districts, and/or states – in communities of all sizes. Since 2015, the agency has awarded \$2.1 million for 26 projects nationwide.

⁶ Kania, John, and Mark Kramer. “Collective Impact. Large-scale social change requires broad cross-sector coordination, yet the social sector remains focused on the isolated intervention of individual organizations.” *Stanford Social Innovation Review*. Winter 2011.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

Building on the 2015 NEA shared measurement convening of the first cohort of collective impact grantees, the agency will convene all collective impact grantees in 2017. The 2017 convening, a partnership between the agency’s offices of Arts Education and Research & Analysis, will help grantees construct logic models that will lead to a common national shared measurement framework. Developing a common measurement system across grant projects is an important goal for the NEA, and it will position the collective impact program to use grantee data for long-term outcome evaluation in the near future.

In addition to its grants, the NEA provides support for three national networks as part of its core work to advance arts education in the United States: 1) State Arts Agency Arts Education Managers (SAA AE Managers); 2) the State Education Agency Directors of Arts Education (SEADAE); and 3) the Arts Education Partnership (AEP). Each network plays a distinct leadership role that extends the federal reach and impact of the NEA's work to the state and local level.

- *Collaboration with State Arts Agency Arts Education Managers:* Since 1987, the NEA, in coordination with the National Assembly of State Arts Agencies (NASAA), has provided technical assistance and support services to convene and administer a national workshop/conference of state arts agency arts education managers. The NEA's investment ensures SAA AE managers have the necessary skills to carry out their work. Through peer-to-peer mentoring and collaboratively designing an annual professional development institute, SAA AE managers have developed skills and deepened their knowledge of leadership and partnership; policy formulation, program implementation, and evaluation; public education; community-based learning; and communications.

In 2016, the NEA and NASAA hosted a professional development institute for SAA AE managers in Grand Rapids, Michigan. The content focused on inclusion, diversity, equity and access (IDEA) and provided participants with a framework to examine ideologies of difference, explore personal identity and social location, and develop next steps to take as an arts education peer group to advance inclusion, diversity, equity, and access within agencies, states, and the larger arts sector. The focus on IDEA recognizes that a new brand of cultural leader and manager is being called upon in the arts. Having the ability to engage in conversations across difference in a climate of change is no longer optional; it is a requisite skill that is in demand.

- *Collaboration with SEADAE:* The Arts Endowment provides support to SEADAE, a nonprofit organization with the mission of developing a nationwide infrastructure of arts education peers in state departments of education, largely modeled on the SAA AE Managers' network. Through networking and shared learning opportunities for its members, SEADAE provides a collective voice for leadership on issues affecting arts education in the United States.
- [*Arts Education Partnership*](#) (AEP): The AEP is a national network of more than 100 arts, education, business, philanthropic, and government organizations that demonstrates and promotes the essential role of the arts in the learning and development of every child, and in the improvement of America's schools.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

In 2016, after 20 years at the Council of Chief State School Officers (CCSSO), AEP successfully transitioned to Education Commission of the States (ECS), the new cooperator for AEP. With a focus on partnering with state education policy leaders to address issues by sharing resources and expertise, ECS will expand access and visibility of the arts to education policymakers and stakeholders and strengthen linkages between arts and other critical education issues. For example, ECS and AEP recently published [*ESSA: Mapping Opportunities for the Arts*](#), a special report highlighting the ways that states and districts can engage the arts in the ongoing work of the Every Student Succeeds Act (ESSA).

AEP was formed in 1995 by the NEA, the U.S. Department of Education, NASAA, and CCSSO in response to the *Goals 2000: Educate America Act*.⁷ Support is provided for planning, communications, and collaborative actions by AEP and its member participants. The work of AEP is guided by an advisory committee, made up of representatives from 35 partnering organizations, including state arts agencies.

Federal Partnerships

In addition to our core grant programs and partnerships as described above, the Agency pursues its goals through partnerships with other public and private entities. Notably, we have established the following ground-breaking partnerships with other federal agencies.

NEA Military Healing Arts Partnership

The NEA Military Healing Arts Partnership began in 2011, when the National Intrepid Center of Excellence (NICoE) Walter Reed Bethesda invited the NEA to help build out its creative arts therapy program, an integrative healthcare model to treat service members with traumatic brain injury and associated psychological health issues. The program subsequently expanded to include the NICoE Intrepid Spirit-1 at Fort Belvoir in Virginia, and its success has been recognized by both the President and Congress; in FY 2016, Congress authorized a \$1.98 million budget increase for the NEA, specifically allocated to expand this military healing arts program.

On October 25, 2016, the NEA and the Department of Defense announced the expansion of the partnership into [*Creative Forces: NEA Military Healing Arts Network*](#). With this expansion, creative arts therapies will be extended to ten additional locations by 2017, and will include art and music therapists, creative writing instructors, and program support at all locations. NEA will also work closely with its network of state, local, and regional partners at each clinical site location to develop community-based arts programs involving not just military service members, but also veterans, families, and caregivers. The NEA is creating an online toolkit and resources to help communities understand how to support service members, veterans, and their families through arts programming. This includes guidance on how to build deeper connections across civilian and military populations.

⁷ The Goals 2000: Educate America Act (P.L. 103-227) was signed into law on March 31, 1994. The Act provides resources to states and communities to ensure that all students reach their full potential.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management's Discussion and Analysis*

The NEA is also investing in research on the impacts – biological, psycho-social, behavioral, and economic – of these arts-based interventions. This includes a partnership with the Creative Arts Therapies PhD program at Drexel University in Philadelphia. Together, the NEA, Drexel, and the NICoE are supporting research on themes communicated through mask making from active duty service members with post-traumatic stress disorder and traumatic brain injury.

NEA and U.S Bureau of Economic Analysis

The Arts and Cultural Production Satellite Account (ACPSA), a partnership between the NEA and the Department of Commerce's Bureau of Economic Analysis, is the first federal effort to provide an in-depth analysis of the arts and cultural sector's contributions to current-dollar gross domestic product (GDP), a measure of the final dollar value of all goods and services produced in the United States. The revised estimates issued in FY 2015 reveal the arts are a bigger driver of GDP and jobs than previously estimated. Among the estimates were:

- In 2012, arts and cultural production contributed more than \$698 billion to the U.S. economy, or 4.32 percent to the GDP, more than construction (\$586.7 billion) or transportation and warehousing (\$464.1 billion).
- More than 4.7 million workers were employed in the production of arts and cultural goods, receiving \$339 billion in compensation.
- Arts and cultural spending has a ripple effect on the overall economy, boosting both commodities and jobs. For example, for every 100 jobs created from new demand for the arts, 62 additional jobs are also created.

“The positive value of arts and culture on society has been understood on a human level for millennia. With this new effort, we are now able to quantify the impact of arts and culture on GDP for the very first time,” said U.S. Secretary of Commerce Penny Pritzker.

These statistics derived from the tracking of a cohort of arts and cultural commodities and industries and computing their annual impact on GDP. The resulting Arts and Cultural Production Satellite Account is the nation's first attempt to account for the total economic contributions of arts and cultural industries. Initial results include a time-series of data from 1998 to 2012, statistics on the gross output of arts and cultural industries, the number of workers they employ, the compensation of those workers, import/export patterns, and the indirect economic impact of consumer demand for arts and cultural goods and services.

Accompanying release of the estimates, BEA and the NEA issued a joint news release, drawing the public's attention to a unique series of resources developed by ORA and posted to the NEA website. These resources include: a comprehensive guide for understanding the inner workings and significance of the satellite account; more detailed tabulations than provided on the BEA website; a series of "issue briefs" on ACPSA-related findings; and a proposed methodology for capturing the economic value of arts and cultural workers and of the arts volunteer sector.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

As an additional benefit to the general public and financial analyst community, BEA, under the terms of the NEA initiative, published the article [*U.S. Arts and Cultural Production Satellite Account, 1998–2012*](#) in the January 2015 edition of their publication, *Survey of Current Business*. The article provided key details of the account and its methodology. Concurrently, the account has gained notice on the international stage, having been presented and discussed at such venues as the Association of Cultural Economics International, the Inter-American Development Bank, and, most recently, in Dublin, Ireland as part of the “Creative Minds” conference series sponsored by the United States Ambassador to Ireland, Kevin F. O’Malley.

From 2015-2017, the NEA intends to support BEA's annual updates to the ACPSA. Additionally, the BEA will pilot-test methods to create a regional and/or state-by-state version of ACPSA, for a product to be released by the third quarter of FY 2017.

In addition to the work discussed above, the NEA has continued to grow its partnerships with other federal agencies. These include, but are not limited to:

U.S. Department of Agriculture (USDA) and the [Citizens’ Institute on Rural Design \(CIRD\)](#): USDA has partnered with the NEA since 2012 in this initiative, established in 1991, to help rural communities with populations of 50,000 or fewer enhance their quality of life and economic vitality through facilitated design workshops. In response to a request for proposals issued in FY 2016, we received the largest-ever number of applications from communities wanting to host a CIRD workshop. USDA’s Office of Rural Development is engaging its nationwide network of local offices to support the institute and implementation of local community workshops.

Department of Defense (DOD) and [Blue Star Museums](#): The NEA continues to collaborate with DOD, Blue Star Families, and more than 2,000 museums across America to offer free admission all summer long to active duty military families. It is estimated that the program served more than 700,000 active-duty military personnel and their families this past summer.

Department of Health and Human Services (HHS) and the [Arts and Human Development Taskforce](#): A task force of 19 federal agencies and departments has convened regularly since November 2011 to encourage more and better research on how the arts help people reach their full potential at all stages of life. The task force is a result of [*The Arts and Human Development: Framing a National Research Agenda for the Arts, Lifelong Learning, and Individual Well-Being.*](#)

National Science Foundation (NSF) and the [Longitudinal Study of American Youth](#): The NEA is partnering with NSF to support this study to gain new knowledge around the relationship between arts and science in education.

White House’s Community Solutions Task Force: To improve collaboration across the Federal government in support of local communities’ efforts to build better outcomes, the NEA is partnering with the following Federal agencies and departments: Treasury, Justice, Interior, Agriculture, Commerce, Labor, Health and Human Services, Housing and Urban Development, Transportation, Education, Homeland Security, Environmental

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

Protection Agency, Appalachian Regional Commission, Corporation for National and Community Service, and the Delta Regional Authority. In order to maximize the Federal government’s effectiveness as a partner to local communities, this partnership streamlines and strengthens the ability of Federal agencies to provide collaborative assistance across typically siloed mission areas. To support improved outcomes in communities, this partnership reflects the agencies’ interest in coordinating technical assistance on arts, culture and design projects. Technical assistance may include providing communities with comprehensive cultural planning support, implementing and evaluating community arts programs and policies, and engaging local stakeholders. Participation in the Task Force requires direct support for two existing place-based initiatives.

White House's Strong Cities, Strong Communities (SC2) and Promise Zones Initiatives: The NEA's community development investment expanded significantly through participation in the White House's Strong Cities, Strong Communities and Promise Zones initiatives, both of which have designated communities that receive coordinated Federal technical assistance for local capacity building, strengthening the gap between Federal and local government. The NEA shares best practices, conducts outreach and grants workshops, and collaborates with designated urban and rural communities that have received prioritization by the White House. SC2 and Promise Zone designees are distressed cities/high poverty communities where the Federal government partners (with local leaders) to work to increase economic activity, improve educational opportunities, reduce violent crime, leverage private investment, and address other priorities identified by the community. Many of these communities applied to the NEA’s *Our Town* program and were successful in proposing arts and cultural strategies to address some of their key challenges. The NEA partners with the Departments of Agriculture, Transportation, and Housing and Urban Development in this initiative.

Research and Program Evaluation Highlights

The NEA's Office of Research & Analysis (ORA) ended FY 2016 by achieving 87 percent of the milestones it articulated in 2012, as part of a five-year research agenda (see the NEA publication [How Art Works](#)). The office is now operating under a new strategic plan and five-year research agenda, the latter document having been shared, in draft form, with various researchers, arts organizations, and arts funders, who gave input and suggestions.

ORA’s FY 2016 highlights are listed below. These new products and partnerships are grouped into four categories: three in research, and one in evaluation.

New data collections for public access: By engaging with other federal agencies and departments, ORA continues to generate new datasets of arts variables that can be analyzed for information about the value and impact of the arts. ORA also has established the [National Archive of Data on Arts & Culture \(NADAC\)](#), a free, publicly-accessible repository of arts data and interactive data tools.

- *American Housing Survey for 2015 – arts module:* These data were expected to be made available by the U.S. Department of Housing & Urban Development by November 2016.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

- *Arts and Cultural Production Satellite Account – 1998-2014 time-series of national and limited state-level data:* These products will be posted to the NEA and U.S. Bureau of Economic Analysis websites in early 2017.
- [*Annual Arts Basic Surveys \(AABS\) for 2013-2015:*](#) Results from a short-form questionnaire fielded by the U.S. Census Bureau, asking about adult levels of arts participation, were released in FY 2016, along with the first-ever tabulations of data for all 50 states.
- *Survey of Public Participation in the Arts (SPPA) for 2017:* A revised questionnaire, developed by ORA, was delivered to the U.S. Census Bureau, which will field it later in FY 2017, thus producing richer and more detailed arts variables than previously have been obtained from this periodic survey.

Analyses of the arts’ value and impact: Beyond issuing research publications, ORA runs a research grants program to incentivize such studies. The office also posts Arts Data Profiles (ADPs) to the NEA website. ADPs are collections of statistics, graphics, and summary results from data-mining about the arts.

- [*The Arts and Early Childhood: Social and Emotional Benefits of Arts Participation:*](#) This research literature review and gap-analysis was produced in collaboration with members of the NEA’s Interagency Task Force on the Arts and Human Development.
- [*Analyses of national and state-level arts participation data:*](#) Interactive data visualizations and research briefs were posted to the NEA website as part of the 2013-2015 AABS and 2012 SPPA (state-level) data releases.
- [*Analysis of the arts’ value added to GDP and economic data about arts and cultural industries and employment:*](#) Research briefs and statistical tables were posted to the NEA website as part of the 1998-2013 ACPSA data release.
- [*Research: Art Works grant awards for 2016:*](#) Since 2011, ORA has made awards to 88 research projects, yielding more than 45 reports available on the NEA website. For FY 2017, ORA has created a two-track application process, inviting researchers to seek higher levels of funding for experimental and quasi-experimental study designs.
- *National Endowment for the Arts Research Labs:* In FY 2017, ORA will make awards to trans-disciplinary research teams that will investigate the arts’ relationship to these domains: Social and Emotional Health and Well-Being; Creativity, Cognition, and Learning; and Entrepreneurship and Innovation.

Strategic research alliances: Beyond engaging in the data collection activities described above – whereby the ORA typically works with other entities to augment public datasets – the office began or completed the following products in collaboration with other federal agencies in FY 2016.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

- *The NEA Guide to Community-Engaged Research in the Arts and Health* (tentative title): Intended for arts/health practitioners and researchers alike, this guide benefited from consultation with members of the NEA’s Interagency Task Force on the Arts and Human Development – including researchers at the National Institutes of Health – and will be posted to the NEA website in December 2016.
- *Literature review about arts-based programs and art therapies for at-risk, justice-involved, or traumatized youth*: In FY 2016, ORA and other NEA units assisted the U.S. Office of Juvenile Justice and Delinquency Prevention (OJDDP) in producing this report, with ORA also helping OJDDP to identify specific arts programs for tagging and display as part of a “Model Programs Guide” to evidence-based programs in this area.
- *Research report on arts, design, and rural innovation*: In partnership with the U.S. Department of Agriculture’s Economic Research Service (ERS), ORA is analyzing arts-and-design variables from the Rural Establishment Innovation Survey; the report is planned for release later in FY 2017.

Program evaluation and performance measurement: In FY 2016, ORA increased staff capacity and expertise to allow for several ongoing activities, including:

- ✓ Evaluation studies of the NEA’s *Our Town* and *Poetry Out Loud* programs.
- ✓ Creation of logic models for NEA program divisions as part of the White House Deputies’ Evidence Agenda.
- ✓ Preparation of standard templates for reporting and mapping grants data for the benefit of NEA program directors.

50th Anniversary – Celebrating the Past and Looking to the Future

Recognizing how the arts touch and enhance every aspect of our lives, in September 2015 the NEA launched a 50th anniversary leadership initiative called *Creativity Connects*.⁸ This initiative shows how the arts contribute to the nation’s creative ecosystem, examines the ways in which the support systems for artists are changing, and explores how the arts can connect with other sectors that want and utilize creativity.

Creativity Connects has three components:

- ***Creativity Connects: Trends and Conditions Affecting U.S. Artists*** is a report that investigates the current conditions for artists and trends affecting their ability to create work and contribute to their communities. [Download the report and learn about process of creating it](#) (including roundtables and blog essays).

⁸ *Creativity Connects*TM is used with permission from Crayola, LLC.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

- **Art Works: Creativity Connects** is a pilot grant opportunity to support partnerships between arts organizations and organizations from non-arts sectors. Please [see the grant guidelines](#) for complete information.
- An **interactive digital graphic** that examines how the arts connect to the nation’s creative ecosystem. The arts sector embodies creativity, but there are other sectors that also partner with artists or use arts-based creativity: sectors such as science, technology start-ups, business schools, and many more. The [interactive graphic](#) showcases “bright spots” – successful projects across the country where arts and non-arts collaborators work to further common goals.

Another significant undertaking during our anniversary year has been the gathering of stories from the general public and grantees, elected officials and agency directors, artists and arts lovers across the country about the importance of art in their lives and their communities. Collectively called [United States of Arts](#), these stories are available on our website in text, audio, or video format, by clicking on any state or territory on the provided map to see a story from that location, or by choosing a state from the dropdown box. We have also developed a series of [Milestone](#) videos that look at some of the important artists and organizations that the NEA has supported over the years, and the impact they have made on U.S. culture.

The NEA is committed to ensuring that every individual, from child to grandparent, from tenth-generation to newly arrived immigrant, has a chance to find their creative voice through the arts, and live in a community where creativity can thrive. As we close out our celebration of the National Endowment for the Arts’ 50th anniversary, we look forward to the possibilities that lie ahead. We are focused on fostering value, connection, and creativity and leadership.

- In terms of value, we aim to help all Americans understand the value and meaning the arts have in their lives – as individuals, members of communities, and as part of the economy.
- In terms of connection, we aim to show how the arts impact individuals and communities and to show why the arts matter on a larger level; how they connect us to each other and provide us with a sense of belonging.
- In terms of creativity and leadership, we will focus especially on two areas:
 - Arts Education – Studies show that students engaged in the arts perform better academically and socially, and participate more in other civic activities. Arts education is critical to raising America’s future generations of creative, innovative thinkers.
 - Intersection of Art, Science, and Technology – We want to turn the focus from STEM education to STEAM education, and integrate Science, Technology, Engineering, Arts, and Math into our nation’s classrooms. Creative and innovative thinkers help to solve problems, think outside the box, and provide new insights.

Improper Payments Reporting

The NEA has four major fund categories that comprise its “program inventory” (per OMB Circular A-136): Administrative; Program Support; Direct Grantmaking; and Partnership. Based on previous risk assessments conducted in accordance with OMB guidance, none of these “programs” qualifies as risk-susceptible. In FY 2015, there were no improper payments made; therefore, the “percentage of improper payments made” has been below the 1.5% threshold (at or below 0.2%). Due to our strong internal controls, we believe that the NEA has an insignificant risk of improper payments for the 2016 fiscal year.

Analysis of Financial Statements

The NEA’s principal financial statements have been prepared to report the financial position and results of operations of the Agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the NEA in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports 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.

The NEA receives an annual appropriation of “no-year” funds from Congress, and has been granted authority to receive donations and invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding, and the same guidelines are used to account for both appropriated and non-appropriated funds. The NEA’s property, plant, and equipment are recorded at cost and are depreciated according to a written asset capitalization policy.

Here are some financial highlights:

- NEA's FY 2016 net appropriation was \$147.949 million, an increase of \$1.928 million from the FY 2015 net appropriation. Appropriations are the primary source of financial resources for the NEA, so the financial position of the Agency generally trends with the amount of appropriations received each year.
- The NEA received about \$4.313 million in reimbursable agreement authority in FY 2016, an increase of \$2.9 million over FY 2015. As with appropriations, the financial resources of the Agency fluctuate in response to changes in reimbursable authority received.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2016 and FY 2015 are provided below:

- Fund Balance with Treasury - In FY 2016, NEA received about the same appropriation as in FY 2015.
- Accounts Receivable - The decrease represents the collection payments received.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

- Property, Plant and Equipment - The original purchase price less accumulated depreciation is reflected on the balance sheet.
- Other Assets - This line item consists entirely of advances to other parties. The decrease in advances during FY 2016 is due to reduced advances to two major federal parties. See Note 7 for additional details.
- Accounts Payable - This is primarily due to an increase in advances received from other government agencies.
- Accrued Liabilities - The ratio of grant obligations to outlays decreased during FY 2016, resulting in a smaller accrued liability compared to FY 2015.
- Other liabilities - FY 2016 had about the same level of other liabilities as in FY 2015. See Note 9 for additional details.
- Net Position - The overall net position of the NEA increased by \$8,426,535, which can be attributed to an increase in accounts payable, offset by decreases in all other major categories in the Balance Sheet.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2016 compared to FY 2015:

- Obligations - The 1.5% increase in obligations from FY 2015 to FY 2016 is due to an increase in reimbursable authority received from other agencies.
- Outlays – More grant payment requests (and/or with more funds requested) received and the increase in reimbursable collections in FY 2016 accounts for the 1.8% increase in outlays.

Overall, and given the unpredictability of Congressional appropriations from year to year, the current financial condition of the NEA is strong. The NEA received an unmodified audit opinion on its FY 2016 financial statements as presented herein; this is the NEA’s fourteenth consecutive year receiving a clean audit opinion. As mentioned above, the NEA’s programs and operations are funded primarily through appropriated funding as provided by Congress and approved by the President. Therefore, year to year changes in the Agency's financial condition are highly dependent on these appropriated funding levels.

[Continued on next page.]

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*

National Endowment for the Arts Table of Key Measures				
Amounts in Dollars	Current FY	Prior FY	Increase/(Decrease)	
			\$	%
Costs¹				
Total Financing Sources	\$141,388,817	\$152,739,661	(\$11,350,844)	-7%
Less: Net Cost	141,469,764	151,999,397	(\$10,529,633)	-7%
Net Change of Cumulative Results of Operations	(\$80,947)	\$740,264	(\$821,211)	-111%
Net Position²				
Assets:				
Fund Balance with Treasury	\$145,845,834	\$146,420,181	(\$574,347)	-0.39%
Accounts Receivable	118,578	148,081	(\$29,503)	-19.92%
Property, Plant, and Equipment	503,402	602,220	(\$98,818)	-16.41%
Other	1,198,363	1,342,252	(\$143,889)	-10.72%
Total Assets	\$147,666,177	\$148,512,733	(\$846,556)	-1%
Liabilities:				
Accounts Payable	\$631,111	\$518,361	\$112,750	21.75%
Accrued Liabilities	38,410,416	47,831,515	(\$9,421,099)	-19.70%
Other	1,947,017	1,911,759	\$35,258	1.84%
Total Liabilities	\$40,988,544	\$50,261,635	(\$9,273,091)	-18.45%
Net Position (Assets-Liabilities)	\$106,677,633	\$98,251,098	\$8,426,535	8.58%

¹ Source: Statement of Changes in Net Position

² Source: Balance Sheet

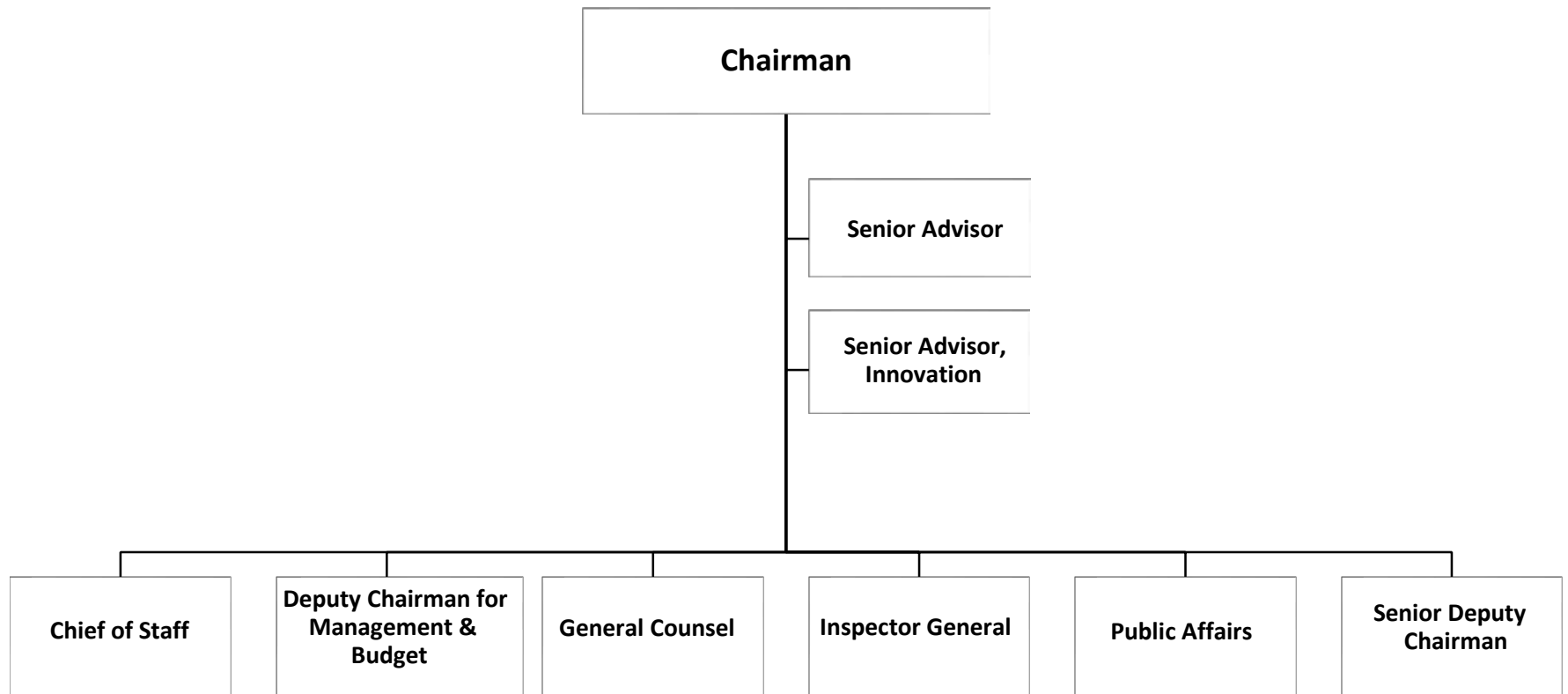
Systems, Controls, and Legal Compliance

The National Endowment for the Arts is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and, where necessary, modify existing controls – and establish new ones as appropriate – to ensure that we are able to provide reasonable assurance that we are accountable for our resources. We also recognize the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations.

Other Management Information, Initiatives, and Issues

In previous years, we reported on the challenges presented by our reliance on an outdated grants management system (GMS); as noted in previous reports, we have taken decisive action to address this. With the approval of OMB, we established a strategic partnership with the National Endowment for the Humanities (since joined by the Institute for Museum and Library Services and the National Historical Publications and Records Commission), through which we are migrating our outdated GMS to a new eGMS – a modern, flexible, cloud-based grants management system that is being developed collaboratively and will be maintained by the NEH. We expect to see major improvements in our internal grants management and panel management processes as a result of this partnership; our grant applicants, grantees, and panelists will also find that doing business with the NEA will be easier and more flexible. Development work is currently on schedule and within budget; we expect the system to be fully operational in the third quarter of FY 2017.

*National Endowment for the Arts – FY 2016 Agency Financial Report
Management’s Discussion and Analysis*



NEA Strategic Plan FY 2014-2018
Summary of Goals and Objectives

<u>Programmatic Goals</u>		
Goal 1: Creation of Art	Goal 2: Engagement with Art	Goal 3: Knowledge and Understanding of Art
Support the creation of art that meets the highest standards of excellence.	Foster public engagement with diverse and excellent art.	Promote public knowledge and understanding about the contributions of the arts.
<u>Programmatic Objectives</u>		
1.1 Expand the portfolio of American art by investing in projects dedicated to the creation of excellent art.	2.1 Provide all Americans with opportunities for arts engagement by funding projects that create arts experiences.	3.1 Expand and promote evidence of the value and/or impact of the arts by fulfilling a long-term research agenda and by using traditional and social media channels to distribute findings and new information.
	2.2 Enable Americans of all ages to acquire knowledge or skills in the arts by funding projects that address lifelong learning in the arts.	3.2 Increase the domestic and international impact of the arts by establishing strategic partnerships with public and private organizations.
	2.3 Strengthen American communities by investing in projects that seek to improve the livability of places through the arts.	
<i>Cross-Cutting Programmatic Objective:</i> Ensure that NEA-funded activities reach Americans throughout the country by making awards for projects that address a diverse spectrum of artistic disciplines, geographic locations, and underserved populations.		
<u>Management Goal</u>		
Enable the NEA mission through organizational excellence.		
1.1 Provide the American people with outstanding service by attracting, maintaining, and optimizing a diverse, creative, productive, and motivated workforce.	1.2 Be an effective and vigilant steward of public funds by sustaining transparent and efficient grant-making and administrative processes.	


Fiscal Year 2016
Agency Financial Report
~ Management Assurances ~

Overall Internal Control

National Endowment for the Arts management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The NEA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the NEA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2016, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Internal Control over Financial Reporting

The National Endowment for the Arts conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circulars A-123, *Management's Responsibility for Internal Control*, and A-136, *Financial Reporting Requirements*. Based on the results of this evaluation and that of our independent auditors, the NEA can provide reasonable assurance that internal control over financial reporting as of September 30, 2016, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.



Jane Chu
Chairman
November 15, 2016

BLANK PAGE

***Financial Statements
and Related Auditor's Report
Fiscal Year 2016***


BLANK PAGE

***Fiscal Year 2016
Agency Financial Report
~ A Message from the Director of Finance ~***

I am pleased to join with Chairman Chu in presenting the National Endowment for the Arts' *Fiscal Year 2016 Agency Financial Report*. This report summarizes the NEA's financial performance during the past year.

Our financial statements independent audit has been successfully completed and has resulted in an unmodified opinion for the fourteenth consecutive year. The audit revealed no material weaknesses.

In Fiscal Year 2017, we will continue to enhance reporting systems, ensure adherence to all applicable guidance, optimize efficiencies through improved use of technology, and – in cooperation with other NEA offices – meet the implementation requirements of the Digital Accountability and Transparency Act of 2014 (DATA Act). In addition, we will fully implement a new Cloud-based grants management system with the National Endowment for the Humanities, which will include integration with our finance system where relevant and feasible. We are confident that our finance system supports the agency's ongoing commitment to ensuring that we are fully accountable for the funds that have been entrusted to us for the benefit of the American people.



Heidi Ren
Director of Finance
November 15, 2016

BLANK PAGE



**National
Endowment
for the Arts**
arts.gov

Audited Financial Statements and Notes

For the Years Ended September 30, 2016 and 2015

National Endowment for the Arts
BALANCE SHEET
As of September 30, 2016 and 2015
(In Dollars)

	September 30, 2016			September 30, 2015		
	All Other	Funds from Dedicated Collections (Combined Total) (Note 12)	Cumulative	All Other	Funds from Dedicated Collections (Combined Total) (Note 11)	Cumulative
ASSETS (Notes 2 - 7)						
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 143,219,778	\$ 2,626,055	\$ 145,845,834	\$ 143,406,218	\$ 3,013,962	\$ 146,420,181
Investments (Note 3)	-	-	-	-	-	-
Other Assets (Note 7)	1,118,363	80,000	1,198,363	1,261,412	80,000	1,341,412
Total Intragovernmental	\$ 144,338,142	\$ 2,706,055	\$ 147,044,197	\$ 144,667,630	\$ 3,093,962	\$ 147,761,592
Assets with the Public:						
Accounts Receivable, Net (Note 4)	\$ 118,578	\$ -	\$ 118,578	\$ 148,081	\$ -	\$ 148,081
General Property, Plant and Equipment, Net (Note 5)	503,402	-	503,402	602,220	-	602,220
Other Assets (Note 7)	-	-	-	840	-	840
TOTAL ASSETS	\$ 144,960,122	\$ 2,706,055	\$ 147,666,177	\$ 145,418,771	\$ 3,093,962	\$ 148,512,733
LIABILITIES (Notes 8 - 9)						
Intragovernmental:						
Accounts Payable (Note 9)	\$ 631,111	\$ -	\$ 631,111	\$ 518,361	\$ -	\$ 518,361
Total Intragovernmental	\$ 631,111	\$ -	\$ 631,111	\$ 518,361	\$ -	\$ 518,361
With the Public:						
Accrued Liabilities (Note 9)	\$ 38,368,546	\$ 41,870	\$ 38,410,416	\$ 47,717,476	\$ 114,038	\$ 47,831,515
Other Liabilities (Note 8,9)	1,931,137	15,879	1,947,017	1,910,896	863	1,911,759
TOTAL LIABILITIES	\$ 40,930,795	\$ 57,749	\$ 40,988,544	\$ 50,146,733	\$ 114,901	\$ 50,261,635
Commitments and Contingencies (Note 11)						
NET POSITION						
Unexpended Appropriations	\$ 105,068,966	\$ -	\$ 105,068,966	\$ 96,553,198	\$ -	\$ 96,553,198
Cumulative Results of Operations	(1,039,639)	2,648,306	1,608,667	(1,281,161)	2,979,060	1,697,900
TOTAL NET POSITION	\$ 104,029,327	\$ 2,648,306	\$ 106,677,633	\$ 95,272,037	\$ 2,979,060	\$ 98,251,098
TOTAL LIABILITIES AND NET POSITION	\$ 144,960,122	\$ 2,706,055	\$ 147,666,177	\$ 145,418,771	\$ 3,093,962	\$ 148,512,733

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF NET COST
For the Years Ended September 30, 2016 and 2015

(In Dollars)

	2016	2015
PRPROGRAM COSTS (Note 13)		
Access to Artistic Excellence:		
Gross Costs	\$ (11,805)	\$ 652,173
Less: Earned Revenue	(75,000)	(103,456)
Net Access to Artistic Excellence Costs	\$ (86,805)	\$ 548,717
Learning in the Arts:		
Gross Costs	\$ 2,050	\$ 75,828
Less: Earned Revenue	-	-
Net Learning in the Arts Costs	\$ 2,050	\$ 75,828
Partnerships for the Arts:		
Gross Costs	\$ (14,257)	\$ 606,436
Less: Earned Revenue	-	-
Net Partnerships for the Arts Costs	\$ (14,257)	\$ 606,436
Arts Creation:		
Gross Costs	\$ 26,519,282	\$ 25,668,349
Less: Earned Revenue	(103,173)	(33,589)
Net Arts Creation Costs	\$ 26,416,109	\$ 25,634,760
Engagement with the Arts:		
Gross Costs	\$ 69,872,581	\$ 70,616,541
Less: Earned Revenue	(1,464,571)	(758,614)
Net Engagement with the Arts Costs	\$ 68,408,009	\$ 69,857,927
Contribution of the Arts:		
Gross Costs	\$ 46,747,971	\$ 55,430,580
Less: Earned Revenue	(3,314)	(154,851)
Net Contribution of the Arts Costs	\$ 46,744,657	\$ 55,275,729
Total Program Costs	\$ 141,469,764	\$ 151,999,397
NET COST OF OPERATIONS	\$ 141,469,764	\$ 151,999,397

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2016 and 2015
(In Dollars)

	FY 2016			FY 2015		
	Funds from Dedicated Collections (Combined Total) (Note 12)	All Other Funds	Consolidated Total	Funds from Dedicated Collections (Combined Total) (Note 11)	All Other Funds	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balances	\$ 2,979,060	\$ (1,281,161)	\$ 1,697,900	\$ 2,488,772	\$ (1,531,136)	\$ 957,636
Adjusted Beginning Balances	\$ 2,979,060	\$ (1,281,161)	\$ 1,697,900	\$ 2,488,772	\$ (1,531,136)	\$ 957,636
Budgetary Financing Sources:						
Appropriations Used	\$ -	\$ 139,433,232	\$ 139,433,232	\$ -	\$ 150,630,575	\$ 150,630,575
Non-Exchange Revenue	-	-	-	180	-	180
Donations	831,991	139	832,130	940,519	-	940,519
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	9,790	-	9,790	-	-	-
Transfers in/out reimbursement	-	-	-	-	-	-
Imputed financing	-	1,113,664	1,113,664	-	1,168,387	1,168,387
Total Financing Sources	\$ 841,781	\$ 140,547,035	\$ 141,388,817	\$ 940,699	\$ 151,798,962	\$ 152,739,661
Net Cost of Operations	1,172,536	140,297,228	141,469,764	450,411	151,548,987	151,999,397
Net Change	\$ (330,755)	\$ 249,807	\$ (80,947)	\$ 490,288	\$ 249,974	\$ 740,263
Cumulative Results of Operations	\$ 2,648,306	\$ (1,031,354)	\$ 1,608,667	\$ 2,979,060	\$ (1,281,161)	\$ 1,697,900
UNEXPENDED APPROPRIATIONS						
Beginning Balances	-	\$ 96,553,198	\$ 96,553,198	-	\$ 101,181,974	\$ 101,181,974
Adjusted Beginning Balances	\$ -	\$ 96,553,198	\$ 96,553,198	\$ -	\$ 101,181,974	\$ 101,181,974
Budgetary Financing Sources:						
Appropriations Received	-	\$ 147,949,000	\$ 147,949,000	-	\$ 146,021,000	\$ 146,021,000
Other Adjustments	-	-	-	-	(19,201)	(19,201)
Appropriations Used	-	(139,433,232)	(139,433,232)	-	(150,630,575)	(150,630,575)
Total Budgetary Financing Sources	\$ -	\$ 8,515,768	\$ 8,515,768	\$ -	\$ (4,628,776)	\$ (4,628,776)
Total Unexpended Appropriations	\$ -	\$ 105,068,966	\$ 105,068,966	\$ -	\$ 96,553,198	\$ 96,553,198
NET POSITION	\$ 2,648,306	\$ 104,037,612	\$ 106,677,633	\$ 2,979,060	\$ 95,272,037	\$ 98,251,098

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2016 and 2015
(In Dollars)

	2016	2015
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, Oct 1	\$ 15,561,743	\$ 15,777,185
Recoveries of Prior Year Unpaid Obligations	1,050,741	1,423,301
Other Changes in Unobligated Balance	317,424	28,962
Unobligated Balance from Prior Year Budget Authority, Net	\$ 16,929,908	\$ 17,229,448
Appropriations (discretionary and mandatory)	\$ 148,779,991	\$ 146,962,784
Spending Authority from Offsetting Collections (discretionary and mandatory)	4,322,837	1,375,473
TOTAL BUDGETARY RESOURCES	\$ 170,032,736	\$ 165,567,704
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 14)	\$ 154,940,284	\$ 150,025,162
Unobligated Balance, End of Year:		
Apportioned, unexpired accounts	15,082,662	15,542,542
Unapportioned, unexpired accounts	9,790	-
Unexpired Unobligated Balance, End of Year	15,092,452	15,542,542
Expired Unobligated Balance, End of Year		
Total Unobligated Balance, End of Year	\$ 15,092,452	\$ 15,542,542
TOTAL BUDGETARY RESOURCES	\$ 170,032,736	\$ 165,567,704
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations		
Unpaid Obligations, Brought Forward, Oct 1	\$ 132,416,639	\$ 131,706,752
New Obligations and Upward Adjustments	154,940,284	150,025,162
Outlays (Gross)	(151,441,929)	(147,891,975)
Recoveries of Prior Year Unpaid Obligations	(1,050,741)	(1,423,301)
Unpaid Obligations, End of Year	\$ 134,864,253	\$ 132,416,639
Uncollected Payments		
Uncollected Payments from Federal Sources, Brought Forward, Oct 1	\$ (1,539,000)	\$ (1,126,903)
Change in Uncollected Payments from Federal Sources	(2,571,871)	(412,097)
Uncollected Payments from Federal Sources, End of Year	\$ (4,110,871)	\$ (1,539,000)
Memorandum (non-add) Entries		
Obligated Balance, Start of Year	130,877,639	130,579,849
Obligated Balance, End of Year	130,753,382	130,877,639
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross (Discretionary and Mandatory)	\$ 153,102,828	\$ 148,338,257
Actual Offsetting Collections (Discretionary and Mandatory)	(2,087,590)	(1,011,539)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory)	(2,571,871)	(412,097)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	336,625	48,163
Anticipated Offsetting Collections (Discretionary and Mandatory)	-	-
Budget Authority, Net (Discretionary and Mandatory)	\$ 148,779,991	\$ 146,962,784
Outlays, Gross (Discretionary and Mandatory)	\$ 151,441,929	\$ 147,891,975
Actual Offsetting Collections (Discretionary and Mandatory)	(2,087,590)	(1,011,539)
Outlays, Net (Discretionary and Mandatory)	\$ 149,354,338	\$ 146,880,437
Distributed Offsetting Receipts	(852,526)	(940,519)
Agency Outlays, Net (Discretionary and Mandatory)	\$ 148,501,812	\$ 145,939,917

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

The following footnotes and instructions include the disclosure requirements contained in the Statements of Federal Financial Accounting Standards (SFFAS).

NOTE 1. Significant Accounting Policies:

A. Reporting Entity

The National Endowment for the Arts (NEA) is an independent Federal agency whose mission is to advance artistic excellence, creativity, and innovation for the benefit of individuals and communities. The NEA was established as a result of the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

These statements were prepared from the books and records of the NEA in conformity with accounting principles generally accepted in the United States, and the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), Revised October 7, 2016, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated August 4, 2015.
- M-06-27 *Fiscal Year 2006 Year-end Accounting Guidance for Earmarked Funds* (September 22, 2006), located at <http://www.whitehouse.gov/sites/default/files/omb/assets/omb/memoranda/fy2006/m06-27.pdf>.
- *Future External Reporting Changes* (December 21, 2001), located at http://www.whitehouse.gov/sites/default/files/omb/financial/year_end_reporting_2_001.pdf.
- *Requirements- for Accountability of Tax Dollars Act* (December 6, 2002), located at http://www.whitehouse.gov/sites/default/files/omb/financial/accountability_of_tax_dollars.pdf.
- M-04-20 FY 2004 *Performance and Accountability Reports and Reporting Requirements for the Financial Report of the United States Government* (July 22, 2004), located at <http://www.whitehouse.gov/sites/default/files/omb/memoranda/fy04/m04-20.pdf>.
- Memorandum FY 2002 *Financial and Performance Reporting*, dated October 18, 2002.
- Bulletin 01-09 *Form and Content of Agency Financial Statements*, revised September 25, 2001, available at <http://www.whitehouse.gov/omb/bulletins/b01-09.html>.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 1. Significant Accounting Policies (Cont'd):

B. Basis of Presentation (Cont'd)

The statements consist of the: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of the NEA.

C. Basis of Accounting

Transactions are recorded on a budgetary basis, with large categories such as payroll and grant liabilities recorded on an accrual basis. Under the accrual method, expenses are recognized when liabilities are incurred and revenues are recognized when earned, without regard to payment or receipt of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountants Council designated FASAB as the accounting standards authority for Federal government entities.

Created in 1990, the Office of Federal Financial Management (OFFM) is responsible for the financial management policy of the Federal Government. OFFM responsibilities include implementing the financial management improvement priorities of the President, establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the CFO Act. http://www.whitehouse.gov/omb/financial_default/

D. Revenues and Other Financing Sources

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 1. Significant Accounting Policies (Cont'd):

D. Revenues and Other Financing Sources (Cont'd)

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

An Arts and Artifacts Indemnity Fund was established by Congress to address insurance issues that may arise in the course of national exhibits.

NEA was granted the authority to receive donations and to invest in interest-bearing accounts. Appropriate accounting guidelines are followed for both restricted and unrestricted funds.

NEA enters into Intragovernmental reimbursable agreements. The NEA's pricing policy on these exchange revenue transactions is based on mutually approved agreements, with no profits or losses.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Some donations carry restrictions as to the use of donated funds. See Note 2 for additional information.

F. Advances and Prepayments

NEA interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by NEA, expenditures are incurred and advances reduced. Advances are recorded for intragovernmental transactions until the expenditures or revenues are reported by the trading partner, at which time the advance is reduced and the expense/revenue is recognized. Advances are also recorded for payments to vendors for the portion of services that extend beyond the current fiscal year.

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

NOTE 1. Significant Accounting Policies (Cont'd):

G. General Property, Plant and Equipment, Net

NEA policy is to depreciate property, plant and equipment over the estimated useful life of the asset using the straight-line method. NEA's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases with a minimum \$10,000 per item. Service lives are as shown below:

<u>Description</u>	<u>Life</u>
Leasehold Improvements	Term of Lease
Capital Leases	Term of Lease
Office Furniture	10 Years
Computer Equipment & Software	4 Years
Office Equipment	7 Years
Vehicles	8 Years

H. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by NEA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation (or, in some cases, donated funds). Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

I. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

J. Accounts Receivable

NEA uses the specific identification method to recognize an allowance for uncollectible accounts receivable and related bad debt expenses.

K. Annual, Sick and Other Leave

Annual leave and credit hours are accrued when earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 1. Significant Accounting Policies (Cont'd):

L. Retirement Plans

NEA employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 participate in CSRS unless they elected to join FERS and Social Security.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and NEA makes a mandatory one percent contribution to this account. In addition, NEA makes matching contributions, ranging from one to four percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, NEA remits the employer's share of the required contribution.

NEA does not report on its financial statements information pertaining to the retirement plans covering its employees, except for imputed costs related to retirement (see M. below). Reporting amounts such as plan assets and accumulated plan benefits, if any, is the responsibility of the Office of Personnel Management.

M. Imputed Benefit Costs

NEA reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management (OPM) provides the cost factors that are applied to the Agency's records.

N. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

O. Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 1. Significant Accounting Policies (Cont'd):

P. Funds from Dedicated Collections

Amounts reported as funds from dedicated collections are represented by one appropriation, "Gifts and Donations" 417X8040; there are no eliminations of this type of activity within the agency, nor any need for additional subtotal or total columns.

Q. Fiduciary Activities

Various artists have loaned their artwork to the NEA for display in certain agency offices. These artworks are not assets of the Federal Government. Fiduciary activities are not recognized in the proprietary financial statements, but are reported in the notes to the financial statements. See Note 19, Fiduciary Activities.

R. Cost Accounting Methodology

In fiscal year 2012, the NEA began operating under a new strategic plan. This new plan established new goals and objectives that are separate from those established under the previous plan. As a result, NEA created three new programs that appear on the Statement of Net Cost: Arts Creation, Engagement with the Arts, and Contribution of the Arts. Costs for grants issued in FY 2012 and future years will be recorded under these new programs. Costs related to payment and overall support of grants issued prior to FY 2012 are attributed to the historical programs listed in the previous strategic plan, namely, Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts. Costs attributed to these historical programs are allocated based on estimates of personnel and agency resources used to support remaining grants under the previous strategic plan.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 2: Fund Balance With Treasury

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Fund Balance		
Trust Funds	\$ 2,626,055	\$ 3,013,962
Appropriated Funds	143,219,778	143,406,218
Fund Balance With Treasury - Total	<u>\$ 145,845,833</u>	<u>\$ 146,420,180</u>
 Status of Budgetary Resources		
Unobligated Balance:		
Available Other	\$ 12,870,490	\$ 13,377,366
Available Trust Fund	2,212,171	2,165,175
Subtotal - Available	<u>\$ 15,082,661</u>	<u>\$ 15,542,541</u>
Unavailable	9,790	-
Obligated Balance not yet Disbursed Other	\$ 134,460,160	\$ 131,567,852
Obligated Balance not yet Disbursed Trust Fund	404,093	848,787
Subtotal - Obligated	<u>134,864,253</u>	<u>132,416,639</u>
Unfilled/Billed Reimbursable Orders	<u>(4,110,871)</u>	<u>(1,539,000)</u>
Status of Budgetary Resources - Total	<u>\$ 145,845,833</u>	<u>\$ 146,420,180</u>

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

NOTE 3: Investments

In FY 2016, NEA had no investment activities and balances. The Federal Government does not set aside assets to pay for future benefits or other expenditures associated with funds from dedicated collections. The cash receipts for these dedicated collections are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the NEA as evidence of its receipts. Treasury securities are an asset to the NEA and a liability to the U.S. Treasury. Because the NEA and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government.

Treasury securities provide the NEA with authority to draw upon the U.S. Treasury to make future expenditures. When the NEA requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 4: Accounts Receivable, Net

	September 30, 2016	September 30, 2015
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 118,000	\$ 139,750
Receivables Due from the Public	578	8,331
	\$ 118,578	\$ 148,081
Allowance for Uncollectibles	-	-
Net Receivables	\$ 118,578	\$ 148,081

NOTE 5: General Property, Plant, And Equipment, Net

<u>Class of Property</u>	September 30, 2016			September 30, 2015		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Equipment	\$ 725,293	\$ 221,892	\$ 503,402	\$ 725,293	\$ 123,073	\$ 602,220
Total	\$ 725,293	\$ 221,892	\$ 503,402	\$ 725,293	\$ 123,073	\$ 602,220

Straight line depreciation with a useful life of seven years is used.

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

NOTE 6: Heritage Assets

Heritage assets are property, plant and equipment that are unique for one of the following reasons: historic or natural significance; cultural, educational, or artistic importance. Federal agencies are not required to assign a cost on the Balance Sheet for heritage assets. These items support the agency mission by demonstrating artistic excellence, creativity, and innovation. Heritage assets are received through donations from the public. To qualify as a heritage asset, items must meet the NEA's objective criteria to classify an item as a heritage asset, which includes: the age of the asset, the artist/author of the asset, the materials used in the asset's creation, the cultural importance of the asset, and the process by which the asset was created. All items classified as heritage assets, though generally individual items, are considered a collection in totality. NEA's collection contains two major categories of heritage assets: Artwork and Decorative Art, and Furniture.

Condition Rating	Definition
Poor	Item is in danger of damage or loss. Requires major conservation or repair to maintain it intact and keep it stable.
Fair	Item is physically sound but requires major conservation to improve aesthetic integrity.
Good	Item is physically sound and retains aesthetic integrity. Requires routine conservation maintenance (e.g. minor surface cleaning).
Excellent	Item is new or has been conserved close to its original condition and appearance.

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

Note 6 (Cont'd): Arts Works and Decorative Art and Furniture

Starting with September 2015, NEA started disclosing art works and decorative art and furniture. The NEA collection includes principally unique works of art by known artists that are not permanently attached to or designed for the structure (i.e., collectible). The numbers disclosed below are based on number of inventory property numbers.

Heritage Assets	General Condition	Quantity as of 9/30/2016	Quantity as of 9/30/2015	Change	Percentage Change
Artwork and Decorative Art	Good	211	193	18	9.3%
Furniture	Excellent	40	40	0	0
Total		251	233	18	7.7%

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 7: Other Assets

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Intragovernmental:		
Department of Commerce	\$ 1,018,116	\$ 1,082,977
Department of Transportation	35,323	\$ 178,435
Institute of Museum and Library Services	80,000	80,000
Enterprise Service Center	64,924	-
Library of Congress	-	840
Total Other Assets	<u>\$ 1,198,363</u>	<u>\$ 1,342,252</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 8: Liabilities Not Covered By Budgetary Resources

	September 30, 2016	September 30, 2015
Intragovernmental:		
Unfunded FECA Liability	\$ 669	\$ 498
Custodial Liability	118,000	139,750
	118,669	140,248
Total Intragovernmental	\$ 118,669	\$ 140,248
Accrued Unfunded Leave Non-Federal	\$ 1,111,781	\$ 1,172,392
Actuarial FECA Liability Non-Federal	3,221	2,369
	1,115,002	1,174,761
Total Liabilities Not Covered by Budgetary Resources	\$ 1,233,671	\$ 1,315,009
Total Liabilities Covered by Budgetary Resources	\$ 39,754,874	\$ 48,946,626
Total Liabilities	\$ 40,988,545	\$ 50,261,635

Liabilities not covered by budgetary resources are financial responsibilities that do not yet have financial resources provided by Congress. Action from Congress is required before resources can be provided.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 9: Other Liabilities

	September 30, 2016		September 30, 2015	
	Current	Total	Current	Total
Intragovernmental:				
Accrued Payables - Invoices	\$ (11,449)	\$ (11,449)	\$ (13,121)	\$ (13,121)
Custodial Liability	118,000	118,000	139,750	139,750
Employer Contributions	165,909	165,909	128,368	128,368
Other Post Employment Benefits	-	-	-	-
Unfunded FECA Liability	669	669	498	498
Advances from Other Govt Agencies	357,983	357,983	262,866	262,866
Total Intragovernmental Liabilities	\$ 631,112	\$ 631,112	\$ 518,361	\$ 518,361
With the Public:				
Other Liabilities				
Accrued Payables - Invoices	\$ 127,855	\$ 127,855	\$ 197,356	\$ 197,356
Accrued Funded Payroll	678,483	678,483	520,379	520,379
TSP Employer Contributions	25,677	25,677	19,264	19,264
Actuarial FECA Liability	3,221	3,221	2,369	2,369
Accrued Unfunded Leave	1,111,781	1,111,781	1,172,392	1,172,392
Total Other Liabilities	\$ 1,947,017	\$ 1,947,017	\$ 1,911,760	\$ 1,911,760
Accrued Liabilities	38,410,416	38,410,416	47,831,515	47,831,515
Total Liabilities With the Public	\$ 40,357,433	\$ 40,357,433	\$ 49,743,275	\$ 49,743,275
Total Liabilities	\$ 40,988,545	\$ 40,988,545	\$ 50,261,636	\$ 50,261,636

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

NOTE 10: Leases

Brief Description of Occupancy Agreement:

The FY 2014 Rental Costs were with the Old Post Office (OPO) building, including five months rental of office space and one surface parking space, and with the Constitution Center for seven months. The new occupancy agreement with Constitution Center includes rental of office space and two parking spaces for agency vehicles. The April 24, 2015 occupancy agreement was signed and the upcoming lease terms are as follows:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Total Annual Rental	\$2,780,253	\$2,889,544	\$2,921,902	\$2,955,230	\$2,989,559
	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Total Annual Rental	\$3,107,614	\$3,203,103	\$3,240,615	\$3,279,251	\$3,319,048

The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay rent in future years is subject to the availability of funds.

NOTE 11: Commitments and Contingencies

The NEA is subject to a potential claim related to a class action lawsuit brought generally by former federal employees against more than fifty agencies of the United States government, including the NEA. No amounts have been accrued in the NEA financial statements because the amount of any judgment or settlement of the suit that might occur in the future cannot be reasonably determined.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
As of September 30, 2016 and 2015
(In Dollars)

NOTE 12: Funds from Dedicated Collections

Balance Sheet	Gifts and Donations	
	September 30, 2016	September 30, 2015
Assets		
Fund Balance with Treasury	\$ 2,626,055	\$ 3,013,962
Other Assets	80,000	80,000
Total Assets	\$ 2,706,055	\$ 3,093,962
Accrued Expenses	41,870	114,039
Other Liabilities	15,879	863
Total Liabilities	\$ 57,749	\$ 114,902
Cumulative Results of Operations	\$ 2,648,306	\$ 2,979,060
Total Liabilities and Net Position	\$ 2,706,055	\$ 3,093,962
Statement of Net Cost	September 30, 2016	September 30, 2015
Gross Program Costs	\$ 1,172,536	\$ 450,411
Less: Earned Revenue	-	-
Net Program Costs	\$ 1,172,536	\$ 450,411
Net Cost of Operations	\$ 1,172,536	\$ 450,411
Statement of Changes in Net Position	September 30, 2016	September 30, 2015
Net Position Beginning of Period	\$ 2,979,060	\$ 2,488,772
Non-Exchange Revenue	\$ -	\$ 180
Cash Donations	831,991	940,519
Donations or Forfeitures of Property	9,790	-
Less: Net Cost of Operations	(1,172,536)	(450,411)
Change in Net Position	\$ (330,755)	\$ 490,288
Net Position End of Period	\$ 2,648,305	\$ 2,979,060

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 13: Intragovernmental Costs and Exchange Revenue

	FY 2016			FY 2015		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Access to Artistic Excellence:						
Program Costs	\$ 1,498	\$ (13,303)	\$ (11,805)	\$ 22,174	\$ 629,999	\$ 652,173
Earned Revenue	(75,000)	-	(75,000)	(103,456)	-	(103,456)
Net Costs - Access to Artistic Excellence	\$ (73,502)	\$ (13,303)	\$ (86,805)	\$ (81,282)	\$ 629,999	\$ 548,717
Learning in the Arts:						
Program Costs	\$ 49	\$ 2,001	\$ 2,050	\$ 2,852	\$ 72,976	\$ 75,828
Earned Revenue	-	-	-	-	-	-
Net Costs - Learning in the Arts	\$ 49	\$ 2,001	\$ 2,050	\$ 2,852	\$ 72,976	\$ 75,828
Partnerships for the Arts:						
Program Costs	\$ 52	\$ (14,309)	\$ (14,257)	\$ 3,024	\$ 603,412	\$ 606,436
Earned Revenue	-	-	-	-	-	-
Net Costs - Partnerships for the Arts	\$ 52	\$ (14,309)	\$ (14,257)	\$ 3,024	\$ 603,412	\$ 606,436
Arts Creation:						
Program Costs	\$ 3,800,139	\$ 22,719,143	\$ 26,519,282	\$ 4,386,504	\$ 21,281,845	\$ 25,668,349
Earned Revenue	(103,173)	-	(103,173)	(33,589)	-	(33,589)
Net Costs - Arts Creation	\$ 3,696,966	\$ 22,719,143	\$ 26,416,109	\$ 4,352,915	\$ 21,281,845	\$ 25,634,760
Engagement with the Arts:						
Program Costs	\$ 4,653,933	\$ 65,218,648	\$ 69,872,581	\$ 5,935,542	\$ 64,680,999	\$ 70,616,541
Earned Revenue	(1,464,571)	-	(1,464,571)	(758,614)	-	(758,614)
Net Costs - Engagement with the Arts	\$ 3,189,362	\$ 65,218,648	\$ 68,408,010	\$ 5,176,928	\$ 64,680,999	\$ 69,857,927
Contribution of the Arts:						
Program Costs	\$ 1,898,551	\$ 44,849,420	\$ 46,747,971	\$ 167,647	\$ 55,262,933	\$ 55,430,580
Earned Revenue	(3,314)	-	(3,314)	(154,851)	-	(154,851)
Net Costs - Contribution of the Arts	\$ 1,895,237	\$ 44,849,420	\$ 46,744,657	\$ 12,796	\$ 55,262,933	\$ 55,275,729
Total						
Program Costs	\$ 10,354,220	\$ 132,761,602	\$ 143,115,822	\$ 10,517,743	\$ 142,532,165	\$ 153,049,907
Earned Revenue	(1,646,059)	-	(1,646,059)	(1,050,510)	-	(1,050,510)
Net Cost of Operations	\$ 8,708,161	\$ 132,761,602	\$ 141,469,763	\$ 9,467,233	\$ 142,532,165	\$ 151,999,397

The NEA receives funds from other Federal agencies that participate in the NEA's program awards. The NEA may also incur intragovernmental costs for its participation in program awards of other Federal agencies.

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

NOTE 14: Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

The NEA is provided with funding only under Category B.

Category B	Direct	Reimbursable	Total
Apportionments	\$ 149,116,616	\$ 4,313,046	\$ 153,429,662
Obligations*	\$ 150,627,238	\$ 4,313,046	\$ 154,940,284

- The direct apportionments include funds appropriated and donations received in FY 2016 as well as downward adjustments of prior-year paid delivered orders. The direct apportionments do not include unobligated balances brought forward at the start of the fiscal year or recoveries of prior year unpaid obligations during the fiscal year.
- Direct obligations incurred assume use of funding available during the fiscal year including funds appropriated in FY 2016, donated funds received in FY 2016, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year unpaid obligations during the fiscal year.

NOTE 15: Undelivered Orders at the End of the Period

On the Statement of Budgetary Resources, the obligated balances, net, end of period includes the following:

Undelivered Orders at the End of the Period

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Undelivered Orders		
Direct	\$ 92,624,821	\$ 83,989,716
Reimbursable	4,040,905	1,085,413
Total Undelivered Orders, Net, End of Period	<u>\$ 96,665,726</u>	<u>\$ 85,075,129</u>

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

NOTE 16: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2015 Statement of Budgetary Resources and the FY 2015 actual numbers presented in the FY 2017 Budget of the United States Government (Budget) are summarized below.

The President's Fiscal Year 2018 Budget, which will include actual numbers for fiscal year 2016, has not yet been published. The FY 2018 Budget is expected to be published in February 2017 and to be available at <http://www.whitehouse.gov/omb/budget/>.

FY 2015 (in \$ millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 165	\$150	\$ (1)	\$ 146
Difference (see above)	-	-	-	-
Budget of US Government	\$165	\$150	\$ (1)	\$ 146

NOTE 17: Explanation of Differences between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in Note 20 - Reconciliation of Net Cost of Operations to Budget represent the change in the liability created in the current year.

**NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)**

NOTE 18: Incidental Custodial Collections

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Intrabudgetary Receipts Deducted by Agencies	\$ 21,750	\$ 11,000
Total Custodial Collections	<u>\$ 21,750</u>	<u>\$ 11,000</u>

NOTE 19: Fiduciary Activities

The NEA has a painting on loan from an artist to be displayed in one office. This piece is not an asset of the NEA, but is managed and insured with the intent to return this piece to the artist according to the loan agreement. The artwork is valued and insured at fair market value.

**Schedule of Fiduciary Activity
For the Years Ended September 30, 2016 and 2015**

	<u>September 30, 2016</u> Painting	<u>September 30, 2015</u> Painting
Fiduciary Net Assets, Beginning of Year	\$ 82,000	\$ 82,000
Contributions	-	-
Disposition of Assets	-	-
Fiduciary Net Assets, End of Year	<u>\$ 82,000</u>	<u>\$ 82,000</u>

**Fiduciary Net Assets
As of September 30, 2016 and 2015**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Fiduciary Assets		
Other Assets (Painting)	\$ 82,000	\$ 82,000
Less: Fiduciary Liabilities	-	-
Total Fiduciary Net Assets	<u>\$ 82,000</u>	<u>\$ 82,000</u>

National Endowment for the Arts
Notes to the Financial Statements
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 20: Reconciliation of Net Cost of Operations to Budget

	2016	2015
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 154,940,284	\$ 150,025,162
Less: Spending Authority from Offsetting Collections and Recoveries	(5,710,203)	(2,846,936)
Obligations Net of Offsetting Collections and Recoveries	\$ 149,230,081	\$ 147,178,226
Less: Offsetting receipts	(830,776)	(940,519)
Net Obligations	\$ 148,399,305	\$ 146,237,707
Other Resources		
Donations and Forfeitures of Property	\$ 9,790	\$ -
Imputed Financing from Costs Absorbed by Others	1,113,664	1,168,387
Total Other Resources Used to Finance Activities	\$ 1,123,454	\$ 1,168,387
Total Resources Used to Finance Activities	\$ 149,522,759	\$ 147,406,094
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but Not Received	\$ (8,923,608)	\$ 4,053,016
Resources That Fund Expenses Recognized in Prior Periods	\$ (68,897)	(53,902)
Other - Offsetting Receipts	830,776	940,519
Resources that Finance the Acquisition of Assets	-	(386,833)
Total Resources used to finance items not part of the Net Cost of Operations	\$ (8,161,729)	\$ 4,552,800
Total Resources Used to Finance the Net Cost of Operations	\$ 141,361,030	\$ 151,958,894
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods (Note 8):		
Other - Change in FECA Liability	\$ 852	-
Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 98,818	\$ 48,623
Other	\$ 9,063	(8,120)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	\$ 107,881	\$ 40,503
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	\$ 108,734	\$ 40,503
Net Cost of Operations	\$ 141,469,764	\$ 151,999,397

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2016 and 2015
(In Dollars)

NOTE 21: Donations In-Kind

During FY 2016, NEA received in-kind gifts from several organizations. Gifts include payment of NEA staff travel, lodging, and meals, as well as payment of NEA staff registration fees to attend and/or participate in various arts related functions. As of September 30, 2016, the total value of these in-kind donations was \$16,015 in FY 2016 and \$15,840 in FY 2015.

BLANK PAGE



Independent Auditor's Report

Inspector General, National Endowment for the Arts
Chairman, National Endowment for the Arts

Report on the Financial Statements

We have audited the accompanying Balance Sheet of the National Endowment for the Arts (NEA) as of September 30, 2016, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

1030 15th Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

www.williamsadley.com

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Endowment for the Arts as of September 30, 2016, and its net cost, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of NEA as of September 30, 2015 were audited by other auditors who issued an unmodified opinion dated November 23, 2015.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures, Summary of Management Challenges, Summary of Financial Statement Audit and Management Assurances, and reporting details related to the Improper Payments Improvement Act, as amended by the Improper Payments Elimination and Recovery Act, are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2016, on our consideration of the NEA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The

purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NEA's internal control over financial reporting and compliance.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the NEA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NEA's internal control. Accordingly, we do not express an opinion on the effectiveness of the NEA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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 NEA'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.

In our fiscal year 2016 audit, we noted two matters that we considered to be significant deficiencies (16-01 and 16-02) as described in Exhibit 1.

In addition, although not considered to be material weaknesses or significant deficiencies, we noted certain other matters that were communicated to management in a separate letter.

NEA's management's response to the significant deficiencies have not been subject to the auditing procedures applied in the audit of the financial data and other information and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the response or the effectiveness of any corrective actions described therein.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether NEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 15-02. 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* or OMB Bulletin No. 15-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the NEA's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

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

Williams, Adley & Company-DC, LLP
Washington, District of Columbia
October 31, 2016

16-01: NEA should improve its process for reviewing open obligations and updating Delphi in a timely manner to reflect GMS grant information

NEA should improve its processes related to obligations to include a review of all open obligations, a timely update of Delphi, and the deobligation of inactive grant obligations.

Review of Open Obligations

We requested NEA provide support to determine if they are actively reviewing open obligations. NEA was able to provide support for their review of open grants, but not for open contracts. Based on this, we believe NEA does not have an effective process for reviewing *all* open obligations on a regular basis.

Update of Delphi (General Ledger)

In addition, we noted that period of performance data in Delphi did not always agree with information in the Grant Management System (GMS). During our review of the grants that have been open for more than 18 months as of June 30, 2016, we found that 80 out of 167 grants had their period of performance extended in the Grant Management System (GMS), however, the Finance Office had not updated the period of performance in Delphi. The period of performance time difference between Delphi and GMS was between five (5) months to three (3) years.

Deobligation

Similarly, funds for 26 out of 167 grants were deobligated in GMS but were not deobligated in Delphi. The total dollar value that should have been deobligated in Delphi for these 26 grants is \$187,996, which means that the grant obligations in GL account 4801-*Undelivered Orders-Obligations, Unpaid* were overstated by \$187,996 at June 30, 2016. Also, we noted that the grants liability amount in General Ledger (GL) account 2190- *Other Liabilities with Related Budgetary Obligations* was overstated by the same amount.

The population of open obligations at September 14, 2016 was \$122,256,464. Per our analysis, dates of last activity in Delphi for \$115,764,046 (grants and contracts amounts) ranged from 1 month to 8 years. This shows that some amounts have been open for a long period of time without any activity.

Also, we requested NEA provide a list of open obligations that tied to the balance of GL account 4801- *Undelivered Orders- Obligations, Unpaid* as of September 14, 2016. NEA was not able to produce a report that tied to the trial balance. The difference between the adjusted balance of account 4801 and the UDO report provided was \$148,082.

NEA Directive 1650- Administrative Control of Funds states that the Finance Officer reports to the Deputy Chairman for Management and Budget and serves as the Agency's Chief Financial Officer. The Finance Officer, as Director of the Finance Office, is responsible for the Arts Endowment's financial systems and for the establishment and maintenance of financial records and reports.

Exhibit 1
Significant Deficiencies

Specifically, the Finance Officer should ensure that unpaid balances of obligations are valid and that invalid or excess balances are promptly deobligated.

Additionally, the GAO *Standards for Internal Controls in the Federal Government* (the “Green Book”) states the following in sections 12.02, 12.03, and 12.04.

Section 12.02- Management documents in policies the internal control responsibilities of the organization.

Section 12.03- Management documents in policies for each unit its responsibility for an operational process’s objectives and related risks, and control activity design, implementation, and operating effectiveness.

Section 12.04- Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

NEA does not have a documented process (SOPs) for periodically reviewing open obligations to identify any issues that need to be corrected or followed up on. Also, existing SOPs do not document the process to ensure that grant information (e.g.; period of performance, deobligations) in GMS matches Delphi.

In addition, per NEA, they have experienced a significant staff turnover during calendar year 2015. Three of the seven Finance staff members (including the Director of Finance) were on-boarded in the last seven months. As a result, there were some processes that were not completed (e.g. timely update of period of performance and deobligations).

NEA stated that they are in the process of updating their policies and procedure to document the open obligation review process, but those documents have not been completed as of the report date.

If NEA does not perform a regular review of all open obligations, they may have un-used funds that could be better used to further NEA’s program operations and obligations that may no longer be valid.

Also, not updating Delphi in a timely manner results in NEA not having up-to-date information about available funds for decision making purposes. For example, NEA may have funds that could

be deobligated and used for other purposes, but this becomes difficult to determine if Delphi is not up-to-date to reflect GMS information. Specifically, we noted that the grants obligation amount was overstated in Delphi by \$187,996 as of June 30, 2016, because it did not reflect the deobligations performed in GMS.

Not having a documented process for the grant open obligation review could lead to NEA not following a uniform process if additional staff turnover were to occur.

We recommend that NEA management:

1. Develop and implement policies and procedures for performing a review of all open obligations. This process should include at a minimum:
 - The frequency of the review.
 - Who will perform and who will review/approve the open obligation review.
 - The criteria that will be used to determine if an amount should be deobligated.
 - Who will be responsible for authorizing a deobligation.
 - The person responsible for deobligating the amounts and the review and approval of this action.
2. Develop policies and SOPs that provide procedures, timelines, and responsibilities for updating Delphi in a timely manner to reflect GMS grant information.
3. Immediately update the period of performance and perform the necessary deobligations in Delphi to reflect the current information in GMS.
4. Periodically review obligations showing as expired in Delphi to determine whether the period of performance has been extended or if funds can be deobligated.
5. Perform an adjusting entry to correct the overstatement in GL account 2190- *Other Liabilities with Related Budgetary Obligations* and GL account 4801-*Undelivered Orders-Obligations, Unpaid*.

Management Response

NEA's management concurs with recommendations 1, 2, 3, and 4. We will ensure that there are written procedures, policies and SOPs as needed, and that periodic reviews are done and documented. We do not concur with recommendation 5 that recommended performing an adjusting entry to GL account 2190. Grant accrual is an estimate and the estimate is based on the payments status of each grant. In addition, since all 26 records have been properly deobligated and/or adjusted for the September 30 trial balance, there is no need to perform a journal entry.

See NEA's complete response in Exhibit 2.

Auditor Analysis:

We reviewed the grant accrual report as of October 3, 2016 and other supporting documentation provided and determined that NEA adjusted and/or deobligated these 26 grants in Delphi. Recommendation 5 is closed. In addition, we believe that the proposed actions are sufficient to close the remaining recommendations if properly implemented during FY2017.

16-02: Improvements Needed in NEA's Internal Control Assessment Process

NEA's internal controls assessment process, as required by Office of Management and Budget (OMB) Circular A-123, Appendix A, Internal Control Over Financial Reporting (herein referred to as "Appendix A") should be enhanced to better address the intent of the OMB requirement and support management assertions. NEA's current Appendix A process is unstructured, undocumented, and does not provide enough information or show adequate analysis to support NEA's management assertions.

The current process relies on each director preparing a memo to the Special Assistant to the Deputy Chairman of Management & Budget that includes an overview of any known issues and any improvements they are making to internal controls within their unit. However, there is no consistent, agency-wide procedure or guidance on how the adequacy of internal controls should be determined or what criteria should be used. During discussions with several directors, we noted that each chief used a different methodology for evaluating the adequacy of internal control within their unit and none of these processes were structured, documented, or were based on an agency-wide assessment plan or methodology.

Specifically, NEA's current process does not include:

- A formal identification of the Senior Assessment Team. This team is responsible for the overall objectives, communication, design, staffing, and scope of the assessment.
- An evaluation of internal controls at the entity level, including an evaluation of each of the five elements of internal control (control environment, risk assessment, control activities, information and communication, and monitoring).
- An evaluation of internal control at the process, transaction, or application level. For internal controls determined to be effective or moderately effective, some level of testing should be conducted to determine the extent to which the controls were applied, the consistency of their application, and who applied them. If testing indicates that a significant control is not operating as designed, it should be reported as a deficiency.

Furthermore, NEA has not documented many of its internal control processes, as required by Appendix A (section IV.A). Since joining NEA in April 2016, the Finance Director has attempted to formally document some of the key internal control processes that pertain to financial reporting and other key functions in the form of Standard Operating Procedures (SOPs), however as of the conclusion of our testwork, there were still many key areas that remained undocumented.

OMB Circular A-123, Appendix A, Internal Control Over Financial Reporting, provides specific, detailed elements for an agency's internal control assessment process and documentation that is required related to that process.

Specifically, Appendix A requires agencies to:

- A. Establish a Senior Assessment Team (Section III.A). Appendix A, Section III.A provides details of the duties and responsibilities of the team.
- B. Evaluate Internal Control at the Entity Level (Section III.B). This includes an evaluation of each of the five elements of internal control (control environment, risk assessment, control activities, information and communication, and monitoring).
- C. Evaluate Internal Control at the Process, Transaction, or Application Level (Section III.C). This includes:
 1. Determine Significant Accounts or Groups of Accounts
 2. Identify and Evaluate the Major Classes of Transactions
 3. Understand the Financial Reporting Process
 4. Gain an Understanding of Control Design to Achieve Management's Assertions
 5. Controls Not Adequately Designed
 6. Test Controls and Assess Compliance to Support Management's Assertions.

In addition, Appendix A, Section IV, provides documentation requirements for agencies to:

- A. Documenting Internal Control over Financial Reporting
- B. Documenting the Assessment of Effectiveness

The documentation may be electronic, hard copy format, or both, and should be available for review. Documentation should also include appropriate representations from officials and personnel responsible for monitoring, improving and assessing internal controls.

Due to a lack of understanding of how to apply Appendix A requirements to a small agency environment, NEA has not developed a policy or SOP related to its Appendix A assessment process, resulting in the current process being unstructured and varying significantly between units.

Without a structured, comprehensive, and documented Appendix A process, management cannot be sure that its assurance statement is accurate. Without documentation and understanding of key internal control processes, improvements cannot be made where needed. In addition, during periods of high turnover, such as what NEA experienced in FY2015/2016, knowledge of many controls and processes can be lost or performed inconsistently.

We recommend that NEA management:

1. Formally establish a Senior Assessment Team to oversee the implementation of Appendix A within the agency. The establishment, authority, and members of the team should be

documented.

2. Establish an agency-wide process for evaluating internal controls, including:
 - a. an evaluation of internal controls at the entity level,
 - b. an evaluation of internal control at the process, transaction, or application level, and
 - c. an overall assessment of the design and operation of internal control.
3. Formally document NEA's policies and procedures for complying with Appendix A.
4. Communicate NEA's revised Appendix A process with personnel who are participating in the evaluation.
5. Identify all key processes related to financial reporting and other key financial objectives. Determine whether adequate documentation of these processes exists. Where adequate documentation does not exist, policies, procedures, and/or SOPs should be developed and approved by management.
6. Review policies, procedures, and SOP documentation annually and update as necessary.

Management Response

NEA's management concurs with recommendations 1 through 6. We are revising our internal control assessment and reporting process to define new standards, and will create documentation to conform with the July 2016 revisions to Circular A-123. We previously informed the Auditors that we were developing a new framework and implementing an Enterprise Risk Management process during FY2017. We will ensure that the Enterprise Risk Management Process and the new Internal Control Assessment Process meet the requirement outlined in Circular A-123.

See NEA's complete response in Exhibit 2.

Auditor Analysis:

We believe that the proposed actions are sufficient to close the recommendation if properly implemented during FY2017.



November 8, 2016

Mr. Kola Isiaq, Partner
Williams, Adley, and Company, LLP-DC
1030 15th Street NW Suite 350 West
Washington, DC 20005

Mr. Isiaq,

This is the National Endowment for the Arts (NEA) Management response to the Independent Auditor's Report on Internal Control over Financial Reporting.

16-01: NEA should improve its process for reviewing open obligations and updating Delphi in a timely manner to reflect GMS grant information

NEA's Management Response to 16-01:

Review of Open Obligations

The NEA does conduct reviews of open obligations on both grants and contracts on a monthly basis. The NEA Grants Office provides information directly to the Budget and Finance Offices regarding grants that are deobligated. These actions occur on a weekly and monthly basis. In addition, as part of the grant accrual process, the Finance Office monitors undelivered orders data on a quarterly basis. This process is outlined in the Grant Accrual Standard Operating Procedures (document attached).

The NEA Finance Office tracks open obligations on a tracking sheet for contracts every month. The obligations are reviewed each month as payments are made. The process is outlined in the Finance Payment Process, Standard Operating Procedures (document attached).

Update of Delphi (General Ledger)

The NEA has updated the process for General Ledger entry. In the 4th quarter of 2016, a process and procedure was set up between the Finance Office and Grants Office. A senior Finance accountant coordinates with the Grants Office and generates reports from the GMS. The Grants Office reviews and confirms the accuracy of the performance end date and the extension of performance end date in Delphi. Although this is the practice in NEA, the practice was not previously documented in an SOP.

Deobligation

As a result of our research on the 26 grants that made up the adjusting journal entry, we have confirmed that all 26 grants have been deobligated or adjusted properly in our September 30 journal entry. Therefore, our trial balance was accurate at year end and there is no need to do an adjustment. In addition, the underlying June journal entry which forms the basis of the proposed adjustment was promptly reversed in July. The detailed support is provided with the Management Representation letter.

NEA has compensating controls from the Budget and Grants Office as it relates to deobligations for grants. The Grants Office sends deobligation requests to the Budget and Finance Offices. The Budget Director keeps a tracking list of program deobligations in Delphi and works with Finance, on a monthly, sometimes weekly, basis, to ensure deobligations are done timely.

We concur with Recommendations 1, 2, 3, and 4; we will ensure that there are written procedures, policies and SOPs as needed; and that periodic reviews are done and documented.

We do not concur with Recommendation 5 that recommended performing an adjusting entry to GL account 2190. As described earlier, grant accrual is an estimate and the estimate is based on the payment status of each grant. In addition, since all 26 records have been properly deobligated and/or adjusted for the September 30 trial balance, there is no need to perform a journal entry.

16-02: Improvements Needed in NEA's Internal Control Assessment Process

NEA's Management Response to 16-02:

The NEA does have an internal control assessment process that has been used for more than ten years that is known by the managers, structured, documented, and reliable. In 13 years of previous audits, the methodology NEA used for internal control assessment was considered acceptable under the requirements of OMB Circular A-123 and its Appendix A. We disagree with the characterization that "Due to a lack of understanding of how to apply Appendix A requirements to a small agency environment," etc. The NEA does not have a lack of understanding; the process used in the past for internal control assessment was appropriate for the NEA at that time. For an agency of our size and operating structure, we stand behind the years of Management Assurance statements as accurately representing the state of our internal control.

We are revising our internal control assessment and reporting process to define new standards, and will create documentation to conform with the July 2016 revisions to Circular A-123. We previously informed the Auditors that we were developing a new framework and implementing an Enterprise Risk Management process during FY 2017. We will ensure that the Enterprise Risk Management Process and the new Internal Control Assessment Process meet the requirements outlined in Circular A-123.

Regarding financial reporting specifically, we note that our Finance Office is very conscientious about internal control over financial reporting. In particular, the Finance Director conducted an overall review of the process for transactions in both sub ledger and general ledger.

This review included:

- Significant and key general accounts, Treasury Account Symbol (TAS), and NEA fund types, such as program funds vs. administrative funds.
- Key and major classes of transactions such as accounts receivable, accounts payable, asset purchases and capitalization, obligations, de-obligations, donations, interagency agreements, and reimbursable transactions.
- Understanding the impact of transactions on the financial reporting process.
- Understanding and implementing Treasury tie point, general ledger account abnormal analysis, and key account variance analysis to ensure the integrity of financial reporting and support management assertions.
- Designing and implementing account reconciliations to ensure accuracy of financial reporting.

The Finance Office has developed SOPs for nearly all major transaction functions and key reconciliation processes. In fiscal 2017, additional SOPs will be developed.

We concur with the recommendations 1 through 6.

Sincerely,



Winona H. Varnon
Deputy Chairman
Office of Management and Budget

BLANK PAGE



MEMORANDUM

Memo 17-01

DATE: November 15, 2016

TO: Jane Chu, Chairman

FROM:  Ron Smith, Inspector General

SUBJECT: Top Management Challenges for the National Endowment for the Arts

The Consolidated Reports Act of 2000 and OMB Circular A-136, *Financial Reporting Requirements*, require that the Office of Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency. It is our assessment that the areas of financial management, human capital, information technology, and grantee accountability represent the top management and performance challenges for NEA. Following is a discussion of each challenge area.

Financial Management. NEA's top financial management challenge for FY 2017 and beyond will be to keep pace with the various government-wide modernization efforts and regulatory changes, while maintaining accounting operations and improving efficiency and effectiveness of NEA work procedures, systems and staff cross-training.

During FY 2016, NEA filled key positions in the Finance Office, including the Finance Director position. While these positions have been filled, the new staff and Director are challenged with getting acclimated to the NEA financial reporting system while also working to comply with regulatory changes and modernization requirements. The most recent being the DATA Act (Public Law No. 113-101) that requires all Federal agencies, including NEA to transform all spending information into open data.

The financial management team is also faced with assisting the NEA in developing and bringing on-line its new electronic grants management system that is being developed with the National Endowment for the Humanities.

Human Capital. NEA's top human capital challenge is ensuring an effective human capital strategy to work with hiring managers to attract candidates with the right skills, ability and knowledge to replace retiring long term employees, while also continuing high quality service delivery. This challenge is one that is affecting most Federal agencies.

Information Technology. NEA's top information technology management challenge continues to be the need to transition to a new, more robust electronic grants management system (eGMS). This need is being addressed through an OMB-approved partnership with NEH to jointly develop a new shared system. Work on this cloud-based system began in September 2012. The new eGMS, built on a more flexible, operationally efficient platform, is supposed to be fully integrated with NEA business processes and seamlessly connected to both Grants.gov and the DELPHI financial system. NEA expects to transition to the system in FY 2017.

Also, new government-wide requirements for information security in recent years provide challenges to all Federal agencies, including NEA. The Federal Information Security Modernization Act of 2014 (FISMA), as amended, requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency.

Although we have identified improvement opportunities in the information security program, NEA is continually making progress in complying with the ever increasing information system security requirements. Privacy reporting has been included as part of the FISMA reporting process in light of the occurrence of data theft and losses at several Federal agencies. The E-Government Act and Privacy Act provide legislative guidance for the control and dissemination of personal information and personally identifiable information. This will continue to be an area requiring attention in NEA.

Grantee Accountability. NEA also faces the challenge, along with the Federal grantee community, to help grantees fully implement the accountability requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

There continues to be a limited number of grantees that have not complied with all applicable Federal grant requirements. These organizations are typically identified by NEA's grants and contracts teams and referred to NEA OIG for audit or review. Upon evaluating these organizations, NEA OIG has identified the following five most common findings: (1) not ensuring that contractors and grant recipients have not been debarred or suspended from receiving Federal assistance prior to paying or awarding them Federal funds; (2) not having written policies and procedures for the management of Federal awards; (3) not reporting accurate and allowable costs incurred on the Federal Financial Report; (4) not maintaining a Section 504 self-evaluation at the organization, and (5) not maintaining supporting documentation for costs charged to NEA grants.

We acknowledge and encourage NEA's efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Continued development and implementation of web-based tools and technical assistance efforts will, in our opinion, improve the likelihood of grantee compliance.

NEA OIG has strong support from NEA management and looks forward to continuing our work together to help NEA deliver its mission with excellence and integrity. We welcome any comments on our assessment.

cc: Winona H. Varnon, Deputy Chairman for Management and Budget
Mike Griffin, Chief of Staff
Carolyn Sanders, Chief Information Officer
Nicki Jacobs, Grants & Contracts Director
Craig McCord, Human Resources Director
Ned Read, Senior Advisor, Deputy Chairman for Management and Budget
Heidi Ren, Finance Director
Monica Muhammad, Senior Auditor, Office of Inspector General

BLANK PAGE