



**CELEBRATING 50 YEARS**

**National  
Endowment  
for the Arts**

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**AGENCY FINANCIAL REPORT  
FISCAL YEAR 2015**

Submitted to the Congress,  
the Office of Management and Budget,  
the Department of the Treasury, and  
the Government Accountability Office  
November 2015

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**Agency Financial Report for Fiscal Year 2015  
November 2015**

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*Fiscal Year 2015  
Agency Financial Report  
~ A Message from the Chairman ~*

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2015 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

**Organizational Overview**

Beginning in 2015 and continuing into 2016, the National Endowment for the Arts (NEA) is celebrating 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 through 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 15% of the NEA's direct grantmaking dollars go to projects that feature some rural component.<sup>1</sup> Further, 42% 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

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<sup>1</sup> This estimate excludes the NEA's State & Regional Partnerships, and grants to individuals.

well." The NEA similarly believes in and supports the connection of arts, science, engineering, and the humanities to catalyze new insights and solutions which over time will address some of our nation's highest priorities.

In this, our 50<sup>th</sup> year, we have put this belief into action by launching a multi-faceted leadership initiative, *Creativity Connects*.<sup>\*</sup> This initiative will provide 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.

The more than \$5 billion that the NEA has awarded to date represents the Arts Endowment'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 more than 4.3 percent – or \$698 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. In recent years, arts and cultural production has resulted in trade surpluses (excess of exports over imports). In 2012, while the U.S. economy was still recovering from a recession, arts and cultural production yielded a trade surplus of \$25 billion, injecting income and jobs directly 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.

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<sup>\*</sup> Creativity Connects™ is used with permission from Crayola, LLC.

## **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.
- 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 the NEA / Military Healing Arts Partnership, 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.

#### **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 2015 audit, the auditors identified no material weaknesses. Thus, the Agency has received its thirteenth consecutive unqualified opinion.



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Jane Chu  
Chairman

November 23, 2015





## *Fiscal Year 2015 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 2015 Annual Performance Report with its FY 2016 Congressional Budget Justification in February 2016 and will post it on the NEA Web site at [www.arts.gov](http://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 Arts Endowment 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 sixteen Presidential appointees and three ex officio members.

During FY 2015, the Arts Endowment revised its organizational structure to eliminate 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 position is vacant. In FY 2015, the Agency operated with a staffing level of 151 full-time equivalents, well below our authorized level of 162.

Here are some highlights of key activities, accomplishments, and issues from FY 2015.

1. Enhanced Use of Technology

During FY 2015, 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). We expect to transition to the new system in FY 2016.

In 2015, the NEA implemented the e-travel services system (E2) provided under an interagency agreement with the U.S. Department of Transportation's Enterprise Services Center (ESC). E2 is a web-based, end-to-end travel and expense management tool. It offers a convenient and user-friendly way to create and track travel authorizations, get approvals, submit vouchers, receive reimbursements, and book travel reservations. Multiple offices worked together to ensure the successful implementation of the system, including proper accounting of travel funds.

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 2015 Federal Employee Viewpoint Survey confirm the high engagement of our work force. In fact, 98% of NEA employees said that when needed, they are willing to put in the extra effort to get a job done, and 94% said that they are constantly looking for ways to do their job better. Notably, 87% of employees said the people they work with cooperate to get the job done, 91% believe that the work they do is important, and 86% say they are held accountable for achieving results.

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.

#### 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.

#### **Performance Goals, Objectives, and Results**

The Arts Endowment 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. 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.
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- 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 2015, the NEA made nearly 2,400 awards totaling \$117 million. NEA awards annually generate \$600 million or more in matching support; in our direct grant-making categories alone, the ratio of matching to federal funds generally approaches or exceeds 10:1, far surpassing the required non-federal match of at least one to one.

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 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 2016) 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 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*, which builds on the NEA's longstanding support for communities and the ability of the arts to strengthen them; and *Challenge America*, which helps the agency carry out its commitment of ensuring a direct grant in every Congressional district.

*Our Town*, the most recent addition to the agency's core grant programs, has seen considerable success. Over the first five years of the initiative, 324 grant awards have been made in all 50 states plus the District of Columbia and Puerto Rico. In FY 2015, 275 applications were received and 69 awards were made for just over \$4.88 million in 35 states and one territory. 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. Awarded grants represent a mix of urban, tribal, suburban, and rural communities, and they range widely in size, representing all corners of our nation – from Anchorage, Alaska, to Denmark, Maine (population 1,148), and from San Diego, California, to Key West, Florida.

Last year, the *Our Town* program added a new category for 'knowledge building' grants to enhance coordinated field-building efforts for creative placemaking practitioners. The five supported projects in this initial year involve partnerships among a range of arts and place-based organizations to assist on-the-ground artists, arts organizations, and place-based practitioners with how to leverage creative arts and cultural strategies to more effectively achieve their central mission. In addition, the NEA has created an online database of 70 *Our Town* case studies, 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."<sup>1</sup> The strategic plan helps implement the Arts Endowment'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. A new collective impact grant category was added to the Arts Endowment's grant guidelines in order to leverage NEA investments for deeper impact.

In September 2015, the NEA convened the first cohort of collective impact grantees and their key partners and key stakeholders to create effective shared measurement systems to measure progress in arts education collective impact initiatives. The convening focused on the first group of grantees because shared measurement is at the heart of the collective impact concept.

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 2015, the NEA, in cooperation with NASAA, hosted a joint professional development institute for SAA AE managers in Jackson, Mississippi. The content focused on collective impact, leveraging investments of state and federal grants, and arts education research. These topics are in direct alignment with the NEA's arts education strategic plan.

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<sup>1</sup> 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.

- *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. By networking these individual state education agency directors of arts education, SEADAE provides a collective voice for leadership on issues affecting arts education in the United States.
- *Arts Education Partnership*: 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. In 2015, AEP developed [The Arts Leading the Way to Student Success: A 2020 Action Agenda for Advancing the Arts in Education](#) as a blueprint for systemic change and collective action. The Agenda identifies four state-level priority areas in which arts and education leaders can situate their work: 1) raise student achievement and success; 2) support effective educators and school leaders; 3) transform the teaching and learning environment; and 4) build leadership capacity and knowledge. This Agenda also establishes a five-year aspirational goal: by the year 2020, every young person in America, at every grade level, from pre-kindergarten through grade 12, will have equitable access to high quality arts learning opportunities, both during the school day and in out-of-school time.

AEP was formed in 1995 by the NEA, the U.S. Department of Education, NASAA, and the Council of Chief State School Officers (CCSSO) in response to the *Goals 2000: Educate America Act*<sup>2</sup>. 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 and Walter Reed National Military Medical Center formed the [NEA / Walter Reed Healing Arts Partnership](#) to explore how creative arts therapy and arts engagement programs can improve health and well-being in military healthcare settings. Since 2011, the NEA / Walter Reed partnership has supported creative arts therapies across disciplines for patients at Walter Reed National Military Medical Center. This includes music therapy programs being offered across the Walter Reed campus, and music and writing therapy for troops as part of the clinical treatment of

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<sup>2</sup> 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.

patients at the National Intrepid Center of Excellence (NICoE). NICoE is a DOD institute dedicated to providing cutting-edge evaluation, treatment planning, research, and education for service members and their families dealing with the complex interactions of the signature wounds from the Afghanistan and Iraq wars: Traumatic Brain Injury (TBI), post-traumatic stress, and other psychological health conditions.

In 2013, the program was expanded to bring art therapy to military patients at Fort Belvoir Community Hospital's satellite NICoE center. The NEA supported a three-month pilot program at the new NICoE satellite dubbed "Intrepid Spirit One," in which a creative arts therapist conducted visual arts therapy, mask-making, and therapeutic writing activities with wounded warriors diagnosed with mild TBI and psychological health conditions. The creative arts therapist worked with patients individually and in groups over the course of their treatment, using these therapies to help patients communicate, externalize, and process traumatic events, as well as improve and restore neurological and physical function.

The NEA and Fort Belvoir conducted a review of the program at the conclusion of the 90-day pilot. Patients' feedback described their ability to process trauma through these interventions, and to address issues related to identity, frustrations, transitions, grief, personal insight, cognitive skills and memory. One service member summarized his experience this way: "Out of my various treatment modalities, art therapy is by far the best at helping me to release and understand my emotions regarding the overall effects of my brain injury and circumstances surrounding the injury."

Eighteen caregivers and hospital staff members responded to a survey at the conclusion of the pilot. One hundred percent of them expressed positive feelings about the incorporation of art therapy into the treatment plans at this NICoE satellite. There was also unanimous agreement that these interventions should continue to be offered as a component of integrated care for this patient population. One caregiver wrote that the art therapy session "...is just where the healing begins. With continued expression comes personal growth, healing, and self-improvement. The effects do not stop at the service member. The effects ripple to family and friends. Art therapy allows for healing, psychosocial skill building, and self-expression directly correlated to an increase in quality of life."

Beginning in 2015, this partnership has expanded to include support for three Creative Arts Therapists at Walter Reed Bethesda and a new music therapy program at Fort Belvoir. In addition, and in response to a request from Navy Special Warfare/Special Operations, an NEA/NSW Healing Arts Partnership is being established that will bring these benefits to the Navy SEAL community in Virginia Beach, Virginia. This new pilot will allow the program to translate its 'patient-centered' approach into a 'community-centered' approach by focusing on enhancing full force fitness and improved family wellness/communication for active and recently retired Navy SEALs and their dependents.

*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 new estimates are:

- 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).
- 4.7 million workers were employed in the production of arts and cultural goods, receiving \$334.9 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.

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 U.S. 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 end of FY 2016.

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 \(CIRD\)](#):** The department officially joined CIRD as a project partner in 2012 to help rural communities with populations of 50,000 or fewer enhance their quality of life and economic vitality through facilitated design workshops. The department's Office of Rural Development is engaging its nationwide network of local offices to support the institute.

**Department of Defense (DOD) and [Blue Star Museums](#):** The NEA continues to collaborate with DOD, Blue Star Families, and more than 2,200 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](#).

**Department of Housing and Urban Development (HUD) and the [Hurricane Sandy Taskforce](#):** The NEA served as a special partner to HUD on [REBUILD BY DESIGN](#), a multi-stage regional design competition, providing critical expertise and guidance to shape and launch the competition, as well as serve as subject matter experts for the selection process. The NEA built on this work by launching a [Mayors' Institute on City Design](#) session targeting smaller communities along the New Jersey shore.

**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 Strong Cities, Strong Communities (SC2) Initiative:** The NEA's community development investment expanded significantly through participation in the White House's Strong Cities, Strong Communities (SC2) initiative. This program supports selected post-industrial cities in developing their economic strategies by providing technical assistance from teams of federal agency staff. The NEA joins

partner agencies including the Departments of Agriculture, Transportation, and Housing and Urban Development to collaborate with local officials to create broad-based solutions to identified urban challenges. NEA staff participate in this by assisting SC2 communities with their community development strategies, primarily focusing on cities which have received *Our Town* funding.

### ***Research and Program Evaluation Highlights***

By the end of FY 2016, the NEA's Office of Research & Analysis (ORA) will have implemented the five-year agenda set forth in the NEA's 2012 publication, [How Art Works](#), which includes a "system map" of the U.S. arts ecology. To date, ORA has achieved 77 percent of its stated goals, as outlined in the report. Ongoing and future research projects on the agenda can be divided into three broad categories.

***New data collections for public access:*** By engaging with other federal agencies and departments such as the U.S. Census Bureau, BEA, NSF, the National Institutes of Health (NIH), and HUD, ORA has created new datasets or arts-related variables that can be analyzed for information about the value and impact of the arts.

***Analyses of the arts' value and impact:*** In January 2015, ORA issued three reports about arts participation, which investigate behavioral, geographic, and demographic patterns; identify motivations and barriers associated with arts attendance; and reflect upon critical challenges and opportunities in the field of measuring cultural engagement.

- [A Decade of Arts Engagement: Findings from the Survey of Public Participation in the Arts, 2002-2012](#), represents the NEA's most current assessment of how Americans conduct arts activities—whether attending arts events, creating or performing art, reading literature, consuming art via media, or learning art. This report provides exhaustive detail about how arts participation differs by demographic subgroup and by socioeconomic status.
- [When Going Gets Tough: Barriers and Motivations Affecting Arts Attendance](#) is the NEA's first national study of reasons and obstacles for going to live visual and performing arts events. Although the agency has conducted surveys of U.S. arts participation since 1982, it has never before asked both why people choose to attend arts events and, if they chose not to attend, what prevented them from doing so.
- [Measuring Cultural Engagement: A Quest for New Terms, Tools, and Techniques](#) summarizes a June 2014 symposium held at the Gallup Headquarters in Washington, DC, in partnership with the United Kingdom's (UK's) Arts & Humanities Research Council. Cultural researchers, practitioners, and policymakers from the U.S., the UK, and other countries met to review common assumptions, techniques, and challenges in measuring cultural engagement. The report offers expert guidance on how those measurements can be refined and made more relevant to different stakeholder groups.

In 2016, ORA will publish findings from its Annual Arts Benchmarking Survey, conducted by the U.S. Census Bureau, for the years 2013 and 2014. Concurrently, ORA will initiate data collection for the 2016 AABS and will plan revisions to the Survey of Public Participation in the Arts (SPPA) for 2017. These projects, like those already listed in this section, focus on the "value" that Americans assign to arts participation by attending, creating, and performing art, consuming art via electronic media, reading books and literature, and taking arts classes or lessons. In recent years, the NEA’s arts-participation data have populated key “Social Indicators” within the *Analytical Perspectives* document that accompanies the President’s budget submission to Congress.

**Strategic research alliances:** ORA continues to coordinate the Interagency Task Force on the Arts and Human Development, a coalition of representatives from 19 federal entities. In FY 2015, the NEA led quarterly public webinars or teleconferences on topics such as [“the visual arts, learning, and coping”](#) – based on research funded respectively by the National Science Foundation and the NEA – and on the palliative effects of poetry and storytelling for Alzheimer’s patients and others with dementia. The webinar on the latter topic was co-hosted by the organization USAgainstAlzheimer’s.

Several previous webinars sponsored by the Interagency Task Force focused on the subject of creativity and human development. Leveraging such knowledge and research advances within cognitive psychology and neurobiology, the NEA cosponsored a working group meeting at the Santa Fe Institute in Santa Fe, New Mexico, to explore research needs for improving public understanding of how creativity works in the brain. The convening resulted in an NEA [research report](#) that offers suggestions for how artists, scientists, and educators might capitalize on exciting new developments in creativity research.

Also in FY 2015, the NEA collaborated with the NIH’s National Center for Complementary and Integrative Health (NCCIH) and Americans for the Arts to support a research convening on the NIH campus in Bethesda, Maryland, on the topic of arts, health, and the military. Similarly, Task Force members representing NCCIH and NIH’s Office of Behavioral & Social Sciences Research (OBSSR) participated in a 2015 conference – cosponsored by ORA – about creativity and the arts, and related research and policy needs for older Americans.

### **Improper Payments Reporting**

The Arts Endowment 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 Arts Endowment’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 Arts Endowment 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 Arts Endowment 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 Arts Endowment’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 2015 net appropriation was \$146.021 million, the same as in FY 2014. Appropriations are the primary source of financial resources for the Agency, so the financial position of the Endowment generally trends with the amount of appropriations received each year.
- The Endowment received about \$1.424 million in reimbursable agreement authority in FY 2015, an increase of about \$248,000 from FY 2014's level of \$1.175 million. 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 2015 and FY 2014 are provided below:

- Fund Balance with Treasury - In FY 2015, NEA received the same appropriation as in FY 2014.

- Accounts Receivable - The decrease represents the collection payments received.
- Property, Plant and Equipment - The purchase price less depreciation is reflected on the balance sheet. New purchases of audio-visual and other equipment associated with our headquarters relocation accounts for the increase in the FY 2015 account.
- Other Assets - This line item consists entirely of advances to other parties. The increase in advances during FY 2015 is due to additional intragovernmental advances. See Note 7 for additional details.
- Accounts Payable - This is primarily due to a decrease in advances received from other government agencies.
- Accrued Liabilities - The ratio of grant obligations to outlays increased during FY 2015, resulting in a larger accrued liability compared to FY 2014.
- Other liabilities - Reductions in accrued funded payroll accounts for the majority of the decrease. See Note 9 for additional details.
- Net Position - The overall net position of the Endowment decreased by \$3,888,513, which can be attributed to an increase in liabilities.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2015 compared to FY 2014:

- Obligations - Two items factor into the 2.4% increase in obligations. First, there was an increase in the donations in FY 2015 compared to FY 2014. Second, there was an increase in reimbursable authority received from other agencies compared to FY 2014.
- Outlays – More grant payment requests (and/or with more funds requested) received and the increase in donations and reimbursable collections in FY 2015 accounts for the 6% increase in outlays.

During FY 2015, the Agency continued to allocate indirect costs to the former strategic goals. Due to the immateriality of the remaining grants, in FY 2016, they will be merged into the most appropriate goal.

Overall, and given the unpredictability of Congressional appropriations from year to year, the current financial condition of the Agency is strong. The Agency received an unqualified audit opinion on its FY 2015 financial statements as presented herein. This is the Agency's thirteenth consecutive year receiving a clean audit opinion. As mentioned above, the Agency'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  
Table of Key Measures**

Amounts in Dollars	Current FY	Prior FY	Increase/(Decrease)	
			\$	%
<b>Costs<sup>1</sup></b>				
Total Financing Sources	\$ 152,739,661	\$ 143,703,896	\$ 9,035,765	6.3%
Less: Net Cost	151,999,397	143,536,126	8,463,271	5.9%
Net Change of Cumulative Results of Operations	740,263	167,770	\$ 572,493	341.2%
<b>Net Position<sup>2</sup></b>				
Assets:				
Fund Balance with Treasury	\$ 146,420,181	\$ 145,213,801	\$ 1,206,380	0.8%
Investments	-	1,143,423	(1,143,423)	(100)%
Accounts Receivable	148,081	152,972	(8,828)	(3.2)%
Property, Plant, and Equipment	602,220	264,010	338,210	128.1%
Other	1,342,252	359,784	982,468	273.1%
Total Assets	\$ 148,512,733	\$ 147,133,990	\$ 1,378,743	9.4%
Liabilities:				
Accounts Payable	\$ 518,361	\$ 608,680	\$ (90,319)	(14.8)%
Accrued Liabilities	47,831,515	42,438,654	5,392,861	12.7%
Other	1,911,759	1,947,045	(35,286)	(1.8)%
Total Liabilities	\$ 50,261,635	\$ 44,994,379	\$ 5,267,256	11.7%
Net Position (Assets-Liabilities)	\$ 98,251,098	\$ 102,139,611	\$(3,888,513)	3.8%

<sup>1</sup> Source : Statement of Net Cost and Statement of Changes in Net Position

<sup>2</sup> Source: Balance Sheet

### **Systems, Controls, and Legal Compliance**

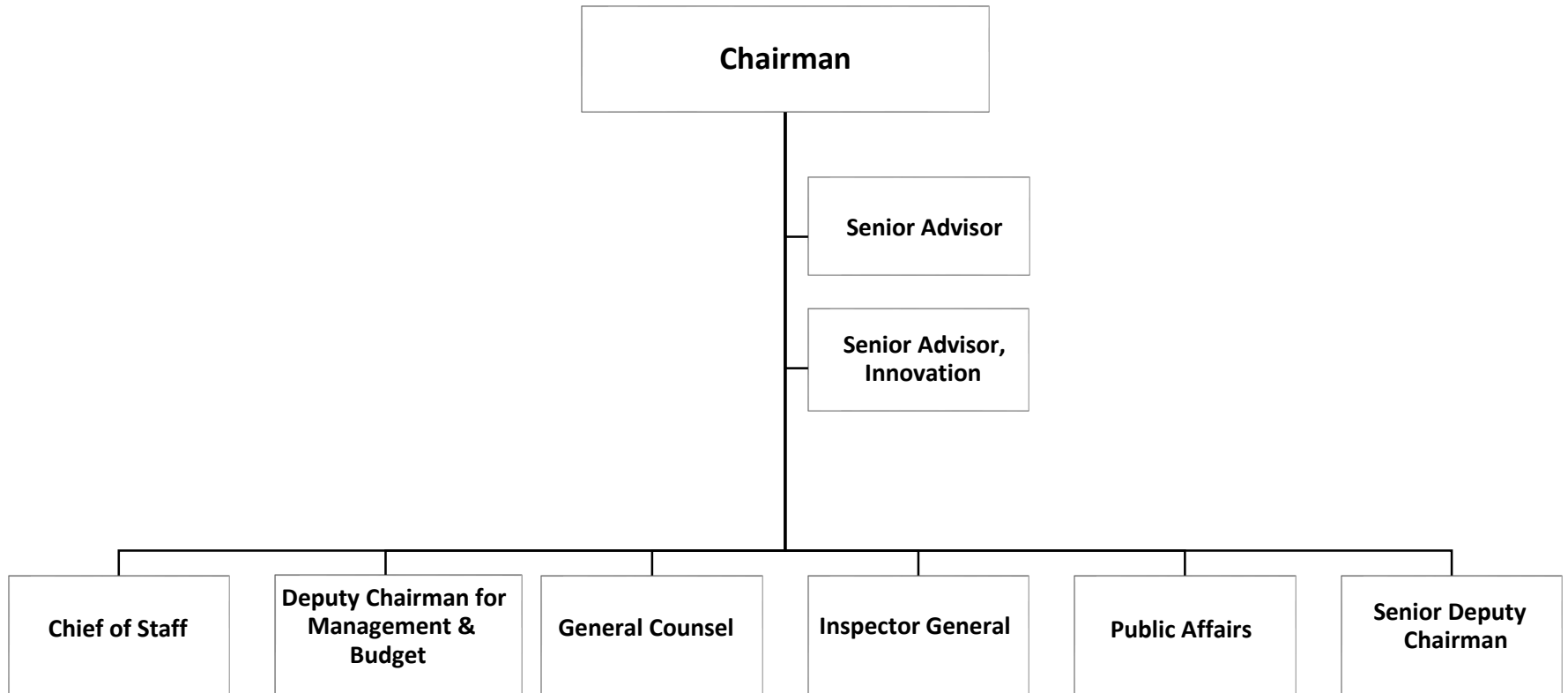
The National Endowment for the Arts is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and, where necessary, modify existing controls – and establish new ones as appropriate – to ensure that 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.

### **Future Effects of Existing Events and Conditions**

In previous years, we reported on the challenges presented by our reliance on an outdated grants management system (GMS); as noted in last year's report, 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), through which we will migrate 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 to begin using the eGMS in FY 2016.

During 2015, we implemented an electronic travel management system in conjunction with our financial system, which streamlined processes and has enhanced our ability to control travel costs.

*National Endowment for the Arts – FY 2015 Agency Financial Report  
Management's Discussion and Analysis  
Organization Chart*





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

<b><u>Programmatic Goals</u></b>		
<b>Goal 1: Creation of Art</b>	<b>Goal 2: Engagement with Art</b>	<b>Goal 3: Knowledge and Understanding of Art</b>
<b>Support the creation of art that meets the highest standards of excellence.</b>	<b>Foster public engagement with diverse and excellent art.</b>	<b>Promote public knowledge and understanding about the contributions of the arts.</b>
<b><u>Programmatic Objectives</u></b>		
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.		
<b><u>Management Goal</u></b>		
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.	

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*Fiscal Year 2015  
Agency Financial Report  
~ Management Assurances ~*

**Overall Internal Control**

The 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 Arts Endowment 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 Arts Endowment 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, 2015, 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 National Endowment for the Arts can provide reasonable assurance that internal control over financial reporting as of September 30, 2015, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

**Table 1.**  
Summary of Financial Statement Audit

Audit Opinion		Unqualified			
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0

**Table 2.**  
Summary of Management Assurances

<b>Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)</b>						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
<b>Effectiveness of Internal Control over Operations (FMFIA § 2)</b>						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
<b>Conformance with financial management system requirements (FMFIA § 4)</b>						
Statement of Assurance	Systems conform					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total non-conformances</i>	0	0	0	0	0	0
<b>Compliance with Federal Financial Management Improvement Act (FFMIA)</b>						
	Agency			Auditor		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements				Yes		
2. Accounting Standards				Yes		
3. USSGL at Transaction Level				Yes		



Jane Chu  
Chairman  
November 23, 2015



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

*Fiscal Year 2015  
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 2015 Annual Financial Report*. This report summarizes the Arts Endowment's financial performance during the past year.

During Fiscal Year 2015, we implemented an electronic travel module to the agency's financial system, Oracle Federal Financials with Release 12, which is hosted through a cross-servicing agreement with the U.S. Department of Transportation (DOT) and is fully compliant with the requirements of the Office of Management and Budget's Office of Federal Financial Management. All FY 2015 transactions were recorded in the system. The Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting was also implemented.

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

In Fiscal Year 2016, we will continue to enhance reporting systems, ensure adherence to all applicable guidance, and optimize efficiencies through improved use of technology. In addition, we will continue to jointly develop 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.

A handwritten signature in blue ink that reads "Sandra L. Stueckler".

Sandra L. Stueckler  
Director of Finance

November 23, 2015

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***Financial Statements  
and Related Auditor's Report  
Fiscal Year 2015***

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**National Endowment for the Arts**  
**Audit of Financial Statements**  
**As of and for the Years Ended**  
**September 30, 2015 and 2014**

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**Submitted By**

**Leon Snead & Company, P.C.**  
*Certified Public Accountants & Management Consultants*

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## **Independent Auditor's Report**

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

We have audited the accompanying balance sheets of the National Endowment for the Arts (Arts Endowment), as of September 30, 2015 and 2014, and the related statements of net cost, changes in net position, and budgetary resources (the financial statements) for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the Arts Endowment's internal control over financial reporting and tested the Arts Endowment's compliance with certain provisions of applicable laws, regulations, contracts and grant agreements that could have a direct and material effect on its financial statements.

### **SUMMARY**

As stated in our opinion on the financial statements, we found that the Arts Endowment's financial statements as of and for the years ended September 30, 2015 and 2014, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified no material weaknesses in financial reporting. We are reporting one significant deficiency regarding the Arts Endowment's lack of reporting required quarterly data to the Department of Treasury and the Office of Management and Budget.

Except for the effects of the lack of required financial reporting, as a result of our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts and grant agreements, nothing came to our attention that caused us to believe that the Arts Endowment failed to comply with applicable laws, regulations, contracts, and grant agreements that have a material effect on the financial statements insofar as they relate to accounting matters.

The following sections discuss in more detail our opinion on the Arts Endowment's financial statements, our consideration of Arts Endowment's internal control over

financial reporting, our tests of the Arts Endowment's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Arts Endowment, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts Endowment as of September 30, 2015 and 2014, and the related net cost, changes in net position and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and pertinent provisions of OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements* (the OMB audit bulletin). Those standards and the OMB audit bulletin 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 in a Federal agency, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the Arts Endowment's internal control or its compliance with

laws, regulations, and significant provisions of contracts and grant agreements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **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. We have applied certain limited procedures to the required supplementary information and required supplementary stewardship information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **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 AUDITOR REPORTING REQUIREMENTS**

##### Report on Internal Control

In planning and performing our audit of the financial statements of the Arts Endowment as of and for the years ended September 30, 2015 and 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Arts Endowment's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing

an opinion on the effectiveness of the Arts Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arts Endowment's internal control.

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

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

- NEA did not upload its bulk file to Treasury's Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) system during the first three quarters of fiscal year 2015.

The GTAS system feeds financial data to the OMB MAX system. The MAX produces a report, the SF 133, *Report on Budget Execution and Budgetary Resources*, that informs OMB each quarter on the agency's sources and uses of funds. MAX also captures the actual data for the current year that is used for the preparation of the following year's Presidential budget.

The United States Code (31 U.S.C. 1511–1514) requires the President of the United States to review Federal expenditures at least four times a year. The SF 133 report is designed to fulfill that requirement. In addition, OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, section 130.1, states that agencies must electronically submit SF 133 information through the Treasury's GTAS system each quarter and at the end of November, July, and August for each open Treasury appropriation fund symbol. Agencies are also required to submit a copy of the SF 133 for November, July, August, and each quarter directly to the Committee on Appropriations, House of Representatives.

NEA uses the Delphi financial management system, provided by the Department of Transportation, Federal Aviation Administration, Enterprise Service Center (ESC). For most of its clients, ESC performs the procedures necessary to create and submit

the upload to the GTAS system. Since it converted its legacy system, NEA has used only the Delphi financial management system and does not use ESC's full-service capabilities, so NEA had been performing its own upload procedures and had been using Treasury's GOALS, FACTS I, and FACTS II systems for SF 133 and other required reporting. In fiscal year 2015, Treasury ceased operating those systems and began using only GTAS to replace the functionality those systems had. Treasury has told NEA that they must use their service provider's system to generate the GTAS bulk file or Treasury will not accept it.

In September 2014 and June 2015, respectively, NEA lost two well-trained, experienced systems accountants. Those accountants performed many of the financial reporting tasks for NEA and were familiar with both Delphi and Treasury systems. NEA had taken care to train a back-up for the Systems Accountant – Team Leader; however, when the second systems accountant also left within a few months, they did not have sufficient, trained personnel to be able to keep up with all of the agency's transaction processing and reporting needs, including learning how to use ESC's Delphi system to accomplish the GTAS bulk file upload and to generate the SF 133 information.

The change in systems, coupled with the loss of highly-experienced personnel, left NEA unable to create and submit its GTAS bulk file for the first three fiscal quarters of 2015. Since the GTAS system creates the data output necessary for the OMB's MAX system to produce the SF 133 report, NEA had not been able to fulfill SF 133 reporting requirements, either. Thus, NEA did not comply with financial reporting laws and related government-wide policies and requirements.

#### Recommendation

We recommended that NEA work with ESC to find a solution to the problem of uploading the GTAS bulk file in time to submit its final 2015 SF 133 data to OMB.

#### Management's Response

NEA concurs with the finding and has enlisted our service provider, Enterprise Service Center (ESC) to ensure that we are in compliance with the GTAS regulations. We are pleased to report that the September GTAS bulk file was uploaded in time to submit our final 2015 SF 133 to OMB. NEA has just filled 1.6 FTEs with Systems Accountants who will be trained to manage the process of reporting going forward.

#### Auditor's Comment

During our final testing phase, we obtained documentation to demonstrate that the fourth quarter bulk file for each of NEA's Treasury symbols was successfully certified in GTAS. The NEA Budget Officer and Director of Accounting were able to show us that the MAX system's 2015 actual column was populated with NEA's 2015 amounts.

## Report on Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Arts Endowment. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

In connection with our audit, except for the effects of the lack of required reporting, nothing came to our attention that caused us to believe that the Arts Endowment failed to comply with applicable laws, regulations, or significant provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Arts Endowment's noncompliance with applicable laws, regulations, or significant provisions of laws, regulations, contract, and grant agreements insofar as they relate to accounting matters.

## Restricted Use Relating to Reports on Internal Control and Compliance

The purpose of the communication included in the sections identified as "Report on Internal Control" and "Report on Compliance" is solely to describe the scope of our testing of internal control over financial reporting and compliance, and to describe any material weaknesses, significant deficiencies, or instances of noncompliance we noted as a result of that testing. Our objective was not to provide an opinion on the design or effectiveness of the Arts Endowment's internal control over financial reporting or its compliance with laws, regulations, or provisions of contracts or grant agreements. The two sections of the report referred to above are integral parts of an audit performed in accordance with *Government Auditing Standards* in considering the Arts Endowment's internal control over financial reporting and compliance. Accordingly, those sections of the report are not suitable for any other purpose.

## Agency Comments and Auditor Evaluation

In commenting on the draft of this report, the management of the Arts Endowment concurred with the facts and conclusions in our report. A copy of management's response accompanies this report.



Leon Snead & Company, P.C.

November 23, 2015





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

November 23, 2015

Office of the Inspector General  
National Endowment for the Arts  
400 7<sup>th</sup> St. SW  
Washington, DC 20506

Dear Inspector General Staff:

Thank you for managing the audit of the Arts Endowment's Fiscal Year 2015 financial statements, and related review of our internal controls and compliance with laws and regulations, as required by the Accountability of Tax Dollars Act of 2002. This was the Arts Endowment's 13<sup>th</sup> full financial audit, and we are proud to have once again received an unqualified opinion.

We appreciate the time and effort committed by you, your colleagues, and the auditors from the independent accounting firm of Leon Snead & Company, P.C., who worked on this audit. We take our financial accounting and reporting responsibilities seriously, and welcome your oversight and insight to strengthen our financial operations.

Sincerely,

A handwritten signature in black ink that reads "Jane Chu". The signature is written in a cursive, flowing style.

Jane Chu  
Chairman

**National Endowment for the Arts**  
**BALANCE SHEET**  
**As of September 30, 2015 and 2014**  
(In Dollars)

	September 30, 2015			September 30, 2014		
	All Other	Funds from Dedicated Collections (Combined Total) (Note 12)	Cumulative	All Other	Funds from Dedicated Collections (Combined Total) (Note 11)	Cumulative
<b>ASSETS (Notes 2-7):</b>						
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 143,406,218	\$ 3,013,962	\$ 146,420,181	\$ 143,849,339	\$ 1,364,462	\$ 145,213,801
Investments (Note 3)	-	-	-	-	1,143,423	1,143,423
Other Assets (Note 6)	1,261,412	80,000	1,341,412	285,396	62,140	347,536
<b>Total Intragovernmental</b>	<b>\$ 144,667,630</b>	<b>\$ 3,093,962</b>	<b>\$ 147,761,592</b>	<b>\$ 144,134,735</b>	<b>\$ 2,570,025</b>	<b>\$ 146,704,760</b>
Assets with the Public:						
Accounts Receivable, Net (Note 4)	\$ 148,081	\$ -	\$ 148,081	\$ 152,972	\$ -	\$ 152,972
General Property, Plant and Equipment, Net (Note 5)	602,220	-	602,220	264,010	-	264,010
Other Assets (Note 6)	840	-	840	12,248	-	12,248
<b>TOTAL ASSETS</b>	<b>\$ 145,418,771</b>	<b>\$ 3,093,962</b>	<b>\$ 148,512,733</b>	<b>\$ 144,563,965</b>	<b>\$ 2,570,025</b>	<b>\$ 147,133,990</b>
<b>LIABILITIES (Notes 8,9):</b>						
Intragovernmental:						
Accounts Payable (Note 9)	\$ 518,361	\$ -	\$ 518,361	\$ 608,680	\$ -	\$ 608,680
<b>Total Intragovernmental</b>	<b>\$ 518,361</b>	<b>\$ -</b>	<b>\$ 518,361</b>	<b>\$ 608,680</b>	<b>\$ -</b>	<b>\$ 608,680</b>
With the Public:						
Accrued Liabilities (Note 9)	\$ 47,717,476	\$ 114,038	\$ 47,831,515	\$ 42,359,063	\$ 79,591	\$ 42,438,654
Other Liabilities (Note 8,9)	1,910,896	863	1,911,759	1,945,384	1,661	1,947,045
<b>TOTAL LIABILITIES</b>	<b>\$ 50,146,733</b>	<b>\$ 114,901</b>	<b>\$ 50,261,635</b>	<b>\$ 44,913,127</b>	<b>\$ 81,252</b>	<b>\$ 44,994,379</b>
Commitments and Contingencies (Note 11)						
<b>NET POSITION:</b>						
Unexpended Appropriations	\$ 96,553,198	\$ -	\$ 96,553,198	\$ 101,181,974	\$ -	\$ 101,181,974
Cumulative Results of Operations	(1,281,161)	2,979,060	1,697,900	(1,531,136)	2,488,773	957,637
<b>TOTAL NET POSITION</b>	<b>\$ 95,272,037</b>	<b>\$ 2,979,060</b>	<b>\$ 98,251,098</b>	<b>\$ 99,650,838</b>	<b>\$ 2,488,773</b>	<b>\$ 102,139,611</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 145,418,771</b>	<b>\$ 3,093,962</b>	<b>\$ 148,512,733</b>	<b>\$ 144,563,965</b>	<b>\$ 2,570,025</b>	<b>\$ 147,133,990</b>

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, 2015 and September 30, 2014**  
(In Dollars)

	<b>2015</b>	<b>2014</b>
<b>Program Costs (Note 13):</b>		
<b>Access to Artistic Excellence:</b>		
Gross Costs	\$ 652,173	\$ 780,359
Less: Earned Revenue	(103,456)	(2,352)
Net Access to Artistic Excellence Costs	\$ 548,717	\$ 778,007
<b>Learning in the Arts:</b>		
Gross Costs	\$ 75,828	\$ 130,331
Less: Earned Revenue	-	-
Net Learning in the Arts Costs	\$ 75,828	\$ 130,331
<b>Partnerships for the Arts:</b>		
Gross Costs	\$ 606,436	\$ 1,015,638
Less: Earned Revenue	-	-
Net Partnerships for the Arts Costs	\$ 606,436	\$ 1,015,638
<b>Arts Creation:</b>		
Gross Costs	\$ 25,668,349	\$ 25,272,042
Less: Earned Revenue	(33,589)	(51,388)
Net Arts Creation Costs	\$ 25,634,760	\$ 25,220,654
<b>Engagement with the Arts:</b>		
Gross Costs	\$ 70,616,541	\$ 67,835,622
Less: Earned Revenue	(758,614)	(837,934)
Net Engagement with the Arts Costs	\$ 69,857,928	\$ 66,997,688
<b>Contribution of the Arts:</b>		
Gross Costs	\$ 55,430,580	\$ 49,395,801
Less: Earned Revenue	(154,851)	(1,994)
Net Contribution of the Arts Costs	\$ 55,275,728	\$ 49,393,808
<b>Total Program Costs</b>	\$ 151,999,397	\$ 143,536,126
<b>Net Cost of Operations</b>	\$ 151,999,397	\$ 143,536,126

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, 2015 and 2014**  
(In Dollars)

	FY 2015			FY 2014		
	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
<b>Cumulative Results of Operations:</b>						
Beginning Balances	\$ 2,488,772	\$ (1,531,136)	\$ 957,636	\$ 2,348,437	\$ (1,558,570)	\$ 789,867
Adjusted Beginning Balances	\$ 2,488,772	\$ (1,531,136)	\$ 957,636	\$ 2,348,437	\$ (1,558,570)	\$ 789,867
<b>Budgetary Financing Sources:</b>						
Appropriations Used	\$ -	\$ 150,630,575	\$ 150,630,575	\$ -	\$ 142,011,259	\$ 142,011,259
Non-Exchange Revenue	180	-	180	745	-	745
Donations	940,519	-	940,519	460,268	-	460,268
<b>Other Financing Sources (Non-Exchange)</b>						
Imputed financing	-	1,168,387	1,168,387	-	1,231,624	1,231,624
<b>Total Financing Sources</b>	<b>\$ 940,699</b>	<b>\$ 151,798,962</b>	<b>\$ 152,739,661</b>	<b>\$ 461,013</b>	<b>\$ 143,242,883</b>	<b>\$ 143,703,896</b>
<b>Net Cost of Operations</b>	<b>450,411</b>	<b>151,548,987</b>	<b>151,999,397</b>	<b>320,677</b>	<b>143,215,449</b>	<b>143,536,126</b>
<b>Net Change</b>	<b>\$ 490,288</b>	<b>\$ 249,975</b>	<b>\$ 740,263</b>	<b>\$ 140,336</b>	<b>\$ 27,433</b>	<b>\$ 167,769</b>
<b>Cumulative Results of Operations</b>	<b>\$ 2,979,060</b>	<b>\$ (1,281,161)</b>	<b>\$ 1,697,900</b>	<b>\$ 2,488,773</b>	<b>\$ (1,531,136)</b>	<b>\$ 957,636</b>
<b>Unexpended Appropriations:</b>						
Beginning Balances		\$ 101,181,974	\$ 101,181,974	\$ 97,172,233		\$ 97,172,233
Adjusted Beginning Balances		\$ 101,181,974	\$ 101,181,974	\$ 97,172,233		\$ 97,172,233
<b>Budgetary Financing Sources:</b>						
Appropriations Received		\$ 146,021,000	\$ 146,021,000	\$ 146,021,000		\$ 146,021,000
Other Adjustments		(19,201)	(19,201)	-		-
Appropriations Used		(150,630,575)	(150,630,575)	(142,011,259)		(142,011,259)
<b>Total Budgetary Financing Sources</b>		<b>\$ (4,628,776)</b>	<b>\$ (4,628,776)</b>	<b>\$ 4,009,741</b>		<b>\$ 4,009,741</b>
<b>Total Unexpended Appropriations</b>		<b>\$ 96,553,198</b>	<b>\$ 96,553,198</b>	<b>\$ 101,181,974</b>		<b>\$ 101,181,974</b>
<b>Net Position</b>	<b>\$ 2,979,060</b>	<b>\$ 95,272,037</b>	<b>\$ 98,251,098</b>	<b>\$ 2,488,773</b>	<b>\$ 99,650,838</b>	<b>\$ 102,139,611</b>

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, 2015 and September 30, 2014**  
**(In Dollars)**

	<b>2015</b>	<b>2014</b>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance Brought Forward, Oct 1	\$ 15,777,185	\$ 12,053,265
Recoveries of Prior Year Unpaid Obligations	1,423,301	1,970,886
Other Changes in Unobligated Balance	(19,201)	-
Unobligated Balance from Prior Year Budget Authority, Net	\$ 17,181,285	\$ 14,024,151
Appropriations (discretionary and mandatory)	\$ 146,962,784	\$ 146,482,079
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,423,636	1,171,721
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 165,567,704</b>	<b>\$ 161,677,951</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred (Note 14)	\$ 150,025,162	\$ 145,900,766
Unobligated Balance, End of Year:		
Apportioned	15,542,542	15,758,096
Unapportioned	-	19,089
Total Unobligated Balance, End of Year	\$ 15,542,542	\$ 15,777,185
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 165,567,704</b>	<b>\$ 161,677,951</b>
<b>CHANGE IN OBLIGATED BALANCE:</b>		
<b>Unpaid Obligations:</b>		
Unpaid Obligations, Brought Forward, Oct 1	\$ 131,706,752	\$ 126,574,080
Obligations Incurred	150,025,162	145,900,766
Outlays (Gross)	(147,891,975)	(138,797,208)
Recoveries of Prior Year Unpaid Obligations	(1,423,301)	(1,970,886)
Unpaid Obligations, End of Year	\$ 132,416,639	\$ 131,706,752
<b>Uncollected Payments:</b>		
Uncollected Payments from Federal Sources, Brought Forward, Oct 1	\$ (1,126,903)	\$ (903,252)
Change in Uncollected Payments from Federal Sources	(412,097)	(223,651)
Uncollected Payments from Federal Sources, End of Year	\$ (1,539,000)	\$ (1,126,903)
<b>Memorandum (non-add) Entries:</b>		
Obligated Balance, Start of Year	130,579,849	125,670,828
Obligated Balance, End of Year	130,877,639	130,579,849
<b>BUDGET AUTHORITY AND OUTLAYS, NET:</b>		
Budget Authority, Gross (discretionary and mandatory)	\$ 148,386,420	\$ 147,653,800
Actual Offsetting Collections (discretionary and mandatory)	(1,011,539)	(948,071)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(412,097)	(223,651)
Budget Authority, Net (discretionary and mandatory)	\$ 146,962,784	\$ 146,482,078
Outlays, Gross (discretionary and mandatory)	\$ 147,891,975	\$ 138,797,208
Actual Offsetting Collections (discretionary and mandatory)	(1,011,539)	(948,071)
Outlays, Net (discretionary and mandatory)	\$ 146,880,437	\$ 137,849,137
Distributed Offsetting Receipts	(940,519)	(460,268)
Agency Outlays, Net (discretionary and mandatory)	\$ 145,939,917	\$ 137,388,869

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, 2015 and 2014**  
(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 August 4, 2015, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated September 18, 2014.
- 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\\_2001.pdf](http://www.whitehouse.gov/sites/default/files/omb/financial/year_end_reporting_2001.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](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, 2015 and 2014**  
(In Dollars)

**NOTE 1. Significant Accounting Policies (Continued):**

**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/](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, 2015 and 2014**  
(In Dollars)

**NOTE 1. Significant Accounting Policies (Continued):**

**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, 2015 and 2014**  
(In Dollars)

**NOTE 1. Significant Accounting Policies (Continued):**

**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.

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2015 and 2014**  
(In Dollars)

**NOTE 1. Significant Accounting Policies (Continued):**

**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.

**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.

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2015 and 2014**  
(In Dollars)

**NOTE 1. Significant Accounting Policies (Continued):**

**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.

**P. Funds from Dedicated Collections**

Amounts reported as funds from dedicated collections are represented by one appropriation, "Gifts and Donations" 59X8040; 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 Endowment 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 18, Fiduciary Activities.

**R. Cost Accounting Methodology**

In fiscal year 2012, the Endowment 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, 2015 and 2014**  
(In Dollars)

**NOTE 2: Fund Balance With Treasury**

	September 30, 2015	September 30, 2014
Fund Balance:		
Trust Funds	\$ 3,013,962	\$ 1,364,462
Appropriated Funds	143,406,218	143,849,339
Fund Balance with Treasury – Subtotal	\$ 146,420,181	\$ 145,213,801
Invested in Public Debt Treasury Bills, net	-	1,143,233
Fund Balance With Treasury – Total	<u>\$ 146,420,181</u>	<u>\$ 146,357,034</u>
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	\$ 13,377,367	\$ 13,554,421
Available Trust Fund	2,165,175	2,203,675
Subtotal – Available	\$ 15,542,542	\$ 15,758,096
Unavailable	-	19,089
Obligated Balance not yet Disbursed Other	\$ 131,567,852	\$ 131,402,732
Obligated Balance not yet Disbursed Trust Fund	848,787	304,020
Subtotal - Obligated	132,416,639	131,706,752
Unfilled Orders – Reimbursable	(1,539,000)	(1,126,903)
	<u>\$ 146,420,181</u>	<u>\$ 146,357,034</u>

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended September 30, 2015 and 2014**  
(In Dollars)

**NOTE 3: Investments**

<b>September 30, 2015</b>	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ -	Effective Interest	\$ -	\$ -	\$ -
Accrued Interest on Public Debt Bills	-				-
<b>Total</b>	<b>\$ -</b>				<b>\$ -</b>
<hr/>					
<b>September 30, 2014</b>	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 1,143,233	Effective Interest	\$ 370	\$ 1,143,603	\$ 1,143,603
Accrued Interest on Public Debt Bills	190				190
<b>Total</b>	<b>\$ 1,143,423</b>				<b>\$1,143,793</b>

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 collected from the public for funds from 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**  
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(In Dollars)

**NOTE 4: Accounts Receivable**

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 139,750	\$ 150,750
Receivables Due from the Public	8,331	2,222
	\$ 148,081	\$ 152,972
Allowance for Uncollectibles:	-	-
Net Receivables	\$ 148,081	\$ 152,972

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

<u>Class of Property</u>	<b>September 30, 2015</b>			<b>September 30, 2014</b>		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Equipment	\$ 725,293	\$ 123,073	\$ 602,220	\$ 338,461	\$ 74,451	\$ 264,010
Total	\$ 725,293	\$ 123,073	\$ 602,220	\$ 338,461	\$ 74,451	\$ 264,010

**NATIONAL ENDOWMENT FOR THE ARTS**  
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**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 Endowment'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 Scale	Definition
<b>Poor</b>	Item is in danger of damage or loss. Requires major conservation or repair to maintain it intact and keep it stable.
<b>Fair</b>	Item is physically sound but requires major conservation to improve aesthetic integrity.
<b>Good</b>	Item is physically sound and retains aesthetic integrity. Requires routine conservation maintenance (e.g. minor surface cleaning).
<b>Excellent</b>	Item is new or has been conserved close to its original condition and appearance.

**Arts Works and Decorative 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 2014 quantity was based on number of items, [195 for artwork and decorative art, and 40 furniture items]. For 2015 and forward, the number will be based on number of inventory property numbers.

Heritage Assets Category	Qty as of 9/30/15	Qty as of 9/30/14	Change	General Condition
Artwork and Decorative Art	193	183	5.5%	Good
Furniture	40	40	0%	Excellent
<b>Total</b>	<b>233</b>	<b>223</b>	<b>4.5%</b>	

**NATIONAL ENDOWMENT FOR THE ARTS**  
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**NOTE 7: Other Assets**

	September 30, 2015	September 30, 2014
Intragovernmental Advances:		
Institute of Museum and Library Services (1)	\$ 80,000	\$ 62,140
Department of Commerce (2)	1,082,977	231,489
Library of Congress (3)	840	-
Department of Transportation (4)	178,435	53,907
Total Intragovernmental	\$ 1,342,251	\$ 347,536
With the Public:		
Advances to Vendors (5)	\$ -	\$ 12,248
Total Other Assets	\$ 1,342,251	\$ 359,784

Other Information:

1. Support for the National Student Poets Program.
2. Advance to Census Bureau to provide Census statistics to the agency.
3. Advance to the Library of Congress for the National Book Festival
4. Advance to the Department of Transportation for the purchase of Metrochecks and accounting system hosting.
5. Advances to various contractors for services to be provided in future periods.



**NATIONAL ENDOWMENT FOR THE ARTS**  
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**NOTE 8: Liabilities Not Covered By Budgetary Resources**

	September 30, 2015	September 30, 2014
Intragovernmental:		
Unfunded FECA Liability	\$ 498	\$ 2,509
Custodial Liability	139,750	150,750
Total Intragovernmental	\$ 140,248	\$ 153,259
Accrued Unfunded Leave	\$ 1,172,392	\$ 1,216,103
Actuarial FECA Liability	2,369	12,560
Total Liabilities Not Covered by Budgetary Resources	\$ 1,315,009	\$ 1,381,922
Total Liabilities Covered by Budgetary Resources (Note 8)	\$ 48,946,626	\$ 43,612,457
<b>Total Liabilities</b>	<b>\$ 50,261,635</b>	<b>\$ 44,994,379</b>

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**  
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**NOTE 9: Other Liabilities**

	September 30, 2015			September 30, 2014		
	Non-Current	Current	Total	Non-Current	Current	Total
<b>Intragovernmental:</b>						
Accrued Payables - Invoices	\$ -	\$ (13,121)	\$ (13,121)	\$ -	\$ -	\$ -
Custodial Liability	-	139,750	139,750	-	150,750	\$ 150,750
Employer Contributions	-	128,368	128,368	-	105,421	105,421
Unfunded FECA Liability	-	498	498	-	2,509	2,509
Advances from Other Government Agencies	-	262,866	262,866		350,000	350,000
Post-Employment Benefit	-				-	-
<b>Total Intragovernmental Liabilities</b>	\$ -	\$ 518,361	\$ 518,361	\$ -	\$ 608,680	\$ 608,680
<b>With the Public:</b>						
Accrued Payables - Invoices	\$ -	\$ 197,356	\$ 197,356	\$ -	\$ 218,375	\$ 218,375
Accrued Funded Payroll	-	520,379	520,379	-	483,628	483,628
TSP Employer Contributions	-	19,264	19,264	-	16,379	16,379
Actuarial FECA Liability	-	2,369	2,369	-	12,560	12,560
Accrued Unfunded Leave	-	1,172,392	1,172,392	-	1,216,103	1,216,103
<b>Total Other Liabilities</b>	\$ -	\$ 1,911,759	\$ 1,911,759	\$ -	\$ 1,947,045	\$ 1,947,045
Accrued Liabilities	-	\$ 47,831,515	\$ 47,831,515	-	\$ 42,438,654	\$ 42,438,654
<b>Total Liabilities with the Public</b>	\$ -	\$ 49,743,274	\$ 49,743,274	\$ -	\$ 44,385,699	\$ 44,385,699
<b>Total Liabilities</b>	\$ -	\$ 50,261,635	\$ 50,261,635	\$ -	\$ 44,994,379	\$ 44,994,379

**NATIONAL ENDOWMENT FOR THE ARTS**  
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**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 the agency vehicles. The April 24, 2015 occupancy agreement was signed and the upcoming lease terms are as follows:

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Annual Rental	\$2,780,253	\$2,889,544	\$2,921,902	\$2,955,230	\$2,989,559
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
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.

**Brief Description of Copier Lease:**

The NEA entered into a 60 month operating lease for copiers commencing October 1, 2008 thru April 30, 2014. In May, 2014, the National Endowment for the Arts purchased replacement copiers for use in the Constitution Center; see Note 5 for additional details.

FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
\$169,519	\$169,687	\$163,480	\$154,623	\$73,381

**NOTE 11: Commitments and Contingencies**

The Arts Endowment 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 Arts Endowment. No amounts have been accrued in the Arts Endowment 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**  
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**NOTE 12: Funds from Dedicated Collections (Combined Total)**

<b>Gifts and Donations</b>		
<b>Balance Sheet</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
<b>ASSETS</b>		
Fund Balance with Treasury	\$ 3,013,962	\$ 1,364,462
Investments	-	1,143,423
Other Assets - Advances	80,000	62,140
<b>Total Assets</b>	<b>\$ 3,093,962</b>	<b>\$ 2,570,025</b>
<b>LIABILITIES</b>		
Accrued Expenses	\$ 114,039	\$ 79,591
Other Liabilities	863	1,661
<b>Total Liabilities</b>	<b>\$ 114,902</b>	<b>\$ 81,252</b>
<b>NET POSITION</b>		
Cumulative Results of Operations	\$ 2,979,060	\$ 2,488,773
<b>Total Liabilities and Net Position</b>	<b>\$ 3,093,962</b>	<b>\$ 2,570,025</b>

<b>Statement of Net Cost</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Gross Program Costs	\$ 450,411	\$ 320,677
Less Earned Revenue	-	-
<b>Net Cost of Operations</b>	<b>\$ 450,411</b>	<b>\$ 320,677</b>

<b>Statement of Changes in Net Position</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Net Position Beginning of Period	\$ 2,488,772	\$ 2,348,437
Non-Exchange Revenue	180	554
Cash Donations	940,519	419,585
Less: Net Cost of Operations	(450,411)	(173,797)
Change in Net Position	\$ 490,288	\$ 246,342
<b>Net Position End of Period</b>	<b>\$ 2,979,060</b>	<b>\$ 2,594,779</b>

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 13: Intragovernmental Costs and Exchange Revenue**

	<b>FY 2015</b>			<b>FY 2014</b>		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
<b>Access to Artistic Excellence:</b>						
Program Costs	\$ 22,174	\$ 629,999	\$ 652,173	\$ 82,202	\$ 698,157	\$ 780,359
Earned Revenue	(103,456)	-	(103,456)	(2,352)	-	(2,352)
Net Costs - Access to Artistic Excellence	\$ (81,282)	\$ 629,999	\$ 548,717	\$ 79,850	\$ 674,157	\$ 778,007
<b>Learning in the Arts:</b>						
Program Costs	\$ 2,852	\$ 72,976	\$ 75,828	\$ 7,364	\$ 122,967	\$ 130,331
Earned Revenue	-	-	-	-	-	-
Net Costs - Learning in the Arts	\$ 2,852	\$ 72,976	\$ 75,828	\$ 7,364	\$ 122,967	\$ 130,331
<b>Partnerships for the Arts:</b>						
Program Costs	\$ 3,024	\$ 603,412	\$ 606,436	\$ 7,809	\$ 1,007,829	\$ 1,015,638
Earned Revenue	-	-	-	-	-	-
Net Costs - Partnerships for the Arts	\$ 3,024	\$ 603,412	\$ 606,436	\$ 7,809	\$ 1,007,829	\$ 1,015,638

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 13: Intragovernmental Costs and Exchange Revenue (continued)**

	FY 2015			FY 2014		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
<b>Arts Creation:</b>						
Program Costs	\$ 4,386,504	\$ 21,281,845	\$ 25,668,349	\$ 4,224,567	\$ 21,047,475	\$ 25,272,042
Earned Revenue	(33,589)	-	(33,589)	(51,388)	-	(51,388)
Net Costs - Arts Creation	\$ 4,352,914	\$ 21,281,845	\$ 25,634,760	\$ 4,173,179	\$ 21,047,475	\$ 25,220,654
<b>Engagement with the Arts:</b>						
Program Costs	\$ 5,935,542	\$ 64,680,999	\$ 70,616,541	\$ 4,874,876	\$ 62,960,747	\$ 67,835,623
Earned Revenue	(758,614)	-	(758,614)	(837,934)	-	(837,934)
Net Costs - Engagement with the Arts	\$ 5,176,929	\$ 64,680,999	\$ 69,857,928	\$ 4,036,942	\$ 50,228,881	\$ 66,997,689
<b>Contribution of the Arts:</b>						
Program Costs	\$ 167,647	\$ 55,262,933	\$ 55,430,580	\$ 192,769	\$ 49,203,032	\$ 49,395,801
Earned Revenue	(154,851)	-	(154,851)	(1,994)	-	(1,994)
Net Costs - Contribution of the Arts	\$ 12,795	\$ 55,262,933	\$ 55,275,728	\$ 190,775	\$ 49,203,032	\$ 49,393,808
<b>Total (including previous page):</b>						
Program Costs	\$ 10,517,743	\$ 142,532,165	\$ 153,049,908	\$ 9,389,587	\$ 135,040,207	\$ 144,430,794
Earned Revenue	(1,050,510)	-	(1,050,510)	(893,668)	-	(1,944,178)
Net Cost of Operations	\$ 9,467,233	\$ 142,532,165	\$ 151,999,397	\$ 8,495,919	\$ 135,040,207	\$ 142,486,616

The Arts Endowment receives funds from other Federal agencies that participate in the Arts Endowment's program awards. The Arts Endowment may also incur intragovernmental costs for its participation in program awards or activities of other Federal agencies. NEA adopted a new strategic plan beginning in FY 2012 creating Arts Creation, Engagement with the Arts, and Contribution of the Arts programs. As a result, these programs had no activity in FY 2011 and prior years. Costs for grants issued prior to FY 2012 are recorded to the Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts programs.

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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	\$ 147,010,947	\$ 1,375,473	\$ 148,386,420
Obligations	\$ 148,638,768	\$ 1,386,395	\$ 150,025,162

**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:	<b>2015</b>	<b>2014</b>
Direct	\$ 83,989,716	\$ 87,893,371
Reimbursable	1,085,413	(910,707)
Undelivered Orders, net, end of period	\$ 85,075,129	\$ 88,804,078

**NATIONAL ENDOWMENT FOR THE ARTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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(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 2014 Statement of Budgetary Resources and the FY 2014 actual numbers presented in the FY 2016 Budget of the United States Government (Budget) are summarized below.

The President's Fiscal Year 2017 Budget, which will include actual numbers for fiscal year 2015, has not yet been published. The FY 2017 Budget is expected to be published in February 2016 and to be available at <http://www.whitehouse.gov/omb/budget/>.

<b>FY 2014 (in \$ millions)</b>	<b>Budgetary Resources</b>	<b>Obligations Incurred</b>	<b>Distributed Offsetting Receipts</b>	<b>Net Outlays</b>
Combined Statement of Budgetary Resources	\$ 162	\$146	\$ -	\$ 137
Difference (see above)	\$1	-	-	-
Budget of US Government	\$161	\$146	\$ -	\$ 137

**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**  
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**NOTE 18: Incidental Custodial Collections**

	<b>2015</b>	<b>2014</b>
Proprietary Receipts from the Public	\$ -	\$ -
Intrabudgetary Receipts Deducted by Agencies	11,000	10,500
Total Custodial Collections	\$ 11,000	\$ 10,500

**NOTE 19: Fiduciary Activities**

The Endowment has a painting on loan from an artist to be displayed in one office. This piece is not an asset of the Endowment, 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.

National Endowment for the Arts  
**Schedule of Fiduciary Activity**  
For the Years Ended September 30, 2015 and 2014

	<b>September 30, 2015</b> Various Paintings	<b>September 30, 2014</b> Various Paintings
Fiduciary net assets, beginning of year	\$ 82,000	\$ 103,000
Contributions	-	-
Disposition of assets	-	(21,000)
Increase/(Decrease) in fiduciary net assets	-	(21,000)
Fiduciary net assets, end of period	\$ 82,000	\$ 82,000

**NATIONAL ENDOWMENT FOR THE ARTS**  
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**NOTE 19: Fiduciary Activities (continued)**

**Fiduciary Net Assets**  
As of September 30, 2015 and 2014

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
<b>FIDUCIARY ASSETS</b>		
Other Assets (painting)	\$ 82,000	\$ 82,000
<b>FIDUCIARY LIABILITIES</b>		
Less: Liabilities	-	-
<b>Total Fiduciary net assets</b>	<u>\$ 82,000</u>	<u>\$ 82,000</u>

**NATIONAL ENDOWMENT FOR THE ARTS**  
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**NOTE 20: Reconciliation of Net Cost of Operations to Budget**

	<b>2015</b>	<b>2014</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 150,025,162	\$ 145,900,766
Less: Spending Authority from offsetting collections and recoveries	(2,846,936)	(3,142,607)
Obligations net of offsetting collections and recoveries	\$ 147,178,226	\$ 142,758,159
Less: Offsetting receipts	(940,519)	(460,268)
Net Obligations	\$ 146,237,707	\$ 142,297,891
Other Resources		
Imputed financing from costs absorbed by others	\$ 1,168,387	\$ 1,231,624
Other Resources	-	-
Net Other Resources Used to Finance Activities	\$ 1,168,387	\$ 1,231,624
Total Resources Used to Finance Activities	\$ 147,406,094	\$ 143,529,516
 <b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but not received	\$ 4,053,016	\$ (177,008)
Resources that fund expenses recognized in prior periods	(53,902)	(174,904)
Budgetary offsetting collections and receipts that do not affect net cost of operations	940,519	460,268
Resources that Finance the Acquisition of Assets	(386,833)	(132,786)
Total Resources used to finance items not part of the Net Cost of Operations	\$ 4,552,801	\$ (24,430)
Total Resources Used to finance the Net Cost of Operations	\$ 151,958,895	\$ 143,505,086
 <b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring/Generating Resources in Future Periods (Note 16):		
Increase in Annual Leave Liability	\$ -	\$ -
Other – Change in FECA Liability	-	-
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ -	\$ -
 Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 48,623	\$ 35,275
Other not Requiring Outlay of Resources	(8,120)	(4,234)
Total components of Net Cost of Operations that will not require or generate resources	\$ 40,502	\$ 31,040
Total components of net cost of operations that will not require or generate resources in the current period	\$ 40,502	\$ 31,040
<b>Net Cost of Operations</b>	<b>\$ 151,999,397</b>	<b>\$ 143,536,126</b>

**NATIONAL ENDOWMENT FOR THE ARTS**  
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**NOTE 21: Donations In-Kind**

During FY 2015, 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. The total value of these in-kind donations was \$15,839.97 in FY 2015 and \$25,457 in FY 2014.

**NOTE 22: Change in Presentation**

As of FY 2014, NEA changed the presentation of Note 12, Intragovernmental Costs and Exchange Revenue to align employee benefits with guidance provided by OMB Circular A-136.



## MEMORANDUM

Memo 16-01

DATE: October 21, 2015

TO: Jane Chu, Chairman

FROM: Tonie Jones, Inspector General

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

The National Endowment for the Arts (NEA) is required to submit an *Annual Financial Report (AFR)* to the Office of Management and Budget (OMB) in November 2015. The AFR contains a number of sections that address financial management and, to a lesser extent, performance issues. OMB Circular A-136, *Financial Reporting Requirements*, requires that the Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency.

After careful analysis, 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. The rationale for our perspective on each of the top challenges is outlined below.

**Financial Management.** NEA's top financial management challenges for FY 2016 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, the Finance Office will face the following challenges:

- Filling key staff positions. The Finance Office lost two well-trained, experienced systems accountants. Those accountants performed many of the financial reporting tasks for NEA and were familiar with both DELPHI and Treasury systems. The Director also plans to retire in early 2016.
- Fully implement reporting processes for the Government-wide Treasury Account Symbol Adjusted Trial Balance System to ensure compliance with financial reporting laws and related government-wide policies and requirements.

- Work with the National Endowment for the Humanities (NEH), as a cross-servicer, to develop eGMS grants and panel processes that will interface with the financial system.
- Streamline the number of required DELPHI Discoverer reports and set up a library for all Finance staff to access the same versions of the reports, which will maintain data integrity.

**Human Capital.** FY 2015 from a human capital perspective represented the completion of the physical relocation of the office facilities and the adjustment to a new office working environment for NEA staff. FY 2016 will be focused on the Office of Human Resources continuing to work with management to ensure that recruitment efforts are targeted and effective in attracting people with the right competencies and skills to serve NEA's mission. There continues to be a slight increase in recruitment as a result of attrition and as we move closer to calendar year 2016 there will possibly be an increase in the number of retirements and the issue of retaining institutional knowledge. NEA will focus on retirement data and human capital analysis to determine the correct human capital strategy as we deal with the challenges of retirement and also a change in administration as a result of the Presidential election.

**Information Technology.** While the *Federal Information Technology Acquisition Reform Act*<sup>1</sup> does not apply directly to small agencies, NEA has already adopted a number of its mandates. These include the use of cloud computing and shared services to optimize data center activities and achieve overall information technology objectives.

NEA has made significant strides with shared services. The Agency's finance, electronic official personnel files (eOPF), payroll, and time and attendance systems are all sourced through larger Federal agencies. The US Department of Transportation Enterprise Service Center provides NEA with the use of DELPHI, an Oracle Federal financial system. The U.S. Office of Personal Management provides the eOPF system and the U.S. Department of Agriculture provides the National Finance Center's electronic time and attendance system (webTA) and its payroll services. These shared service arrangements have proven to be both cost-effective and responsive to NEA's needs.

NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). 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 GMS, built on a more flexible, operationally efficient platform, will 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.

New government-wide requirements for information security in recent years provide challenges to all Federal agencies, including NEA. The *Federal Information Security*

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<sup>1</sup>

Title VIII, Subtitle D of the National Defense Authorization Act (NOAA) for Fiscal Year 2015, Pub. L. No. 11 3-291. Further references in the text that refer to "FIT ARA" refer to these sections.

*Management Act of 2002 (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 continues to make progress to comply with these 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. While NEA complies with these laws and has revised its privacy policy to improve guidance and control, this will continue to be an area requiring attention.

**Grantee Accountability.** As the nation's largest public funding provider for the arts, NEA awards thousands of grants and cooperative agreements annually. In FY 2015, NEA issued nearly 2,400 awards. The supported organizations vary considerably in size and financial management experience, particularly as they relate to Federal financial management requirements. The continuing challenge, facing each Federal grant-making agency, is to ensure that recipients adhere to and comply with the applicable fiscal requirements.

To prepare for the final implementation of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* in December 2014, NEA's Grants & Contracts Office (G&C) began a series of training workshops for staff, as well as specific in person presentations and webinars for our State Arts Agency and Regional Arts Organization partners. These constituents are awarded 40% of NEA's appropriated funds and are able to subgrant these funds. To address the significant focus the *Uniform Guidance* established on these "pass through entities" responsibilities, G&C developed a second *General Terms & Conditions (GTCs)* document specifically to address these requirements. Concurrently, G&C trained NEA staff to use the new Pre-Award Risk report developed to meet 2 CFR Part 200.205. This report helps the agency maintain awareness of possible risk issues at various stages of the pre-award process. To help grantees manage their requirements, "*My grant at a glance*" is the section of the website that provides all grantees with general information on the status of their grant – including amount awarded, grant period, amount disbursed, due dates for final reports, and more. Also added to this section of the website is a partner document to the GTCs: *How to Manage Your NEA Award Handbook*, which provides guidance about processes and policies in one location. NEA's G&C provides considerable technical assistance via telephone and email. Plans for FY 2016 based on the *Uniform Guidance* and experience, include creation of new sample templates for grantees to provide documentation of third-party in-kind support. The *Financial Management Guide*, which is implemented by NEA Office of Inspector General (OIG) and provides practical information on what is expected from grantee organizations in terms of fiscal responsibility, has also been updated to reflect the new *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 G&C 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 recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of 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 working with you as we address matters of mutual interest. We also 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 and Contracts Director  
Marisa E. Marinos, Civil Rights/EEO Director  
Craig McCord, Human Resources Director  
Ned Read, Special Assistant, Deputy Chairman for Management and Budget  
Sandy Stueckler, Finance Director  
Monica Waters, Auditor, Office of Inspector General





**National  
Endowment  
for the Arts**  
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*Fiscal Year 2015  
Agency Financial Report  
~ Memorandum from the Chairman ~*

DATE: November 23, 2015  
TO: Inspector General  
FROM: Jane Chu, Chairman   
SUBJECT: Response to OIG Memorandum Concerning Top Management Challenges

The National Endowment for the Arts continues to benefit from a strong and positive working relationship with the Office of Inspector General (OIG). We appreciate the leadership and communication of the Inspector General and concur with the observations made in your October 21, 2015 memorandum entitled "Top Management Challenges for the National Endowment for the Arts."

As you noted, our finance operation has been challenged by staff turnover (including the impending retirement of our long-time Director of Finance). However, we have been successful in filling vacancies and have begun recruitment for a new Director well in advance of our current Director's departure.

We agree that retirements and turnover, as well as the upcoming change of administration after next year's Presidential election, present challenges for the upcoming year. However, we are paying close attention to retirement data, and continue to review our human capital strategy, so we are confident that these challenges will be met and the Agency will continue to enhance its efficiency and effectiveness.

As you also noted, the Agency has made significant strides with shared services, including, significantly, the co-development with the National Endowment for the Humanities of a new cloud-based grants management system. The new eGMS will result in greater efficiencies in our application and grant processing, improved accountability, and improved customer service. We are also proud that, despite our small size, we are meeting the challenges of government-wide requirements for information security. As we have noted previously, this is a task that never really ends, and the Agency is fully committed to staying on course to ensure the security of our information systems and the privacy of the information contained in them.

In our grants management operations, we have continued to identify and act on opportunities to improve the experience of the applicants and grantees who do business with us. As you noted, our Grants & Contracts Office (G&C) responded thoroughly to OMB's issuance of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200), preparing new written materials and tools, and developing and presenting training for staff and grantees to ensure successful implementation of the new requirements.

We appreciate the OIG's recognition of the progress the Agency has made during the past year and look forward to working with you on these and other matters of mutual concern in the coming year.