



AGENCY FINANCIAL REPORT FISCAL YEAR 2020

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 16, 2020

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Agency Financial Report for Fiscal Year 2020
November 16, 2020

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National Endowment for the Arts Fiscal Year 2020 Agency Financial Report

~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2020 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

Overview

The National Endowment for the Arts (the Arts Endowment) is an independent federal agency that supports and funds the arts to provide all Americans the opportunity to experience creativity and participate in the arts. Although it is small, the Arts Endowment shoulders many of the responsibilities of a large agency, which includes the appropriate use of public dollars that helps ensure that every American has greater access to the arts throughout the United States and territories. The Arts Endowment strives to nurture, elevate, and sustain artistic creativity throughout the country. We do so through our initiatives, like *Creative Forces: NEA Military Healing Arts Network*, which brings the healing arts to military and veteran populations. We do so through our grantmaking, funding approximately 2,500 projects annually (3,300 this year with the addition of CARES Act funding). We do so through our research, showing how the arts make communities more vibrant, fulfilling places to live. We do so through our promotion of the arts on social media, on our website, and in our publications, making people aware of all the great art happening around them.

Mission

Established by Congress in 1965, the Arts Endowment 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 Arts Endowment is the only funder, public or private, that provides equal access to the arts in all 50 states and every congressional district, the District of Columbia, and U.S. territories, supporting activities such as healing arts, arts education programs, performances, exhibitions, festivals, and artist residencies. Arts Endowment funding is project-based and goes to thousands of nonprofits each year, along with partnerships and special arts initiatives, research, and other support, all of which contribute to the vitality of our neighborhoods, engage our students and schools, and preserve our American culture.

The Impact of the National Endowment for the Arts

The Arts Endowment’s 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, 12% of project activities supported by the Arts Endowment¹ occur in rural areas.² Further, 42% of projects supported through recent direct grants reached high-poverty neighborhoods.³

The arts also play a significant role in equalizing educational opportunities; students with an education rich in the arts have higher GPAs and standardized test scores, lower drop-out rates, and even better attitudes about community service – benefits reaped by students regardless of socio-economic status.⁴

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

The Arts Endowment’s commitment to supporting art that meets the highest standards of excellence, cultivating public engagement with, and access to, the arts, and promoting public knowledge and understanding about the contributions of the arts form the basis for the agency’s FY 2018-2022 Strategic Plan. These strategic goals underpin our grant guidelines, and they guide implementation of initiatives such as *Creative Forces: NEA Military Healing Arts Network*, a partnership of the Arts Endowment 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.

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 Census defined poverty tracts where 20% or more of the population is below poverty thresholds.

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

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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*.
- Partnership with the Women's Suffrage Centennial Commission to observe and honor the centennial passage and ratification of the 19th Amendment to the Constitution of the United States providing for women's suffrage. In August 2020, the Arts Endowment published [*Creativity and Persistence: Art that Fueled the Fight for Women's Suffrage*](#) as part of the centennial celebration of passage of the 19th amendment. The book commemorates how the arts were used to change the image of women in America and illustrate the importance of their full participation in society and politics.
- Outreach through activities such as grant information workshops (conducted both through online media and in-person); an online newsletter; our Web site; and increased use of webinars, webcasting, and social media such as blogs, Twitter, and Facebook.

In FY 2020, the Arts Endowment awarded, through its regular programs and CARES Act funding combined, more than 3,300 grants and cooperative agreements totaling \$206.6 million, reaching more than 16,000 communities and every Congressional district throughout the country. A recent examination of the agency's direct grants showed that 65% go to small and medium organizations.⁵

A significant percentage of grants reach those who have fewer opportunities to participate in the arts. Of the grants awarded in FY 2018 (the most recent year for which we have complete figures)⁶:

- 42% of Arts Endowment-supported activities took place in high-poverty neighborhoods.
- 35% of Arts Endowment grants went to organizations that reach underserved populations such as people with disabilities, people in institutions, and veterans.
- More than half of Arts Endowment-funded art events take place in locations where the median household income is less than \$50,000.

⁵ Grant organization size breakdown: Small <\$500k in prior year expenditures; Medium \$500k-\$2m; Large >\$2m.

⁶ This analysis is based on data from Final Descriptive Reports. The most recent data available from grantees' FDRs are from FY 2018, due to a lag occurring from the time of the agency's award of a grant to the conclusion of the grant period of support and extending to the grantee's submission of the FDR.

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

National Endowment for the Arts Support for States

The Arts Endowment extends its influence through state arts agencies (SAAs) and regional arts organizations (RAOs), ensuring that programs reach even the smallest communities in remote rural areas. By Congressional statute, 40 percent of the agency's grant-making funds are allocated to the 50 States, six special jurisdictions, and six RAOs. State governments match the federal Arts Endowment grant dollars to create additional investments that support programs and initiatives that respond to constituent needs in arts education, organizational and community development, preservation of diverse cultures, and providing access to the arts. In FY 2020, the Arts Endowment provided more than \$83 million in federal support for projects that benefit local communities in partnership with the state and jurisdictional arts agencies and regional arts organizations.

Collaboration with the SAAs and RAOs extends beyond just grant-making. The Arts Endowment'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.

National Endowment for the Arts and Research

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

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

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

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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.

A handwritten signature in black ink, appearing to read "M. Carter", written over a horizontal line.

Mary Anne Carter
Chairman
November 16, 2020

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Fiscal Year 2020

Agency Financial Report

~ Management's Discussion and Analysis ~

The Arts Endowment produces an Agency Financial Report (AFR) and an Annual Performance Report (APR). We will include our FY 2020 Annual Performance Report with our FY 2022 Congressional Budget Justification in February 2021 and will post it on the Arts Endowment Web site at www.arts.gov.

Mission, Organizational Structure, and Internal Operations

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

Over the past 55 years, the Arts Endowment has become the largest funder of the arts and arts education nationwide and, as a catalyst of public and private support for the arts, an essential institution. Established by Congress in 1965, the Arts Endowment has, in recent years, annually awarded approximately 2,400 grants and cooperative agreements exceeding \$120 million, funding the arts in all 50 states and six U.S. jurisdictions, including rural and urban areas, and reaching civilian and military populations. In Fiscal Year 2020, the agency also awarded approximately 900 additional awards totaling nearly \$75 million that were made possible through the CARES Act. The agency also exercises leadership through targeted support of key initiatives, research and evaluation, and domestic and international partnerships. Arts Endowment grantees include nonprofit organizations; units of state and local government; federally recognized tribal communities or tribes; and, where permitted, individuals.

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

The Arts Endowment is led by a Chairman – appointed by the President and confirmed by the United States Senate – and advised by the [National Council on the Arts](#). The Council is comprised of up to eighteen nationally and internationally renowned artists, distinguished scholars, and arts patrons appointed by the President and confirmed by the Senate. The Council also includes non-voting Congressional (ex officio) members who are appointed by Senate and House leadership from both sides of the aisle. The Council reviews and votes to approve or reject the applications. Its recommendations for funding are sent to the Arts Endowment chairman, who reviews those applications and makes the final decision on all grant awards. Currently, the Council has fourteen Presidential appointees and three ex officio members.

The Arts Endowment's organizational structure includes a Senior Deputy Chairman and Chief of Staff who report to the Chairman. Other senior positions include a Deputy Chairman for

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Management & Budget, Deputy Chairman for Programs & Partnerships, Director of Strategic Communications & Public Affairs, General Counsel, and several others – all of whom report to either the Senior Deputy Chairman (the Agency’s Chief Operating Officer) or the Chairman. Mary Anne Carter, the agency’s current (and 12th) Chairman, has served in this capacity since August 1, 2019, having first served as Senior Deputy Chairman and then Acting Chairman.

The major program division, Programs & Partnerships, is chiefly responsible for handling the review of grant applications and management of cooperative agreements and leadership initiatives. During FY 2020, the agency operated with a staffing level of approximately 146 full-time equivalents. An organizational chart can be found at the end of this section.

Performance Goals, Objectives, and Results

The Arts Endowment supports excellent art with broad public reach in multiple disciplines across all 50 States, the District of Columbia, and special jurisdictions, reaching rural, suburban, and metropolitan areas, as well as military facilities. We are committed to providing the American people with access to the best of their artistic legacy. Arts Endowment support of the arts encourages artistic creativity and productivity that boosts the economies of our local communities and our nation. More than 5 million Americans work in industries that produce arts and cultural goods and services, receiving \$405 billion in compensation in 2017 (the most recent year for which such statistics are available). This contribution made up 4.5% (or \$877.8 billion) of our nation’s GDP in 2017, up from 4.3% in 2016. The arts contribute more to the U.S. economy than do construction, transportation, and warehousing combined, and five times more than agriculture, and they generate a widening trade surplus. From 2006 to 2017, this surplus grew 9-fold, to more than \$25 billion. On a state level, the arts and cultural sector added \$72.8 billion to the economies of rural states (i.e., states in which 30% or more of the population live in rural areas, equaling 18 states).⁷

Through our efforts on behalf of the American people, we strive to achieve the following:⁸

Goals:

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

Objectives:

- Honor and support artistic activities and traditions across the nation.
- Expand the portfolio of American art.
- Strengthen the cultural infrastructure of the nation.
- Provide opportunities for the American people to engage with the arts.
- Provide opportunities for the American people to acquire knowledge and skills in the arts at all stages of life.
- Provide opportunities for the arts to be integrated into the fabric of community life.

⁷ All data in this paragraph from: [The U.S. Arts Economy \(1998-2017\): A National Summary Report, March 2020.](#)

⁸ [National Endowment for the Arts Strategic Plan FY 2018-2022.](#)

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

Results:

Here are some highlights of key activities, accomplishments, and issues from FY 2020.

1. Commitment to IT Modernization

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

- Current modernization efforts for our General Support System include server and operating system upgrades, migration of file services to the MS Azure cloud, and a new remote access system by Zscaler using their private access VPN replacement model.
- Our arts.gov website, which uses the Drupal content management system, has just been upgraded to version 8, with the goal of reaching version 9 after redesign. The scope of the effort includes ensuring all cybersecurity, FISMA, and Section 508 requirements are met.
- The agency’s Applicant Portal (for grant applications) is hosted in the MS Azure cloud using both Infrastructure-as-a-service (IaaS) and platform as a service (PaaS) cloud technologies. Current Applicant Portal upgrades include a malware scanning function within the work sample upload module.

2. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency’s Strategic Plan and fulfill the agency mission. We manage our HC programs consistent with applicable internal controls and merit-based principles, and we build our budgets and programs consistent with our available HC resources. We conduct assessments on an ongoing basis to ensure that our staffing level and competency mix are sufficient to operate effectively and achieve our mission. Even during FY 2020’s extended period of maximum telework, the agency recruited and filled several key positions – including Chief Information Officer, Director of Administrative Services, and Director of Civil Rights.

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The Arts Endowment’s management continues to conduct careful analyses to identify best approaches to strategically staff the organization to meet agency mission. The result has been a mix of solutions to address staffing or skill set shortages, including entering into interagency agreements and contracts to meet work requirements.

3. Effective Financial Management

The Arts Endowment leverages the financial system expertise of the U.S. Department of Transportation’s Enterprise Services Center (ESC), which provides an Oracle-based fully-compliant financial management system (Delphi). Over the past few years, the Arts Endowment has expanded the range of ESC financial services and system support; continued to use the systems and receive expert support from the Department of Agriculture’s National Finance Center (NFC) payroll services; and continued to use the General Service Administration’s (GSA) E2 travel system.

The agency’s most recent assessment of improper payment risk, which included the review of preventive and detective payment controls, noted that the Arts Endowment had an insignificant risk of significant improper payments. The agency’s audits of Data Act reporting found that the agency submissions were complete, accurate, and timely, and the data quality was considered high.

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

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. During FY 2018, we completed a thorough revision of our Strategic Plan, which now covers Fiscal Years 2018-2022; this revised Strategic Plan continues to provide the foundation for all of our activities.

CARES Act Grant Funding – a Notable Achievement for 2020

Congress appropriated \$75 million to the Arts Endowment through the Coronavirus Aid, Relief and Economic Security (CARES) Act to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. Of the \$75 million, the Arts Endowment awarded 855 direct grants totaling \$44.5 million to nonprofit arts organizations located in every state, the District of Columbia, and Puerto Rico. These nonmatching funds were targeted to support of staff salaries, fees for artists or contractual personnel, and facilities costs. The Arts Endowment received more than 3,100 eligible applications requesting \$157 million for the \$44.5 million available for direct assistance.

The awardees represent the diverse nature of arts organizations around the country. Overall funding was divided nearly evenly among small, medium, and large arts organizations.

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Organization Size	Percent	Budget Size Category	Percent
SMALL	32%	Less than \$250K	15%
		\$250K - LT \$500K	16%
MEDIUM	36%	\$500K -LT \$2M	36%
LARGE	32%	\$2M+	32%

Additionally, the Arts Endowment awarded \$29.7 million directly to state and regional arts agencies to distribute through their funding programs. Each agency had its own process and timeline for awarding those funds; however, the Arts Endowment anticipates that together those entities will have made between 4,200 and 5,600 awards.

From the beginning, the Arts Endowment pursued both speed in making awards, and maintaining the agency’s reputation for organizational excellence. Just 12 days after the President signed the CARES Act legislation, the Arts Endowment posted guidelines for direct funding applicants. In less than three weeks, the agency had announced awards to state arts agencies and regional arts organizations. By September, all 855 direct grants had been awarded.

Core Programs

Through its direct grant-making, the Arts Endowment annually supports in the range of 40,000 concerts, readings, and performances, and more than 6,000 exhibitions of visual and media arts. In FY 2020, the Arts Endowment made more than 2,400 direct awards totaling \$77.5 million through its core grantmaking programs. The majority of these grants go to small and medium-sized organizations (budgets less than \$2 million), which tend to support projects that benefit audiences that otherwise might not have access to arts programming. Other funders annually provide more than \$500 million in further support of these Arts Endowment-funded projects; in our direct grant-making categories alone, the ratio of matching to federal funds currently approaches 9:1, far surpassing the required non-federal match of at least one to one. The Arts Endowment’s reach is extended even further through the 40% of our grantmaking funds that, by statute, are awarded to the State Arts Agencies and Regional Arts Organizations, reaching millions more people in more than 16,000 communities in every Congressional district in the country. And this year, our impact and reach were even greater, as – in addition to everything noted above – we awarded nearly \$75 million in CARES Act funds through almost 900 awards to nonprofit organizations as well as the State Arts Agencies and Regional Arts Organizations.

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

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Performance Report in February 2021) indicate that our goals for these programs are being met and that our programs are effective.

The Arts Endowment’s core programs include signature initiatives, such as *Poetry Out Loud*, the *NEA Big Read*, the *Musical Theater Songwriting Challenge*, and *Shakespeare in American Communities*, which extend the reach of the agency through partnerships with State Arts Agencies, Regional Arts Organizations, and other partners; *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).

[*Poetry Out Loud*](#) (POL) is a national arts education program that encourages high school students to learn about great poetry through memorization and performance. This program helps students master public speaking skills, build self-confidence, and learn about literary history and contemporary life. During the school year, POL annually serves more than 300,000 students from every state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Since its start in 2005, more than 4 million students and 65,000 teachers from 16,000 high schools have participated in *Poetry Out Loud* nationwide. [*Line by Line: Transforming Student Lives and Learning with the Art of Poetry*](#) presents findings from an evaluation of *Poetry Out Loud* that involves data collection from ten sample schools assessing the program’s impact on poetry appreciation and engagement, social and emotional development, and academic performance. A fact sheet summarizing the results is also [available](#).

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

The [*NEA Big Read*](#) offers grants to support innovative community reading programs designed around a single book. Showcasing a diverse range of titles that reflect many different voices and perspectives, the *NEA Big Read* aims to inspire conversation and discovery. Since 2006, the National Endowment for the Arts has funded more than 1,600 local *NEA Big Read* programs, providing more than \$22 million to organizations nationwide. *NEA Big Read* activities have reached every Congressional district in the country, and grantees have leveraged more than \$50 million in local matching funds to support their *NEA Big Read* programs. More than 5.7 million Americans have attended an *NEA Big Read* event, approximately 91,000 volunteers have participated at the local level, and more than 39,000 community organizations have partnered to make *NEA Big Read* activities possible.

[*Our Town*](#) builds on the Arts Endowment’s longstanding support for communities and the ability of the arts to strengthen them. Since the inception of the program in 2011, the Arts Endowment has awarded more than \$50 million in grants to fund nearly 630 *Our Town* projects, reaching all 50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands. In FY 2020, the Arts Endowment awarded more than \$3.6 million in 50 grants supporting arts engagement, cultural planning, design, and knowledge-building about creative placemaking. The *Our Town* grants reinforce the Arts Endowment’s belief that the arts are as

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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 Arts Endowment has created the web resource, [Exploring Our Town](#), which 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 and prospective applicants.

Arts Education

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

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

Collective impact projects leverage the Arts Endowment’s investments for deeper impact. These projects transform schools, school districts, and neighborhoods by providing access and engagement in the arts *for all students* through collective, systemic approaches. Collective Impact grants are awarded at higher amounts for longer-term, large-scale projects that create lasting change tailored to community needs, fundamentally altering the ways in which the components and structures of a system behave and interact over time. In FY 2020, we made 12 awards totaling \$1,124,000.

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

- [Arts Education Partnership](#) (AEP): Through a cooperative agreement with [Education Commission of the States](#) (ECS), which is jointly funded by the U.S. Department of Education, the Arts Endowment provides annual support for AEP, the nation’s hub for arts and education leaders, building their leadership capacity to support students, educators and learning environments. **AEP was established in 1995 by the Arts Endowment and the U.S. Department of Education.**
- *Collaboration with State Arts Agency Arts Education Managers*: Since 1987, the Arts Endowment, in coordination with the National Assembly of State Arts Agencies, has provided technical assistance and support services to convene and administer an annual [Professional Development Institute](#) for state arts agency arts education

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managers. The Professional Development Institute provides meaningful learning opportunities for new and seasoned arts education managers, as well as a peer network of knowledgeable arts education leaders.

- *Collaboration with the State Education Agencies Directors of Arts Education (SEADAE)*: The Arts Endowment provides support to SEADAE, a nonprofit professional membership organization, whose members consist of individuals at state education agencies who are responsible for dance, media arts, music, theater and/or visual arts education. SEADAE provides professional development and technical assistance to increase the professional effectiveness of individual members and provides a collective voice for leadership on issues affecting arts education.

In addition, to promote more and better information on young people’s access to, and participation in, arts education, the Arts Endowment, in collaboration with Education Commission of the States, recently released a groundbreaking suite of resources as part of the [State Data Infrastructure Project for Arts Education](#) (SDIP). SDIP, an initiative to help stakeholders extract, analyze, and report on data about arts education, includes case studies of how education leaders in [California](#), [New Jersey](#), and [Texas](#) are harnessing state education data systems to improve arts education access and opportunities; a [five-part technical toolkit](#) on how to mount a state arts education data initiative; and a [summary of lessons](#) that emerged from technical assistance provided to states across the country. A [joint blog post](#) from Arts Endowment Chairman Mary Anne Carter and the President of ECS *underscores the critical need for these resources as the nation addresses historic challenges*.

Federal Partnerships

In addition to our core 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.

Healing Arts

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

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

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Through *Creative Forces*, creative arts therapists will provide an estimated 22,000 clinical encounters, and serve approximately 3,600 new patients every year. In 2020, *Creative Forces* partnered with the VA Office of Rural Health and the North Florida/South Georgia VA Health System to expand access to the creative arts therapies through telehealth. The Rural Veterans Telerehabilitation Initiative has expanded to two additional VA sites, with an additional third site planned. Each site will hire two Creative Arts Therapists to deliver telehealth-based services, one funded by the VA and the other funded by *Creative Forces*.

In addition to creative arts therapies, the Arts Endowment also funds community-based arts programs designed to support wellness and quality of life for military-connected populations. Between 2019 and 2020, the Arts Endowment will have funded 24 community-based arts programs for military connected populations at *Creative Forces* sites, including projects that will support “tele-arts” delivery to enable sustained engagement during COVID-19-related social distancing restrictions. Military-connected individuals who participated in the programs and the community arts providers reported a range of benefits for the participants, falling generally into four areas: improved mental health and/or quality of life, increased sense of community, improved artistic skills, and increased empowerment.

The initiative continues to invest in research on the impacts and benefits – physical, emotional, social, and economic – of creative arts therapies as innovative treatment methods for military and veteran-connected populations who have been exposed to trauma. [Key clinical research findings](#) included in 18 published papers associated with *Creative Forces*-supported research provide data on the benefits of creative arts therapies.

Capacity-building efforts also continue to expand. In July 2020, the *Creative Forces National Resource Center* was launched, providing online capacity-building support for the initiative. These online support tools will help manage knowledge distribution; support consistent delivery of clinical treatment; coordinate research; facilitate data collection; and support training and collaboration efforts for stakeholders across clinical and community efforts to support military and veteran-connected populations.

Arts and the Economy

The Arts Endowment and the Bureau of Economic Analysis, in the U.S. Department of Commerce, created the first-ever Arts and Cultural Production Satellite Account (ACPSA) in 2013 to measure arts and cultural contributions to the gross domestic product (GDP). The [most recent estimates](#) showcase the long-term contributions of the arts to the GDP of the nation, specifically covering the period from 1998 to 2017. Among the new findings released on March 19, 2019 are:

1. The arts and cultural production contributed more than \$877.8 billion to the U.S. economy in 2017, representing 4.5 percent of the GDP.
2. The arts added nearly five times more to the U.S. economy than the agriculture sector and \$265 billion more than transportation or warehousing.
3. More than 5 million workers were employed in the production of arts and cultural goods, receiving more than \$405 billion in compensation.

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4. The arts trended positively between 2014 and 2017, with an average growth rate of 4.45 percent.
5. The U.S. exports roughly \$30 billion more in arts and cultural goods and services than it imports, resulting in a trade surplus.

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

Support for Historically Black Colleges and Universities

The Arts Endowment continues to be an active member of the White House Initiative for Historically Black Colleges and Universities (HBCUs). The foundation of the agency’s efforts is direct outreach to HBCUs, meetings between Arts Endowment staff and HBCU representatives, and changes to agency grant guidelines to specifically encourage HBCU applications.

During FY 2020, pre-COVID, Arts Endowment staff met with faculty and staff from eight HBCUs. In addition, the Arts Endowment hosted two grant workshops for the HBCU community. The first grant workshop was in Talladega, Alabama, in alignment with the ribbon cutting for the new Talladega College Museum of Art. The second grant workshop was a webinar in partnership with the Association of African-American Museums, whose membership consists of museums on HBCU campuses.

The agency’s leadership was recognized through invitations to participate in key HBCU meetings including the Heritage Foundation’s Inaugural Historically Black Colleges and Universities Forum and North Carolina A&T’s Aggie Advocacy Day. In addition, the agency was only one of a select number of federal agencies invited to present at the President’s Board of Advisors for HBCUs, whose members are appointed by the President.

These outreach efforts resulted in the agency awarding Art Works and Grants for Arts Projects awards to three HBCUs and 56 organizations whose projects are in partnership with an HBCU. Two HBCUs were awarded CARES Act grants.

The Arts Endowment also managed the White House Initiative’s Arts, Humanities and History Cluster. In partnership with the National Endowment for the Humanities, the Institute of Museum and Library Services, the Advisory Council for Historic Preservation, and the U.S. Department of Education, the Arts Endowment co-hosted *Dream It – Be It: Competitiveness via Federal Arts, Humanities, and History Opportunities and Partnerships* for the 2020 HBCU Virtual Conference.

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

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[Blue Star Museums](#): The Arts Endowment continues to collaborate with the Department of Defense, Blue Star Families, and museums across America to offer free admission all summer long to active duty military members and their families. It is estimated that the program serves annually more than 900,000 active-duty military personnel and their families at more than 2,000 museums nationwide, including children's museums, fine art museums, history and science museums, zoos, and nature centers. Due to the coronavirus pandemic, the program was not conducted during the summer of 2020.

[Federal Interagency Task Force on the Arts and Human Development](#): A task force of 20 federal agencies and departments, including the Department of Health and Human Services, the Department of Education, the National Institutes of Health, and the National Science Foundation, has convened regularly since November 2011 to encourage more and better research on how the arts help people reach their full potential at all stages of life. The Task Force meets quarterly to share ideas and information about research gaps and opportunities for understanding the arts’ role in improving health and educational outcomes throughout the lifespan, and has conducted a series of public webinars on compelling research and practices. Additionally, the group has collaborated on reports, research announcements, and convenings about the arts and human development.

Research and Program Evaluation Highlights

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

- In March 2020, the Arts Endowment released [How Do We Read: Let’s Count the Ways](#). Using data from the 2017 Survey of Public Participation in the Arts (SPPA), the report shows that declines in book-reading may not be as severe as previously reported. Instead, the nation’s readership appears to be shifting from print-only to digital and audio platforms. By including e-readers and audiobooks in the way we track overall book-reading, the 2017 rates are closer to those in 2012 and 2008.
- In January 2020, the Arts Endowment released the results from the nation’s largest, most representative survey of adult participation in the arts. The new [Survey of Public Participation in the Arts](#) records the different ways that American adults (age 18 and older) engage in the arts, where that engagement takes place, and why adults participate in these activities. The survey report also tracks demographic characteristics of those who participate, and respondents’ perceptions of the availability of the arts in their communities. The report covers both national and [state-level data](#) as well as selected urban areas. Since 1982, the Arts Endowment has partnered with the U.S Census Bureau to produce the SPPA, with this edition analyzing data from 2017.

The Arts Endowment is collaborating with the National Institutes of Health and the John F. Kennedy Center for the Performing Arts to support [Sound Health](#). The Arts Endowment’s

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Sound Health Network project aims to expand current knowledge and understanding of how listening to, performing, or creating music involves intricate circuitry in the brain that could be harnessed for health and wellness applications in daily life; explore ways to enhance the potential for music as therapy for neurological disorders; identify future opportunities for research; and create public awareness about how the brain functions and interacts with music.

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

Through the [*NEA Research Labs*](#) program, the Arts Endowment seeks to cultivate a series of transdisciplinary research partnerships, grounded in the social and behavioral sciences to produce and report empirical insights about the arts for the benefit of the arts and non-arts sectors alike. Now in its fifth year, *NEA Research Labs* are housed at universities and made up of transdisciplinary teams of researchers that explore the arts in one of three topic areas; health and social/emotional well-being; creativity, cognition, and learning; and entrepreneurship and innovation. These labs illustrate not only the significant role that the arts play in advancing our understanding of other fields but also in showing the effectiveness of diverse teams – including researchers, artists, and arts administrators – working together to produce knowledge. With the addition of the five new research labs funded in FY 2020, there are now 16 across the country.

The Arts Endowment also spearheads partnerships with other federal agencies to investigate areas of common interest. Since 2011, the Arts Endowment has convened an [*Arts and Human Development Task Force*](#), a coalition of representatives from 20 federal entities, to encourage more and better research on how the arts can help people reach their full potential at all stages of life.

Analysis of Financial Statements

The Arts Endowment’s principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Arts Endowment in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (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 Arts Endowment receives an annual appropriation of “no-year” funds from Congress, and has been granted authority to receive donations and invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding, and the same guidelines are used to account for both appropriated and non-appropriated funds. The Arts Endowment’s property, plant, and equipment are recorded at cost and are depreciated according to a written asset capitalization policy.

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Here are some financial highlights from FY 2020:

- The Arts Endowment's FY 2020 annual appropriation was \$162.250 million, an increase of \$7.250 million over FY 2019. Additionally, the Arts Endowment received \$75 million in FY 2020 through the Coronavirus Aid, Relief and Economic Security (CARES) Act to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. Appropriations are the primary source of financial resources for the agency, so the financial position of the Arts Endowment generally trends with the amount of appropriations received each year.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2020 and FY 2019 are provided below:

- Fund Balance with Treasury – The \$59.3 million increase was predominately due to the \$51.8 million increase in CARES Act balances (\$75 million deposits net of \$23.2 million payments), \$1.9 million decrease in administrative fund balances offset by \$9.4 million increase in balances in program funds and donated funds in FY 2020 as compared to FY 2019.
- Accounts Receivable – The \$7,000 decrease represents collections received in FY 2020.
- Property, Plant and Equipment – The original purchase price less accumulated depreciation is reflected on the balance sheet. The \$23,000 increase in the book values year over year represents \$32,000 net increase in asset additions offset by nearly \$9,000 increase in depreciation expense.
- Accounts Payable – The \$14,749 increase is due to an increase in payables to vendors.
- Grant Accrued Liabilities – The \$780,000 increase in accrued liabilities is attributable to a reduction in grantee payment requests, which resulted in an increase in open obligations. Estimate of grant accrued liabilities is affected by the amount of open obligations.
- Other liabilities – The \$479,000 increase is due to \$470,000 increase in payments to employee accrued leave benefits and \$9,000 increase in payroll taxes.
- Net Position – The net position increase of \$57.8 million is attributed to \$59.2 million increase in total assets offset by \$1.4 increase in total liabilities in FY 2020 as compared to FY 2019.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2020 compared to FY 2019:

- Obligations – In FY 2020, obligations were \$242.0 million as compared to \$157.5 million in FY 2019. The 53.7% or \$84.5 million increase is due to \$74.3 million under the CARES Act and \$10.2 million in obligations from all other sources of funds, including funds appropriated in FY 2020, donated funds received in FY 2020, unobligated balances brought forward at the beginning of FY 2020, and recoveries of prior year unpaid obligations during FY 2020.

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- Outlays – In FY 2020, net outlays were nearly \$178.5 million compared to \$155.6 million in FY 2019. The 14.7% or \$22.9 million increase was due to \$23.2 million expenditure for CARES Act offset by \$0.3 million decrease in program and administrative funds.

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

The agency received an unqualified audit opinion on its FY 2020 financial statements as presented later in this report. This is the agency's 18th consecutive year receiving a "clean" audit opinion.

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Management's Discussion and Analysis

National Endowment for the Arts Table of Key Measures					
Amounts in Dollars	2020		2019		Increase/(Decrease)
				\$	%
Costs¹					
Total Financing Sources	\$	179,968,465	\$	154,554,931	\$ 25,413,534 16.44%
Less: Net Cost		180,921,591		153,917,905	27,003,686 17.54%
Net Change		(953,127)		637,026	(1,590,153) -249.62%
Net Position²					
Assets:					
Fund Balance with Treasury	\$	220,503,701	\$	161,161,435	\$ 59,342,266 36.82%
Accounts Receivable		95,514		102,717	(7,203) -7.01%
Property, Plant, and Equipment		235,941		212,707	23,234 10.92%
Advances and Prepayments		38,728		192,038	(153,310) -79.83%
Total Assets		220,873,884		161,668,897	59,204,987 36.62%
Liabilities:					
Intragovernmental	\$	1,127,159	\$	1,026,957	\$ 100,202 9.76%
Accounts Payable		71,542		56,793	14,749 25.97%
Grant Accrued Liability		53,090,000		52,310,000	780,000 1.49%
Other		2,694,256		2,214,837	479,419 21.65%
Total Liabilities	\$	56,982,957	\$	55,608,587	\$ 1,374,370 2.47%
Net Position (Assets-Liabilities)	\$	163,890,926	\$	106,060,310	\$ 57,830,617 54.53%

¹ Source: Statement of Changes in Net Position

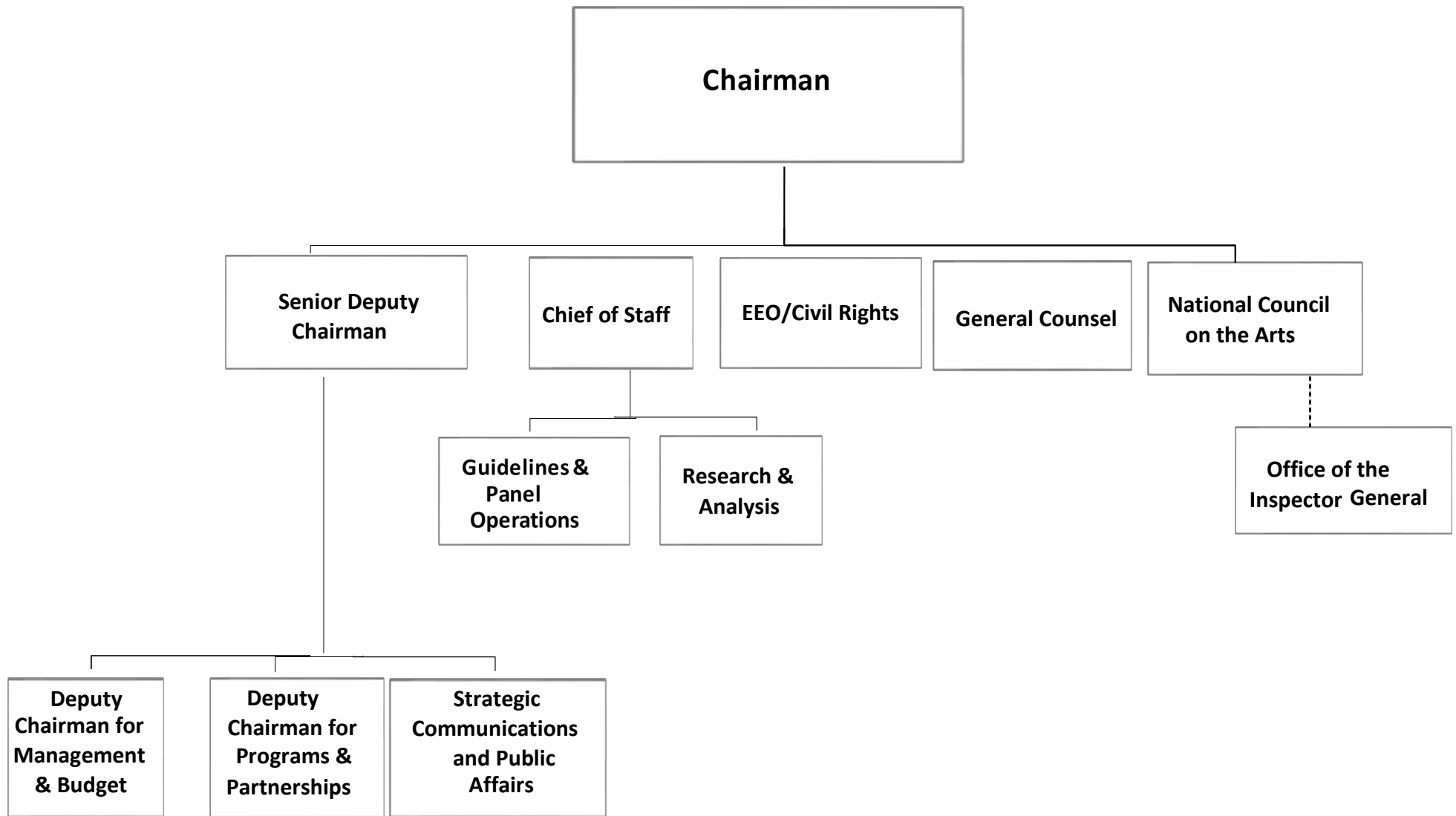
² Source: Balance Sheet

Systems, Controls, and Legal Compliance

The Arts Endowment 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.

Improper Payments Reporting

The Arts Endowment has four major fund categories: Administrative; Program Support; Direct Grantmaking; and Partnership. Based on risk assessments conducted in accordance with OMB guidance, none of these “programs” qualifies as risk-susceptible based on OMB guidance thresholds. In FY 2020, improper payments were identified; however, these did not rise to the category level of significant. Based on our strong internal controls, we believe that the Arts Endowment has an insignificant risk of significant improper payments for FY 2020.



~ Management Assurances ~

National Endowment for the Arts management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA). The Arts Endowment conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Arts Endowment can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2020.

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Financial Information

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Independent Auditor's Report

Chairman
National Endowment for the Arts

Inspector General
National Endowment for the Arts

In our audits of the fiscal years 2020 and 2019 financial statements of the National Endowment for the Arts (the Arts Endowment), we found:

- the Arts Endowment's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed; ¹ and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we have audited the Arts Endowment's financial statements. The Arts Endowment's financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost of operations, changes in net

¹A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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

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

position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

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

Opinion on Financial Statements

In our opinion, the Arts Endowment's financial statements present fairly, in all material respects, the Arts Endowment's financial position as of September 30, 2020, and 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Other Information

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

Report on Internal Control over Financial Reporting

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

Management's Responsibility

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

Auditor's Responsibility

In planning and performing our audit of the Arts Endowment's financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered the Arts Endowment's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an

opinion on the effectiveness of the Arts Endowment's internal control over financial reporting. Accordingly, we do not express an opinion on the Arts Endowment's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies⁴ or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Results of Our Consideration of Internal Control over Financial Reporting

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

Intended Purpose of Report on Internal Control over Financial Reporting

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

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

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

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

Management's Responsibility

The Arts Endowment's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Arts Endowment.

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Arts Endowment. Accordingly, we do not express such an opinion.

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

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

Agency Comments

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

Williams, Arley & Company-DC, LLP

Washington, DC
November 16, 2020

Appendix I – Agency Comments



Date: November 13, 2020
To: Ron Stith, Inspector General
From: Ann Eilers, Deputy Chairman for Management and Budget
Subject: Management's Response to Independent Auditor's Report for Fiscal Year (FY) 2020

We reviewed the draft Independent Auditor's Report on the National Endowment for the Arts' (the Arts Endowment) FY2020 financial statements. The Arts Endowment has received its 18th consecutive unmodified audit opinion on its financial statements, and had no material weaknesses or significant deficiencies. I commend the Arts Endowment staff for their strong contributions and commitment to continuously improving agency operations and internal controls.

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

Ann C. Eilers

Ann Eilers, Deputy Chairman for Management & Budget



Audited Financial Statements and Notes

September 30, 2020 and 2019

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NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2020 and September 2019 (In Dollars)

BALANCE SHEETS
For the Years Ended September 30, 2020 and September 30, 2019
(In Dollars)

	<u>2020</u>	<u>2019</u>
Assets (Notes 2-6):		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 220,503,701	\$ 161,161,435
Advances and Prepayments (Note 6)	38,728	192,038
Total Intragovernmental	220,542,429	161,353,473
Accounts Receivable, Net (Note 3)	95,514	102,717
General Property, Plant, and Equipment, Net (Note 4)	235,941	212,707
Total Assets	<u>\$ 220,873,884</u>	<u>\$ 161,668,897</u>
Liabilities (Notes 7-9):		
Intragovernmental		
Other (Note 8)	\$ 1,127,159	\$ 1,026,957
Total Intragovernmental	1,127,159	1,026,957
Accounts Payable (Note 7)	71,542	56,793
Other (Note 7 and Note 8)	2,694,256	2,214,837
Grants Accrual (Note 9)	53,090,000	52,310,000
Total Liabilities	<u>\$ 56,982,957</u>	<u>\$ 55,608,587</u>
Net Position:		
Unexpended Appropriations - Funds From Dedicated Collections	\$ 115	\$ 115
Unexpended Appropriations - All Other Funds	162,221,188	103,437,444
Cumulative Results of Operations - Funds From Dedicated Collectic	2,900,769	2,651,087
Cumulative Results of Operations - All Other Funds	(1,231,145)	(28,337)
Total Net Position	163,890,927	106,060,309
Total Liabilities and Net Position	<u>\$ 220,873,884</u>	<u>\$ 161,668,897</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2020 and September 2019 (In Dollars)

STATEMENT OF NET COST
For the Years Ended September 30, 2020 and September 30, 2019
(In Dollars)

	<u>2020</u>	<u>2019</u>
Program Costs: (Note 13)		
Gross costs	\$ 181,163,861	\$ 154,716,997
Less: earned revenue	<u>242,270</u>	<u>799,092</u>
Net program costs	\$ 180,921,591	\$ 153,917,905
Net cost of operations	<u><u>\$ 180,921,591</u></u>	<u><u>\$ 153,917,905</u></u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2020 and September 2019 (In Dollars)

STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2020 and September 30, 2019
(In Dollars)

STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2020 and September 30, 2019
(In Dollars)

	2020	2019
BUDGETARY RESOURCES		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 14,213,017	\$ 13,923,051
Appropriations (discretionary and mandatory)	237,854,988	155,342,002
Spending authority from offsetting collections (discretionary and mandatory)	520,150	553,338
Total budgetary resources	<u>\$ 252,588,155</u>	<u>\$ 169,818,391</u>
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total) (Note 14)	\$ 242,006,598	\$ 157,524,091
Unobligated balance, end of year:		
Apportioned unexpired accounts	7,408,039	8,979,198
Exempt from apportionment unexpired accounts	2,887,459	2,393,345
Unapportioned unexpired accounts	286,059	921,757
Unexpired unobligated balance, end of year	10,581,557	12,294,300
Total budgetary resources	<u>\$ 252,588,155</u>	<u>\$ 169,818,391</u>
OUTLAYS, NET		
Outlays, net (total) (discretionary and mandatory)	\$ 178,512,722	\$ 155,606,221
Distributed offsetting receipts (-)	(604,988)	(342,002)
Agency outlays, net (discretionary and mandatory)	<u>\$ 177,907,734</u>	<u>\$ 155,264,219</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2020 and September 2019 (In Dollars)

STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2020 and September 30, 2019
(In Dollars)

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2020 and September 30, 2019
(In Dollars)

	2020			2019		
	Funds from Dedicated Collections	All Other Funds	Total	Funds from Dedicated Collections	All Other Funds	Total
Unexpended Appropriations:						
Beginning Balances, as adjusted	\$ 115	\$ 103,437,444	\$ 103,437,559	\$ -	\$ 101,323,192	\$ 101,323,192
Budgetary Financing Sources:						
Appropriations received	-	237,250,000	237,250,000	-	155,000,000	155,000,000
Appropriations used	-	(178,466,256)	(178,466,256)	115	(152,885,748)	(152,885,633)
Total Budgetary Financing Sources	-	58,783,744	58,783,744	115	2,114,252	2,114,367
Total Unexpended Appropriations	115	162,221,188	162,221,303	115	103,437,444	103,437,559
Cumulative Results from Operations:						
Beginning balances, as adjusted	2,651,087	(28,337)	2,622,750	2,512,379	(526,655)	1,985,724
Budgetary Financing Sources:						
Appropriations Used	-	178,466,256	178,466,256	(115)	152,885,748	152,885,633
Donations	604,988	-	604,988	342,002	-	342,002
Other Financing Sources (Nonexchange):						
Imputed Financing	-	897,221	897,221	-	1,327,296	1,327,296
Total Financing Sources	604,988	179,363,477	179,968,465	341,887	154,213,044	154,554,931
Net Cost of Operations (+/-)	355,306	180,566,285	180,921,591	203,179	153,714,726	153,917,905
Net Change	249,682	(1,202,808)	(953,126)	138,708	498,318	637,026
Cumulative Results of Operations	2,900,769	(1,231,145)	1,669,624	2,651,087	(28,337)	2,622,751
Net Position	\$ 2,900,884	\$ 160,990,043	\$ 163,890,927	\$ 2,651,202	\$ 103,409,108	\$ 106,060,309

The accompanying notes are an integral part of these statements.

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation

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

These statements were prepared from the accounting records of the Agency in conformance with U.S. generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular A-136, Financial Reporting Requirements (Circular A-136), revised August 27, 2020.

The statements consist of the: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of the Arts Endowment. All operations of the Arts Endowment fall under the category of general funds for government accounting purposes. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

C. Basis of Accounting

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

Created in 1990, OMB's Office of Federal Financial Management (OFFM) is responsible for the financial management policy of the Federal Government. OFFM responsibilities include implementing the financial management improvement priorities of the President, establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the CFO Act.

NOTE 1: Significant Accounting Policies (Continued)

D. Revenues and Other Financing Sources

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

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

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

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

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

E. Fund Balance with Treasury

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

F. Advances and Prepayments

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

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2020 and September 2019 (In Dollars)

NOTE 1: Significant Accounting Policies (Continued)

G. General Property, Plant and Equipment, Net

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

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

H. Liabilities

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

I. Accounts Payable

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

J. Accounts Receivable

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, there have been no uncollected amounts. The balance sheet approach measures uncollectible accounts as a percentage of ending accounts receivable balance. Intragovernmental receivables do not have an allowance.

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.

NOTE 1: Significant Accounting Policies (Continued)

L. Retirement Plans

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

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

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

M. Imputed Benefit Costs

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

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."

NOTE 1: Significant Accounting Policies (Continued)

Q. Fiduciary Activities

Various artists have loaned their artwork to the Arts Endowment for display in certain agency offices. These artworks are not assets of the Federal Government. Fiduciary activities are not recognized in the proprietary financial statements, but are reported in the notes to the financial statements. See Note 18, Fiduciary Activities.

R. Cost Accounting Methodology

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

S. Effects of Recent Accounting Pronouncements

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

T. Rounding

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

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

NOTE 2: Fund Balance with Treasury

Status of Fund Balance with Treasury	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Unobligated Balance:		
Available - Other	\$ 7,694,098	\$ 9,900,955
Available - Trust	2,887,459	2,393,345
Subtotal - Available	<u>\$ 10,581,557</u>	<u>\$ 12,294,300</u>
Obligated Balance not yet Disbursed Other	\$ 211,045,168	\$ 149,492,981
Obligated Balance not yet Disbursed Trust Fund	13,425	257,723
Subtotal - Obligated	<u>211,058,593</u>	<u>149,750,704</u>
Unfilled/Billed Reimbursable Orders	(1,136,449)	(883,569)
Total Fund Balance with Treasury	<u>\$ 220,503,701</u>	<u>\$ 161,161,435</u>

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

NOTE 3: Accounts Receivable, Net

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 95,500	\$ 99,500
Receivables Due from the Public	14	3,217
	<u>\$ 95,514</u>	<u>\$ 102,717</u>
Allowance for Uncollectible	-	-
Net Receivables	<u>\$ 95,514</u>	<u>\$ 102,717</u>

The 2020 nonentity receivable represents cash collections that will be transferred to the General Fund of the U.S. Treasury after September 30, 2020.

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

<u>Class of Property</u>	<u>September 30, 2020</u>			<u>September 30, 2019</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture & Equipment	\$ 774,649	\$ 538,708	\$ 235,941	\$ 742,709	\$ 530,002	\$ 212,707
Total	<u>\$ 774,649</u>	<u>\$ 538,708</u>	<u>\$ 235,941</u>	<u>\$ 742,709</u>	<u>\$ 530,002</u>	<u>\$ 212,707</u>

Straight line depreciation with a useful life of seven years is used for office equipment and ten years for office furniture. Capitalization threshold is described in Note 1 on the accounting policies.

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NOTE 5: Heritage Assets

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

The Office of General Counsel approves the acceptance of all gifts to the Arts Endowment. An independent art appraiser reviews the inventory items and provides an appraisal to the agency. The appraisal typically takes place annually, with the Arts Endowment incorporating 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 Arts Endowment reviews the Heritage Asset inventory for items that do not meet the "artistic importance" standard and removes them from the inventory. All gifts or awards that do not meet the "artistic importance" standard will be prepared for transfer to the General Services Administration.

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

Artworks and Decorative Art, and Furniture:

The Arts Endowment collection includes principally unique works of art by known artists that are not permanently attached to or designed for the structure (i.e., collectible). The table below provides a summary of the inventory quantity, current year activity, and overall condition for the inventory categories.

Heritage Assets Category	Quantity as of 9/30/2020	Quantity as of 9/30/2019	Unit Change	Percentage Change	General Condition
Artworks and Decorative Art	220	217	3	1%	Good
Furniture	40	40	0	0%	Good
Total	260	257	3		

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September 30, 2019 and September 2018 (In Dollars)

NOTE 6: Other Assets

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Intragovernmental:		
Advances and Prepayments	\$ 38,728	\$ 192,038
Total Intragovernmental Other Assets	\$ 38,728	\$ 192,038
Total Other Assets	<u>\$ 38,728</u>	<u>\$ 192,038</u>

NOTE 7: Liabilities Not Covered by Budgetary Resources

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Intragovernmental:		
Unfunded FECA Liability	\$ 718	\$ -
Total Intragovernmental	\$ 718	\$ -
Accounts Payable	\$ 71,542	\$ 56,793
Accrued Pay and Benefits	1,595,234	1,324,121
Total Liabilities Not Covered by Budgetary Resources	\$ 1,667,494	\$ 1,380,914
Total Liabilities Covered by Budgetary Resources	55,219,963	54,128,173
Total Liabilities Not Requiring Budgetary Resources	95,500	99,500
Total Liabilities	<u>\$ 56,982,957</u>	<u>\$ 55,608,587</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, 2020</u>	<u>September 30, 2019</u>
Intragovernmental:		
Advances and Prepayments	\$ 875,000	\$ 850,000
Accrued Pay and Benefits	252,159	176,957
Total Intragovernmental	<u>\$ 1,127,159</u>	<u>\$ 1,026,957</u>
Accounts payable (Non-federal)	\$ 71,542	\$ 56,793
Grant Accrued Liability	53,090,000	52,310,000
Accrued Pay and Benefits	2,598,756	2,115,337
Custodial Liability	95,500	99,500
Total Other Liabilities	<u>\$ 56,982,957</u>	<u>\$ 55,608,587</u>

All liabilities are current liabilities.

NOTE 9: Grant Accrued Liability

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

TR12 provides guidance on internal control procedures to ensure the grant accrual is reasonable, based on "comparing the estimates with subsequent grantee reporting." With the implementation of the electronic Grants Management System (eGMS) in FY 2018, eGMS data was used to review payment history to determine the grant accrual estimate. Starting in Q4 2018, the methodology to estimate the grant accrual was modified. As the initial step in the estimation process, the grant accrual was calculated based on a straight-line basis, as has been the case historically. For this method, an average daily expenditure rate was calculated for each award by dividing the total award by the number of days of the award period. The award accrued liability was calculated by multiplying the average daily rate by the number of days in the financial reporting period and reducing this amount by any payments made to date. Based on payment history from eGMS, we subsequently applied an adjustment to the straight-line basis to estimate a reasonable grant accrual.

Starting in Q3 2019, the methodology to estimate the grant accrual was refined further to better estimate the accrual. Using eGMS data, we performed comprehensive analyses reviewing actual payments and the period of performance associated with each. With the implementation of the eGMS, there was enhanced system data, which helped with our ability to perform both the accrual calculation and the look-back analysis.

The grant accrual was \$53,090,000 and \$52,310,000 at September 30, 2020 and September 30, 2019, respectively. Beginning late in Q2 2020, and continuing through Q4 2020 and likely beyond, the U.S. economy has encountered unforeseen challenges and changes related to the coronavirus pandemic. Given that many in-person events have been canceled, it is possible that payments attributed to Q4 2020 grantee activity could decrease compared to prior quarters relative to the amount of open obligations.

As part of the response to the current challenges, the Arts Endowment received \$75M under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, all but \$0.75M of which was directed toward grantmaking in FY 2020. Of the grantmaking funding, 40% was awarded as amendments to FY 2019 partnership agreements (with the State Arts Agencies and Regional Arts Organizations), and 60% was awarded as new direct grants.

As part of the amendments to FY 2019 partnership agreements, the period of performance was extended by two years (for both the CARES Act and regular funding). Due to the impact of a lengthened period of performance on straight-line calculations, the accrual calculation for Q4 2020 has decreased to below that of prior quarters relative to the amount of open obligations. As mentioned previously, it is likely there will be an impact to payments attributed to Q4 2020 given challenges encountered by grantees due to the coronavirus pandemic.

NOTE 10: Leases

Brief Description of Occupancy Agreement

The Occupancy Agreement with the General Services Administration (GSA) for space at Constitution Center includes rental of office space and two parking spaces for the agency vehicles. The lease ends on February 29, 2024 and the occupancy agreement was updated on April 24, 2019. The Arts Endowment intends to decrease rentable space from 60,015 to 56,352 square feet effective November 2020. An updated occupancy agreement

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from GSA is pending; the revised agreement amount is expected to decrease slightly (<2%) from the current agreement in place. The FY2024 lease amount covers from October 2023 to February 2024. The agency will be working with GSA to procure a new lease agreement from March 2024 into future years.

2021	2022	2023	2024	Total
\$3,171,517	\$3,208,081	\$3,245,742	\$1,302,186	\$10,927,526

The Arts Endowment'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. FY2024 amount covers from October 2023 to February 2024.

NOTE 11: Commitments and Contingencies

The Arts Endowment is one of multiple federal agencies named in an ongoing class action lawsuit brought by former federal employees who allege that the U.S. Government failed to properly calculate supplements to the lump sum payment of annual leave. The lead trial attorney at the Department of Justice has indicated that the parties are nearing settlement. However, the final amount for which the Arts Endowment may be responsible cannot be estimated at this time.

NOTE 12: Funds from Dedicated Collections

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

	Gifts and Donations	
	September 30, 2020	September 30, 2019
Balance Sheet		
Assets		
Fund Balance with Treasury	\$ 2,900,884	\$ 2,651,202
Total Assets	<u>\$ 2,900,884</u>	<u>\$ 2,651,202</u>
Liabilities and Net Position		
Unexpended Appropriations	\$ 115	\$ -
Cumulative Results of Operations	\$ 2,900,769	\$ 2,651,087
Total Liabilities and Net Position	<u>\$ 2,900,884</u>	<u>\$ 2,651,087</u>
Statement of Net Cost for the Period Ended		
Gross Program Costs	\$ 355,306	\$ 203,179
Less: Earned revenue	-	-
Net Cost of Operations	<u>\$ 355,306</u>	<u>\$ 203,179</u>
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 2,651,087	\$ 2,512,379
Other Financing Sources	604,988	342,002
Net Cost of Operations	(355,306)	(203,179)
Net Position End of Period	<u>\$ 2,900,884</u>	<u>\$ 2,651,202</u>

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NOTE 13: Intragovernmental Costs and Exchange Revenues

	September 30, 2020			September 30, 2019		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Arts Creation:						
Program Costs	\$ 3,952,206	\$ 22,665,081	\$ 26,617,287	\$ -	\$ 25,706,286	\$ 25,706,286
Earned Revenue	(73,385)	-	(73,385)	(294,698)	-	(294,698)
Net Costs - Arts Creation	\$ 3,878,821	\$ 22,665,081	\$ 26,543,902	\$ (294,698)	\$ 25,706,286	\$ 25,411,588
Engagement with the Arts:						
Program Costs	\$ 7,894,969	\$ 80,033,243	\$ 87,928,212	\$ 215,624	\$ 76,787,924	\$ 77,003,547
Earned Revenue	(144,357)	-	(144,357)	(484,162)	-	(484,162)
Net Costs - Engagement with the Arts	\$ 7,750,612	\$ 80,033,243	\$ 87,783,855	\$ (268,539)	\$ 76,787,924	\$ 76,519,385
Contribution of the Arts:						
Program Costs	\$ 2,302,828	\$ 64,315,534	\$ 66,618,362	\$ 430,587	\$ 51,576,577	\$ 52,007,164
Earned Revenue	(24,528)	-	(24,528)	(20,232)	-	(20,232)
Net Costs - Contribution of the Arts	\$ 2,278,300	\$ 64,315,534	\$ 66,593,834	\$ 410,355	\$ 51,576,577	\$ 51,986,932
Total						
Program Costs	\$ 14,150,003	\$ 167,013,858	\$ 181,163,861	\$ 646,211	\$ 154,067,405	\$ 154,716,997
Earned Revenues	(242,269)	-	(242,269)	(799,092)	-	(799,092)
Net Cost of Operations	\$ 13,907,733	\$ 167,013,858	\$ 180,921,591	\$ (152,881)	\$ 154,067,405	\$ 153,917,905

NOTE 14: Apportionment Categories of Obligations Incurred

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

	September 30, 2020	September 30, 2019
Category B - Direct and Reimbursable	\$ 241,887,953	\$ 157,180,123
Exempt from apportionment	118,645	343,968
Total	\$ 242,006,598	\$ 157,524,091

Apportionments for direct and reimbursable funds include funds appropriated and donations received in FY 2020, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year paid or unpaid obligations during the fiscal year.

Obligations incurred assume use of funding available during the fiscal year including funds appropriated in FY 2020, donated funds received in FY 2020, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year paid or unpaid obligations during the fiscal year.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

NOTE 15: Undelivered Orders at the End of the Period

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Intragovernmental Undelivered orders, Unpaid at the end of the period	\$ 2,830,301	\$ 3,444,912
Public Undelivered orders, Unpaid at the end of the period	\$ 153,814,923	\$ 92,970,826
Intragovernmental Undelivered orders, Paid at the end of the period	\$ 38,728	\$ 192,038

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

The differences between the FY 2019 Statement of Budgetary Resources and the FY 2019 actual numbers presented in the FY 2021 Budget of the United States Government (Budget) are summarized below.

Sept 30, 2019 (\$ in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$170	\$158	\$0	\$156
Budget of U.S. Government	\$170	\$158	\$0	\$156

The President's Fiscal Year 2022 Budget, which will include actual amounts for fiscal year 2020, will be available at a later date at <https://www.whitehouse.gov/omb/budget/>.

NOTE 17: Incidental Custodial Collections

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Intrabudgetary Receipts Deducted by Agencies	\$ 4,000	\$ 6,000
Total Custodial Collections	<u>\$ 4,000</u>	<u>\$ 6,000</u>

NOTE 18: Schedule of Fiduciary Activity

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

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

Schedule of Fiduciary Activity
For the Period Ended September 30, 2020 and September 30, 2019

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
	Painting	Painting
Fiduciary Net Assets, Beginning of Year	\$ 98,000	\$ 98,000
Contributions	-	-
Increase/(Decrease) in Fiduciary Net Assets	-	-
Fiduciary Net Assets, End of Period	<u><u>\$ 98,000</u></u>	<u><u>\$ 98,000</u></u>

Fiduciary Net Assets
As of September 30, 2020 and 2019

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Fiduciary Assets:		
Other Assets (Painting)	\$ 98,000	\$ 98,000
Fiduciary Liabilities:		
Less: Decrease in Fair Value	-	-
Total Fiduciary Net Assets	<u><u>\$ 98,000</u></u>	<u><u>\$ 98,000</u></u>

NOTE 19: Budget and Accrual Reconciliation

	<u>FY2020</u>		
	<u>Intragovernmental</u>	<u>With Public</u>	<u>Current Year</u>
Net Operating Cost (SNC)	\$ 13,907,733	\$ 167,013,858	\$ 180,921,591
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(81,319)	(81,319)
Property, plant, and equipment disposal & reevaluation - Losses	-	(9,837)	(9,837)
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable	-	(7,203)	(7,203)
Advances, Prepayments and Other Assets	(153,310)	-	(153,310)
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts payable	-	(14,749)	(14,749)
Federal Employees Benefits Payable	-	(3,135)	(3,135)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(96,202)	(1,260,284)	(1,356,486)
Other Financing Sources:			
Federal employee retirement benefit costs paid by OPM and imputed to agency	(897,221)	-	(897,221)
Total Components of Net Operating Cost Not Part of the Budget Outlays	<u><u>\$ (1,146,733)</u></u>	<u><u>\$ (1,376,527)</u></u>	<u><u>\$ (2,523,259)</u></u>
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	\$ 114,390	\$ -	\$ 114,390
Other	-	(604,988)	(604,988)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	<u><u>114,390</u></u>	<u><u>(604,988)</u></u>	<u><u>(490,598)</u></u>
Net Outlays	<u><u>\$ 12,875,390</u></u>	<u><u>\$ 165,032,343</u></u>	<u><u>\$ 177,907,734</u></u>

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

NOTE 20: Donations In-Kind

During FY 2020, the Arts Endowment received in-kind gifts from several organizations. Gifts include payment of Arts Endowment staff travel, lodging, and meals, as well as payment of Arts Endowment staff registration fees to attend and/or participate in various arts-related functions. The total value of these in-kind donations was \$676 on September 30, 2020, and \$8,783 on September 30, 2019.

NOTE 21: Coronavirus Aid, Relief, and Economic Security (CARES) Act

The Coronavirus Aid, Relief and Economic Security (CARES) Act (Public Law 116136) became law on March 27, 2020, and it included provisions to support individuals and businesses in the form of loans, grants, and tax changes, among other types of relief. The Arts Endowment received \$75 million through the CARES Act to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. The Arts Endowment follows OMB Memorandum M-20-21 guidance in reporting and differentiating grant-making activities under CARES Act funding from regular appropriations.

Of the \$75 million, in FY 2020 the Arts Endowment awarded 855 direct grants totaling \$44.55 million to nonprofit arts organizations located in every state, the District of Columbia, and Puerto Rico. These nonmatching funds support staff salaries, fees for artists or contractual personnel, and facilities costs. Additionally, in FY 2020 the Arts Endowment awarded \$29.70 million directly to state and regional arts agencies to distribute through their funding programs. At the end of FY 2020, \$684,900 remains available for obligation. The Arts Endowment will obligate these funds in FY 2021.

Other Information

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MEMORANDUM

M21-01

DATE: October 28, 2020

TO: Mary Anne Carter, Chairman National Endowment for the Arts
National Council for the Arts Members

FROM: Ron Stein, Inspector General

SUBJECT: National Endowment for the Arts Top Management Challenges

The Consolidated Reports Act of 2000 and OMB Circular A-136, *Financial Reporting Requirements*, require that the Office of Inspector General provide the Agency head with a summary of the top management and performance challenges facing the agency. The CARES Act provided an additional \$75,000,000, to remain available until September 30, 2021, to prevent, prepare for, and respond to coronavirus, domestically or internationally, to be distributed in grants. This is an update of the Top Management Challenges provided to the Agency in November 2019, including a summary of how the challenges may affect the management of the additional funding provided by the CARES Act.

It is our assessment that the areas of financial management, human capital, information technology, and awardee accountability represent the top management and performance challenges for the Arts Endowment. Following is a discussion of each challenge area.

Financial Management. This is one of the key areas where the Arts Endowments works to continuously improve each year. Thus, it remains one of the top challenges for FY 2020. The challenge is continuous because the Agency is required to keep pace with government-wide financial systems modernization efforts and regulatory changes. At the same time the agency focuses on continuously improving efficiency and effectiveness of its accounting and finance policy and procedures, systems, and staff cross-training. While this is a top challenge area, a positive indicator in the financial management area is that the agency consistently receives unmodified opinions on its financial statement audits and has a high level of compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act) requirements.

During 2020 and beyond, under the CARES Act, the Agency will be challenged with timely review of grantees' reimbursement requests and the processing of disbursements of CARES Act funds. To date, the Arts Endowment has reported success in timely disbursing and reporting the funds provided by the CARES Act. In addition, there is increased monthly reporting required for the DATA Act.

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

In 2019, the agency filled a number of key leadership and staff positions, including the Senior Deputy Chairman, to help address mission delivery challenges. For 2020, the agency continued to fill key leadership and staff positions, including the Chief Information Officer, Chief Information Security Officer, Director, Office of Administrative Services and Contracts, Director for Civil Rights, as well as other key program and administrative positions to strengthen program and financial management within the Arts Endowment. CARES Act funding required a significant increase in the number of staff required to assist with the application review panels and also reassignment of duties for some staff to assist with the award of CARES Act funding. Going forward, there will be continued increased workload to oversee the reimbursement requests for awarded CARES Act grants.

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

Another challenge for the Arts Endowment is the FISMA that requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the Agency. Through our annual reviews of the Arts Endowment's compliance with FISMA, we continuously identify ways for the agency to enhance security, and the agency continually makes progress each year in complying with increasing information system security requirements. The Pandemic requirement to telework has made it much more challenging for the Agency to continue on the planned schedule of information security improvements. During this period, information technology staff have shifted their focus to keeping the network secure and operating for all teleworking staff and ensuring the systems integrated with the grant awards management system are maintained in top condition to process the increased volume of awards under the Cares Act.

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

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Our audits continue to identify awardees that have not complied with all applicable Federal award requirements. These awardees are typically identified through our risk based annual audits, hotline allegations/complaints, and referrals from the Arts Endowment. Based on audits of these awardees, the following are the four most common findings:

1. Failing to ensure that contractors and sub-award recipients have not been debarred or suspended from receiving Federal assistance prior to paying or awarding them Federal funds;
2. Incomplete or no written policies and procedures for managing Federal awards;
3. Reporting inaccurate and unallowable costs on the Federal Financial Report; and
4. Not maintaining supporting documentation for all costs charged to agency grants.

We acknowledge and encourage the Arts Endowment's continuous efforts to identify ways to improve awardee compliance with Federal requirements. In our opinion, continued development and implementation of web-based tools and technical assistance efforts by the agency, and the results of our audits, will help to improve awardee compliance. This area will continue to be an important challenge as grant making is the primary mission of the Arts Endowment.

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

cc: Tom Simplot, Senior Deputy Chairman
Mike Griffin, Chief of Staff
Ann Eilers, Deputy Chairman for Management and Budget
James Tunnessen, Chief Information Officer
John Sotelo, Budget Director
Nicki Jacobs, Grants Director
Craig McCord, Human Resources Director
Heidi Ren, Finance Director
Anthony Bennett, Office of Administrative Services and Contracts
Ned Read, Senior Advisor, Deputy Chairman for Management and Budget

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Summary of Financial Statement Audit and Management Assurances

Table 1.

Summary of Financial Statement Audit

Audit Opinion		Unmodified			
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<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		Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance		Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance		Systems conform				
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total non-conformances</i>	0	0	0	0	0	0

Payment Integrity

Payment Integrity

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

Improper Payments Risk Assessments

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

Preventing and Detecting Improper Payments

The Arts Endowment's internal controls did not identify any programs that constitute a high risk for improper payments. The improper payments identified by the Arts Endowment totaled less than \$1M in aggregate for all programs or (<1%) for FY 2020. All improper payments identified were corrected either through recapture or remittance of correct funds.

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

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

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vendor set-up facilitate proper set-up of authorized suppliers, system edit checks prevent duplicate payments. Payroll costs are reviewed by completing a pay period to pay period comparison of costs. Any variances or unanticipated changes are flagged and researched. Based on these internal controls and payment monitoring reviews, we believe that the Arts Endowment has an insignificant risk of significant improper payments for FY 2020.

Improvement of Payment Accuracy with the Do Not Pay Initiative

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

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

- Engages the DNP Analytics Services to match its vendor records with the Death Master File (DMF). The review identifies high-risk vendor records possibly associated with deceased individuals and prompts ESC to classify the vendor records into risk-based categories for further evaluation.
- Deactivates the highest risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals.
- Implements a vendor maintenance process to deactivate profiles without activity within 18 months and does not have active invoices or purchase orders. This effort of cleaning up financial system records decreases the likelihood of making improper payments.
- Implemented integration of SAM.GOV with the financial system to manage its supplier database. The daily processing of vendor changes from SAM is handled systemically. Financial transactions are processed based on SAM status – forcing vendors to keep their SAM record active and the financial information accurate.
- Implemented a software tool to help monitor duplicate payments more effectively and timely based on business rules defined by ESC. This has allowed for daily review and the potential to prevent duplicate payments due to the quick software processing of information.
- Implemented a pre-payment review of Enterprise Data Quality (EDQ) potential duplicate invoices, which will enhance its control of ensuring payments are made accurately.

Fraud Reduction

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

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the Arts Endowment reviews all sources of payments as part of its overall improper payment risk assessment and considers fraud among the variety of contributing risk factors.

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

Civil Monetary Penalty Adjustment for Inflation

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

Statutory Authority	Description	CMP Name	Year CMP originally enacted (by statute)	Latest Year of CMP non-inflation adjustment	Current CMP Level
31 U.S.C. 3802(a)	Penalty for false statements under the Program Fraud and Civil Remedies Act	Violation	1986	1986	\$11,664
31 U.S.C. 1352	Penalty for certain violations of the Arts Endowment's Restrictions on Lobbying	Violation	1989	1989	Between \$20,478 and \$204,892