



AGENCY FINANCIAL REPORT FISCAL YEAR 2017

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 2017

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Agency Financial Report for Fiscal Year 2017
November 2017

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Fiscal Year 2017
Agency Financial Report
~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2017 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

Organizational Overview

The NEA is a small, independent federal agency with a big impact, and a commitment to effectively carrying out the agency's mission. The NEA focuses upon ensuring that arts projects are available to all Americans throughout the United States. We do this through grantmaking, partnerships, and key initiatives. For example, the NEA awards grants, and develops programs that bring the arts to those Americans who otherwise would not have the ability to participate in the arts, including underserved communities in rural, urban, and remote areas. We also forge active partnerships to produce effective and relevant programs, including working with the U.S. Departments of Defense and Veterans Affairs, which allows the NEA to reach military members, veterans and their families; as well as our partnerships in every state and territory, with state arts agencies. The NEA is a responsible steward of its resources, taking advantage of technology and building a workforce that is committed to its mission and service to the American people.

NEA's Mission

Established by Congress in 1965, the NEA 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 mission is based on an abiding conviction that the arts play an integral role in our national life and public discourse. The first half of the mission statement refers to the NEA's deep-rooted investment in the artistic and creative assets throughout the country. The agency is committed to helping communities that seek to leverage these assets more effectively as part of a comprehensive strategy to improve quality of life through the arts. The second half identifies the need to reach individuals with multiple channels for engaging with artistic excellence, thus improving the likelihood that Americans from all backgrounds will benefit directly from the NEA's activities.

The NEA is the sole entity, public or private, whose funding reaches every Congressional District in all 50 states, the District of Columbia, and the U.S. territories, supporting activities such as performances, exhibitions, healing arts and arts education programs, festivals, and artist residencies. NEA funding is project-based and goes to thousands of nonprofits each year, along with partnerships and special arts initiatives, research and other support that contribute to the vitality of our neighborhoods, engage our students and schools, and preserve our American culture.

The Impact of the Arts and the NEA

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

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

Art is an irreplaceable way of understanding and expressing the world, and it links our ability to create and innovate in ways beyond compare. The NEA 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 50-year history represents the NEA's continuing commitment to making the arts a vital part of the lifeblood of this nation. The NEA extends its work through partnerships with state arts agencies, regional arts organizations, local leaders, other federal agencies, and the philanthropic sector, reaching rural, suburban, and metropolitan areas in all 50 states, the District of Columbia, special jurisdictions, and military installations.

Through FY 2017, the NEA has relied on a simple, straightforward credo: "Art works."

- "Art works" refers to works of art themselves – the performances, objects, and texts that are the creations of artists.
- "Art works" represents the ways that art works on individuals and communities to change, confront, challenge, and inspire us; to allow us to imagine and to aspire to something more.
- "Art works" declares that with a sector comprising 4.2 percent – or \$729.6 billion – of GDP, and nearly five million workers in U.S. arts and cultural industries, arts jobs are real jobs that are part of the real economy. Arts workers pay taxes, and art contributes to economic growth. Since 2007, arts and cultural trade surpluses have been growing sharply, climbing to \$26 billion in 2014.³ Trade surpluses, driven by exports, tend to inject income and jobs into

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

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the U.S. economy. Beyond economic impacts, the arts contribute to neighborhood revitalization and the livability of American towns and cities.

Those three elements taken together – the works of art themselves, the ways that art works on individuals and communities, and art as work – are the guiding principles underpinning the agency’s FY 2014-2018 Strategic Plan; they have shaped our grant guidelines; and they guide implementation of initiatives such as *Creative Forces: NEA Military Healing Arts Network*, a partnership of the NEA 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 programs such as *Challenge America*; grant information workshops (now conducted largely through online media); an online newsletter; our Web site; and increased use of webinars, webcasting, and social media such as blogs, Twitter, and Facebook.
- Efficiency improvements obtained through expanded use of technology, including the use of remote grant application review panels – conducted via the Internet – thereby reducing travel costs and further enhancing the efficiency and effectiveness of the application review process.

In FY 2017, the NEA awarded more than 2,500 grants and cooperative agreements, reaching more than 16,000 communities and every Congressional district throughout the country. A recent examination of NEA direct grants showed that 64% go to small organizations (less than \$2 million in prior year expenditures).

A significant percentage of grants reach those who have fewer opportunities to participate in the arts. Of the grants awarded in FY 2016 (the most recent year for which we have complete figures):

- 40% of NEA-supported activities took place in high-poverty neighborhoods.
- 36% of NEA grants went to organizations that reach underserved populations such as people with disabilities, people in institutions, and veterans.

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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 NEA in direct grants to nonprofit organizations in FY 2016 leveraged \$9 from other non-federal sources. This results in over \$500 million in matching support, far surpassing the required non-Federal match of at least one to one.

NEA 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 NEA's grantmaking funds are allocated to the 50 States, six special jurisdictions, and six RAOs. State governments match the federal NEA 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 recent years, more than 4,400 communities have been served each year through grants made possible by partnership agreements with SAAs and RAOs.

Collaboration with the SAAs and RAOs extends beyond just grantmaking. 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, and local partners that provide community-based arts activities for military and veteran families in states where military medical sites are operating.

NEA and Research

Research into the value and impact of the arts is a core function of the NEA. 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.

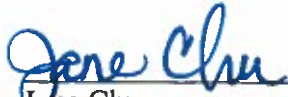
The NEA is the national agency of record for arts-related research. As an example, NEA's quadrennial Survey of Public Participation in the Arts is the most comprehensive survey of U.S. arts participation, with a nationally representative sample exceeding 35,000 adults.

Through our Research: Art Works grant category, 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.

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Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable. I am very pleased to report that during the course of our FY 2017 audit, the auditors identified no material weaknesses. Thus, the Agency has received its 15th consecutive unmodified opinion.



Jane Chu
Chairman

November 15, 2017

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~ Management's Discussion and Analysis ~

The National Endowment for the Arts has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). The NEA will include its FY 2017 Annual Performance Report with its FY 2019 Congressional Budget Justification in February 2018 and will post it on the NEA Web site at www.arts.gov.

Mission, Organizational Structure, and Internal Operations

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

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

As of the end of FY 2017, the NEA has returned to an organizational structure that includes a position of Deputy Chairman for Programs & Partnerships, in addition to a position of Senior Deputy Chairman, who reports to the Chairman. Other senior positions include a Deputy Chairman for Management & Budget, Chief of Staff, Director of Strategic Communications & Public Affairs, General Counsel, and several other office heads – all of whom report to either the Senior Deputy Chairman (the Agency's Chief Operating Officer) or to the Chairman. The major program division, Programs and Partnerships, is chiefly responsible for handling the review of grant applications and management of cooperative agreements and leadership initiatives. An organizational chart can be found at the end of this section. At the end of FY 2017, the Deputy Chairman for Management & Budget position had been vacant for six months, but was filled in mid-October. In FY 2017, the NEA operated with a staffing level of 151 full-time equivalents, below the 162 FTE requested in the budget.

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 4.8 million Americans work in industries that produce arts and cultural

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goods and services, receiving \$355 billion in compensation.⁴ This contribution made up 4.2% (or \$729.6 billion) of our nation's GDP in 2014 (the most recent year for which such statistics are available), a 35.1% growth since 1998.

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

Goals:

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

Objectives:

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

Results:

Here are some highlights of key activities, accomplishments, and issues from FY 2017.

1. Enhanced Use of Technology

During FY 2017, we continued our joint development (and now implementation) with the National Endowment for the Humanities of a new Web-based grants management system (eGMS), with the participation of two additional partners: the Institute of Museum and Library Services (IMLS) and the National Historical Publications & Records Commission (a division of the National Archives). As planned, several modules of the system went live

⁴ [Arts and Cultural Production Satellite Account \(ACPSA\)](#), U.S. Bureau of Economic Analysis.

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this year, and the eGMS is now beginning to provide significant new capabilities and efficiencies in the management of our grant application, award, and monitoring processes. In addition, we built and launched an ancillary component (the NEA Applicant Portal), which allows our grant applicants to provide electronically all work samples associated with their applications. We expect the eGMS to be fully operational by the end of 2017.

2. Strategic Management of Human Capital

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

The results of the 2017 Federal Employee Viewpoint Survey confirmed the high engagement of our work force. Among small agencies, the NEA had one of the highest overall Employee Engagement Index scores (81%, placing us second among similar sized small agencies). The "Leaders Lead" subfactor results are particularly notable, with a steady four-year trend of improvement – from 53% positive in 2014 to 76% positive in 2017. Similarly, in 2017, the NEA was the second-highest ranking similar sized small agency in the overall New Inclusion Quotient Index.

Also, in late 2016, the NEA earned two #1 designations in the [*Best Places to Work in the Federal Government*](#)® rankings published by the Partnership for Public Service and Deloitte (the 2017 rankings are not yet available). The NEA ranked **#1 as a best place to work among small departments and agencies**, and also took the **#1 spot as most improved agency**. The NEA moved up from 11th place the year before, representing an increase of 16.6 percentage points, the largest increase of any federal agency of any size. Among the highest rated criteria in the NEA report were "effective leadership: supervisors" and "employee skills: mission match."

3. Improved Financial Management

With our use of the U.S. Department of Transportation's (DOT) Oracle-based fully-compliant financial system (Delphi), we continue to realize improvements in reliability and timeliness of financial information. We met all requirements of the DATA Act in FY 2017, and we continue to explore opportunities to enhance our financial management operations.

4. Integration of Budget and Performance

We prepare our budget requests as performance budgets, with performance data integrated throughout. This integration ensures that Agency goals, programs, and budget categories are aligned with and mirror one another; our FY 2014-2018 Strategic Plan has provided the foundation for all of our activities. During FY 2017, we made significant progress in developing a revised Strategic Plan covering FY 2018-2022, and are coordinating with OMB and Congress on the timing of its release.

Core Grant Programs

Through its direct grant-making, the NEA annually supports in the range of 30,000 concerts, readings, and performances and more than 6,000 exhibitions of visual and media arts with annual, live attendance of 25 million. In FY 2017, the NEA made more than 2,500 awards totaling \$127.4 million. Other funders annually provide more than \$500 million in further support of these NEA-funded projects; in our direct grant-making categories alone, the ratio of matching to federal funds currently approaches 9:1, far surpassing the required non-federal match of at least one to one. In addition to the above, the NEA's reach is extended through the 40% of our grantmaking funds that, by statute, are awarded to the State Arts Agencies and Regional Arts Organizations, reaching millions more people in 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 achieved across the country with our programmatic activities. We have found the actual results to be consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data. Thus, we believe that the performance data we receive (which will be reported in our Annual Performance Report in February 2018) indicate that our goals for these programs are being met and that our programs are effective.

The NEA's core grant programs include signature initiatives, such as *Poetry Out Loud*, the *NEA Big Read*, and *Shakespeare in American Communities*, which extend the reach of the agency through partnerships with State Arts Agencies and Regional Arts Organizations; *Our Town*, a grant program that supports creative placemaking projects that help to transform communities into lively, beautiful, and sustainable places with the arts at their core; and an agency commitment to award at least one direct grant in every Congressional district (achieved consistently since 2004).

Our Town, which has achieved considerable success since its launch in 2011, builds on the NEA's longstanding support for communities and the ability of the arts to strengthen them. The NEA has now awarded nearly \$37 million in grants to fund 470 *Our Town* projects, reaching all 50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands. In FY 2017, the NEA awarded nearly \$7 million in 89 grants supporting arts engagement, cultural planning, design, and knowledge-building about creative placemaking. The *Our Town* grants reinforce the NEA's belief that the arts are as fundamental to a community's success as safety, land use, transportation, education, and housing, and help build stronger communities in cities and rural areas alike. The NEA has created the web resource [Exploring Our Town](#) that features case studies and lessons learned on more than 70 *Our Town* projects, held convenings and released reports on how the performing arts can transform place, and launched a technical assistance initiative for *Our Town* grantees.

Arts Education

The NEA’s arts education strategic plan is grounded in collective impact, a concept described by John Kania and Mark Kramer as “the commitment of a group of important actors from different sectors to a common agenda for solving a specific social problem.”⁵ The strategic plan helps implement the NEA’s vision that every student be engaged and empowered through an excellent arts education. This statement reflects a fundamental belief that all students should have the opportunity to participate in the arts, both in school and out of school. It also acknowledges the very real benefits of an arts education – 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, students participating in the arts are engaged in life and are empowered to be fulfilled, responsible citizens who make a profound, positive impact in the world.

In addition to funding direct learning and professional development projects, the agency supports collective impact projects to leverage NEA investments for deeper impact. These projects are longer term, larger in scale, and use a systemic approach to provide arts education for students across entire neighborhoods, schools, school districts, and/or states – in communities of all sizes. Since 2015, the agency has awarded \$3.3 million for 39 collective impact projects nationwide; in FY 2017, there were 14 awards totaling \$1.3 million.

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

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

In 2017, the NEA and NASAA hosted a joint professional development institute (PDI) in Oklahoma City, OK. The PDI was designed to offer shared learning experiences for both state education agency and state arts agency arts education representatives, as

⁵ Kania, John, and Mark Kramer. “Collective Impact. Large-scale social change requires broad cross-sector coordination, yet the social sector remains focused on the isolated intervention of individual organizations.” Stanford Social Innovation Review. Winter 2011.

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well as to provide separate meeting time for both groups to address their unique planning and professional development goals. The purpose of this year's joint PDI was to maximize impact in arts education at the state, regional and national levels by examining how data-driven decisions can close equity gaps in arts education. Session topics were aligned with the NEA's emphasis on collective impact and built on themes from previous PDIs that focused on inclusion, diversity, equity, and access.

- *Collaboration with SEADAE*: The NEA provides support to SEADAE, a nonprofit organization with the mission of developing a nationwide infrastructure of arts education peers in state departments of education, largely modeled on the SAA Arts Education Managers' network. Through networking and shared learning opportunities for its members, SEADAE provides a collective voice for leadership on issues affecting arts education in the United States.
- [*Arts Education Partnership*](#) (AEP): The AEP is a national network of more than 100 arts, education, business, philanthropic, and government organizations that demonstrates and promotes the essential role of the arts in the learning and development of every child, and in the improvement of America's schools. The work of AEP is guided by an advisory committee, made up of representatives from 35 partnering organizations, including state arts agencies.

With a focus on partnering with state education policy leaders to address issues by sharing resources and expertise, the Education Commission of the States, the cooperator for AEP, is expanding access and visibility of the arts to education policymakers and stakeholders, and strengthening linkages between arts and other critical education issues. For example, ECS and AEP recently published [*ESSA: Mapping Opportunities for the Arts*](#), a special report highlighting the ways that states and districts can engage the arts in the ongoing work of the Every Student Succeeds Act (ESSA).

Federal Partnerships

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

NEA Support for Military Members & Veterans

[*Creative Forces: NEA Military Healing Arts Network*](#) is a partnership of the NEA, the Department of Defense, and the Department of 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. *Creative Forces* places creative arts therapies at the core of patient-centered care in military and veteran medical facilities; makes community arts programming available in the states or regions where clinical sites are operating; and invests in research on the impacts and benefits of these innovative treatment methods.

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This initiative began as the NEA Military Healing Arts Partnership in 2011, when the National Intrepid Center of Excellence (NICoE) Walter Reed Bethesda invited the NEA to help build out its creative arts therapy program, an integrative healthcare model to treat service members with traumatic brain injury and associated psychological health issues. The program subsequently expanded to include the NICoE Intrepid Spirit-1 at Fort Belvoir in Virginia.

With the expansion, creative arts therapies, which include art and music therapists, creative writing instructors, and program support, now reach 11 clinical sites across the country, and a telehealth program for patients in rural and remote areas. NEA works closely with its network of state, local, and regional partners at each clinical site location to develop community-based arts programs involving not just military service members, but also veterans, families, and caregivers. *Creative Forces* is developing manuals, toolkits, and an online resource center to help communities understand how to support service members, veterans, and their families through arts programming. This includes guidance on how to build deeper connections across civilian and military populations.

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

On Sept. 18-19, 2017 the NEA hosted a *Creative Forces* clinical research summit to devise a strategy for investigating the myriad impacts of creative arts therapies in military patients and veterans who have been diagnosed with traumatic brain injury and associated psychological health conditions, including post-traumatic stress. The summit occurred at the National Academy of Sciences in Washington, D.C., and was preceded by a kick-off event that Second Lady Karen Pence held at the Vice President's residence.

A research synthesis document and an inventory of past and ongoing studies involving the *Creative Forces* clinical sites may be accessed on the [NEA website](#). The NEA awarded \$2.4 million in FY 2016 and \$2.65 million in FY 2017 in support of *Creative Forces*.

NEA and U.S Bureau of Economic Analysis

The Arts and Cultural Production Satellite Account (ACPSA),⁶ a partnership between the NEA and the Department of Commerce's Bureau of Economic Analysis, is the first federal effort to provide an in-depth analysis of the arts and cultural sector's

⁶ [Arts and Cultural Production Satellite Account \(ACPSA\)](#), U.S. Bureau of Economic Analysis.

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contributions to current-dollar gross domestic product (GDP), a measure of the final dollar value of all goods and services produced in the United States. The most recent estimates reveal that the arts are a bigger driver of GDP and jobs than previously estimated. Among the new findings are:

- In 2014, arts and cultural production contributed more than \$729.6 billion to the U.S. economy, or 4.2% to the GDP, more than construction (\$672 billion) or transportation and warehousing (\$510 billion).
- 4.8 million workers were employed in the production of arts and cultural goods, receiving \$355.2 billion in compensation.
- The U.S. exports roughly \$26 billion more in arts and cultural goods than it imports, resulting in a trade surplus.
- Starting in FY 2017, for the first time, statistics have been produced spotlighting the economic impact of arts and cultural activities in each state and the District of Columbia. These data provide state leaders with a tool to assess and advance arts and culture for the benefit of their residents. For example, while employment in arts and cultural jobs is high in New York and California as would be expected, the data show that arts and culture account for a larger share of jobs in Wyoming, Utah, and Colorado than they do nationally.

In September 2017, the BEA published its first [article on state-level employment and compensation from the Arts and Cultural Production Satellite Account](#) in the BEA's *Survey of Current Business*. The SCB is the BEA's monthly publication and is read widely as a definitive source of information about the U.S. economy. Since the launch of the ACPSA, it has gained notice on the international stage, having been presented and discussed at such venues as the Association of Cultural Economics International, the Inter-American Development Bank, and in Dublin, Ireland as part of the “Creative Minds” conference series sponsored by the U.S. Ambassador to Ireland.

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

U.S. Department of Agriculture (USDA) and the [Citizens' Institute on Rural Design \(CIRD\)](#): USDA has partnered with the NEA since 2012 in this initiative, established in 1991, to help rural communities with populations of 50,000 or fewer enhance their quality of life and economic vitality through facilitated design workshops. Since its founding, more than 70 workshops have been conducted across the country. In addition to the workshops, online resources, including a blog and webinars, are available on the CIRD website.

Department of Defense (DOD) and [Blue Star Museums](#): The NEA continues to collaborate with DOD, Blue Star Families, and museums across America to offer free admission all summer long to active duty military members and their families. In 2017, it is estimated that the program served more than 900,000 active-duty military personnel and their families at more than 2,100 museums nationwide.

Department of Health and Human Services (HHS) and the [Arts and Human Development Taskforce](#): A task force of 20 federal agencies and departments has convened regularly since November 2011 to encourage more and better research on how the arts help people reach their full potential at all stages of life. For example, responding to a need identified by the Task Force, the NEA published in December 2016 the [National Endowment for the Arts Guide to Community-Engaged Research in the Arts and Health](#), authored by the cognitive neuroscientist Julene Johnson, PhD, UCSF, and the arts consultant Jeff Chapline, New Art Horizons. The guide advises arts practitioners and biomedical or behavioral health researchers how to partner effectively in documenting and studying the contributions of community-based arts programs to positive health outcomes.

Research and Program Evaluation Highlights

The NEA’s Office of Research & Analysis had numerous accomplishments in FY 2017, highlights of which are listed below. These new products and partnerships are grouped into four categories: three in research, and one in evaluation.

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

- *American Housing Survey for 2015 – arts module:* These data resulting from this questionnaire, co-designed by the NEA, have been released by the U.S. Department of Housing & Urban Development.
- [Arts and Cultural Production Satellite Account](#) – *1998-2014 time-series of national and limited state-level data:* Along with statistical tables, a suite of data products were customized to serve different user groups. These products, including fact-sheets, interactive maps, and data dashboards, were posted to the NEA and U.S. Bureau of Economic Analysis websites, as well as to the [National Assembly of State Arts Agencies website](#).
- *American Community Survey (artists data extract) – 2011-2015:* These files were posted to the NEA’s National Archive of Data on Arts & Culture, a public data repository (*see above*), which, in FY 2017 alone, acquired 16 new arts-related datasets through an agreement with the NEA.
- *Survey of Public Participation in the Arts (SPPA) for 2017:* A revised questionnaire, developed by ORA, was delivered to the U.S. Census Bureau and fielded in FY 2017, producing richer and more detailed arts variables than previously have been obtained from this periodic survey.

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

- [*Staying Engaged: Health Patterns of Older Americans Who Participate in the Arts:*](#) This report describes arts participation patterns, and related health outcomes, of older adults (aged 55 and over) tracked by the 2014 Health and Retirement Study. In addition to releasing a report, the NEA posted an interactive graphic enabling users to query the underlying data.
- [*Analyses of state-level data on arts and cultural employment:*](#) Research briefs and summary statistics about employment and compensation of arts and cultural workers in each state (from 2001-2014) were posted to the NEA website.
- *Research: Art Works grant awards for 2017:* Since 2011, ORA has made awards to 104 research projects, with roughly half so far yielding [research papers or publications](#) that have been posted to the NEA website. In FY 2017, ORA instituted a two-track application process, inviting researchers to seek higher levels of funding for experimental and quasi-experimental study designs.
- [*National Endowment for the Arts Research Labs:*](#) In FY 2017, ORA made awards to four trans-disciplinary research teams that will investigate the arts' relationship to these domains: Social and Emotional Health and Well-Being; Creativity, Cognition, and Learning; and Entrepreneurship and Innovation.

Strategic research alliances: Beyond engaging in the data-collection activities described above – whereby ORA typically works with other entities to augment public datasets – the office began or completed the following products in collaboration with other federal agencies in FY 2017.

- [*The NEA Guide to Community-Engaged Research in the Arts and Health:*](#) Intended for arts/health practitioners and researchers alike, this guide benefited from consultation with members of the NEA's Interagency Task Force on the Arts and Human Development – including researchers at the National Institutes of Health – and was posted to the NEA website in December 2016. In FY 2017, ORA and the guide's authors held a [public webinar](#) to discuss researcher-practitioner alliances in the arts and health. Concurrent with the guide's release, ORA posted to the NEA website an [online directory](#) of “federal funding resources for research in the arts and human development.”
- [*Creative Forces Clinical Research Summit:*](#) ORA oversaw the production of a [research synthesis and gap-analysis report](#) to inform the Sept. 18-19, 2017 event, which was inaugurated by the Second Lady of the United States. Additionally, ORA co-chaired the summit with the National Intrepid Center of Excellence and convened participants

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nationwide for this vital research effort supporting the NEA’s military healing arts network.

- *Research report on arts, design, and rural innovation:* In late FY 2017, ORA completed a report about “rural arts, design, and innovation” in the U.S., based on a research collaboration with the U.S. Department of Agriculture’s Economic Research Service (ERS). The report will be released in early FY 2018.

Program evaluation and performance measurement: In FY 2017, ORA led program evaluations and distributed materials that will assist arts organizations, funders, and policy-makers in their own evaluation efforts.

- ✓ A “theory of change” and measurement model: Working with the NEA’s Design staff, ORA oversaw a research contract to design a conceptual framework and related metrics for *Our Town*, the NEA’s flagship creative placemaking program. A version of the resulting report will be posted to the NEA website in FY 2018.
- ✓ Mixed-methods evaluation study: Working with the NEA’s Literature staff and the Poetry Foundation, ORA oversaw a research contract to design an evaluation protocol for the *Poetry Out Loud* program. The study will begin in FY 2018.
- ✓ Grants portfolio analysis: In FY 2017, ORA completed a report analyzing three years of quantitative and qualitative data associated with the NEA’s Folk Arts Partnerships program. The report will be posted to the NEA website in FY 2018.
- ✓ NEA Learning Agenda: In parallel with supervising the strategic plan development process for the NEA in FY 2017, ORA consulted agency staff to identify priorities for data analyses and mini-studies, which, if conducted, would enhance operations for the entire agency.
- ✓ Resources on program evaluation and performance measurement: ORA has posted to its webpage a series of descriptions and hyperlinks to organizations, guidance documents, and toolkits that can help arts organizations design and conduct their own evaluations.
- ✓ Public webinar series on program evaluations: ORA launched this series in FY 2017, focusing initially on [creative placemaking as a topic of program evaluation](#), and next on [“evidence at the core of the 21st-century local arts agency.”](#) The series continues in FY 2018.
- ✓ Grants data dashboards and interactive maps: ORA has created user-friendly dashboards that can be used by NEA staff to review charts, graphs, maps, and statistics capturing some impacts of NEA grant-making. Separately, ORA has designed an interactive map featuring the NEA’s geographical reach; this map likely will be posted to the NEA website in FY 2018.

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Improper Payments Reporting

The NEA has four major fund categories: Administrative; Program Support; Direct Grantmaking; and Partnership. Based on previous risk assessments conducted in accordance with OMB guidance, none of these “programs” qualifies as risk-susceptible. In FY 2016, there were no improper payments made. Due to our strong internal controls, we believe that the NEA has an insignificant risk of improper payments for FY 2017.

Analysis of Financial Statements

The NEA’s principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the NEA in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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

Here are some financial highlights:

- NEA's FY 2017 appropriation was \$149.849 million, an increase of \$1.9 million over FY 2016. Appropriations are the primary source of financial resources for the Agency, so the financial position of the NEA generally trends with the amount of appropriations received each year.
- The NEA received about \$0.749 million in reimbursable agreement authority in FY 2017, a decrease of \$3.564 million over FY 2016. As with appropriations, the financial resources of the agency fluctuate in response to changes in reimbursable authority received.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2017 and FY 2016 are provided below:

- Fund Balance with Treasury – The \$4.1 million increase was predominately due to the higher balance in program funds in FY 2017 as compared to FY 2016.
- Accounts Receivable - The \$5,000 decrease represents the collection payments received.

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- Property, Plant and Equipment - The original purchase price less accumulated depreciation is reflected on the balance sheet. The more than \$81,000 decrease in the book values year over year represented continued depreciation expense.
- Other Assets - This line item consists entirely of advances to other parties. The over \$660,000 decrease in advances during FY 2017 is due to reduced advances to one major federal entity. See Note 7 for additional details.
- Accounts Payable – The \$128,000 increase is due to an increase in advances received from other government agencies. See Note 8 for additional details.
- Accrued Liabilities - The ratio of grant obligations to outlays increased during FY 2017, resulting in a larger accrued liability compared to FY 2016.
- Other liabilities - FY 2017 had about the same level of other liabilities as in FY 2016. See Note 8 for additional details.
- Net Position - The overall net position of the NEA decreased by \$5,479,848, which is attributed to an increase in accounts payable and accrued liabilities in FY 2017 compared to FY 2016.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2017 compared to FY 2016:

- Obligations – In FY 2017, obligations were \$159.211 million as compared to \$154.940 million in FY 2016. The nearly 2.8% increase is due to an increase in obligations from all sources of funds, including funds appropriated in FY 2017, donated funds received in FY 2017, unobligated balances brought forward at the beginning of FY 2017, and recoveries of prior year unpaid obligations during FY 2017.
- Outlays – In FY 2017, net outlays were \$145.692 million compared to \$148.502 million in FY 2016. The 1.9% decrease was due to a reduction in the grant payment amounts requested.

Overall, the current financial condition of the NEA is strong. The NEA received an unqualified audit opinion on its FY 2017 financial statements as presented herein. This is the NEA's 15th consecutive year receiving a clean audit opinion. As mentioned above, the NEA's programs and operations are funded primarily through appropriated funding as provided by Congress and approved by the President. Therefore, year to year changes in the NEA's financial condition are highly dependent on these appropriated funding levels.

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Management's Discussion and Analysis

National Endowment for the Arts Table of Key Measures				
Amounts in Dollars	Current FY	Prior FY	Increase/(Decrease)	
			\$	%
Costs ¹				
Total Financing Sources	\$155,400,522	\$141,388,817	\$14,011,705	10%
Less: Net Cost	156,444,484	141,469,764	14,974,720	11%
Net Change of Cumulative Results of Operations	(\$1,043,962)	(\$80,947)	(\$963,015)	1190%
Net Position ²				
Assets:				
Fund Balance with Treasury	\$149,996,713	\$145,845,834	\$4,150,880	2.85%
Accounts Receivable	113,446	118,578	(5,132)	-4.33%
Property, Plant, and Equipment	421,529	503,402	(81,873)	-16.26%
Other	531,940	1,198,363	(666,423)	-55.61%
Total Assets	\$151,063,629	\$147,666,177	\$3,397,452	2.30%
Liabilities:				
Accounts Payable	\$759,136	\$631,111	\$128,024	20.29%
Accrued Liabilities	47,163,463	38,410,416	\$8,753,047	22.79%
Other	1,943,245	1,947,017	(\$3,771)	-0.19%
Total Liabilities	\$49,865,844	\$40,988,544	\$8,877,300	21.66%
Net Position (Assets-Liabilities)	\$101,197,785	\$106,677,633	(\$5,479,848)	-5.14%

¹ Source: Statement of Changes in Net Position

² Source: Balance Sheet

National Endowment for the Arts – FY 2017 Agency Financial Report
Management's Discussion and Analysis

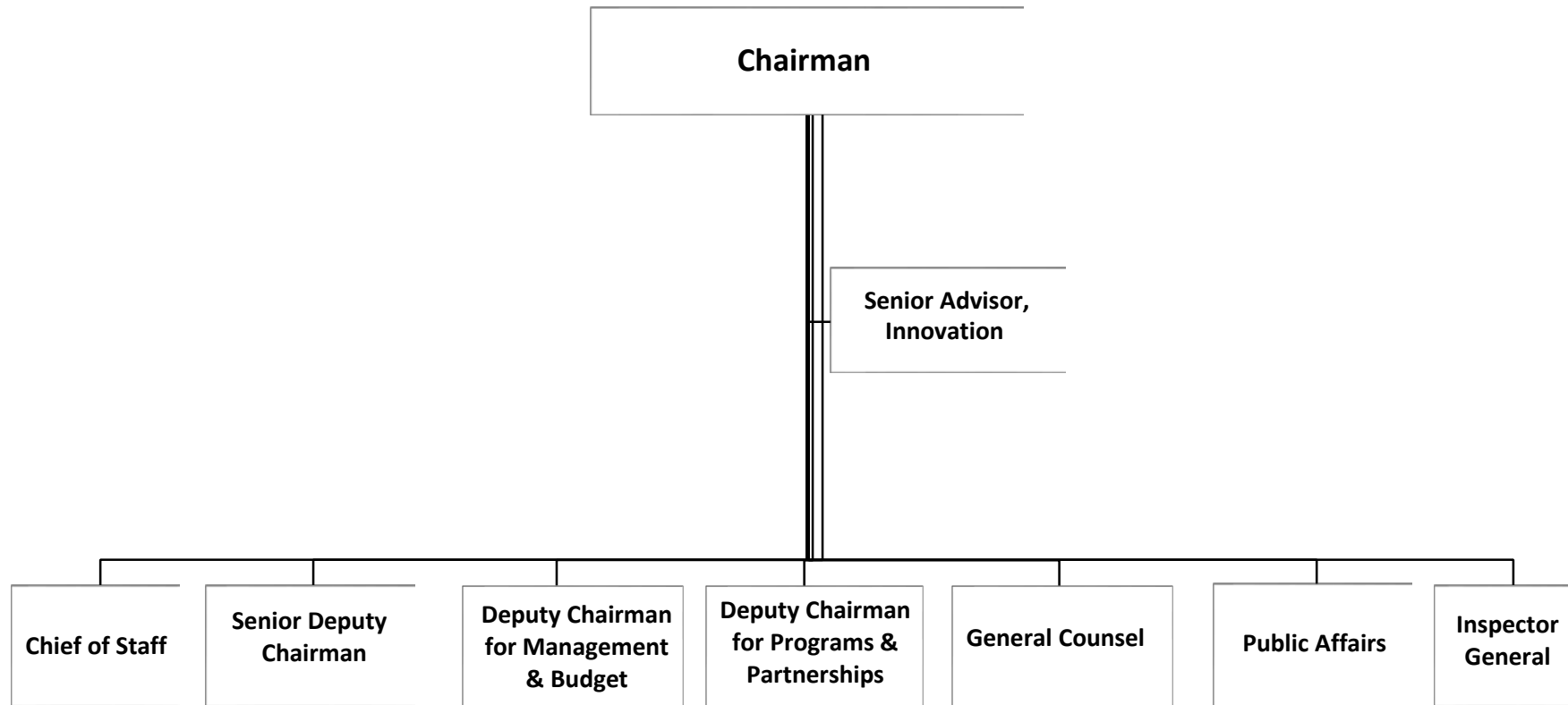
Systems, Controls, and Legal Compliance

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.

Other Management Information, Initiatives, and Issues

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

*National Endowment for the Arts – FY 2017 Agency Financial Report
Management's Discussion and Analysis*



~ Management Assurances ~

Overall Internal Control

National Endowment for the Arts management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The NEA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the NEA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2017, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Internal Control over Financial Reporting

The National Endowment for the Arts conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circulars A-123, *Management's Responsibility for Internal Control*, and A-136, *Financial Reporting Requirements*. Based on the results of this evaluation and that of our independent auditors, the NEA can provide reasonable assurance that internal control over financial reporting as of September 30, 2017, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

National Endowment for the Arts – FY 2017 Agency Financial Report

Table 1.
Summary of Financial Statement Audit

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

Table 2.
Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Material Weaknesses	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						
Total non-conformances	0	0	0	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Overall Substantial Compliance	n/a			n/a		
1. System Requirements				n/a		
2. Accounting Standards				n/a		
3. USSGL at Transaction Level				n/a		


Jane Chu

Chairman

November 15, 2017

***Financial Statements
and Related Auditor's Report
Fiscal Year 2017***

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***Fiscal Year 2017
Agency Financial Report
~ A Message from the Director of Finance ~***

I am pleased to join with Chairman Chu in presenting the National Endowment for the Arts' *Fiscal Year 2017 Agency Financial Report*. This report summarizes the NEA's financial performance during the past year.

Our financial statements independent audit has been successfully completed and has resulted in an unmodified opinion for the 15th consecutive year. The audit revealed no material weaknesses.

In Fiscal Year 2017, NEA successfully implemented requirements for the Digital Accountability and Transparency Act of 2014 (DATA Act) and achieved a clean performance audit opinion on DATA Act submission compliance with regards to the criterion of completeness, accuracy and in accordance with government-wide data standards.

In Fiscal Year 2018, we will continue to enhance reporting systems, ensure adherence to all applicable guidance, and optimize efficiencies through improved use of technology. In addition, we will complete our migration to a new cloud-based grants management system with the National Endowment for the Humanities, which will include integration with our finance system where relevant and feasible. We are confident that our finance system supports the agency's ongoing commitment to ensuring that we are fully accountable for the funds that have been entrusted to us for the benefit of the American people.



Heidi Ren
Director of Finance
November 15, 2017

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying Balance Sheet of the National Endowment for the Arts (NEA) as of September 30, 2017 and 2016 and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the NEA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NEA's internal control.

WILLIAMS, ADLEY & COMPANY-DC, LLP
Certified Public Accountants / Management Consultants

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

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Endowment for the Arts as of September 30, 2017 and 2016, and its net cost, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Message from the Chairman, Inspector General's Summary of Top Management Challenges, and Managements Assurances are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Report on Internal Control over Financial Reporting

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

internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. In our fiscal year 2017 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Given these limitations, material weaknesses may exist that have not been identified.

Although not considered to be material weaknesses or significant deficiencies, we noted certain other matters that were communicated to management in a separate letter. Additionally, we have provided the status of the prior year findings in Appendix I.

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

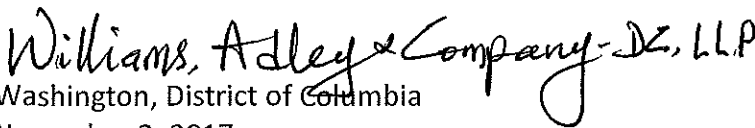
Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether NEA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin No. 17-03. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion

on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the NEA's financial management systems did not substantially comply with the (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

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


Washington, District of Columbia
November 3, 2017

APPENDIX I: STATUS OF PRIOR YEAR FINDINGS

Prior Year Findings		Current Year Status
16-01	NEA should improve its process for reviewing open obligations and updating Delphi in a timely manner to reflect GMS grant information	Closed
16-02	Improvements needed in NEA's Internal Control Assessment Process	Closed

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Audited Financial Statements and Notes

For the Years Ended September 30, 2017 and 2016

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NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

BALANCE SHEET
As of September 30, 2017 and 2016
(In Dollars)

	September 30, 2017			September 30, 2016		
ASSETS (Notes 2-6):						
	All Other	Funds from Dedicated Collections (Combined Total) (Note 12)	Cumulative	All Other	Funds from Dedicated Collections (Combined Total) (Note 11)	Cumulative
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 147,544,095	\$ 2,452,618	\$ 149,996,713	\$ 143,219,778	\$ 2,626,055	\$ 145,845,834
Other Assets (Note 6)	416,940	115,000	531,940	1,118,363	80,000	1,198,363
Total Intragovernmental	\$ 147,961,035	\$ 2,567,618	\$ 150,528,654	\$ 144,338,142	\$ 2,706,055	\$ 147,044,197
Assets with the Public:						
Accounts Receivable (Note 3)	\$ 113,446	\$ -	\$ 113,446	\$ 118,578	\$ -	\$ 118,578
General Property, Plant and Equipment, Net (Note 4)	421,530	-	421,530	503,402	-	503,402
TOTAL ASSETS	\$ 148,496,011	\$ 2,567,618	\$ 151,063,629	\$ 144,960,122	\$ 2,706,055	\$ 147,666,177
LIABILITIES (Notes 7,8):						
Intragovernmental:						
Accounts Payable (Note 8)	\$ 759,136	\$ -	\$ 759,136	\$ 631,111	\$ -	\$ 631,111
Total Intragovernmental	\$ 759,136	\$ -	\$ 759,136	\$ 631,111	\$ -	\$ 631,111
With the Public:						
Accrued Liabilities (Note 8)	\$ 47,147,363	\$ 16,100	\$ 47,163,463	\$ 38,368,546	\$ 41,870	\$ 38,410,416
Other Liabilities (Note 7, 8)	1,943,245	-	1,943,245	1,931,137	15,879	1,947,017
TOTAL LIABILITIES	\$ 49,849,744	\$ 16,100	\$ 49,865,844	\$ 40,930,795	\$ 57,749	\$ 40,988,544
Commitments and Contingencies (Note 10)						
NET POSITION:						
Unexpended Appropriations	\$ 100,647,436	\$ (14,356)	\$ 100,633,080	\$ 105,068,966	\$ -	\$ 105,068,966
Cumulative Results of Operations	(2,001,170)	2,565,875	564,705	(1,039,639)	2,648,306	1,608,667
TOTAL NET POSITION	\$ 98,646,267	\$ 2,551,519	\$ 101,197,785	\$ 104,029,327	\$ 2,648,306	\$ 106,677,633
TOTAL LIABILITIES AND NET POSITION	\$ 148,496,011	\$ 2,567,618	\$ 151,063,629	\$ 144,960,122	\$ 2,706,055	\$ 147,666,177

1 The accompanying notes are an integral part of these statements. See the NOTE related to specific line items for details.

2 The Unexpended Appropriations and Cumulative Results of Operations detail are shown in the Statement of Changes in Net Position.

3 Totals may not foot due to rounding differences.

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

STATEMENT OF NET COST
For the Years Ended September 30, 2017 and September 30, 2016
(In Dollars)

	<u>2017</u>	<u>2016</u>
Program Costs (Note 13):		
Access to Artistic Excellence:		
Gross Costs	\$ (37,735)	\$ (11,805)
Less: Earned Revenue	-	(75,000)
Net Access to Artistic Excellence Costs	\$ (37,735)	\$ (86,805)
Learning in the Arts:		
Gross Costs	\$ -	\$ 2,050
Less: Earned Revenue	-	-
Net Learning in the Arts Costs	\$ -	\$ 2,050
Partnerships for the Arts:		
Gross Costs	\$ -	\$ (14,257)
Less: Earned Revenue	-	-
Net Partnerships for the Arts Costs	\$ -	\$ (14,257)
Arts Creation:		
Gross Costs	\$ 26,737,428	\$ 26,519,282
Less: Earned Revenue	(49,840)	(103,173)
Net Arts Creation Costs	\$ 26,687,588	\$ 26,416,109
Engagement with the Arts:		
Gross Costs	\$ 77,400,699	\$ 69,872,581
Less: Earned Revenue	(898,179)	(1,464,571)
Net Engagement with the Arts Costs	\$ 76,502,520	\$ 68,408,009
Contribution of the Arts:		
Gross Costs	\$ 53,293,712	\$ 46,747,971
Less: Earned Revenue	(1,601)	(3,314)
Net Contribution of the Arts Costs	\$ 53,292,111	\$ 46,744,657
Total Program Costs	\$ 156,444,484	\$ 141,469,764
Net Cost of Operations	<u>\$ 156,444,484</u>	<u>\$ 141,469,764</u>

1 The accompanying notes are an integral part of these statements.

2 Totals may not foot due to rounding differences.

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2017 and 2016
(In Dollars)

	FY 2017			FY 2016		
	Funds from Dedicated Collections (Combined Total) (Note 12)	All Other Funds	Consolidated Total	Funds from Dedicated Collections (Combined Total) (Note 12)	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	\$ 2,648,306	\$ (1,039,639)	\$ 1,608,667	\$ 2,979,060	\$ (1,281,161)	\$ 1,697,900
Adjusted Beginning Balances	\$ 2,648,306	\$ (1,039,639)	\$ 1,608,667	\$ 2,979,060	\$ (1,281,161)	\$ 1,697,900
Budgetary Financing Sources:						
Appropriations Used	\$ 14,356	\$ 154,270,530	\$ 154,284,885	\$ -	\$ 139,433,232	\$ 139,433,232
Donations	476,588	(139)	476,448	831,991	139	832,130
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	-	(9,790)	(9,790)	9,790	-	9,790
Imputed financing	-	648,978	648,978	-	1,113,664	1,113,664
Total Financing Sources	\$ 490,943	\$ 154,909,579	\$ 155,400,522	\$ 841,781	\$ 140,547,036	\$ 141,388,817
Net Cost of Operations	563,585	155,880,900	156,444,484	1,172,536	140,297,228	141,469,764
Net Change	\$ (72,641)	\$ (971,321)	\$ (1,043,962)	\$ (330,755)	\$ 249,808	\$ (80,947)
Cumulative Results of Operations	\$ 2,575,665	\$ (2,010,960)	\$ 564,705	\$ 2,648,306	\$ (1,031,353)	\$ 1,608,667
Unexpended Appropriations:						
Beginning Balances		\$ 105,068,966	\$ 105,068,966		\$ 96,553,198	\$ 96,553,198
Adjusted Beginning Balances	\$ -	\$ 105,068,966	\$ 105,068,966	\$ -	\$ 96,553,198	\$ 96,553,198
Budgetary Financing Sources:						
Appropriations Received		\$ 149,849,000	\$ 149,849,000		\$ 147,949,000	\$ 147,949,000
Appropriations Used	(14,356)	(154,270,530)	(154,284,885)		(139,433,232)	(139,433,232)
Total Budgetary Financing Sources	\$ (14,356)	\$ (4,421,530)	\$ (4,435,885)	\$ -	\$ 8,515,768	\$ 8,515,768
Total Unexpended Appropriations	\$ (14,356)	\$ 100,647,436	\$ 100,633,080	\$ -	\$ 105,068,966	\$ 105,068,966
Net Position	\$ 2,561,309	\$ 98,636,476	\$ 101,197,785	\$ 2,648,306	\$ 104,037,613	\$ 106,677,633

1. The accompanying notes are an integral part of these statements.
2. Totals may not foot due to rounding differences.

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2017 and September 30, 2016
(In Dollars)

	2017	2016
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, Oct 1	\$ 15,111,653	\$ 15,561,743
Unobligated Balance Brought Forward, Oct 1, as Adjusted	\$ 15,111,653	\$ 15,777,185
Recoveries of Prior Year Unpaid Obligations	2,243,103	1,050,741
Other Changes in Unobligated Balance	(9,642)	317,424
Unobligated Balance from Prior Year Budget Authority, Net	<u>\$ 17,345,114</u>	<u>\$ 16,929,908</u>
Appropriations (discretionary and mandatory)	\$ 150,325,868	\$ 148,779,991
Spending Authority from Offsetting Collections (discretionary and mandatory)	739,187	4,322,837
TOTAL BUDGETARY RESOURCES	<u><u>\$ 168,410,169</u></u>	<u><u>\$ 170,032,736</u></u>
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 14)	\$ 159,210,936	\$ 154,940,284
Unobligated Balance, End of Year:		
Apportioned, unexpired accounts	9,199,233	15,082,662
Unapportioned, unexpired accounts	-	9,790
Unexpired Unobligated Balance, End of Year	<u>9,199,233</u>	<u>15,092,452</u>
Expired Unobligated Balance, End of Year		
Total Unobligated Balance, End of Year	<u>\$ 9,199,233</u>	<u>\$ 15,092,452</u>
TOTAL BUDGETARY RESOURCES	<u><u>\$ 168,410,169</u></u>	<u><u>\$ 170,032,736</u></u>
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, Oct 1	\$ 134,864,253	\$ 132,416,639
New Obligations and Upward Adjustments	159,210,936	154,940,284
Outlays (Gross)	(147,251,234)	(151,441,929)
Recoveries of Prior Year Unpaid Obligations	<u>(2,243,103)</u>	<u>(1,050,741)</u>
Unpaid Obligations, End of Year	\$ 144,580,851	\$ 134,864,253
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, Oct 1	\$ (4,110,871)	\$ (1,539,000)
Change in Uncollected Payments from Federal Sources	<u>327,500</u>	<u>(2,571,871)</u>
Uncollected Payments from Federal Sources, End of Year	\$ (3,783,372)	\$ (4,110,871)
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	130,753,382	130,877,639
Obligated Balance, End of Year	140,797,480	130,753,382
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (discretionary and mandatory)	\$ 151,065,055	\$ 153,102,828
Actual Offsetting Collections (discretionary and mandatory)	(1,076,245)	(2,087,590)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	327,500	(2,571,871)
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	<u>9,559</u>	<u>336,625</u>
Budget Authority, Net (discretionary and mandatory)	\$ 150,325,868	\$ 148,779,991
Outlays, Gross (discretionary and mandatory)	\$ 147,251,234	\$ 151,441,929
Actual Offsetting Collections (discretionary and mandatory)	<u>(1,076,245)</u>	<u>(2,087,590)</u>
Outlays, Net (discretionary and mandatory)	\$ 146,174,989	\$ 149,354,338
Distributed Offsetting Receipts	<u>(482,868)</u>	<u>(852,526)</u>
Agency Outlays, Net (discretionary and mandatory)	<u><u>\$ 145,692,120</u></u>	<u><u>\$ 148,501,812</u></u>

1. The accompanying notes are an integral part of these statements.
2. Totals may not foot due to rounding differences.

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

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

NOTE 1: Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

These statements were prepared from the books and records of the NEA in conformity with accounting principles generally accepted in the United States, and the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), Revised August 17, 2017, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated October 7, 2016.
- M-06-27 *Fiscal Year 2006 Year-end Accounting Guidance for Earmarked Funds* (September 22, 2006), located at <http://www.whitehouse.gov/sites/default/files/omb/assets/omb/memoranda/fy2006/m06-27.pdf>.
- *Future External Reporting Changes* (December 21, 2001), located at http://www.whitehouse.gov/sites/default/files/omb/financial/year_end_reporting_2001.pdf.
- *Requirements for Accountability of Tax Dollars Act* (December 6, 2002), located at http://www.whitehouse.gov/sites/default/files/omb/financial/accountability_of_tax_dollars.pdf.
- M-04-20 *FY 2004 Performance and Accountability Reports and Reporting Requirements for the Financial Report of the United States Government* (July 22, 2004), located at <http://www.whitehouse.gov/sites/default/files/omb/memoranda/fy04/m04-20.pdf>.
- Memorandum FY 2002 *Financial and Performance Reporting*, dated October 18, 2002.
- Bulletin 01-09 *Form and Content of Agency Financial Statements*, revised September 25, 2001, available at <http://www.whitehouse.gov/omb/bulletins/b01-09.html>.

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 NEA.

NOTE 1: Significant Accounting Policies (Continued)

C. Basis of Accounting

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

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

Created in 1990, 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.

http://www.whitehouse.gov/omb/financial_default/

D. Revenues and Other Financing Sources

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

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

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

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

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

NOTE 1: Significant Accounting Policies (Continued)

E. Fund Balance with Treasury

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

F. Advances and Prepayments

NEA'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 NEA, expenditures are incurred and advances reduced. Advances are recorded for intragovernmental transactions until the expenditures or revenues are reported by the trading partner, at which time the advance is reduced and the expense/revenue is recognized. Advances are also recorded for payments to vendors for the portion of services that extend beyond the current fiscal year.

G. General Property, Plant and Equipment, Net

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

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

H. Liabilities

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

I. Accounts Payable

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

NOTE 1: Significant Accounting Policies (Continued)

J. Accounts Receivable

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

K. Annual, Sick and Other Leave

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

L. Retirement Plans

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

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

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

M. Imputed Benefit Costs

NEA reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management 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" 471X8040; there are no eliminations of this type of activity within the agency, nor any need for additional subtotal or total columns.

Q. Fiduciary Activities

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

R. Cost Accounting Methodology

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

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

NOTE 2: Fund Balance With Treasury

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Fund Balance:		
Trust Funds	\$ 2,452,618	\$ 2,626,055
Appropriated Funds	147,544,095	143,219,778
Fund Balance With Treasury - Total	<u>\$ 149,996,713</u>	<u>\$ 145,845,833</u>
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	\$ 6,987,749	\$ 12,870,490
Available Trust Fund	2,211,484	2,212,171
Subtotal - Available	\$ 9,199,233	\$ 15,082,661
Unavailable		\$ 9,790
Obligated Balance Not Yet Disbursed Other	\$ 144,339,718	\$ 134,460,160
Obligated Balance Not Yet Disbursed Trust Fund	241,134	404,093
Subtotal - Obligated	144,580,851	134,864,253
Unfilled/Billed Reimbursable Orders	(3,783,372)	(4,110,871)
	<u>\$ 149,996,713</u>	<u>\$ 145,845,833</u>

NOTE 3: Accounts Receivable, Net

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Accounts Receivables:		
Custodial Receivables (Nonentity)	\$ 112,000	\$ 118,000
Receivables Due from the Public	1,446	578
Total	<u>\$ 113,446</u>	<u>\$ 118,578</u>
Allowance for Uncollectible	-	-
Net Receivables	<u>\$ 113,446</u>	<u>\$ 118,578</u>

The balance sheet approach, which uses a percentage of accounts receivable for a period, is used for the allowance for uncollectible accounts receivable. Over the previous two years, zero percentage of the accounts receivable has been uncollected.

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

NOTE 4: General Property, Plant, And Equipment

<u>Class of Property</u>	September 30, 2017			September 30, 2016		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Furniture & Equipment	\$ 749,905	\$ 328,376	\$ 421,530	\$ 725,293	\$ 221,892	\$ 503,401
Total	\$ 749,905	\$ 328,376	\$ 421,530	\$ 725,293	\$ 221,892	\$ 503,401

Straight line depreciation with a useful life of seven years is used. Capitalization threshold is described in Note 1 on accounting policies.

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 NEA's objective criteria to classify an item as a heritage asset, which includes: the age of the asset, the artist/author of the asset, the materials used in the asset's creation, the cultural importance of the asset, and the process by which the asset was created. All items classified as heritage assets, though generally individual items, are considered a collection in totality. NEA's collection contains two major categories of heritage assets: Artworks and Decorative Art, and Furniture.

The General Counsel's office approves the acceptance of all gifts to the NEA. An independent art appraiser reviews the inventory items and provides an appraisal update to the Administrative Services Office (ASO) in May or June of each year. After the appraisal, the ASO incorporates any updates into the Heritage Asset Inventory. If a gift or award holds some type of historical significance, 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.

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

Art Works and Decorative Art, and Furniture:

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

Heritage Assets Category	Quantity as of 9/30/2017	Quantity as of 9/30/2016	Change in Units	Change	General Condition
Artwork and Decorative Art	203	211	-8	-3.79%	Good
Furniture	40	40	0	0%	Excellent
Total	243	251	-8		

NOTE 6: Other Assets

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Intragovernmental:		
Department of Commerce (1)	\$ 123,643	\$ 1,018,116
Department of Commerce (2)	250,000	-
Department of Transportation (3)	43,297	35,323
Enterprise Service Center (4)	-	64,924
Institute of Museum and Library Services (5)	115,000	80,000
Total Other Assets	<u>\$ 531,940</u>	<u>\$ 1,198,363</u>

Other Information:

- (1) Advance to Census Bureau for 2016 Annual Arts Benchmarking Survey data collection.
- (2) Advance to Census Bureau for 2017 Public Participation in the Arts data collection.
- (3) Advance for employee transit benefits.
- (4) Advance for Oracle Federal Financial System hosting and accounting services.
- (5) Support for the National Student Poets Program.

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

NOTE 7: Liabilities Not Covered By Budgetary Resources

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Intragovernmental:		
Unfunded FECA Liability	\$ 344	\$ 669
Custodial Liability	112,000	118,000
Total Intragovernmental	<u>\$ 112,344</u>	<u>\$ 118,669</u>
Accrued Unfunded Leave Non-Federal	\$ 1,102,064	\$ 1,111,781
Actuarial FECA Liability Non-Federal	1,776	3,221
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 1,216,184</u>	<u>\$ 1,233,671</u>
Total Liabilities Covered by Budgetary Resources	<u>\$ 48,649,659</u>	<u>\$ 39,754,874</u>
Total Liabilities	<u><u>\$ 49,865,844</u></u>	<u><u>\$ 40,988,545</u></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.

NOTE 8: Other Liabilities

	<u>September 30, 2017</u>			<u>September 30, 2016</u>		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental:						
Accrued Payables - Invoices	\$ -	\$ (13,121)	\$ (13,121)	\$ -	\$ (11,449)	\$ (11,449)
Custodial Liability	-	112,000	112,000	-	118,000	118,000
Employer Contributions	-	157,741	157,741	-	165,909	165,909
Other Post Employment Benefits	-	17,332	17,332	-	-	-
Unfunded FECA Liability	-	344	344	-	669	669
Advances from Other Govt Agencies	-	484,839	484,839	-	357,983	357,983
Total Intragovernmental Liabilities	<u>\$ -</u>	<u>\$ 759,136</u>	<u>\$ 759,136</u>	<u>\$ -</u>	<u>\$ 631,112</u>	<u>\$ 631,112</u>
With the Public:						
Other Liabilities						
Accrued Payables - Invoices	\$ -	\$ -	\$ -	\$ -	\$ 127,855	\$ 127,855
Accrued Funded Payroll	-	813,844	813,844	-	678,483	678,483
TSP Employer Contributions	-	25,561	25,561	-	25,677	25,677
Actuarial FECA Liability	-	1,776	1,776	-	3,221	3,221
Accrued Unfunded Leave	-	1,102,064	1,102,064	-	1,111,781	1,111,781
Total Other Liabilities	<u>\$ -</u>	<u>\$ 1,943,245</u>	<u>\$ 1,943,245</u>	<u>\$ -</u>	<u>\$ 1,947,017</u>	<u>\$ 1,947,017</u>
Accrued Liabilities	-	47,163,463	47,163,463	-	38,410,416	38,410,416
Total Liabilities With the Public	<u>\$ -</u>	<u>\$ 49,106,708</u>	<u>\$ 49,106,708</u>	<u>\$ -</u>	<u>\$ 40,357,433</u>	<u>\$ 40,357,433</u>
Total Liabilities	<u><u>\$ -</u></u>	<u><u>\$ 49,865,844</u></u>	<u><u>\$ 49,865,844</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 40,988,545</u></u>	<u><u>\$ 40,988,545</u></u>

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 9: Leases

Brief Description of Occupancy Agreement:

The Occupancy Agreement with Constitution Center includes rental of office space and two parking spaces for agency vehicles. NEA entered into a 10-year lease starting in 2014. The occupancy agreement was updated on June 24, 2017, and the upcoming lease terms are as follows:

	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
Total Annual Rental	\$2,904,724.38	\$2,940,208.61	\$3,056,783.59	\$3,150,747.14	\$3,186,688.08
	<u>FY2022</u>	<u>FY2023</u>			
Total Annual Rental	\$3,223,707.25	\$3,261,837.00			

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

NOTE 10: Commitments and Contingencies

NEA is one of approximately sixty 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 parties are nearing settlement, with a reasonably possible range of \$340-\$350 for NEA, although that number has not yet been finalized.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 11: Funds from Dedicated Collections

	Gifts and Donations	
Balance Sheet	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Assets		
Fund Balance with Treasury	\$ 2,452,618	\$ 2,626,055
Other Assets	115,000	80,000
Total Assets	<u>\$ 2,567,618</u>	<u>\$ 2,706,055</u>
Accrued Expenses	\$ 16,100	\$ 41,870
Other Liabilities	-	15,879
Total Liabilities	<u>\$ 16,100</u>	<u>\$ 57,749</u>
Unexpended Appropriations	(14,356)	-
Cumulative Results of Operations	2,565,875	2,648,306
Total Liabilities and Net Position	<u>\$ 2,567,618</u>	<u>\$ 2,706,055</u>
Statement of Net Cost	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Gross Program Costs	\$ 563,585	\$ 1,172,536
Net Program Costs	563,585	1,172,536
Net Cost of Operations	<u>\$ 563,585</u>	<u>\$ 1,172,536</u>
Statement of Changes in Net Position	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Net Position Beginning of Period	\$ 2,648,306	\$ 2,979,060
Cash Donations	476,588	831,991
Donations or Forfeitures of Property	-	9,790
Less: Net Cost of Operations	<u>(563,585)</u>	<u>(1,172,536)</u>
Change in Net Position	<u>\$ (86,997)</u>	<u>\$ (330,755)</u>
Net Position End of Period	<u>\$ 2,561,309</u>	<u>\$ 2,648,305</u>

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

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

NOTE 12: Intragovernmental Costs and Exchange Revenue

	2017			2016		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Access to Artistic Excellence:						
Program Costs	\$ -	\$ (37,735)	\$ (37,735)	\$ 1,498	\$ (13,303)	\$ (11,805)
Earned Revenue	-	-	-	(75,000)	-	(75,000)
Net Costs - Access to Artistic Excellence	\$ -	\$ (37,735)	\$ (37,735)	\$ (73,502)	\$ (13,303)	\$ (86,805)
Learning in the Arts:						
Program Costs	\$ -	\$ -	\$ -	\$ 49	\$ 2,001	\$ 2,050
Earned Revenue	-	-	-	-	-	-
Net Costs - Learning in the Arts	\$ -	\$ -	\$ -	\$ 49	\$ 2,001	\$ 2,050
Partnerships for the Arts:						
Program Costs	\$ -	\$ -	\$ -	\$ 52	\$ (14,309)	\$ (14,257)
Earned Revenue	-	-	-	-	-	-
Net Costs - Partnerships for the Arts	\$ -	\$ -	\$ -	\$ 52	\$ (14,309)	\$ (14,257)
Arts Creation:						
Program Costs	\$ 4,760,487	\$ 21,976,941	\$ 26,737,428	\$ 3,800,139	\$ 22,719,143	\$ 26,519,282
Earned Revenue	(49,840)	-	(49,840)	(103,173)	-	(103,173)
Net Costs - Arts Creation	\$ 4,710,647	\$ 21,976,941	\$ 26,687,588	\$ 3,696,966	\$ 22,719,143	\$ 26,416,109
Engagement with the Arts:						
Program Costs	\$ 5,527,862	\$ 71,872,837	\$ 77,400,699	\$ 4,653,933	\$ 65,218,648	\$ 69,872,581
Earned Revenue	(898,179)	-	(898,179)	(1,464,571)	-	(1,464,571)
Net Costs - Engagement with the Arts	\$ 4,629,683	\$ 71,872,837	\$ 76,502,520	\$ 3,189,362	\$ 65,218,648	\$ 68,408,010
Contribution of the Arts:						
Program Costs	\$ 1,080,340	\$ 52,213,372	\$ 53,293,712	\$ 1,898,551	\$ 44,849,420	\$ 46,747,971
Earned Revenue	(1,600)	-	(1,600)	(3,314)	-	(3,314)
Net Costs - Contribution of the Arts	\$ 1,078,740	\$ 52,213,372	\$ 53,292,111	\$ 1,895,237	\$ 44,849,420	\$ 46,744,657
Total						
Program Costs	\$ 11,368,689	\$ 146,025,415	\$ 157,394,104	\$ 10,354,220	\$ 132,761,602	\$ 143,115,822
Earned Revenue	(949,620)	-	(949,620)	(1,646,059)	-	(1,646,059)
Net Cost of Operations	\$ 10,419,069	\$ 146,025,415	\$ 156,444,484	\$ 8,708,161	\$ 132,761,602	\$ 141,469,763

NOTE 13: Apportionment Categories of Obligations Incurred

NEA is provided with funding only under Category B.

Category B	Direct	Reimbursable	Total
Apportionments	\$ 150,335,427	\$ 748,977	\$ 151,084,404
Obligations	\$ 158,460,840	\$ 750,096	\$ 159,210,936

NATIONAL ENDOWMENT FOR THE ARTS
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The direct apportionments include funds appropriated and donations received in FY 2017 as well as downward adjustments of prior-year paid delivered orders. The direct apportionments do not include unobligated balances brought forward at the start of the fiscal year or recoveries of prior year unpaid obligations during the fiscal year.

Direct obligations incurred assume use of funding available during the fiscal year, including funds appropriated in FY 2017, donated funds received in FY 2017, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year unpaid obligations during the fiscal year.

NOTE 14: Undelivered Orders at the End of the Period

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Undelivered Orders:		
Direct	\$ 93,999,722	\$ 92,624,821
Reimbursable	<u>2,948,249</u>	<u>4,040,905</u>
Total Undelivered Orders, Net, End of period	<u>\$ 96,947,971</u>	<u>\$ 96,665,726</u>

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

NOTE 15: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2016 Statement of Budgetary Resources and the FY 2016 actual numbers presented in the FY 2018 Budget of the United States Government (Budget) are summarized below.

The President's Fiscal Year 2019 Budget, which will include actual numbers for fiscal year 2017, has not yet been published. The FY 2019 Budget is expected to be published in February 2018 and to be available at <http://www.whitehouse.gov/omb/budget/>.

FY 2016 (\$ in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$170	\$155	\$(1)	\$149
Difference (see above)	(1)	-	-	-
Budget of U.S. Government	\$169	\$155	(1)	\$149

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

NOTE 16: Explanation of Differences between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in Note 19 - Reconciliation of Net Cost of Operations to Budget represent the change in the liability created in the current year.

NOTE 17: Incidental Custodial Collections

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Intrabudgetary Receipts Deducted by Agencies	\$ 6,000	\$ 21,750
Total Custodial Collections	<u>\$ 6,000</u>	<u>\$ 21,750</u>

NOTE 18: Schedule of Fiduciary Activity

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

**Schedule of Fiduciary Activity
For the Years Ended September 30, 2017 and September 30, 2016**

	<u>September 30, 2017</u> Painting	<u>September 30, 2016</u> Painting
Fiduciary Net Assets, Beginning of Year	\$ 75,000	\$ 82,000
Contributions	-	-
Disposition of Assets	-	-
Adjustment of Fair Value	-	-
Increase/(Decrease) in Fiduciary Net Assets	-	-
Fiduciary Net Assets, End of Period	<u>\$ 75,000</u>	<u>\$ 82,000</u>

**Fiduciary Net Assets
As of September 30, 2017 and 2016**

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Fiduciary Assets:		
Other Assets (Painting)	\$ 75,000	\$ 82,000
Fiduciary Liabilities:		
Less: Decrease in Fair Value	-	-
Less: Liabilities	-	-
Total Fiduciary Net Assets	<u>\$ 75,000</u>	<u>\$ 82,000</u>

NATIONAL ENDOWMENT FOR THE ARTS
For the Years Ended September 30, 2017 and 2016 (In Dollars)

NOTE 19: Reconciliation of Net Cost of Operations to Budget

	2017	2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 159,210,936	\$ 154,940,284
Less: Spending Authority from Offsetting Collections and Recoveries	(2,991,849)	(5,710,203)
Obligations Net of Offsetting Collections and Recoveries	156,219,087	149,230,081
Less: Offsetting Receipts	(482,868)	(830,776)
Net Obligations	155,736,219	148,399,305
Other Resources		
Donations and Forfeitures of Property	(9,790)	9,790
Imputed Financing from Costs Absorbed by Others	648,978	1,113,664
Net Other Resources Used to Finance Activities	639,188	1,123,454
Total Resources Used to Finance Activities	<u>\$ 156,375,407</u>	<u>\$ 149,522,759</u>
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but Not Received	\$ (482,889)	\$ (8,923,608)
Resources That Fund Expenses Recognized in Prior Periods	(11,162)	(68,897)
Other - Offsetting Receipts	482,868	830,776
Resources that Finance the Acquisition of Assets	(24,612)	-
Total Resources Used to finance Items Not Part of the Net Cost of Operations	<u>\$ (35,795)</u>	<u>\$ (8,161,729)</u>
Total Resources Used to finance the Net Cost of Operations	<u>\$ 156,339,612</u>	<u>\$ 141,361,030</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 14):		
Other - Change in FECA Liability	\$ -	\$ 852
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$ -	\$ 852
Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 106,485	\$ 98,818
Other	(1,613)	9,063
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	104,872	107,881
Total components of Net Cost of Operations that Will Not Require or Generate resources in the Current Period	<u>\$ 104,872</u>	<u>\$ 108,734</u>
Net Cost of Operations	<u>\$ 156,444,484</u>	<u>\$ 141,469,764</u>

NOTE 20: Donations In-Kind

During FY 2017, NEA received in-kind gifts from several organizations. Gifts include payment of NEA staff travel, lodging, and meals, and NEA staff registration fees to attend and/or participate in various arts related functions. As of September 30, 2017, the total value of these in-kind donations was \$39,803 in FY 2017 and \$16,015 in FY 2016.

Other Accompanying Information

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MEMORANDUM

Memo 18-01

DATE: October 31, 2017

TO: Jane Chu, Chairman
National Council for the Arts

FROM:  Ron Still, Inspector General

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

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

Financial Management. NEA's top financial management challenge for FY 2017 and beyond includes keeping pace with government-wide modernization efforts and regulatory changes, while improving efficiency and effectiveness of NEA accounting and finance policy and procedures, systems, and staff cross-training.

During FY 2016, NEA filled key positions in the Finance office, including the Finance Director position. More than a year later, the Finance office has made good progress learning existing systems, planning improvements to these systems and processes, and implementing key procedural and control enhancements. For example, the Finance office established routine reviews to identify funds that could be de-obligated and made available for use by the agency. They also continue to assist in developing and implementing NEA's new electronic grants management system that requires an interface with the financial system.

Notwithstanding this progress, the Finance office continues to be challenged to comply with regulatory changes and modernization requirements -- the most recent being the Digital Accountability and Transparency Act (Public Law No. 113-101) that established new financial reporting requirements for all Federal agencies.

Human Capital. NEA's top human capital challenge includes ensuring an effective human capital strategy to work with hiring managers to attract candidates with the right skills, ability and knowledge to replace retiring employees. This will need to be done while maintaining high quality service in other human capital areas, such as training and development, and performance management. This challenge is even greater now and for the foreseeable future as the Human Capital team has had two staff members leave the agency in the past six months, and all agencies are facing a budget climate focused on shrinking government employment.

Information Technology. NEA's top information technology management challenge includes the transition to a new, more robust electronic grants management system (eGMS). This need is being addressed through an OMB-approved partnership with the National Endowment for the Humanities to jointly develop a new shared system. Built on a more flexible, operationally efficient platform, the eGMS should be fully integrated with NEA business processes and connected to both Grants.gov and NEA's financial system. NEA has made significant progress to transition to this system during FY 2017, and it expects efforts to fully implement the new system will continue into FY 2018.

Another challenge for NEA is the Federal Information Security Modernization Act of 2014 (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 NEA compliance with FISMA, we continuously identify ways for NEA to enhance security and NEA continually makes progress in complying with the ever increasing information system security requirements.

Yet another challenge for NEA is the E-Government Act and Privacy Act that provide legislative guidance for the control and dissemination of personal information and personally identifiable information. In light of data theft at several Federal agencies, a review of agency protection of Privacy Act data has been included as part of the FISMA evaluation and reporting process. This area will require NEA's ongoing attention as information security requirements are ever changing and increasingly important.

Administrative Services. NEA's top Administrative Services management challenge includes inventory. The challenge is for the Administrative Services team to coordinate capture of all accountable property in an automated inventory system and to develop policy and procedures to maintain the inventory system. During FY 2017, Administrative Services became responsible for maintaining all inventory and developing related policy and procedures. Since receiving responsibility for inventory management, Administrative Services has made good progress identifying missing information. The challenge to ensure accurate and complete inventory records will continue into FY 2018.

Awardee Accountability. The NEA Grants and Contracts office and Program offices face the challenge, along with the rest of the Federal community, to help awardees fully implement and comply with the accountability 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 its awards.

Our audits continue to identify awardees that have not complied with all applicable Federal award requirements. These awardees are typically identified through our annual planning, hotline allegations, or referrals from the NEA's Office of Grants and Contracts. Based on audits of these awardees, following are the five 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 paying or awarding them Federal funds;
- (2) not having written policies and procedures for the management of Federal awards;
- (3) not reporting accurate and allowable costs incurred on the Federal Financial Report;
- (4) not maintaining supporting documentation for costs charged to NEA grants; and
- (5) not maintaining a Section 504 self-evaluation at the organization.

We acknowledge and encourage NEA's continuous efforts to identify opportunities to improve awardee compliance with Federal requirements. Continued development and implementation of web-based tools and technical assistance efforts by 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.

We have experienced strong support from NEA management in identifying and tracking these challenges. We look forward to continuing our work to help NEA deliver its mission with excellence and integrity.

cc: Mary Anne Carter, Senior Deputy Chairman
Mike Griffin, Chief of Staff
Ann Eilers, Deputy Chairman for Management and Budget
Jeanette Duncan, Chief Information Officer
Nicki Jacobs, Grants & Contracts Director
Craig McCord, Human Resources Director
Heidi Ren, Finance Director
Meghan Jugder, Acting Administrative Services Director
Ned Read, Senior Advisor, Deputy Chairman for Management and Budget

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Grants Oversight & New Efficiency (GONE) Act

The objective of the Grants Oversight and New Efficiency (GONE) Act is to identify and close out expired grants. The covered grants are those within an agency's cash payment management system that have been expired for two or more years and have not been closed out.

NEA reviewed its close-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, 2015 has not been closed out. We have no delays in grant and cooperative agreement closeout, and no challenges to address pursuant to the GONE Act.

CATEGORY	2– 3 Years	>3-5 Years	>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

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