



AGENCY FINANCIAL REPORT FISCAL YEAR 2021

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 15, 2021

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Agency Financial Report for Fiscal Year 2021
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National Endowment for the Arts Fiscal Year 2021 Agency Financial Report

~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2021 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

Overview

The National Endowment for the Arts (NEA) is an independent federal agency that supports and funds the arts to provide all Americans the opportunity to experience creativity and participate in the arts. Although it is small, the National Endowment for the Arts shoulders many of the responsibilities of a large agency, which includes the appropriate use of public dollars that helps ensure that every American has greater access to the arts throughout the United States and territories. The NEA strives to nurture, elevate, and sustain artistic creativity throughout the country. Primarily a grantmaking agency, the NEA supports the arts by making approximately 2,5000 project-based awards annually. By law, forty percent of NEA grantmaking funds are awarded to the 50 state arts agencies, 6 territorial and jurisdictional arts agencies, and 6 regional arts organizations. These partnership awards help the Agency support arts and creativity throughout the nation. In addition to our project-based grantmaking and partnership awards, the NEA supports initiatives like the *Big Read* and the *Creative Forces: NEA Military Healing Arts Network*, which brings the healing arts to military and veteran populations. The NEA also supports research, demonstrating how the arts make communities more vibrant, fulfilling places to live; and demonstrating the significant economic impact of the arts throughout the country. And, the NEA provides a platform to showcase the nation's vibrant arts and culture by promoting the arts on our social media channels, on our website, and in our publications.

Mission

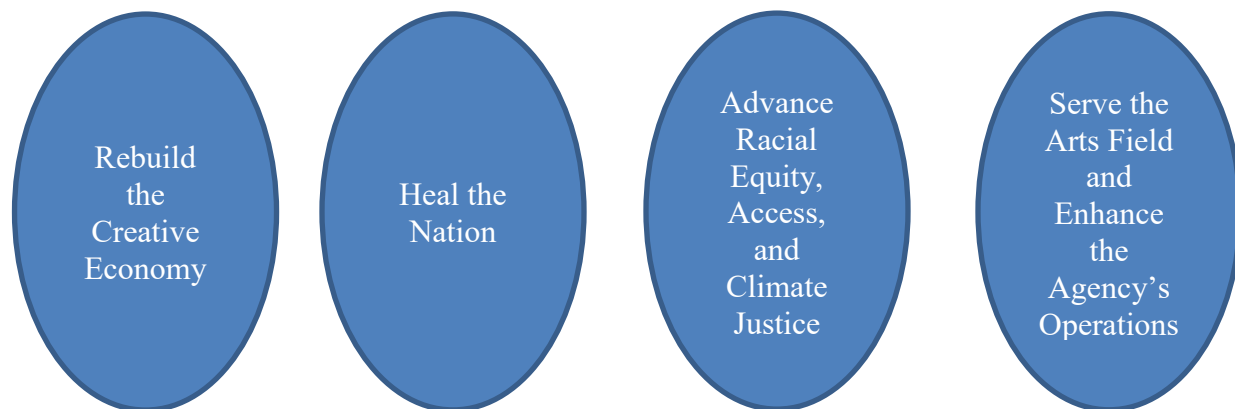
Established by Congress in 1965, the National Endowment for the Arts is the independent Federal agency whose mission is:

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

The NEA is the only funder, public or private, that provides equal access to the arts in all 50 states and every congressional district, the District of Columbia, and U.S. territories, supporting activities such as healing arts, arts education programs, performances, exhibitions, festivals, and artist residencies. The NEA's usual grant funding is project-based and goes to thousands of nonprofits each year, along with partnerships and special arts initiatives, research, and other support, all of which contribute to the vitality of our neighborhoods, engage our students and schools, stimulate our economy, and preserve our American culture.

Supporting the President’s Agenda

Consistent with President Biden’s and Vice President Harris’s priorities, during Fiscal Year 2021, the NEA began to focus its efforts within the following four areas:



Notably, during the year, the NEA reached even more underserved constituencies, encouraging applications from institutions serving Hispanic and African American populations, American Indian and Alaska Native tribes and tribal colleges and universities, and Asian American and Pacific Islander communities. In the NEA’s *200-Day Progress Report on Equity Assessment* submitted to the Office of Management & Budget on August 23, 2021, we compared the population served (racial/ethnic groups and underserved groups) for a sample of NEA programs to the U.S. demographic percentage for these groups. We are encouraged that in most instances the percentage served by racial/ethnic group and underserved groups exceeded the U.S. demographic percentage. Building on the work the agency has done in this area, as well as the work the agency has developed under the American Rescue Plan (ARP) grantmaking program, the NEA aims to expand programming dedicated to equity in the arts. This includes expanding public engagement, including finding new and innovative ways to reach underserved groups.

The Impact of the National Endowment for the Arts

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 cell phones, computers and tablets, and other devices to view and listen to art. Through the NEA’s support, communities of all sizes and types are presented with various opportunities to participate. Based on recent figures, more than 12% of project activities supported by the NEA¹ occur in rural areas.² Further, 43% of projects supported through recent direct grants reached high-poverty neighborhoods.³

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

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

³ In Census-defined poverty tracts, where 20% or more of the population is below the U.S. poverty threshold.

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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.⁴

Art is an irreplaceable way of understanding and expressing the world, and it links our ability to create and innovate in ways beyond compare. The National Endowment for the Arts 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.

The more than \$5 billion awarded over our 56-year history represents the NEA's continuing commitment to making the arts a vital part of the lifeblood of this nation. The agency 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's commitment to supporting art that meets the highest standards of excellence, cultivating public engagement with, and access to, the arts, and promoting public knowledge and understanding about the contributions of the arts, form the basis for the agency's FY 2018-2022 Strategic Plan. These strategic goals underpin our grant guidelines, and they guide implementation of initiatives such as *Creative Forces: NEA Military Healing Arts Network*, a partnership of the National Endowment for the Arts and the Departments of Defense and Veterans Affairs that serves the unique and special needs of service members and veterans who have been diagnosed with traumatic brain injury and psychological health conditions, as well as their families and caregivers; and *Our Town*, which invests in partnerships among arts, cultural, or design organizations and local governments for creative placemaking projects.

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

- 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 20-member federal Interagency Task Force on the Arts and Human Development.
- 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.
- Other program leadership initiatives such as *Blue Star Museums*; *NEA Big Read*; *Poetry Out Loud*; *Shakespeare in American Communities*; the *Mayors' Institute for City Design*; and the *Musical Theater Songwriting Challenge for High School Students*.
- Outreach through activities such as grant information workshops (conducted both through online media and in-person); an online newsletter; our Web site; and increased use of webinars, webcasting, and social media such as blogs, Twitter, and Facebook.

⁴ National Endowment for the Arts, [*The Arts and Achievement in At-Risk Youth: Findings from Four Longitudinal Studies \(2012\)*](#).

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In FY 2021, the NEA received an additional appropriation of \$135 million through the American Rescue Plan (to fund grants that will be awarded by the end of calendar year 2021). These additional funds essentially doubled the agency's annual programmatic appropriation and increased the grant application load one and a half times above its usual level (from roughly 6,700 to 16,700). Nevertheless, the agency successfully managed its usual workload while simultaneously designing and implementing this entirely new program, once again highlighting the agency's nimbleness and extraordinarily capable workforce.

Of the grants awarded from FY 2017 through 2019 (the most recent years for which we have complete figures):⁵

- 43% of NEA-supported activities took place in high-poverty neighborhoods.
- 35% of NEA grants went to organizations that reach underserved populations, including people with disabilities, people in institutions, and veterans.
- 23% of NEA-supported activities took place in communities where the largest share of residents were non-white or Hispanic.⁶

NEA grants provide a significant return on investment of federal dollars. Based upon historical review of final reports filed by grantees, it is estimated that each \$1 awarded by the agency in direct grants to nonprofit organizations leverages \$9 from other non-federal sources. This results in more than \$500 million in matching support, far surpassing the required non-Federal match of at least one to one.

National Endowment for the Arts Support for States

The NEA extends its influence through state arts agencies (SAAs) and regional arts organizations (RAOs), ensuring that programs reach even the smallest communities in remote rural areas. By Congressional statute, 40 percent of the agency's grantmaking funds are allocated to the 50 States, six special jurisdictions, and six RAOs. State governments match the federal grant dollars to create additional investments that support programs and initiatives that respond to constituent needs in arts education, organizational and community development, preservation of diverse cultures, and providing access to the arts. In FY 2021, the NEA provided more than \$108 million (including ARP funds) in federal support for projects that benefit local communities in partnership with the state and jurisdictional arts agencies and regional arts organizations.

Collaboration with the SAAs and RAOs extends beyond just grant-making. The NEA's *Poetry Out Loud* initiative relies on our SAA partners to conduct outreach to schools and educators. Likewise, for *Creative Forces*, SAAs are helping to build a support network of state, regional,

⁵ This analysis is based on project activity data from NEA Final Descriptive Reports (FDRs). The most recent data available from grantees' FDRs are from FY 2019, due to a lag occurring from the time of the agency's award of a grant to the conclusion of the grant period of support, and extending to the grantee's submission of the FDR.

⁶ This analysis is based on 2017-2019 project activity locations, and U.S. Census tracts, including Puerto Rico, in which Hispanics or non-whites were the predominant race/ethnicity, according to data from the 2015-2019 American Community Survey.

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and local partners that provide community-based arts activities for military and veteran families in states where military medical sites are operating.

National Endowment for the Arts and Research

Research into the value and impact of the arts is a core function of the National Endowment for the Arts. Through accurate, relevant, and timely analyses and reports, the NEA reveals the conditions and characteristics of the U.S. arts ecosystem and the impact of the arts on our everyday lives and in our nation's economy.

The National Endowment for the Arts is the national agency of record for arts-related research. As an example, its quadrennial [Survey of Public Participation in the Arts](#) is the most comprehensive survey of U.S. arts participation, with a nationally representative sample exceeding 35,000 adults.

Through our Research: Art Works grant category, the agency supports research that investigates the value and/or impact of the arts, either as individual components of the U.S. arts ecology or as they interact with each other and/or with other domains of American life. This program seeks to heighten the relevance and significance of arts-related research to both policy and practice.

Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable.



Ann C. Eilers
Acting Chair
November 15, 2021

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~ I. Management's Discussion and Analysis ~

The National Endowment for the Arts ("NEA") produces an Agency Financial Report (AFR) and an Annual Performance Report (APR). We will include our FY 2021 APR with our FY 2023 Congressional Budget Justification in February 2022 and will post it on the NEA Web site at www.arts.gov.

A. Mission, Organizational Structure, and Internal Operations

The mission of the Arts Endowment 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.

During its more than half-century of serving the American people, the Arts Endowment has become the largest funder of the arts and arts education nationwide, having awarded more than \$5.5 billion since its inception and, as a catalyst of public and private support for the arts, an essential institution for the nation. Established by Congress in 1965, the Arts Endowment has, in recent years, awarded on average 2,300 grants and cooperative agreements annually, funding the arts in all 50 states and six U.S. jurisdictions, including rural and urban areas, and reaching civilian and military populations. In Fiscal Year 2021, the agency made nearly 2,600 programmatic awards with an appropriation of \$167.5 million. In addition, the NEA received \$135 million through the American Rescue Plan (ARP) Act to fund grants that will support arts organizations and communities struggling in the wake of COVID-19. The agency received more than 7,500 applications for ARP direct grants, which is roughly four times more than the number received for an FY22 *Grants for Arts Projects* funding opportunity. The agency also exercises leadership through targeted support of key initiatives, research and evaluation, and domestic and international partnerships. NEA grantees include nonprofit organizations; units of state and local government; federally recognized tribal communities or tribes; and, where permitted, individuals.

By law, 40 percent of the NEA's grantmaking dollars are awarded to the nation's 56 state and jurisdictional arts agencies (SAAs) and the six regional arts organizations (RAOs). These funds are administered through Partnership Agreements with the SAAs and RAOs – an investment that catalyzes arts projects in thousands of communities across the country. Partnership Agreements allow the Arts Endowment to build and sustain local capacity for planning, programming, evaluation, and communications.

The National Endowment for the Arts 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](#). The Council is comprised of up to eighteen nationally and internationally renowned artists, distinguished scholars, and arts patrons appointed by the President and confirmed by the Senate. The Council also includes non-voting Congressional (ex officio) members who are appointed by Senate and House leadership from both sides of the aisle. The Council reviews and votes to approve or reject grant applications. Its recommendations for funding are sent to

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the NEA Chairman, who reviews those applications and makes the final decision on all grant awards. Currently, the Council has fifteen Presidential appointees and three ex officio members.

The NEA’s senior organizational leaders include a Senior Deputy Chairman, Deputy Chairman for Programs & Partnerships, Deputy Chairman for Management & Budget, Chief of Staff, Director of Strategic Communications & Public Affairs, General Counsel, and several others. Ann Eilers, the agency’s Deputy Chairman for Management & Budget, has been serving as the agency’s Acting Chairman since January 2021.⁷

The major program division, Programs & Partnerships, is chiefly responsible for handling the review of grant applications and management of cooperative agreements and leadership initiatives. During FY 2021, the agency operated with a staffing level of approximately 145 full-time equivalents. An organizational chart can be found at the end of section II.

B. Performance Goals, Objectives, and Results

The NEA supports excellent art with broad public reach in multiple disciplines across all 50 States, the District of Columbia, and special jurisdictions, reaching rural, suburban, and metropolitan areas, as well as military facilities. We are committed to providing the American people with access to the best of their artistic legacy. NEA support of the arts encourages artistic creativity and productivity that boosts the economies of our local communities and our nation. More than 5 million Americans work in industries that produce arts and cultural goods and services, receiving more than \$447 billion in compensation in 2019 (the most recent year for which such statistics are available). This contribution made up 4.3% (\$919.7 billion) of our nation’s GDP in 2019, up from \$877.8 billion in 2017. The arts contribute more to the U.S. economy than do construction, transportation and warehousing, mining, and agriculture combined, and they generate a widening trade surplus. From 2006 to 2019, this surplus grew 10-fold, to more than \$33 billion. On a state level, the arts and cultural sector added \$72.8 billion to the economies of rural states (i.e., states in which 30% or more of the population live in rural areas, equaling 18 states).⁸

Through our efforts on behalf of the American people, we strive to achieve the following:⁹

Goals:

1. Support art that meets the highest standards of excellence.
2. Cultivate public engagement with, and access to, various forms of excellent art across the nation.
3. Promote public knowledge and understanding about the contributions of the arts.
4. Enable the NEA mission through organizational excellence.

Objectives:

- Honor and support artistic activities and traditions across the nation.
- Expand the portfolio of American art.
- Strengthen the cultural infrastructure of the nation.

⁷ On October 5, 2021, the President announced a nomination for the Chair of the NEA.

⁸ All data in this paragraph from: [The U.S. Arts Economy in 2019: A National Summary Report, March 2021.](#)

⁹ [National Endowment for the Arts Strategic Plan FY 2018-2022.](#)

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- Provide opportunities for the American people to engage with the arts.
- Provide opportunities for the American people to acquire knowledge and skills in the arts at all stages of life.
- Provide opportunities for the arts to be integrated into the fabric of community life.
- Support access to creative arts therapies and evidence-based programs in the arts and health.
- Inform and engage with the American people about arts activities and artists in communities across the country and their importance to the vitality of the nation.
- Expand and promote evidence of the value and impact of the arts for the benefit of the American people.
- Provide opportunities for the international exchange of artists, artworks, and arts activities.
- Be an effective and vigilant steward of public funds.
- Be transparent and accountable to the public.
- Attract and maintain a diverse, creative, knowledgeable, productive, and motivated workforce.
- Recruit and engage citizens as panelists who will make recommendations for agency awards that meet the highest standards of excellence.
- Ensure that agency-funded activities reach a wide breadth of geographic locations and underserved populations across the country.

Results:

Here are some highlights of key activities and accomplishments from FY 2021 that supported the agency's ability to maintain a maximum telework operational status, while essentially doubling its usual level of activity.

1. Commitment to IT Modernization

IT modernization initiatives include the following related to our High Value Assets:

- Completed modernization efforts for our General Support System (GSS) including server and operating system upgrades, migration of file services to our cloud environment, and a new remote access system using their private access VPN replacement model. The GSS also includes our Software-as-a-Service email and collaboration system.
- Migrating logical access for all systems to a cloud-based Identity as a Service (IDaaS), resulting in all IT systems being managed from one user database using multi-factor authentication (MFA).
- Migrated our VoIP phone system to DC-Net, a program of the District of Columbia's Office of the Chief Technology Officer.
- Upgrading our arts.gov website to ensure it meets all cybersecurity and Section 508 requirements

2. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency's Strategic Plan and fulfill the agency mission. We manage our HC programs consistent with applicable internal controls and merit-based principles, and we build our

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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. Even during FY 2021’s extended period of maximum telework, the agency recruited and filled several key positions, and successfully supported a doubling of its programmatic appropriation due to the extra funding provided by the American Rescue Plan.

NEA management continues to conduct careful analyses to identify best approaches to strategically staff the organization to meet agency mission. The result has been a mix of solutions to address staffing or skill set shortages, including entering into interagency agreements and contracts to meet work requirements. As an example, the NEA leverages its resources through an agreement with the Office of Personnel Management (OPM) for human resource project planning and management support; candidate assessment and referral support; staffing consultation services; performance management system and support; and metrics and reporting services.

3. Effective Financial Management

The NEA leverages the financial system expertise of the U.S. Department of Transportation’s Enterprise Services Center (ESC), which provides an Oracle-based fully-compliant financial management system (Delphi) and financial services support; the Department of Agriculture’s National Finance Center (NFC) payroll services; ESC’s E2 travel system; and an automated grants management system (eGMS), developed and supported by the National Endowment for the Humanities, with economies of scale achieved through the use and funding by a cross-team of cultural agencies.

The agency’s most recent assessment of improper payment risk, which included the review of preventive and detective payment controls, noted that the NEA had an insignificant risk of significant improper payments. The agency’s most recent audit of DATA Act reporting found that the agency submissions were complete, timely, accurate, and of excellent quality.

Finally, since its first independent audit in 2003, the National Endowment for the Arts has received clean opinions every year on the agency’s annual financial statements.

C. COVID-Related Budgetary Resource Issues

American Rescue Plan Funding

In March 2021, President Biden signed the American Rescue Plan (ARP) Act, which included funding for the NEA to support organizations and jobs in the arts sector that have been impacted by the pandemic. The \$135 million allocated for the NEA in this historic legislation represents a significant commitment to the arts and a recognition of the value of the arts and culture sector to the nation’s economy and recovery, and also represented a doubling of our programmatic funding for the year.

In FY 2021, the NEA awarded \$52.110 million in funding for state and jurisdictional arts agencies and regional arts organizations, the first recommended awards of the ARP, by amending 62 prior year partnership agreements. In FY 2022, in the second phase of ARP

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funding, the NEA will award \$78.165 million directly to nonprofit arts organizations based on recommendations to be made at the October and December 2021 meetings of the National Council on the Arts. ARP funds do not require cost share/matching funds from grantees. All funds appropriated in the Act are available until expended.

The NEA moved quickly to develop guidelines and application materials for the competitive funding process. The goal was to craft a process that centered equity and access, reducing barriers to accessing funding, and engaging arts communities that might be new to federal funding. We encouraged applications from a variety of eligible organizations including those that might be applying for federal support through the NEA for the first time.

Direct grant funding under the ARP was made available through two separate competitive opportunities.

- The ARP Grants to Organizations program is being carried out through one-time grants to eligible organizations including, but not limited to, nonprofit arts organizations, local arts agencies, arts service organizations, units of state or local government, federally recognized tribal communities or tribes, and a wide range of other organizations that can help advance the goals of this program. Applicants could request a fixed grant amount of \$50,000, \$100,000, or \$150,000. The application window for these grants closed on September 2, 2021. The NEA reviewed the applications during the Summer and Fall of 2021, and intends to announce grant awards in December 2021.
- The ARP Grants to Local Arts Agencies for Subgranting program recognizes the central role local arts agencies play in supporting artists, enhancing the quality of life in their communities, and increasing public access to the arts. Local arts agencies are valued partners of the NEA, greatly extending our reach and impact to assist communities responding to the economic and health effects of the COVID-19 pandemic. The NEA will competitively award funds to designated local arts agencies for subgranting programs. Applicants could request a fixed grant amount of \$150,000, \$250,000, or \$500,000. The application window closed on August 2, 2021; the applications were reviewed during the Summer and Fall of 2021; and grant awards will be announced in November 2021.

The NEA received more than 7,500 grant applications for these two ARP funding opportunities. For context, this is about four times more grant applications than the Agency received under a *Grants for Arts Projects* FY 2022 funding opportunity. Additionally, about 21% of the grant applications received for the ARP Grants to Local Arts Agencies for Subgranting program were from first-time applicants to the NEA. These statistics are a testament to the success of the NEA’s extensive public engagement related to the funding opportunities for the American Rescue Plan.

The NEA is following a course to award these funds quickly to support arts organizations and communities struggling in the wake of COVID-19, while delivering effective and equitable relief and being vigilant stewards of these funds.

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CARES Act Grant Funding – An Update

Congress appropriated \$75 million to the NEA through the Coronavirus Aid, Relief and Economic Security (CARES) Act to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. Of the \$75 million, in FY 2020 the NEA awarded 855 direct grants totaling \$44.55 million to nonprofit arts organizations located in every State, the District of Columbia, and Puerto Rico. These nonmatching funds were targeted to support of staff salaries, fees for artists or contractual personnel, and facilities costs.

Additionally, the NEA awarded \$29.70 million directly to state and regional arts agencies to distribute through their funding programs. Each agency had its own process and timeline for awarding those funds; however, the NEA anticipates that together those entities will have made between 4,200 and 5,600 awards.

At the end of FY 2020, \$683,900 remained available for obligation. The NEA obligated these funds in FY 2021, with \$410,340 awarded as amendments to nine Local Arts Agencies and \$273,560 awarded as amendments to 5 partnership agreements to Regional Arts Organizations.

From the beginning, the NEA pursued both speed in making awards, and maintaining the agency's reputation for organizational excellence. Just 12 days after the President signed the CARES Act legislation, the NEA posted guidelines for direct funding applicants. In less than three weeks, the agency had announced awards to state arts agencies and regional arts organizations. By September 2020, all initial CARES Act funding allocated for grants had been awarded.

D. Core Programs

Through its direct grant-making, the NEA annually supports in the range of 40,000 concerts, readings, and performances, and more than 6,000 exhibitions of visual and media arts. In FY 2021, the NEA made approximately 2,500 direct awards totaling \$77.2 million through its core grantmaking programs. The majority of these grants went to small and medium-sized organizations (budgets less than \$2 million), which tend to support projects that benefit audiences that otherwise might not have access to arts programming. Other funders annually provide more than \$500 million in further support of these NEA-funded projects; in our direct grant-making categories alone, the ratio of matching to federal funds currently approaches 9:1, far surpassing the required non-federal match of at least one to one. The NEA's reach is extended even further through the 40% of our grantmaking funds that, by statute, are awarded to the State Arts Agencies and Regional Arts Organizations, reaching millions more people in more than 16,000 communities in every Congressional district in the country.

Grantees' final reports provide the bulk of the information that allows us to report what we actually achieve 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

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Performance Report in February 2022) indicate that our goals for these programs are being met and that our programs are effective.

The NEA’s core programs include signature initiatives that extend the reach of the agency through partnerships with State Arts Agencies, Regional Arts Organizations, and other partners. These include *Poetry Out Loud*, *Musical Theater Songwriting Challenge*, *Shakespeare in American Communities*, *NEA Big Read*, and *Our Town*. In addition, the agency maintains a commitment to award at least one direct grant in every Congressional district (achieved consistently since 2004).

[*Poetry Out Loud*](#) (POL) is a national arts education program that encourages high school students to learn about great poetry through memorization and performance. This program helps students master public speaking skills, build self-confidence, and learn about literary history and contemporary life. During the school year, POL annually serves more than 300,000 students from every State, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa. Since its start in 2005, more than 4.1 million students and 68,000 teachers from 17,000 high schools have participated in *Poetry Out Loud* nationwide. A [fact sheet](#) summarizes the results of a national study on the impact of the program.

The [*Musical Theater Songwriting Challenge*](#) is a national competition for high school students who have a passion for writing songs that could be part of a musical theater production. The goal of the program is to engage the musical theater field in nurturing the next generation of songwriters. Launched as a pilot program in 2016, the program pairs twelve national finalists with professional musical theater artists to develop the students’ original song into a Broadway-stage-ready composition. Their song is then recorded by Broadway musicians and vocalists in New York City. Final songs are premiered on iHeartRadio Broadway, distributed on streaming music platforms, and compiled into a songbook created by Concord Theatricals. During the most recent program cycle, nearly 200 applications were submitted by high school students from 41 States, the District of Columbia, and Puerto Rico.

[*Shakespeare in American Communities*](#) is a national theater program bringing performances and related educational activities to audiences across the country. Since 2003, it has introduced 3 million middle and high school students to the power of live theater and the masterpieces of William Shakespeare through performances and educational activities. Nearly 130 theater companies from across the country have provided more than 13,000 performances and more than 51,000 related educational activities at more than 11,000 schools and juvenile justice facilities in 4,500 communities across all 50 States, the District of Columbia, and the U.S. Virgin Islands.

The [*NEA Big Read*](#) offers grants to support innovative community reading programs designed around a single book. Showcasing a diverse range of titles that reflect many different voices and perspectives, the program aims to inspire conversation and discovery. Since 2006, the NEA has funded more than 1,600 local *NEA Big Read* programs, providing more than \$22 million in grants to organizations nationwide. *NEA Big Read* activities have reached every Congressional district in the country, and grantees have leveraged more than \$50 million in local matching funds to support their

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NEA Big Read programs. More than 5.7 million Americans have attended an *NEA Big Read* event, approximately 91,000 volunteers have participated at the local level, and more than 39,000 community organizations have partnered to make *NEA Big Read* activities possible.

[*Our Town*](#), the NEA's creative placemaking grant program, builds on the NEA's longstanding support for communities and the ability of the arts to strengthen them. Since 2011, the agency has funded more than 700 projects in all 50 States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and the Northern Mariana Islands. *Our Town* supports local partnership projects that have social, economic or physical impacts. The ultimate goal of *Our Town* is to sustain support and recognition of arts, design, and cultural strategies as integral to every phase of community development across the United States. To view past awards, go to [Recent Grants search](#). To learn more about the program: [Our Town: A Framework for Understanding and Measuring the National Endowment for the Arts' Creative Placemaking Grants Program](#).

E. Arts Education

The National Endowment for the Arts envisions a nation where every student is engaged and empowered through an excellent arts education. This vision 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. [Studies](#) have shown that students with an education rich in the arts have higher grade point averages and standardized test scores, and lower drop-out rates. In addition, research also shows that students from low socioeconomic backgrounds, as well as students of color, are more likely to attend schools without arts education programs.

Our Arts Education funding is focused on providing arts education for all students, and closing the opportunity gap for students who have the least arts education access. In addition to funding projects for pre-K-12th grade students through Direct Learning grants, and the educators and teaching artists who support them through Professional Development grants, the agency also funds the systems and communities that serve students through Collective Impact grants.

Collective Impact projects leverage the NEA's investments for deeper impact. These projects transform schools, school districts, and neighborhoods by providing access and engagement in the arts *for all students* through collective, systemic approaches. Collective Impact grants are awarded at higher amounts for longer-term, large-scale projects that create lasting change tailored to community needs, fundamentally altering the ways in which the components and structures of a system behave and interact over time. In FY 2021, the NEA awarded 13 Arts Education Collective Impact grants totaling \$1,124,000.

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) the Arts Education Partnership, 2) State Arts Agency Arts Education Managers; and 3) State Education Agency Directors of Arts Education. 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.

- [Arts Education Partnership \(AEP\)](#): Through a cooperative agreement with [Education Commission of the States](#) (ECS), jointly funded by the U.S. Department of Education,

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the NEA provides annual support for AEP, the nation’s hub for arts and education leaders, building their leadership capacity to support students, educators, and learning environments. AEP was established in 1995 by the NEA and the U.S. Department of Education.

- *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 an annual Professional Development Institute for state arts agency arts education managers. The Institute provides meaningful learning opportunities for new and seasoned arts education managers, as well as a peer network of knowledgeable arts education leaders.
- *Collaboration with the State Education Agencies Directors of Arts Education (SEADAE):* The NEA provides support to SEADAE, a nonprofit professional membership organization, whose members consist of individuals at state education agencies who are responsible for dance, media arts, music, theater and/or visual arts education. SEADAE provides professional development and technical assistance to increase the professional effectiveness of individual members and provides a collective voice for leadership on issues affecting arts education.

F. Federal Partnerships

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

Healing Arts

[*Creative Forces: NEA Military Healing Arts Network*](#) is a national initiative led by the NEA in partnership with the Departments of Defense, Veterans Affairs, and State and local arts agencies. The mission of *Creative Forces* is to improve the health, wellness, and quality of life for military and veteran populations exposed to trauma, as well as their families and caregivers, by increasing knowledge of and access to clinical creative arts therapies and community arts engagement. More than 500,000 men and women of our armed services are living with Traumatic Brain Injury (TBI) or Post Traumatic Stress Disorder (PTSD).

The program has three components: **creative arts therapies** (including art therapy, music therapy, and dance movement therapy, as well as creative writing instruction), which are at the core of patient-centered care in military and veteran medical facilities, as well as a telehealth program for patients in rural and remote areas; increased **community-based arts** opportunities for military and veteran family populations around clinical site locations; and investments in **capacity-building efforts**, including an online [National Resource Center](#), manuals, training, and support for research on the impacts and benefits of the treatment methods.

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The initiative continues to expand and grow; in 2021, the NEA announced [Creative Forces Community Engagement grants](#) to support emerging and established non-clinical arts engagement projects. Creative Forces also continues to invest in [research](#) on the impacts and benefits – physical, emotional, social, and economic – of creative arts therapies as innovative treatment methods for military and veteran-connected populations who have been exposed to trauma.

Arts and the Economy

The NEA and the Bureau of Economic Analysis, in the U.S. Department of Commerce, created the first-ever Arts and Cultural Production Satellite Account (ACPSA) in 2013 to measure arts and cultural contributions to the gross domestic product (GDP). The [most recent estimates](#) showcase the long-term contributions of the arts to the GDP of the nation, specifically covering the period from 1998 to 2019. Among the new findings released on March 30, 2021 are:

1. The arts and cultural production contributed more than \$919.7 billion to the U.S. economy in 2019, representing 4.3 percent of the GDP. This amount remains greater than the value added by such industries as construction, transportation and warehousing, mining, and agriculture.
2. More than 5.2 million workers were employed in the production of arts and cultural goods, receiving more than \$447 billion in compensation.
3. The arts trended positively between 2017 and 2019, with an average growth rate of 3 percent.
4. The U.S. exports roughly \$33 billion more in arts and cultural goods and services than it imports, resulting in a trade surplus.

Starting in FY 2017, statistics have been produced spotlighting the [economic impact of arts and cultural activities in each state and the District of Columbia](#). As an example, the data show that the arts and cultural sector added \$72.8 billion to the economies of rural states – i.e., states in which 30% or more of the population live in rural areas, equaling 18 states.

Support for Historically Black Colleges and Universities

The NEA continues to be an active member of the White House Initiative for Historically Black Colleges and Universities (HBCUs). The foundation of the agency’s efforts is direct outreach to HBCUs, meetings between NEA staff and HBCU representatives, and changes to agency grant guidelines to specifically encourage HBCU applications. Since 2018, the NEA has engaged with 74 out of 102 HBCUs.

In September 2021, the NEA participated in the HBCU Virtual Conference. The NEA’s Chief of Staff, Ra Joy, and Saquoya Gorham, a student participant in the NEA’s *Poetry Out Loud* program, presented in one session, and NEA staff participated in another session on *Demystifying the Process: Best Practices for Applying for Federal Arts, Humanities, and Culture Grants*.

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Native Arts and Culture

Working with Native-led national service organizations and an interagency federal working group, the NEA has carried out strategic outreach to Native communities and artists since 2016. Outreach includes nation-to-nation work with tribal governments, reservation communities, and Tribal Colleges and Universities (TCUs), and at conferences and convenings of indigenous leaders and organizations. Outreach also includes recruitment of Native artists and community leaders to participate as panelists to review grant applications.

As building relationships with TCUs is a high priority for the NEA, the agency also works in coordination with the [White House Initiative on American Indian and Alaska Native Education](#). The initiative, located within the Department of Education, seeks to support activities that expand education opportunities and improve education outcomes for all American Indian and Alaska Native students.

On April 7, 2021, the NEA hosted a tribal consultation to discuss President Biden’s [Memorandum on Tribal Consultation and Strengthening Nation-to-Nation Relationships](#). The purpose of this meeting was to update tribal leaders on the NEA’s engagement with Native cultural leaders, to use the input of tribal leaders to inform our Nation-to-Nation consultation plan, and to inform our work related to the [Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government](#). On August 10, 2021, the NEA hosted a tribal consultation for elected leaders of federally-recognized tribes to respond to the Agency’s [draft policy on Tribal Consultation](#).

Disaster Recovery

The NEA supports the recovery of arts and cultural communities devastated by major disasters through financial support, technical and policy assistance, and leadership. Since FY 2018, the NEA has served as a member agency in the federal Natural and Cultural Resources Recovery Support Function (NCRRSF), working in coordination with other federal agencies, such as the Federal Emergency Management Agency (FEMA) and the Department of Interior. In recent years, NEA staff have been deployed multiple times to the U.S. Virgin Islands and Puerto Rico to assist in the wake of Hurricanes Irma and Maria.

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:

[Blue Star Museums](#): The NEA continues to collaborate with the Department of Defense, Blue Star Families, and museums across America to offer free admission all summer long to active duty military members and their families. It is estimated that the program serves annually more than 900,000 active-duty military personnel and their families at more than 2,000 museums nationwide, including children's museums, fine art museums, history and science museums, zoos, and nature centers. Due to the

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coronavirus pandemic, the program was not conducted during the summer of 2020, but resumed at a reduced level in 2021.

[Federal Interagency Task Force on the Arts and Human Development](#): A task force of 20 federal agencies and departments, including the Department of Health and Human Services, the Department of Education, the National Institutes of Health, and the National Science Foundation, has been convened by the NEA 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 meets quarterly to share ideas and information about research gaps and opportunities for understanding the arts’ role in improving health and educational outcomes throughout the lifespan, and has conducted a series of public webinars on compelling research and practices. Additionally, the group has collaborated on reports, research announcements, and convenings about the arts and human development.

G. Research and Program Evaluation Highlights

Research and evaluation regarding the value and impact of the arts is a core function of the National Endowment for the Arts. Through accurate, relevant, and timely analyses and reports, the NEA reveals the conditions and characteristics of the U.S. arts ecosystem and the impact of the arts on our everyday lives and economy. The NEA is the national agency of record for arts-related research and evaluation; examples include:

- [*WE-Making: How Arts & Culture Unite People to Work Toward Community Well-Being*](#), published in April 2021, shows that place-based arts and cultural practices, or creative placemaking, can help grow social cohesion to encourage community well-being. Developed with support from the NEA, the Kresge Foundation, and other funders, *WE-Making* breaks new ground by synthesizing research from different areas of study along with on-the-ground experiences of artists and researchers, practitioners in community development, and advocates for health equity. The report distills that information into key terms and concepts that together demonstrate that social cohesion nurtures coordinated community organizing and can lead to increased community well-being.
- The report, [*The Art of Reopening: A Guide to Current Practices Among Arts Organizations During COVID-19*](#) (January 2021), presented the results of a mixed methods study about reopening practices of arts organizations that resumed in-person programming in 2020, during the pandemic. The report presents promising tactics and insights through nine case studies.
- The report, [*Arts Strategies for Addressing the Opioid Crisis: Examining the Evidence*](#) (October 2020), reviews and analyzes 20 years of evidence about the arts’ use in pain management and in treatment of substance abuse disorders; it also highlights promising arts-based strategies in these practice areas
- [Creative Forces](#) invests in research on the impacts and benefits – physical, social, and emotional – of creative arts therapies as innovative treatment methods. Creative

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Forces is committed to the pursuit and promotion of clinically relevant biomedical and behavioral research on the effectiveness of creative arts therapies for service members, veterans, family members, and caregivers. Several strategies are critical to the success of our research program. They include: informed selection of rigorous research designs; support for multisite studies; funding of research opportunities at Creative Forces sites, and collaboration with other health/rehabilitation disciplines and partners. The [National Resource Center](#) (NRC) maintains all research, publications, and more information related to Creative Forces, including links to all published Creative Forces clinical research studies.

- As in previous years, the NEA partnered with the Bureau of Economic Analysis (U.S. Department of Commerce) to provide annual reports of the economic impact of arts and culture in the United States. These reports are based on supplementary statistics called the [Arts and Cultural Production Satellite Account](#) (ACPSA). The ACPSA measures the total economic output for arts and cultural industries and goods and services, as well as total employment and compensation numbers for workers in those industries. It also tallies consumer spending on arts and culture and import/export activity. The time series format of ACPSA data makes it possible for researchers, policy-makers, and industry groups to monitor short- and long-term trends in arts and cultural production. The BEA routinely publishes articles based on these estimates, while the NEA publishes [arts data profiles](#) that feature ACPSA research briefs, interactive graphics, and data tables. Also, on an annual basis, the NEA and BEA estimate and report state-level figures from the ACPSA. These data are presented in fact-sheets (one for each state), data tables, research briefs, and maps. The related [Creative Economy State Profiles](#) – a set of online dashboards that the NEA has created in partnership with the National Assembly of State Arts Agencies – explores state-level ACPSA data through figures, including: value added to state economies through arts and cultural production, as well as employment and compensation figures for the creative workforce.

Through our [Research Grants in the Arts](#) grant category, the NEA supports research that investigates the value and/or impact of the arts, either as individual components of the U.S. arts ecology or as they interact with each other and/or with other domains of American life. This program seeks to heighten the relevance and significance of arts-related research to policy and practice.

Through the [NEA Research Labs](#) program, the NEA seeks to cultivate a series of transdisciplinary research partnerships, grounded in the social and behavioral sciences to produce and report empirical insights about the arts for the benefit of the arts and non-arts sectors alike. Now in its sixth year, *NEA Research Labs* are housed at universities and made up of transdisciplinary teams of researchers that explore the arts in one of three topic areas; health and social/emotional well-being; creativity, cognition, and learning; and entrepreneurship and innovation. These labs illustrate not only the significant role that the arts play in advancing our understanding of other fields but also in showing the effectiveness of diverse teams – including researchers, artists, and arts administrators – working together to produce knowledge. With the addition of several new research labs funded in FY 2021, there are now 19 active *NEA Research Labs* across the country.

H. Analysis of Systems, Controls, and Legal Compliance

The NEA 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.

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I. Management Assurances

National Endowment for the Arts management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA). The NEA conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Arts Endowment can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2021.



Head of Agency

J. Financial Highlights

The Arts Endowment's principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

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.

The Arts Endowment's FY 2021 annual appropriation was \$167.5 million, an increase of \$5.25 million over FY 2020. Additionally, the Arts Endowment received \$135 million in FY 2021 through the American Rescue Plan to aid in the recovery from the economic and health effects of the COVID-19 pandemic. Appropriations are the primary source of financial resources for the agency, so the financial position of the Arts Endowment generally trends with the amount of appropriations received each year.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2021 and FY 2020 are provided below:

- Fund Balance with Treasury – The \$116.6 million increase was due to the net \$131.4 million increase from the American Rescue Plan Act of 2021. In addition, there was an increase of \$24.1 million in program funds year-over-year offset by \$39.0 million decrease in CARES Act funds.
- Accounts Receivable – The \$91,669 decrease represents a \$95,500 write-off of one uncollectible account offset by a \$3,829 year-over-year increase in other accounts receivable.
- Property, Plant and Equipment – The original purchase price less accumulated depreciation is reflected on the balance sheet. The \$161,704 increase is due to a capitalized purchase of equipment for \$288,659, offset by retirement of old equipment for \$186,667. Additionally, there is a \$59,711 year-over-year increase in depreciation expenses.
- Advances and Prepayments – The \$22,654 decrease is due to the return of advances from the employee public transit program. Due to COVID-19, most employees teleworked; as a result, the amount for transit benefits is not comparable to the previous year.
- Federal Employee Benefits Payable – The \$224,962 represents an increase in employee accrued leave.

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- **Grant Accrued Liabilities** – The \$22.0 million increase in accrued liabilities is attributable to open obligations and associated accrual related to American Rescue Plan grants, as well as an increase in open obligations within regular grants, which affected the accrual.
- **Net Position** – The \$94.3 million increase in net position is attributed to a \$116.6 million increase in total assets and a \$22.3 million increase in total liabilities year-over-year.
- **Total Financing Sources** – The \$30.1 million change year-over-year represents an increase in appropriations used.
- **Total Net Cost** – The \$28.7 million increase in net cost year-over-year is attributable to \$30.4 million in program costs offset by a \$1.7 million increase in earned revenue.

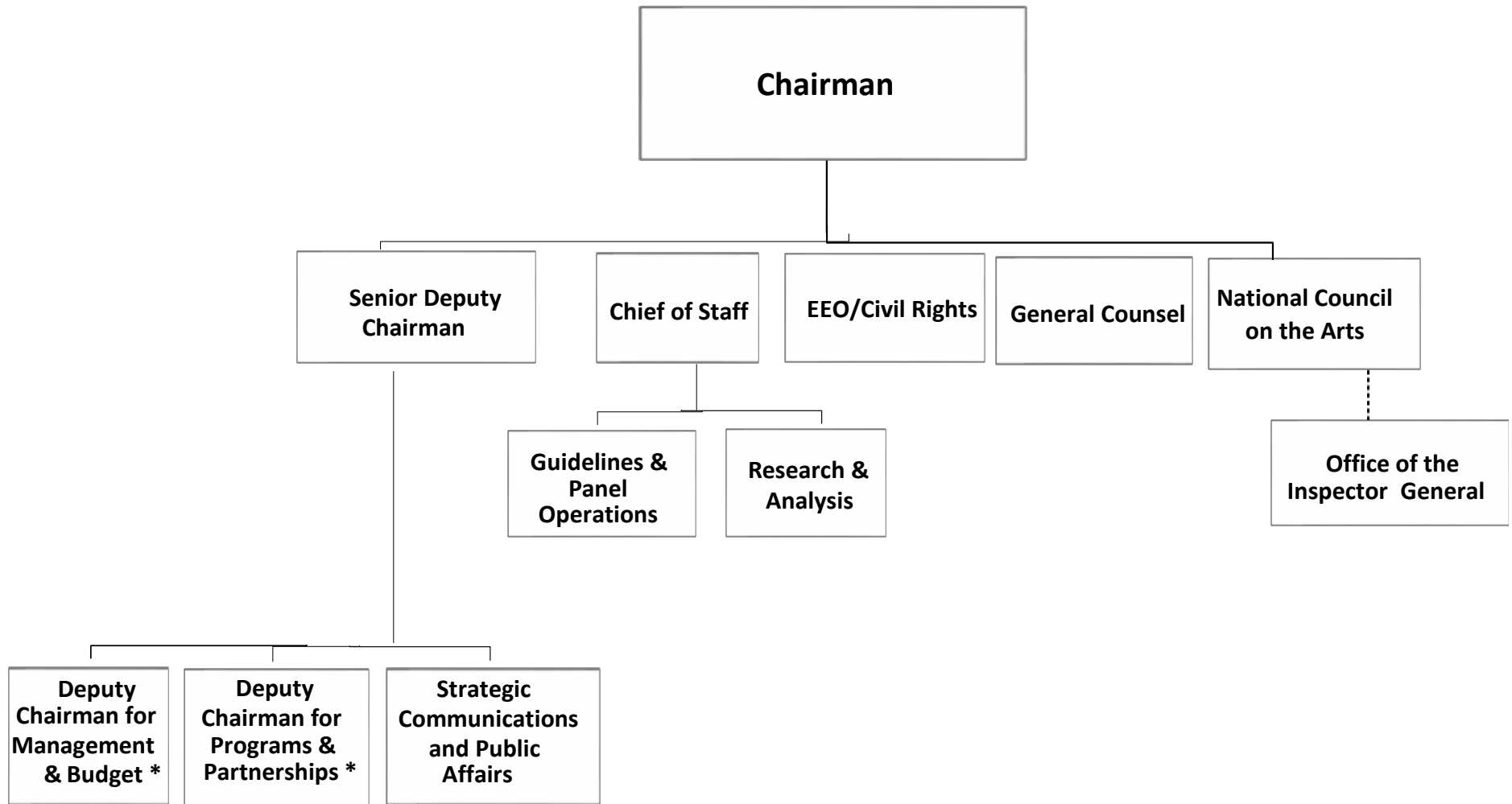
Overall, the current financial condition of the Arts Endowment is strong. As mentioned above, the Arts Endowment's programs and operations are funded primarily through appropriated funding provided by Congress and approved by the President. Therefore, year to year changes in the agency's financial condition are highly dependent on these appropriated funding levels.

The agency received an unmodified audit opinion on its FY 2021 financial statements as presented later in this report. This is the agency's 19th consecutive year receiving a "clean" audit opinion.

National Endowment for the Arts Table of Key Measures				
In Dollars	2021	2020	Increase/(Decrease)	
COSTS ¹				
Total Financing Sources	\$ 210,097,937	\$ 179,968,465	\$ 30,129,472	(16.74%)
Less: Net Cost	\$ 209,633,170	\$ 180,921,591	\$ 28,711,579	(15.87%)
Net Change of Cumulative Results of Operations	\$ 464,767	\$ (953,127)	\$ 1,417,893	(148.76%)
NET POSITION ²				
Assets:				
Fund Balance with Treasury	\$ 337,153,409	\$ 220,503,701	\$ 116,649,708	52.90%
Accounts Receivable	\$ 3,844	\$ 95,514	\$ (91,669)	(95.98%)
Property, Plant, and Equipment	\$ 397,645	\$ 235,941	\$ 161,704	68.54%
Advances and Prepayments	\$ 16,074	\$ 38,728	\$ (22,654)	(58.49%)
Total Assets	\$ 337,570,972	\$ 220,873,884	\$ 116,697,089	52.83%
Liabilities:				
Advances from Others and Deferred Revenue	\$ 895,000	\$ 875,000	\$ 20,000	2.29%
Accounts Payable	\$ 65,440	\$ 71,542	\$ (6,102)	(8.53%)
Federal Employee Benefits Payable	\$ 1,883,148	\$ 1,638,186	\$ 244,962	14.95%
Grant Accrued Liability	\$ 75,080,000	\$ 53,090,000	\$ 21,990,000	41.42%
Other	\$ 1,413,433	\$ 1,308,229	\$ 105,205	8.04%
Total Liabilities	\$ 79,337,021	\$ 56,982,957	\$ 22,354,064	39.23%
Net Position (Assets minus Liabilities)	\$ 258,233,951	\$ 163,890,927	\$ 94,343,024	57.56%

1. Source: Statement of Changes in Net Position
2. Source: Balance Sheet

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** Currently reporting to the Acting Chair.*

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~ II. Financial Information ~

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Independent Auditor's Report

Acting Chairman
National Endowment for the Arts

Inspector General
National Endowment for the Arts

In our audits of the fiscal years 2021 and 2020 financial statements of The National Endowment for the Arts (NEA), we found:

- NEA's financial statements as of and for the fiscal years ended September 30, 2021 and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;¹ and
- no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)² and other information included with the financial statements;³ (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, we have audited NEA's financial statements. NEA's financial statements comprise the balance sheets as of

¹A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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 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.

²The RSI consists of the Message from the Chairman, Management's Discussion and Analysis, and Management Assurances, which are included with the financial statements.

³Other information consists of information included with the financial statements, listed in the Other Information section in the Table of Contents.

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants/ Management Consultants

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September 30, 2021, and 2020; the related statements of net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 21-04. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

NEA's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

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

Opinion on Financial Statements

In our opinion, NEA's financial statements present fairly, in all material respects, NEA's financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

NEA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on NEA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audits of NEA's financial statements, we considered NEA's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to NEA's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

NEA's management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audit of NEA's financial statements as of and for the year ended September 30, 2021, in accordance with U.S. generally accepted government auditing standards, we considered NEA's internal control over financial reporting 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 NEA's internal control over financial reporting. Accordingly, we do not express an opinion on

NEA's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies⁴ or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of NEA's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the NEA's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the NEA's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of NEA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

⁴A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Management's Responsibility

NEA's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to NEA.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to NEA that have a direct effect on the determination of material amounts and disclosures in NEA's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to NEA.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2021 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to NEA. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, NEA's management provided a written response which is reprinted in **Appendix I**. We did not audit NEA's response and accordingly, we express no opinion on the response.

Williams, Adley & Company - DC, LLP

Washington, D.C.
November 10, 2021



Date: November 10, 2021
To: Ron Stith, Inspector General
From: James Tunnessen, Acting Deputy Chairman for Management and Budget
Subject: Management's Response to Independent Auditor's Report for Fiscal Year (FY) 2021

We reviewed the draft Independent Auditor's Report on the National Endowment for the Arts' (the NEA) FY 2021 financial statements. The NEA has received its 19th consecutive unmodified audit opinion on its financial statements, and had no material weaknesses or significant deficiencies. I commend the NEA staff for their strong contributions and commitment to continuously improving agency operations and internal controls.

I would like to thank your staff, as well as Williams Adley and Company, for their professionalism during the audit.

**JAMES
TUNNESSEN**

Digitally signed by JAMES
TUNNESSEN
Date: 2021.11.10 16:41:41 -05'00'

James Tunnessen
Acting Deputy Chairman for Management & Budget



Audited Financial Statements and Notes
September 30, 2021 and 2020

*National Endowment for the Arts – FY 2021 Agency Financial Report
Financial Information*

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NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

BALANCE SHEETS
As of September 30, 2021, and September 30, 2020
(In Dollars)

	2021	2020
Assets (Notes 2-6, and 15):		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 337,153,409	\$ 220,503,701
Advances and Prepayments (Note 6 and 15)	16,074	38,728
Total Intragovernmental	337,169,483	220,542,429
Assets With the Public:		
Accounts Receivable, Net (Note 3)	3,844	95,514
General Property, Plant, and Equipment, Net (Note 4)	397,645	235,941
Total Assets	<u>\$ 337,570,972</u>	<u>\$ 220,873,884</u>
Liabilities (Notes 7-9):		
Intragovernmental:		
Advances from Others and Deferred Revenue (Note 8)	\$ 895,000	\$ 875,000
Other (Note 8)	345,959	252,159
Total Intragovernmental	1,240,959	1,127,159
Liabilities With the Public:		
Accounts Payable (Note 7)	65,440	71,542
Federal Employee and Veteran Benefits Payable (Note 8)	1,883,148	1,638,186
Other (Note 8)	1,067,474	1,056,070
Grants Accrual (Note 8 and 9)	75,080,000	53,090,000
Total Liabilities	<u>\$ 79,337,021</u>	<u>\$ 56,982,957</u>
Net Position:		
Unexpended Appropriations - Funds From Dedicated Collections	\$ -	\$ 115
Unexpended Appropriations - All Other Funds	256,099,561	162,221,188
Cumulative Results of Operations - Funds From Dedicated Collections (Note 12)	3,442,648	2,900,769
Cumulative Results of Operations - All Other Funds	(1,308,257)	(1,231,145)
Total Net Position	258,233,951	163,890,927
Total Liabilities and Net Position	<u>\$ 337,570,972</u>	<u>\$ 220,873,884</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

STATEMENT OF NET COST
For the Years Ended September 30, 2021 and September 30, 2020
(In Dollars)

	<u>2021</u>	<u>2020</u>
Program Costs: (Note 13)		
Gross Costs	\$ 211,611,548	\$ 181,163,861
Less: Earned Revenue	<u>1,978,378</u>	<u>242,270</u>
Net Program Costs	\$ 209,633,170	\$ 180,921,591
Net cost of operations	<u>\$ 209,633,170</u>	<u>\$ 180,921,591</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2021 and September 30, 2020
(In Dollars)

	<u>2021</u>	<u>2020</u>
BUDGETARY RESOURCES		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 12,124,011	\$ 14,213,017
Appropriations (discretionary and mandatory)	303,063,675	237,854,988
Spending authority from offsetting collections (discretionary and mandatory)	889,425	520,150
Total budgetary resources	<u>\$ 316,077,111</u>	<u>\$ 252,588,155</u>
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total) (Note 14)	\$ 221,156,394	\$ 242,006,598
Unobligated balance, end of year:		
Apportioned unexpired accounts	91,127,244	7,408,039
Exempt from apportionment unexpired accounts	3,415,977	2,887,459
Unapportioned unexpired accounts	377,496	286,059
Unexpired unobligated balance, end of year	94,920,717	10,581,557
Expired unobligated balance, end of year	-	-
Total budgetary resources	<u>\$ 316,077,111</u>	<u>\$ 252,588,155</u>
OUTLAYS, NET		
Outlays, net (total) (discretionary and mandatory)	\$ 186,413,967	\$ 178,512,722
Distributed offsetting receipts (-)	(563,675)	(604,988)
Agency outlays, net (discretionary and mandatory)	<u>\$ 185,850,292</u>	<u>\$ 177,907,734</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2021 and September 30, 2020
(In Dollars)

	2021			2020		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balance	\$ 115	\$ 162,221,188	\$ 162,221,303	\$ 115	\$ 103,437,444	\$ 103,437,559
Adjustment	-	-	-	-	-	-
Beginning Balance, as adjusted	115	162,221,188	162,221,303	115	103,437,444	103,437,559
Appropriations received	-	302,500,000	302,500,000	-	237,250,000	237,250,000
Appropriations used	(115)	(208,621,627)	(208,621,742)	-	(178,466,256)	(178,466,256)
Net Change in Unexpended Appropriations	(115)	93,878,373	93,878,258	-	58,783,744	58,783,744
Total Unexpended Appropriations - Ending	-	256,099,561	256,099,561	115	162,221,188	162,221,303
Cumulative Results from Operations:						
Beginning Balance	2,900,769	(1,231,145)	1,669,624	2,651,087	(28,337)	2,622,750
Adjustment	-	-	-	-	-	-
Beginning Balance, as adjusted	2,900,769	(1,231,145)	1,669,624	2,651,087	(28,337)	2,622,750
Other Adjustments (+/-)	-	-	-	-	-	-
Appropriations Used	115	208,621,627	208,621,742	-	178,466,256	178,466,256
Donations	563,675	-	563,675	604,988	-	604,988
Imputed Financing	-	912,520	912,520	-	897,221	897,221
Net Cost of Operations (+/-)	21,911	209,611,259	209,633,170	355,306	180,566,285	180,921,591
Net Change	541,879	(77,112)	464,767	249,682	(1,202,808)	(953,126)
Cumulative Results of Operations - Ending	3,442,648	(1,308,257)	2,134,391	2,900,769	(1,231,145)	1,669,624
Net Position	\$ 3,442,648	\$ 254,791,304	\$ 258,233,951	\$ 2,900,884	\$ 160,990,043	\$ 163,890,927

The accompanying notes are an integral part of these statements.

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

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

These statements were prepared from the accounting records of the Agency in conformance with U.S. generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular A-136, Financial Reporting Requirements (Circular A-136), revised August 10, 2021.

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 Arts Endowment. All operations of the Arts Endowment fall under the category of general funds for government accounting purposes. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

C. Basis of Accounting

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of funds. The Arts Endowment's financial statements are prepared in conformity with GAAP set forth by the Federal Accounting Standards Advisory Board (FASAB).

Created in 1990, OMB's 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.

NOTE 1: Significant Accounting Policies (Continued)

D. Revenues and Other Financing Sources

The Arts Endowment 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.

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.

The Arts Endowment 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.

The Arts Endowment enters into intragovernmental reimbursable agreements. The Arts Endowment'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. Additionally, some funds are donations that may carry restrictions as to the use of funds. See Note 2 for additional information.

F. Advances and Prepayments

The Arts Endowment's interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by the Arts Endowment, 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.

Prepayments are amounts paid for by the Arts Endowment in advance of the goods or services being received. Prepayments also include payments to vendors for the portion of services that extend beyond the current fiscal year.

NOTE 1: Significant Accounting Policies (Continued)

G. General Property, Plant and Equipment, Net

The Arts Endowment's policy is to depreciate property, plant and equipment over the estimated useful life of the asset using the straight-line method. The Arts Endowment's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases or 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 the Arts Endowment 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

Federal accounting standards and applicable federal laws and Treasury regulations guide the management of accounts receivable, recognition of losses, and write-off of accounts receivable. For delinquent accounts, collection efforts such as demand letters are made. In accordance with federal law, the Arts Endowment refers accounts that they identify as uncollectible to the U.S. Department of the Treasury, Bureau of the Fiscal Service (Fiscal Service), for appropriate collection action and advice.

Allowance method is used to measure receivables. Losses on receivables shall be recognized when it is more likely than not that the receivables will not be totally collected. The phrase "more likely than not" means more than a 50 percent chance of loss occurrence. An allowance for estimated uncollectible amounts shall be recognized to reduce the gross receivables to its net realizable value. If the delinquency is less than two years from the date of delinquency, according to Treasury regulations, the uncollectible receivable can be written-off.

NOTE 1: Significant Accounting Policies (Continued)

In 2021, the Arts Endowment recognized a loss of \$95,500 of a receivable as it was determined that it is more likely than not that the receivable will not be collected. According to OMB Circular No. A-129, Treasury's guidance on Managing Federal Receivables, and Statement of Federal Financial Accounting Standards (SFFAS) 1, interest is charged at 1 percent, or \$7,544.50, and penalty is set at 6 percent, or \$45,267, respectively.

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

Arts Endowment 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 FERS, a TSP account is automatically established and the Arts Endowment makes a mandatory one percent contribution to this account. In addition, the Arts Endowment 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, the Arts Endowment remits the employer's share of the required contribution.

The Arts Endowment 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 (OPM).

M. Imputed Benefit Costs

The Arts Endowment 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.

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."

Q. Fiduciary Activities

Various artists have loaned their artwork to the Arts 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

The Arts Endowment operates under an annual strategic plan that establishes goals and objectives. This plan has three programs: Arts Creation, Engagement with the Arts, and Contribution of the Arts. Costs for grants are recorded under these programs.

S. Effects of Recent Accounting Pronouncements

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. Accordingly, modifications may have been made to certain presentations and disclosures in accordance with SFFAS 56. Additionally, the Reconciliation of Net Cost to Net Outlays footnote has been presented in accordance with SFFAS 53.

T. Rounding

Some totals and amounts reflected on the financial statements and in the notes may differ due to rounding.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

NOTE 2: Fund Balance with Treasury

Status of Fund Balance with Treasury	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Unobligated Balance:		
Available - Other	\$ 91,504,740	\$ 7,694,098
Available - Trust	3,415,977	2,887,459
Subtotal - Available	<u>\$ 94,920,717</u>	<u>\$ 10,581,557</u>
 Obligated Balance not yet Disbursed Other	 \$ 242,233,632	 \$ 211,045,168
Obligated Balance not yet Disbursed Trust Fund	26,556	13,425
Subtotal - Obligated	<u>242,260,188</u>	<u>211,058,593</u>
Unfilled/Billed Reimbursable Orders	(27,496)	(1,136,449)
 Total Fund Balance with Treasury	 <u>\$ 337,153,409</u>	 <u>\$ 220,503,701</u>

There are no unreconciled differences between the general ledger and Treasury.

NOTE 3: Accounts Receivable, Net

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ -	\$ 95,500
Receivables Due from the Public	3,844	14
	<u>\$ 3,844</u>	<u>\$ 95,514</u>
Allowance for Uncollectible	-	-
 Net Receivables	 <u>\$ 3,844</u>	 <u>\$ 95,514</u>

The nonentity receivable of \$95,500 is from a 1986 agency grants program. The amount decreased in 2021 due to its seriously delinquent status. A loss is recognized given it was determined that the likelihood of collection is less than 50%. See Note 1.J.

NOTE 4: General Property, Plant, and Equipment, Net

<u>Class of Property</u>	<u>September 30, 2021</u>			<u>September 30, 2020</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture & Equipment	\$ 876,642	\$ 478,997	\$ 397,645	\$ 774,649	\$ 538,708	\$ 235,941
 Total	 <u>\$ 876,642</u>	 <u>\$ 478,997</u>	 <u>\$ 397,645</u>	 <u>\$ 774,649</u>	 <u>\$ 538,708</u>	 <u>\$ 235,941</u>

In 2021, new capitalized phone equipment was acquired. Straight line depreciation with a useful life of seven years is used. The capitalization threshold is described in Note 1.G.

NOTE 5: 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 Arts 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. The Arts Endowment's collection contains two major categories of heritage assets: Artworks and Decorative Art, and Furniture.

The General Counsel's office approves the acceptance of all gifts to the Arts Endowment. An independent art appraiser reviews the inventory items and provides an appraisal update to the Administrative Services Office (ASO). The appraisal typically takes place annually during the summer unless there are special circumstances that may cause minor delays. After the appraisal, the ASO incorporates any updates into the Heritage Asset Inventory. If a gift or award holds some type of historical significance, or cultural, educational, or artistic importance, or it provides evidence of distinguished achievements and celebrates accomplishments throughout the ages and represents how art works in our communities, it will be added to the Heritage Assets inventory. Each year, the ASO will review the Heritage Asset inventory for items that do not meet the "artistic importance" standard and remove them from the inventory. All gifts or awards that do not meet the "artistic importance" standard will be prepared for transfer to the General Services Administration.

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

Artworks and Decorative Art, and Furniture:

The Arts Endowment 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 chart below provides the inventory counts, year over year change, and overall condition of these assets.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

	Quantity as of 9/30/2021	Quantity as of 9/30/2020	Unit Change	Percentage Change	General Condition
Artwork and Decorative Art	220	220	0	0%	Good
Furniture	40	40	0	0%	Good
Total	260	260	0		

NOTE 6: Other Assets

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Intragovernmental:		
Advances and Prepayments	\$ 16,074	\$ 38,728
Total Intragovernmental Other Assets	\$ 16,074	\$ 38,728
Total Other Assets	<u>\$ 16,074</u>	<u>\$ 38,728</u>

Both the 2021 and 2020 amounts represent advances for employee transit benefits payments and Oracle Federal Financial System hosting and accounting services with the Department of Transportation.

NOTE 7: Liabilities Not Covered by Budgetary Resources

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Intragovernmental:		
Unfunded FECA Liability	\$ 952	\$ 718
Total Intragovernmental	<u>\$ 952</u>	<u>\$ 718</u>
Accounts Payable	\$ 65,440	\$ 71,542
Federal Employee Actuarial FECA Liability	4,455	3,135
Federal Employee Accrued Leave Payable	1,836,326	1,595,234
Total Liabilities Not Covered by Budgetary Resources	\$ 1,907,173	\$ 1,670,629
Total Liabilities Covered by Budgetary Resources	77,429,848	55,216,828
Total Liabilities Not Requiring Budgetary Resources	-	95,500
Total Liabilities	<u>\$ 79,337,021</u>	<u>\$ 56,982,957</u>

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
September 30, 2021 and September 2020 (In Dollars)

NOTE 8: Other Liabilities

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Intragovernmental:		
Advances and Prepayments	\$ 895,000	\$ 875,000
Accrued Pay and Benefits	345,959	252,159
Total Intragovernmental	<u>\$ 1,240,959</u>	<u>\$ 1,127,159</u>
Accounts Payable (Non-Federal)	\$ 65,440	\$ 71,542
Grant Accrued Liability	75,080,000	53,090,000
Accrued Funded Payroll and Leave	1,067,474	1,056,070
Federal Employee Accrued Unfunded Leave Payable	1,883,148	1,638,186
Total Other Liabilities	<u>\$ 79,337,021</u>	<u>\$ 56,982,957</u>

All liabilities are current liabilities.

NOTE 9: Grant Accrued Liability

The preparation of the 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 available, which could impact the amounts reported and disclosed herein. The Arts Endowment's grants and cooperative agreements (collectively referred to as grant or award) cost is comprised of two components: 1) actual grant expenditures reported by grantees through reimbursement submissions, and 2) an estimate (accrual) of grantee expenditures incurred but not yet reported (via reimbursement submission) to the Arts Endowment. The Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR12) "Accrual Estimates for Grant Programs" specifically addresses the process for preparing accrual estimates for grant programs.

TR12 provides guidance on internal control procedures to ensure the grant accrual is reasonable, based on "comparing the estimates with subsequent grantee reporting." The agency uses data from the Delphi financial system and the electronic Grants Management System (eGMS) to review payment history and determine the grant accrual estimate. As the initial step in the estimation process, the grant accrual is calculated based on a straight-line basis. An average daily expenditure rate is calculated for each award by dividing the total award by the number of days of the award period. The agency performs comprehensive analyses reviewing actual payments and the period of performance associated with each. Then, based on payment history, an adjustment to the straight-line basis is applied to arrive at the agency grant accrual estimate. The grant accrual was \$75,080,000 and \$53,090,000 at September 30, 2021 and September 30, 2020, respectively.

Beginning late in Q2 2020, and continuing through Q4 2021 and likely beyond, the U.S. economy has encountered unforeseen challenges and changes related to the coronavirus pandemic. As part of the response to the current challenges, the Arts Endowment received \$75.00 million under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, all but \$66,100 of which has been directed toward grantmaking. Forty percent of the grantmaking funding was awarded as amendments to FY 2019 partnership agreements, including \$29.70 million in Q3 FY 2020 and an additional \$273,560 in Q2 FY 2021. The period of performance for these agreements was extended by two years (for both the CARES Act and regular funding). Sixty percent was awarded through 855 new direct grants, including \$44.55 million in Q4 FY 2020, and an additional \$410,340 to amend the direct grants to Local Arts Agencies in Q2 FY 2021.

In FY 2021, the Arts Endowment received a special appropriation of \$135.00 million as part of the American Rescue Plan (ARP). This emergency relief funding, similar to CARES Act funding, is tied to the continued economic challenges related to the coronavirus pandemic. Of this funding, \$130.28 million will be directed toward grantmaking, with forty percent of that awarded as amendments to FY 2020 partnership agreements, inclusive of \$23.96 million of amendments processed in Q3 FY 2021, and \$28.15 million processed in Q4 FY 2021 (with one-year extensions to the period of performance). Sixty percent of \$130.28 million will be awarded as direct grants. Given the anticipated similarities to CARES Act, the agency has used a slightly adjusted methodology for the accrual of ARP funds based upon a lookback

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

analysis of CARES Act payments; the unadjusted methodology will continue to be used for grants funded through the agency's regular appropriation and remaining CARES Act grants.

The increase in the September 30, 2021 accrual compared to September 30, 2020, can be largely attributed to several main factors:

- Open obligations and associated accrual related to American Rescue Plan grants; this accounts for \$14.63 million of the increase.
- Increased open obligations within regular grants resulting in a corresponding increase to the straight-line accrual figure.

NOTE 10: Leases

Brief Description of Occupancy Agreement

The Occupancy Agreement with the General Services Administration (GSA) for space at Constitution Center includes rental of office space and two parking spaces for the agency vehicles. The current lease ends on February 29, 2024, and the occupancy agreement was updated on April 9, 2021. The updated agreement includes a decrease in rentable space from 60,015 to 56,352 square feet effective November 2020. The FY 2024 lease amount covers from October 2023 to February 2024. GSA notified the Arts Endowment that the lease and occupancy agreement will be extended from March 2024 to February 2027. The agency will be working with GSA to update the lease agreement for the future years.

Year	FY 2022	FY 2023	FY 2024	Total
Annual Amount	\$2,945,063	\$2,977,810	\$1,226,448	\$7,149,321

The Arts Endowment's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The occupancy agreement includes GSA's projected increases for real estate taxes and operating costs in future years; however, actual payments may vary slightly from GSA projections. This is not expected to increase the overall lease cost by more than 2%. The obligation to pay rent in future years is subject to the availability of funds.

NOTE 11: Commitments and Contingencies

The Arts Endowment is one of multiple federal agencies named in an ongoing class action lawsuit brought by former federal employees who allege that the U.S. Government failed to properly calculate supplements to the lump sum payment of annual leave. The lead trial attorney at the Department of Justice has indicated that the matter may be nearing completion; however, the final amount for which the Arts Endowment will be responsible is unknown at this time.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 12: Funds from Dedicated Collections

The Arts Endowment receives funds from gifts and donations.

	Gifts and Donations	
	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Balance Sheet		
Assets		
Fund Balance with Treasury	\$ 3,442,648	\$ 2,900,884
Total Assets	<u>\$ 3,442,648</u>	<u>\$ 2,900,884</u>
Liabilities and Net Position		
Unexpended Appropriations	\$ -	\$ 115
Cumulative Results of Operations	3,442,648	2,900,769
Total Liabilities and Net Position	<u>\$ 3,442,648</u>	<u>\$ 2,900,884</u>
Statement of Net Cost for the Period Ended		
Gross Program Costs	\$ 21,911	\$ 355,306
Less: Earned Revenue	-	-
Net Cost of Operations	<u>\$ 21,911</u>	<u>\$ 355,306</u>
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 2,900,884	\$ 2,651,087
Other Financing Sources	563,675	604,988
Net Cost of Operations	(21,911)	(355,306)
Net Position End of Period	<u>\$ 3,442,648</u>	<u>\$ 2,900,884</u>

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2021 and September 2020 (In Dollars)

NOTE 13: Intragovernmental Costs and Exchange Revenues

	September 30, 2021			September 30, 2020		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Arts Creation:						
Program Costs	\$ 2,207,069	\$ 21,067,451	\$ 23,274,520	\$ 3,952,206	\$ 22,665,081	\$ 26,617,287
Earned Revenue	(374,123)	-	(374,123)	(73,385)	-	(73,385)
Net Costs - Arts Creation	\$ 1,832,946	\$ 21,067,451	\$ 22,900,397	\$ 3,878,821	\$ 22,665,081	\$ 26,543,902
Engagement with the Arts:						
Program Costs	\$ 9,274,226	\$ 99,161,784	\$ 108,436,010	\$ 7,894,969	\$ 80,033,243	\$ 87,928,212
Earned Revenue	(1,562,065)	-	(1,562,065)	(144,357)	-	(144,357)
Net Costs - Engagement with the Arts	\$ 7,712,161	\$ 99,161,784	\$ 106,873,945	\$ 7,750,612	\$ 80,033,243	\$ 87,783,855
Contribution of the Arts:						
Program Costs	\$ 913,904	\$ 78,987,114	\$ 79,901,018	\$ 2,302,828	\$ 64,315,534	\$ 66,618,362
Earned Revenue	(42,190)	-	(42,190)	(24,528)	-	(24,528)
Net Costs - Contribution of the Arts	\$ 871,714	\$ 78,987,114	\$ 79,858,828	\$ 2,278,300	\$ 64,315,534	\$ 66,593,834
Total						
Program Costs	\$ 12,395,199	\$ 199,216,349	\$ 211,611,548	\$ 14,150,003	\$ 167,013,858	\$ 181,163,861
Earned Revenues	(1,978,378)	-	(1,978,378)	(242,269)	-	(242,269)
Net Cost of Operations	\$ 10,416,821	\$ 199,216,349	\$ 209,633,170	\$ 13,907,733	\$ 167,013,858	\$ 180,921,591

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 of other Federal agencies.

NOTE 14: Apportionment Categories of Obligations Incurred

A distribution made by OMB of budgetary resources by calendar quarters is defined as category A, and by other specified time periods, programs, activities, projects, or combinations thereof is category B. OMB apportions funds to the Arts Endowment under category B, which includes direct and reimbursable resources. The Arts Endowment's donated funds are exempt from apportionment by OMB.

	September 30, 2021	September 30, 2020
Category B - Direct and Reimbursable	\$ 221,109,592	\$ 241,887,953
Exempt from Apportionment	46,802	118,645
Total	\$ 221,156,394	\$ 242,006,598

Apportionments for direct and reimbursable funds include funds appropriated and donations received in FY 2021, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year paid or unpaid obligations during the fiscal year.

Obligations incurred assume use of funding available during the fiscal year including funds appropriated in FY 2021, donated funds received in FY 2021, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year paid or unpaid obligations during the fiscal year.

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NOTE 15: Undelivered Orders at the End of the Period

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Intragovernmental Undelivered Orders, Unpaid at the End of the Period	\$ 3,405,500	\$ 2,830,301
Public Undelivered Orders, Unpaid at the End of the Period	\$ 162,254,400	\$ 153,814,923
Intragovernmental Undelivered Orders, Paid at the End of the Period	\$ 16,074	\$ 38,728

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

The differences between the FY 2020 Statement of Budgetary Resources and the FY 2020 actual numbers presented in the FY 2022 Budget of the United States Government (Budget) are summarized below.

FY 2020 (\$ in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$253	\$242	(\$1)	\$179
Budget of U.S. Government	\$253	\$242	(\$1)	\$179

The President's Fiscal Year 2023 Budget, which will include actual amounts for fiscal year 2021, will be available at a later date at <https://www.whitehouse.gov/omb/budget/>.

NOTE 17: Incidental Custodial Collections

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Intrabudgetary Receipts Deducted by Agencies	\$ -	\$ 4,000
Total Custodial Collections	<u>\$ -</u>	<u>\$ 4,000</u>

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 18: Schedule of Fiduciary Activity

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

Schedule of Fiduciary Activity
For the Period Ended September 30, 2021 and September 30, 2020

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Fiduciary Net Assets, Beginning of Year	\$ 98,000	\$ 98,000
Contributions	-	-
Increase/(Decrease) in Fiduciary Net Assets	-	-
Fiduciary Net Assets, End of Period	<u><u>\$ 98,000</u></u>	<u><u>\$ 98,000</u></u>

Fiduciary Net Assets
As of September 30, 2021 and 2020

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Fiduciary Assets:		
Other Assets (Painting)	\$ 98,000	\$ 98,000
Fiduciary Liabilities:		
Less: Decrease in Fair Value	-	-
Total Fiduciary Net Assets	<u><u>\$ 98,000</u></u>	<u><u>\$ 98,000</u></u>

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 19: Reconciliation of Net Cost to Net Outlays

	FY2021		
	Intragovernmental	With Public	Current Year
Net Operating Cost (SNC)	\$ 10,416,821	\$ 199,216,349	\$ 209,633,170
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, Plant, and Equipment Depreciation	-	(126,955)	(126,955)
Property, Plant, and Equipment Disposal & Reevaluation - Losses	-	-	-
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts Receivable	-	(91,669)	(91,669)
Advances, Prepayments and Other Assets	(22,654)	-	(22,654)
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	-	6,102	6,102
Federal Employees Benefits Payable	-	(244,962)	(244,962)
Advances from Others and Deferred Credits	(20,000)	-	(20,000)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(93,800)	(11,405)	(105,205)
Other Financing Sources:			
Imputed Cost	(912,520)	-	(912,520)
Total Components of Net Operating Cost Not Part of the Budget Outlays	\$ (1,048,974)	\$ (468,889)	\$ (1,517,863)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	-	288,659	\$ 288,659
Financing Sources:			
Donated Revenue	-	(563,675)	(563,675)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	-	(275,016)	(275,016)
Net Outlays	\$ 9,367,847	\$ 198,472,444	\$ 207,840,291

NOTE 20: Donations In-Kind

Donations in-kind include payments of the Arts Endowment staff travel, lodging, and meals, as well as payment of the Arts Endowment staff registration fees to attend and/or participate in various arts-related functions. As of September 30, 2021, the Arts Endowment did not receive in-kind gifts. The total value of in-kind donations on September 30, 2020 was \$8,783.

NOTE 21: COVID-19 Activity

The Coronavirus Aid, Relief and Economic Security (CARES) Act (Public Law 116-136) became law on March 27, 2020, and it included provisions to support individuals and businesses in the form of loans, grants, and tax changes, among other types of relief. The Arts Endowment received \$75 million through the CARES Act to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. The Arts Endowment follows OMB Memorandum M-20-21 guidance in reporting and differentiating grant-making activities under CARES Act funding from regular appropriations.

Of the \$75 million, in FY 2020 the Arts Endowment awarded 855 direct grants totaling \$44.55 million to nonprofit arts organizations located in every state, the District of Columbia, and Puerto Rico. These nonmatching funds support staff salaries, fees for artists or contractual personnel, and facilities costs. Additionally, in FY 2020 the Arts Endowment

awarded \$29.70 million directly to state and regional arts agencies to distribute through their funding programs. At the end of FY 2020, \$683,900 remained available for obligation. The Arts Endowment obligated these funds in FY 2021, with \$410,340 awarded as amendments to nine Local Arts Agencies, and \$273,560 awarded as amendments to five partnership agreements with Regional Arts Organizations.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (P.L. 117-2), providing \$135 million for the Arts Endowment. Per the Act, funds are for “grants, and relevant administrative expenses, that support organizations’ programming and general operating expenses to cover up to 100 percent of the costs of the programs which the grants support, to prevent, prepare for, respond to, and recover from the coronavirus.”

In FY 2021, the Arts Endowment awarded \$52 million in funding for state and jurisdictional arts agencies and regional arts organizations, the first recommended awards of the American Rescue Plan, by amending 62 prior year partnership agreements. The second phase of American Rescue Plan funding will be awarded directly from the Arts Endowment to nonprofit arts organizations, based on recommendations to be made at the October and December 2021 meetings of the National Council on the Arts. All funds appropriated in the Act are available until expended.

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~ III. Other Information ~

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MEMORANDUM

M-22-01

DATE: October 29, 2021

TO: Ann Eilers, Acting Chairman
National Council on the Arts

FROM: *Ron Stith*
Ron Stith, CPA
Inspector General

SUBJECT: National Endowment for the Arts Top Management Challenges

The Consolidated Reports Act of 2000 and OMB Circular A-136, Financial Reporting Requirements, require that the Office of Inspector General (OIG) provide the National Endowment for the Arts (NEA) head with a summary of the top management and performance challenges facing the NEA. This is an update of the Top Management Challenges provided to the NEA in November 2020. We have experienced strong support from NEA management in identifying and tracking these top management challenges. We look forward to continuing our work to help the NEA deliver its mission with excellence and integrity.

It is our assessment that at the end of FY 2021 the areas of Awardee Accountability; Financial Management; Human Capital; Information Technology; and Diversity, Equity, Inclusion, and Accessibility represent the top management and performance challenges for the NEA. Following is a discussion of each challenge area.

Awardee Accountability. The NEA Grants and Program Management Offices face the challenge, along with the rest of the Federal Government Grant Making community, to issue grants and help awardees fully implement and comply with the requirements of 2 CFR Part 200: Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). This challenge includes helping awardees comply with NEA General Terms and Conditions for grant awards.

This challenge area has increased in significance because, in March 2021, President Biden signed into law the American Rescue Plan (ARP), which provided an additional \$135 million in grant funding to the NEA. This funding followed on the heels of \$75 million in additional grant funding to the NEA through the Coronavirus Aid, Relief and Economic Security (CARES) Act in 2020 to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. To date, the CARES Act grant funds have been fully obligated -- within five months -- and the NEA is progressing well with plans to award ARP funding.

Notwithstanding the progress by the NEA, our routine audits continue to identify awardees that have not complied with all applicable Federal award requirements. These awardees are typically identified through our risk based annual audits, hotline allegations/complaints, and referrals from the NEA.

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Based on audits of these awardees, following are the four most common findings:

1. Failing to ensure that contractors and sub-award recipients have not been debarred or suspended from receiving Federal assistance prior to awarding them Federal funds;
2. Failing to put in place written policies and procedures for managing Federal awards;
3. Failing to report actual, allowable, and allocable costs on Federal Financial Reports; and
4. Failing to maintain supporting documentation for all costs charged to NEA grants.

We acknowledge and encourage the NEA's continuous efforts to identify ways to improve awardee compliance with Federal requirements. For instance, this past fiscal year the NEA Grants Office and the OIG participated in a webinar for State Arts Agencies and Regional Arts Organizations, designed to help them better understand the grant audit process and how to increase compliance with Federal grant management requirements. In addition, the Grants Office held a webinar specific to the use of ARP funding for subgranting for these stakeholders. Technical assistance webinars are also planned for direct ARP awardees and Local Arts Agencies that will subgrant ARP funds. The Grants Office also provided refresher training on allowable costs and developed web-based tools to assist awardees in complying with grant management requirements.

Continued development and implementation of web-based tools and technical assistance efforts by the NEA, and the results of our audits will, in our opinion, help to improve awardee compliance. As grant-making is the primary mission of the NEA, this area will continue to be an important challenge.

Financial Management. This is one of the areas where the NEA works to continuously improve each year. The NEA is required to keep pace with government-wide financial systems modernization efforts and regulatory changes. The NEA also focuses continuously on improving efficiency and effectiveness of its accounting and finance policies and procedures, systems, and staff cross-training. While this is a top challenge area, a positive indicator in the financial management area is that the NEA consistently receives unmodified opinions on its financial statement audits and has a high level of compliance with DATA Act requirements.

Notwithstanding these positive indicators, the importance of the management challenge has been increased due to the additional funding and reporting requirements associated with the CARES Act and ARP. For instance, the NEA will be challenged with timely review of grantees' increasing number of reimbursement requests and NEA's processing of disbursements of CARES Act and ARP funds. To date, the NEA has reported success in timely disbursing and reporting the funds provided by the CARES Act. The additional funding came with increased monthly reporting required under the DATA Act.

Human Capital. The NEA considers its people to be its most valuable asset in achieving the agency mission. Thus, it works to continuously improve its human resources program policies and procedures consistent with its human capital strategy. The top human capital challenges include: 1) maintaining a safe work environment during this pandemic for employees and contractors; 2) providing employees with the tools needed to successfully accomplish the NEA mission; 3) ensuring an effective strategy to attract and retain high quality candidates with the right skills, ability and knowledge to fill vacant positions due to normal attrition and retiring employees; and 4) maintaining high quality service in other human capital areas, such as training and development, and performance management and recognition.

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In FY 2021, the NEA filled a number of key leadership and staff positions to help address mission delivery challenges, including the Senior Deputy Chairman; the Chief Information Security Officer; the Director for Administrative Services and Contracts; and the Director for Civil Rights and Equal Employment Opportunity, as well as other key program and administrative positions to strengthen program and financial management within the NEA. CARES Act and ARP funding required a significant increase in the number of staff who, in addition to their regular duties, were required to assist with the application review panels and other requirements associated with the additional funding.

Information Technology. The NEA began addressing this area by transitioning to a new, more robust electronic grants management system (eGMS) in FY 2018. This new system was built on a more flexible, operationally efficient platform. The initial version of eGMS was fully connected to the Grants.gov site. In 2018 and 2019, the NEA worked to fully integrate eGMS operations with its internal systems and the systems operated by external service providers. These updates should prove helpful, yet still challenging due to the significant increase in the volume of transactions and additional data elements required for monthly reporting resulting from the CARES Act and ARP awards.

Another challenge for the NEA is the Federal Information Security Modernization Act (FISMA) that 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. Through our annual reviews of the NEA's compliance with FISMA, we continuously identify ways for the NEA to enhance security, and the NEA continually makes progress each year in complying with increasing information system security requirements. The pandemic requirement to telework has made it much more challenging for the NEA to continue on the planned schedule of information security improvements.

During this period, information technology staff have shifted their focus to keeping the network secure and operating for all teleworking staff and ensuring the systems integrated with the grant awards management system are maintained in top condition to process the increased volume of awards under the CARES Act and ARP. Some progress was made in FY 2021 to improve the rating of the NEA information security. We look forward to seeing the results of the FY 2022 audit, with hopes of continued improvement in this important area.

Diversity, Equity, Inclusion, and Accessibility. Diversity, Equity, Inclusion, and Accessibility (DEIA) has been added to the list of the top management challenges as the President has issued an executive order requiring all Federal agencies to establish DEIA as integral to its internally (employee) and externally (customer/supplier) focused programs. The NEA has established a DEIA initiative by including it in the strategic plan as a cross-cutting initiative for all of its programs and operations. The NEA has completed its required externally-focused DEIA assessment report and submitted it to OMB. The NEA has started its DEIA assessment on internally-focused programs. The OIG is monitoring agency efforts in this area with the expectation that the DEIA initiative will require continuous effort over time to be effective.

cc: Members, National Council on the Arts

Diane Dewhirst, Senior Deputy Chairman

Ra Joy, Chief of Staff

Jim Tunnessen, Acting Deputy Chairman for Management and Budget

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Summary of Financial Statement Audit and Management Assurances

Table 1.
Summary of Financial Statement Audit

Audit Opinion		Unmodified			
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 2.
Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA § 4)						
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

Payment Integrity

Payment Integrity

The Payment Integrity Information Act of 2019 (Pub. L. No. 116-117, 31 U.S.C. § 3352 and § 3357), the Improper Payments Information Act of 2002 (IPIA) as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 require agencies to periodically assess their programs and identify which, if any, programs may be subject to high risk with respect to improper payments, and take corrective measures, as necessary. The Office of Management and Budget (OMB) *Circular A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, defines an improper payment and provides guidance to agencies to comply with IPIA as amended, and for agency improper payments efforts.

Improper Payments Risk Assessments

The Arts Endowment has four major fund categories: Administrative; Program Support; Direct Grantmaking; and Partnership. None of these programs is considered susceptible to significant erroneous payments or qualifies as risk-susceptible based on OMB guidance thresholds. The Arts Endowment annually conducts an assessment of the effectiveness of internal control over financial reporting, in compliance with OMB Circular A-123, Appendix C. The most recent reviews indicate that the internal controls over disbursement processes were effective.

Preventing and Detecting Improper Payments

The Arts Endowment's internal controls did not identify any programs that constitute a high risk for improper payments. The improper payments identified by the Arts Endowment totaled less than \$1M in aggregate for all programs (or <1%) for FY 2021. All improper payments identified were corrected either through recapture or remittance of correct funds.

The Arts Endowment's internal controls include established pre-award and pre-payment processes for all acquisition and financial assistance awards. Procedures include cross-referencing applicants against the General Services Administration's (GSA) System for Award Management (SAM) exclusion records. As part of prepayment processing, our shared service provider, Enterprise Services Center (ESC), verifies an entity against both SAM and the Internal Revenue Service's Taxpayer Identification Number (TIN) before establishing them as a vendor in the financial system. For payroll expenditures, timesheets are reviewed and approved prior to submission for processing, which, along with edit checks in the National Finance Center (NFC) System, helps to facilitate accurate payroll expenditures.

The Arts Endowment also completes post-payment reviews. To identify the possibility of erroneous payment for financial assistance awards, quarterly reviews of obligations are completed to ensure awards have appropriate approval and are obligated accurately in the financial system, and that related award payments are authorized, accurate, and complete. Administrative expense reviews include a quarterly review of manual invoices and bi-weekly review of payments to those who serve on the panels evaluating applications of financial assistance awards. The reviews are to ensure that invoices were approved and proper procedures were followed for invoice payments. While the system controls for vendor set-up facilitate proper set-up of authorized suppliers, system edit checks prevent duplicate

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payments. Payroll costs are reviewed by completing a pay period to pay period comparison of costs. Any variances or unanticipated changes are flagged and researched. Based on these internal controls and payment monitoring reviews, we believe that the Arts Endowment has an insignificant risk of significant improper payments for FY 2021.

Improvement of Payment Accuracy with the Do Not Pay Initiative

At the Arts Endowment, an important part of our program integrity efforts designed to prevent, identify, and reduce improper payments is integrating Treasury Department's Do Not Pay (DNP) Business Center into our existing processes. We utilize the DNP Business Center to perform online searches, screen payments against the DNP databases, and augment Treasury's Office of Financial Management (OFM) data analytics capabilities.

We follow established procedures outlined in the preventing and detecting improper payments section. Also, for any payments made outside of the financial system, ESC reviews the DNP portal prior to making the payment. ESC has undertaken the following initiatives and measures.

- Engages the DNP Analytics Services to match its vendor records with the Death Master File (DMF). The review identifies high-risk vendor records possibly associated with deceased individuals and prompts ESC to classify the vendor records into risk-based categories for further evaluation.
- Deactivates the highest-risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals.
- Implements a vendor maintenance process to deactivate profiles with no activity within 18 months and with no active invoices or purchase orders. This effort of cleaning up financial system records decreases the likelihood of making improper payments.
- Implemented integration of SAM.GOV with the financial system to manage its supplier database. The daily processing of vendor changes from SAM is handled systemically. Financial transactions are processed based on SAM status – forcing vendors to keep their SAM record active and the financial information accurate.
- Implemented a software tool to help monitor duplicate payments more effectively and timely based on business rules defined by ESC. This has allowed for daily review and the potential to prevent duplicate payments due to the quick software processing of information.
- Implemented a pre-payment review of Enterprise Data Quality (EDQ) potential duplicate invoices, which will enhance its control of ensuring payments are made accurately.

Fraud Reduction

Fraud risk management is an important aspect of the Arts Endowment's strategy to achieve its mission and goals. Fraud prevention, detection, monitoring, and response are key to managing fraud risk and are continually being integrated into the culture and controls throughout the Agency. The Arts Endowment takes a variety of steps to both address and prevent fraud, waste and abuse. During FY 2020, the Arts Endowment continued the use of its existing policies and procedures to perform risk assessments for significant improper payments, including those under IPIA, IPERA, IPERIA, and OMB Circular A-123, Appendix C. Though the Arts Endowment reports only on significant improper payments in this report, the Arts Endowment reviews all sources of payments as part of its overall improper payment risk assessment and considers fraud among the variety of contributing risk factors.

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Analyses of risks, including fraud risks, are a component of the Arts Endowment's financial internal control program. Annually, the Arts Endowment performs a risk assessment and assesses exposures and controls around fraud risk. How the Arts Endowment anticipates, identifies, and responds to fraud is considered during the assessment. Existing policies and procedures are also examined to ensure that they adequately meet their objective. Operational processes are also reviewed for inherent and control risks. The exercise and results of the assessments aid in identifying types and levels of risks within the agency and inform the mitigation process.

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, requires agencies to adjust their civil monetary penalties (CMP) for inflation. The table below describes the Arts Endowment's current civil monetary penalties, their authorities, year enacted, last year of adjustments, and current monetary penalty amounts. These CMP adjustments are located at 85 FR 1757. The Arts Endowment did not assess any CMPs this year.

Statutory Authority	Description	CMP Name	Year CMP originally enacted (by statute)	Latest Year of CMP non-inflation adjustment	Current CMP Level
31 U.S.C. 3802(a)	Penalty for false statements under the Program Fraud and Civil Remedies Act	Violation	1986	1986	\$11,802
31 U.S.C. 1352	Penalty for certain violations of the Arts Endowment's Restrictions on Lobbying	Violation	1989	1989	Between \$20,720 and \$207,314

Grants Oversight & New Efficiency (GONE) Act

The Grants Oversight and New Efficiency (GONE) Act (P.L. 114-117) reporting requirements have expired. Nevertheless, to promote the efficient administration of grants programs, all reporting entities with Federal grants programs must submit a brief high-level summary of expired, but not closed, Federal grants and cooperative agreements (awards), including a summary table (as shown below) of the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2021 (i.e., on or before September 30, 2019).

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Other Information

CATEGORY	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	0*	0*
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	0	0	0

The Arts Endowment reviewed its closed-out population of federal grants and cooperative agreements and found no instances where either a grant award or cooperative agreement with the period of performance ending on or prior to September 30, 2019, had not been closed out. We have no delays in grant and cooperative agreement closeout, and no challenges to address pursuant to the GONE Act.

* Two awards with periods of performance that ended prior to September 30, 2019, and that have zero-dollar balances, are currently in Awarded status as of October 19, 2021. Both awards were previously Closed Out but were re-opened in accordance with Agency policy and the General Terms and Conditions for the awards, so that delinquent final reports could be submitted to re-establish eligibility for Arts Endowment awards. Both awards will be returned to Closed Out status when final report review is complete and documentation has been included in the archived grant files of record.