
National Endowment for the Arts
Audit of Financial Statements
As of and for the Years Ended
September 30, 2009 and 2008

Submitted By

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

Independent Auditor's Report

We have audited the balance sheets of the National Endowment for the Arts (the Arts Endowment) as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources (the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the Arts Endowment's internal control over financial reporting and tested the Agency's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the Arts Endowment's financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified one material weakness in financial reporting related to cost accounting.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (as amended).

The following sections discuss in more detail our opinion on the Arts Endowment's financial statements, our consideration of the Agency's internal control over financial reporting, our tests of compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the Arts Endowment as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our report dated November 12, 2008, we expressed an opinion that the 2008 financial statements presented fairly, in all material respects, the budgetary resources of the Arts Endowment as of and for the years ended September 30, 2008, in conformity with accounting principles generally accepted in the United States of America. In 2008, the Arts Endowment presented its program support and administrative revenue and expenditures in the Statement of Net Cost as costs and revenues not assigned to programs. During 2009, the Arts Endowment determined that OMB Circular A-136 requires the reporting entity to report the full cost of each program's output, which consists of: (a) both direct and indirect costs of the output, and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities. The Arts Endowment reduced the Costs Not Assigned to Programs line by \$26,808,147 and distributed those costs among its program goals.

As a result of this restatement, our previous report on the 2008 financial statements is not to be relied upon because the previously issued financial statements were materially misstated and that report is replaced by this report on the restated financial statements. The circumstances related to this restatement are more fully described in Note 17 and in our reporting on controls, beginning on the next page.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the Arts Endowment as of and for the years ended September 30, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of Arts Endowment management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it. The Performance and Accountability Report, except for Management's Discussion and Analysis, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Arts Endowment as of and for the years ended September 30, 2009 and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Arts Endowment's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arts Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arts Endowment's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section of the report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency. We consider the item related to cost accounting to be a material weakness.

1. The Arts Endowment did not have a cost accounting methodology sufficient to report the full costs of outputs in general purpose financial reports.

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts* requires each reporting entity to accumulate and report the costs of its activities on a regular basis, either through the use of cost accounting systems or through the use of cost finding techniques. The U.S. Standard General Ledger (USSGL) defines the specific general ledger accounts that are to be included in each line in each Federal financial statement. Under that definition, the Statement of Net Cost line, "Costs Not Assigned to Programs", may only contain costs related to employee benefits that will be paid in the future, certain losses, and certain extraordinary items.

In previous years, the Arts Endowment determined costs for programs by specifically identifying each cost that was directly related to grants or program support and directly tracing each cost to the specific strategic goal to which the cost related. These costs were accumulated and presented in the Statement of Net Cost together with specifically identified earned revenues related to each goal to determine the net cost of each goal. One of the goals in the Arts Endowment strategic plan relates to strategic management of human capital. The Arts Endowment had grouped those costs not assigned to other specific program goals, primarily consisting of human capital and other administrative costs, and reported them under the caption "Costs Not Assigned to Programs" in the Statement of Net Costs. The Arts Endowment considered these costs to represent the cost of the strategic management of human capital goal.

During the year, the auditors determined that the Arts Endowment's inclusion of human capital and administrative costs in "Costs Not Assigned to Programs" did not comply with the USSGL definitions for that line item and that those costs should be assigned to the program goals reported on the Statement of Net Cost. The Arts Endowment independently researched the issue, determined that the human capital and administrative costs should be assigned to programs, and developed a cost accounting methodology.

The Arts Endowment's prior year Statement of Net Cost did not conform to the cost accounting requirements of SFFAS No. 4. During 2009, the Arts Endowment developed a cost accounting methodology that assigns costs to programs, prepared the 2009 financial statements using that methodology, and restated the Statement of Net Costs as of September 30, 2008.

Recommendation

We recommended that the Arts Endowment develop a cost accounting methodology. The Agency developed their methodology and implemented it in preparing financial statements as of and for the periods ended June 30 and September 30, 2009.

Management Response

As stated above, when it was brought to the attention of the Agency that our prior year Statement of Net Cost did not conform to the cost accounting requirements of SFFAS No. 4, we immediately took steps to rectify the situation. We researched the options for assigning human capital and administrative costs to programs, and implemented a methodology for assigning such costs on a reasonable and consistent basis, in line with the requirements of SFFAS No. 4. Based on this new methodology, we have re-stated our Statement of Net Cost for Fiscal Year 2008, and have applied the methodology to our FY 2009 financial statements. We appreciate the auditors' acknowledgment that we have satisfactorily resolved this matter.

2. The Arts Endowment did not have procedures in place to record advances to grantees.

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, defines advances as cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. The standard requires advances to be recorded as assets and reduced when goods or services are received. For grants, receipt of goods or services equates to grantees incurring reimbursable expenditures under their grants.

The Arts Endowment's *General Terms & Conditions for Grants and Cooperative Agreements to Organizations* state, "Payment requests must reflect expenses to be incurred within 30 days from the date the authorizing official signs the request (advance) and/or costs already incurred (reimbursement)." Because the time between receipt of a payment request and disbursement of funds approximates 30 days, the periods covered by payment requests generally expire before or shortly after the Arts Endowment disburses funds to grantees. Assessments that the Arts Endowment has performed in the past, including findings from audits and evaluations performed by the Office of Inspector General, have shown that grantees rarely fail to comply with the requirement to expend funds within 30 days of the payment request. As such, the Arts Endowment normally records grant payments as expenses.

During our testing of payment requests on grants awarded under the American Recovery and Reinvestment Act (ARRA) of 2009, and comparison of those requests to grantees' reporting of expenditures on the Recovery.gov website, we noted that some grantees' reports suggested that they had not expended all of the Arts Endowment funding within the 30 day time period required by the grant terms and conditions. We concluded that at least some of those grantees had likely obtained funds as advances.

In its draft financial statements as of September 30, 2009, the Arts Endowment had recorded only advances to other Federal agencies but had not recorded advances to grantees. When we notified Arts Endowment management of our preliminary findings regarding ARRA grants, they conducted a detailed review of grantees that had reported more funds received than expended in their initial ARRA reporting. The Arts Endowment determined that those grantees had obtained \$579,527 in advances and adjusted their financial statements to increase assets and reduce expenses by that amount.

Recommendation

The Arts Endowment corrected their 2009 Balance Sheet and Statement of Net Cost for the amount of the advances to ARRA grantees.

1. We recommend that the Arts Endowment develop policies and procedures to identify (or estimate) and record as advances those payments to ARRA grantees that cover expenses grantees have requested before they have incurred actual expenditures.
2. We also recommend that the Arts Endowment establish a process to assess periodically the risks that recipients of funds under the Agency's other programs may be obtaining advances, especially during the economic downturn, and develop procedures for recording such advances when identified.

Management Response

The Arts Endowment agrees with the facts as presented and is committed to acting on both recommendations, with implementation according to the following timetable:

1. By the end of the first quarter of FY 2010 (December 2009); and
2. By the end of the second quarter of FY 2010 (March 2010).

Management of the Arts Endowment reported the aforementioned material weakness in its reporting prepared pursuant to the Federal Managers' Financial Integrity Act (FMFIA), beginning on page 15.

A summary of the status of the prior year finding is included as Attachment 1.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended).

RESPONSIBILITIES

Management Responsibilities

Management of the Arts Endowment is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements* (as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the Arts Endowment's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04 (as amended) and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide an opinion on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As required by OMB Bulletin 07-04 (as amended), with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we made inquiries of management concerning the methods of preparing the information, including whether it was measured and presented within prescribed guidelines; changes in the methods of measurement or presentation from those used in the prior period(s) and the reasons for any such changes; and significant assumptions or interpretations underlying the measurement or presentation. We also evaluated the consistency of Management's Discussion and Analysis with management's responses to the foregoing inquiries, audited financial statements, and other audit evidence obtained during the examination of the financial statements. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, noncompliance with which could have a direct and material effect on the determination

of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04 (as amended). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Arts Endowment. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

AGENCY COMMENTS AND AUDITOR EVALUATION

In commenting on the draft of this report, the management of Arts Endowment concurred with the facts and conclusions in our report. A copy of management's response, which includes discussion of actions planned or taken to correct the reported deficiencies, accompanies this report.

The Arts Endowment's written response to the significant deficiency and material weakness identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

DISTRIBUTION

This report is intended solely for the information and use of the management, the Chairman, the Office of Inspector General and others within the Arts Endowment, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.


Leon Snead & Company, P.C.
November 9, 2009

Status of Prior Year Findings

<u>Description</u>	<u>Status as of September 30, 2009</u>
1. The Arts Endowment included donations in Offsetting Receipts in the Statement of Budgetary Resources (SBR) for the year ended September 30, 2007. During 2008, the Agency determined that the donations were classified as “Budgetary Receipts”, which are not considered to be offsetting receipts for purposes of reporting in the SBR.	1. The Arts Endowment restated its SBR for the year ended September 30, 2007 and presented Offsetting Receipts in 2008 and 2009 in a manner consistent with its restated 2007 financial statements. On September 14, 2009, the Department of Treasury, Financial Management Services, issued Treasury Bulletin No. 2009-05, which reclassifies the Arts Endowment’s donations from “Budgetary Receipts” to a category titled “Proprietary Receipts from the Public”. This reclassification will require the Arts Endowment’s donations to be included again in the Offsetting Receipts line of the SBR, beginning with the Agency’s reporting for the quarter ending December 31, 2009.

National Endowment for the Arts
CONSOLIDATED BALANCE SHEET
As of September 30, 2009 and 2008
(In Dollars)

	September 30, 2009			September 30, 2008 (Restated)		
	All Other	Earmarked Funds	Cumulative	All Other	Earmarked Funds	Cumulative
ASSETS:						
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 187,979,812	\$ 2,473,931	\$ 190,453,743	\$ 134,781,387	\$ 3,018,785	\$ 137,800,172
Investments (Note 3)	-	839,810	839,810	-	1,080,670	1,080,670
Accounts Receivable (Note 4)	620	-	620	726	-	726
Other Assets (Note 6)	405,026	-	405,026	247,891	-	247,891
Total Intragovernmental	<u>\$ 188,385,458</u>	<u>\$ 3,313,741</u>	<u>\$ 191,699,199</u>	<u>\$ 135,030,004</u>	<u>\$ 4,099,455</u>	<u>\$ 139,129,459</u>
Accounts Receivable (Note 4)	47,500	-	47,500	74,130	-	74,130
Other Assets (Note 6)	579,527	-	579,527	-	-	-
TOTAL ASSETS	<u><u>\$ 189,012,485</u></u>	<u><u>\$ 3,313,741</u></u>	<u><u>\$ 192,326,226</u></u>	<u><u>\$ 135,104,134</u></u>	<u><u>\$ 4,099,455</u></u>	<u><u>\$ 139,203,589</u></u>
LIABILITIES:						
Intragovernmental:						
Accounts Payable (Note 7,8)	\$ 2,860,879	\$ -	\$ 2,860,879	\$ 4,274,932	\$ 1,104	\$ 4,276,036
Total Intragovernmental	<u>\$ 2,860,879</u>	<u>\$ -</u>	<u>\$ 2,860,879</u>	<u>\$ 4,274,932</u>	<u>\$ 1,104</u>	<u>\$ 4,276,036</u>
Accrued Liabilities (Notes 7,8)	52,704,992	524,493	53,229,485	42,386,874	503,825	42,890,699
Other (Notes 7,8)	2,801,971	-	2,801,971	2,062,710	9,932	2,072,642
TOTAL LIABILITIES	<u>\$ 58,367,842</u>	<u>\$ 524,493</u>	<u>\$ 58,892,335</u>	<u>\$ 48,724,516</u>	<u>\$ 514,861</u>	<u>\$ 49,239,377</u>
Commitments and contingencies (Note 1)						
NET POSITION:						
Unexpended Appropriations	\$ 133,982,086	\$ -	\$ 133,982,086	\$ 89,645,779	\$ -	\$ 89,645,779
Cumulative Results of Operations	(3,337,443)	2,789,248	(548,195)	(3,266,161)	3,584,594	318,433
TOTAL NET POSITION	<u>\$ 130,644,643</u>	<u>\$ 2,789,248</u>	<u>\$ 133,433,891</u>	<u>\$ 86,379,618</u>	<u>\$ 3,584,594</u>	<u>\$ 89,964,212</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 189,012,485</u></u>	<u><u>\$ 3,313,741</u></u>	<u><u>\$ 192,326,226</u></u>	<u><u>\$ 135,104,134</u></u>	<u><u>\$ 4,099,455</u></u>	<u><u>\$ 139,203,589</u></u>

The accompanying notes are an integral part of these statements

National Endowment for the Arts
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2009 and September 30, 2008
(In Dollars)

	2009	2008 (Restated)
Program Costs (Note 11):		
Access to Artistic Excellence:		
Gross Costs	\$ 92,028,267	\$ 77,188,386
Less: Earned Revenue	(1,618,819)	(1,659,135)
Net Access to Artistic Excellence Costs	\$ 90,409,448	\$ 75,529,251
Learning in the Arts:		
Gross Costs	\$ 16,776,457	\$ 15,195,063
Less: Earned Revenue	(450,880)	(301,356)
Net Learning in the Arts Costs	\$ 16,325,577	\$ 14,893,707
Partnerships for the Arts:		
Gross Costs	\$ 57,093,439	\$ 40,779,386
Less: Earned Revenue	(297,813)	(298,265)
Net Partnerships for the Arts Costs	\$ 56,795,626	\$ 40,481,121
Total Program Costs	\$ 163,530,651	\$ 130,904,079
Net Cost of Operations	\$ 163,530,651	\$ 130,904,079

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2009 and 2008
(In Dollars)

	FY 2009			FY 2008 (Restated)		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	\$ 3,584,593	\$ (3,266,163)	\$ 318,430	\$ 4,200,652	\$ (3,617,467)	\$ 583,185
Adjusted Beginning Balances	\$ 3,584,593	\$ (3,266,163)	\$ 318,430	\$ 4,200,652	\$ (3,617,467)	\$ 583,185
Budgetary Financing Sources:						
Appropriations Used	3,956	160,663,695	160,663,695		127,589,447	127,589,447
Non-Exchange Revenue	529,185	-	3,956	30,609	-	30,609
Donations		-	529,185	1,648,884	-	1,648,884
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	-	-	-	42,000	-	42,000
Imputed financing	-	1,467,190	1,467,190	-	1,328,387	1,328,387
Total Financing Sources	\$ 533,141	\$ 162,130,885	\$ 162,664,026	\$ 1,721,493	\$ 128,917,834	\$ 130,639,327
Net Cost of Operations	1,328,486	162,202,165	163,530,651	2,337,551	128,566,528	130,904,079
Net Change	\$ (795,345)	\$ (71,280)	\$ (866,625)	\$ (616,058)	\$ 351,306	\$ (264,752)
Cumulative Results of Operations	\$ 2,789,248	\$ (3,337,443)	\$ (548,195)	\$ 3,584,594	\$ (3,266,161)	\$ 318,432
Unexpended Appropriations:						
Beginning Balances	\$ 89,645,781	\$ 89,645,781	\$ 89,645,781	\$ 72,528,426	\$ 72,528,426	\$ 72,528,426
Adjusted Beginning Balances	\$ 89,645,781	\$ 89,645,781	\$ 89,645,781	\$ 72,528,426	\$ 72,528,426	\$ 72,528,426
Budgetary Financing Sources:						
Appropriations Received	\$ 205,000,000	\$ 205,000,000	\$ 205,000,000	\$ 147,000,000	\$ 147,000,000	\$ 147,000,000
Other Adjustments	-	-	-	(2,293,200)	(2,293,200)	(2,293,200)
Appropriations Used	(160,663,695)	(160,663,695)	(160,663,695)	(127,589,447)	(127,589,447)	(127,589,447)
Total Budgetary Financing Sources	\$ 44,336,305	\$ 44,336,305	\$ 44,336,305	\$ 17,117,353	\$ 17,117,353	\$ 17,117,353
Total Unexpended Appropriations	\$ 133,982,086	\$ 133,982,086	\$ 133,982,086	\$ 89,645,779	\$ 89,645,779	\$ 89,645,779
Net Position	\$ 2,789,248	\$ 130,644,643	\$ 133,433,891	\$ 3,584,594	\$ 86,379,618	\$ 89,964,212

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2009 and September 30, 2008
(In Dollars)

	2009	2008 (Restated)
BUDGETARY RESOURCES		
Unobligated Balance, Start of Year:		
Brought Forward, October 1	\$ 6,591,199	\$ 7,578,921
Recoveries of Prior Year Obligations:		
Actual	1,473,694	1,571,887
Budget Authority (Note 12):		
Appropriation		
Actual	205,536,125	148,686,650
Spending Authority from Offsetting Collections:		
Earned		
Collected	3,452,271	1,567,756
Change in Unfilled Customer Orders:		
Advance Received	(891,390)	651,664
Without Advance from Federal Sources	1,131,425	355,310
Subtotal	209,228,431	151,261,380
Permanently Not Available:		
Enacted Reductions	-	(2,293,200)
TOTAL BUDGETARY RESOURCES	\$ 217,293,324	\$ 158,118,988
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 12):		
Direct:		
Category B	\$ 201,722,556	\$ 148,880,120
Reimbursable:		
Category B	3,013,098	2,647,669
Subtotal	204,735,654	151,527,789
Unobligated Balance:		
Apportioned:		
Balance, Currently Available	12,557,670	6,591,199
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 217,293,324	\$ 158,118,988
CHANGE IN OBLIGATED BALANCE:		
Obligated Balance, Net, Start of Year:		
Unpaid Obligations, Start of Year:		
Unpaid Obligations, Brought Forward, October 1	\$ 132,641,937	\$ 119,453,530
Uncollected Customer Payments from Federal Sources, Start of Year:		
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(355,310)	-
Total, Unpaid Obligated Balance, Brought Forward, Net	\$ 132,286,627	\$ 119,453,530
Obligations Incurred	\$ 204,735,654	\$ 151,527,789
Gross Outlays	(155,681,312)	(136,767,492)
Recoveries of Prior Year Obligations	(1,473,694)	(1,571,887)
Change in Uncollected Customer Payments from Federal Sources	(1,131,425)	(355,310)
Obligated Balance Net, End of Period:		
Unpaid Obligations	180,222,586	132,641,937
Uncollected Customer Payments from Federal Sources	(1,486,735)	(355,310)
Total, Unpaid Obligated Balance Net, End of Period	\$ 178,735,851	\$ 132,286,627
Net Outlays:		
Gross Outlays	\$ 155,681,312	\$ 136,767,492
Offsetting Collections	(2,560,881)	(2,219,420)
Less: Distributed Offsetting Receipts	(10,156)	(546,320)
Net Outlays	\$ 153,110,275	\$ 134,001,752

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

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

Note 1. Significant Accounting Policies:

A. Reporting Entity

The National Endowment for the Arts (NEA) is an independent Federal agency whose mission is to support excellence in the arts, both new and established; bring the arts to all Americans; and provide leadership in arts education. The NEA was established as a result of the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

These statements were prepared from the books and records of the NEA in conformity with accounting principles generally accepted in the United States, and the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), Revised June 10, 2009, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated June 3, 2008.
- M-06-27 *Fiscal Year 2006 Year-end Accounting Guidance for Earmarked Funds* (September 22, 2006), located at <http://www.whitehouse.gov/omb/memoranda/fy2006/m06-27.pdf>.
- *Future External Reporting Changes* (December 21, 2001), located at http://www.whitehouse.gov/omb/financial/year_end_reporting_2001.pdf.
- *Requirements for Accountability of Tax Dollars Act* (December 6, 2002), located at http://www.whitehouse.gov/omb/financial/accountability_of_tax_dollars.pdf.
- M-04-20 FY 2004 *Performance and Accountability Reports and Reporting Requirements for the Financial Report of the United States Government* (July 22, 2004), located at <http://www.whitehouse.gov/omb/memoranda/fy04/m04-20.pdf>.
- Memorandum FY 2002 *Financial and Performance Reporting*, dated October 18, 2002.
- Bulletin 01-09 *Form and Content of Agency Financial Statements*, revised September 25, 2001.

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
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Note 1. Significant Accounting Policies (Continued):

C. Basis of Accounting

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

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

In 2004, the JFMIP became the Financial Systems Integration Office (FSIO) within the General Services Administration, which works closely with OMB and the Chief Financial Officers (CFO) Council to update FSIO's mission and scope of activities.

D. Revenues and Other Financing Sources

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property. Through the "American Recovery and Reinvestment Act of 2009," the NEA was provided a one-time appropriation of \$50 million. These funds must be obligated by the conclusion of FY 2010 and are to be used to preserve jobs in the arts.

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.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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Note 1. Significant Accounting Policies (Continued):

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

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

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

E. Fund Balance with Treasury

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

F. Advances and Prepayments

NEA interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by NEA, expenditures are incurred and advances reduced. Advances are recorded for Intragovernmental Transactions until the expenditures or revenues are reported by the Trading Partner, at which time the advance is reduced and the expense/revenue is recognized.

G. General Property, Plant and Equipment, Net

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

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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Note 1. Significant Accounting Policies (Continued):

H. Liabilities

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

I. Accounts Payable

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

J. Accounts Receivable

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

K. Annual, Sick and Other Leave

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

L. Retirement Plans

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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Note 1. Significant Accounting Policies (Continued)

L. Retirement Plans (Continued):

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

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

M. Imputed Benefit Costs

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

N. Use of Estimates

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

O. Contingencies

There are no commitments or contingencies that require disclosure.

P. Earmarked Fund

Since the NEA earmarked fund is represented by one appropriation, "Gifts and Donations" 59X8040, there are no eliminations of this type of activity within the agency, nor any need for additional subtotal or total columns.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 2: Fund Balance With Treasury

	September 30, 2009	September 30, 2008
Fund Balance:		
Trust Funds	\$ 2,473,931	\$ 3,018,785
Appropriated Funds	187,979,812	134,781,387
Fund Balance with Treasury – Subtotal	\$ 190,453,743	\$ 137,800,172
Invested in Public Debt Treasury Bills, net	839,778	1,077,655
Fund Balance With Treasury – Total	\$ 191,293,521	\$ 138,877,827
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	\$ 10,870,238	\$ 4,455,151
Available Trust Fund	1,687,432	2,136,049
Subtotal – Available	\$ 12,557,670	\$ 6,591,200
Obligated Balance not yet Disbursed Other	\$ 178,596,308	\$ 130,681,547
Obligated Balance not yet Disbursed Trust Fund	1,626,278	1,960,390
Subtotal - Obligated	180,222,586	132,641,937
Unfilled Orders – Reimbursable	(1,486,735)	(355,310)
	\$ 191,293,521	\$ 138,877,827

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
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NOTE 3: Investments

September 30, 2009

Intragovernmental Securities:

	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Non-Marketable: Par Value	\$ 839,778	Effective Interest	\$ 223	\$ 840,001	\$ 840,001
Accrued Interest on Public Debt Bills	32				32
Total	<u>\$ 839,810</u>				<u>\$ 840,033</u>

September 30, 2008

Intragovernmental Securities:

	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Non-Marketable: Par Value	\$ 1,077,655	Effective Interest	\$ 6,581	\$ 1,084,236	\$ 1,084,236
Accrued Interest on Public Debt Bills	3,015				3,015
Total	<u>\$ 1,080,670</u>				<u>\$ 1,087,251</u>

The Federal Government does not set aside assets to pay for future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the NEA as evidence of its receipts. Treasury securities are an asset to the NEA and a liability to the U.S. Treasury. Because the NEA and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government.

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4: Accounts Receivable

	September 30, 2009	September 30, 2008
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 47,500	\$ 57,500
Receivables Due from Govt entities	620	726
Receivables Due from the Public	-	16,630
	\$ 48,120	\$ 74,856
Allowance for Uncollectibles:	-	-
Net Receivables	\$ 48,120	\$ 74,856

NOTE 5: General Property, Plant, And Equipment

	September 30, 2009		September 30, 2008	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Furniture & Equipment	\$ 132,845	\$ 132,845	\$ 132,845	\$ 132,845
Total	\$ 132,845	\$ 132,845	\$ 132,845	\$ 132,845

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6: Other Assets

	September 30, 2009	September 30, 2008
Intragovernmental:		
Open World Leadership Center (1)	\$ 363,187	\$ 119,966
Abraham Lincoln Bicentennial Commission (2)	-	12,770
Department of Transportation (3)	41,839	15,155
Library of Congress (4)	-	100,000
With the Public:		
Grant Advances – Various States (5)	579,527	-
Total Other Assets	\$ 984,553	\$ 247,891

Other Information:

1. The Open World Program enables emerging leaders from Russia and other Eurasian countries to experience American democracy and civil society in action.
2. The Abraham Lincoln Bicentennial Commission's program of poetry in celebration of the Abraham Lincoln Bicentennial, preceded and followed by musical ensembles.
3. Advance to the Department of Transportation for the purchase of Metrocheks.
4. The Library of Congress' National Book Festival featured an NEA Poetry Pavilion Program where poets and Poetry Out Loud State champions read.
5. Through the American Recovery and Reinvestment Act of 2009 (ARRA), some grant payments were made to certain States in advance of expenditure.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 7: Liabilities Not Covered By Budgetary Resources

	September 30, 2009	September 30, 2008
Accrued Unfunded Leave Non-Federal	\$ 1,327,703	\$ 1,335,817
Actuarial FECA Liability Federal	503,788	907,895
Unfunded FECA Liability Federal	6,416	130,204
Total Liabilities Not Covered By Budgetary Resources	\$ 1,837,907	\$ 2,373,916

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
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NOTE 8: Liabilities

	September 30, 2009			September 30, 2008		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental:						
Accrued Payables - Invoices	\$ -	\$ 1,273	\$ 1,273	\$ -	\$ 3,320	\$ 3,320
Custodial Liability	-	47,500	47,500	-	57,500	57,500
Employer Contributions	-	170,240	170,240	-	142,299	142,299
Actuarial FECA Liability	-	503,788	503,788	-	907,895	907,895
Unfunded FECA Liability	-	6,416	6,416	-	130,204	130,204
Advances from Other Government Agencies	-	2,131,662	2,131,662		3,023,051	3,023,051
Accrued Liabilities	-	-	-	-	11,767	11,767
Public:						
Accrued Payables - Invoices	\$ -	\$ 660,530	\$ 660,530	\$ -	\$ 45,281	\$ 45,281
Accrued Funded Payroll	-	788,880	788,880	-	670,442	670,442
TSP Employer Contributions	-	24,858	24,858	-	21,102	21,102
Accrued Unfunded Leave	-	1,327,703	1,327,703	-	1,335,817	1,335,817
Accrued Liabilities	-	53,229,485	53,229,485	-	42,890,699	42,890,699
Total Liabilities	<u>\$ -</u>	<u>\$ 58,892,335</u>	<u>\$ 58,892,335</u>	<u>\$ -</u>	<u>\$ 49,239,377</u>	<u>\$ 49,239,377</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
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NOTE 9: Operating Leases

Brief Description of Occupancy Agreement:

The previous occupancy agreement included rental of OPO office space and one surface parking space for a period of 66 months that expired on October 31, 2008, with a payment of \$181,778 for October 2008.

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total Annual Rental	\$2,219,317	\$2,217,653	\$2,232,267	\$2,160,677	\$2,169,415

GSA has provided an occupancy agreement for November 2008 to September 2009, and an estimate for FY 2010. The agreement can be terminated upon four months' notice. The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay rent in future years is subject to the availability of funds.

	FY 2009	FY 2010
Annual Rental	\$2,707,166	\$2,767,127

Brief Description of Copier Lease

The NEA entered into a 60 month operating lease for copiers (NEA Copy Center & walkups throughout the Endowment) in September 2008, for rental services commencing October 1, 2008 thru September 30, 2013. The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay these lease payments in future years is subject to the availability of funds.

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
	\$173,544	\$173,544	\$173,544	\$173,544	\$173,544

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 10: Earmarked Funds

Gifts and Donations

Balance Sheet	September 30, 2009	September 30, 2008 (Restated)
ASSETS		
Fund Balance with Treasury	\$ 2,473,931	\$ 3,018,785
Investments	839,810	1,080,670
Total Assets	<u>\$ 3,313,741</u>	<u>\$ 4,099,455</u>
LIABILITIES		
Accounts Payable	\$ -	\$ 1,104
Accrued Expenses	524,493	503,825
Other Liabilities	-	9,932
Total Liabilities	<u>\$ 524,493</u>	<u>\$ 514,861</u>
NET POSITION		
Cumulative Results of Operations	<u>\$ 2,789,248</u>	<u>\$ 3,584,594</u>
Total Liabilities and Net Position	<u>\$ 3,313,741</u>	<u>\$ 4,099,455</u>
	September 30, 2009	September 30, 2008 (Restated)
Statement of Net Cost		
Gross Program Costs	\$ 1,328,486	\$ 2,337,551
Less Earned Revenue	-	-
Net Cost of Operations	<u>\$ 1,328,486</u>	<u>\$ 2,337,551</u>
	September 30, 2009	September 30, 2008 (Restated)
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 3,584,593	\$ 4,200,652
Non-Exchange Revenue	3,956	30,609
Cash Donations	529,185	1,648,884
Donations or Forfeitures of Property	-	42,000
Less: Net Cost of Operations	<u>(1,328,486)</u>	<u>(2,337,551)</u>
Change in Net Position	<u>\$ (795,345)</u>	<u>\$ (616,058)</u>
Net Position End of Period	<u>\$ 2,789,248</u>	<u>\$ 3,584,594</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11: Intragovernmental Costs and Exchange Revenue

	FY 2009		FY 2008 (Restated)		
	Intragovern- mental	With the Public	Intragovern- mental	With the Public	Total
Access to Artistic Excellence:					
Program Costs	\$ 5,130,250	\$ 86,898,017	\$ 4,172,829	\$ 73,015,557	\$ 77,188,386
Earned Revenue	(1,618,819)	-	(1,659,135)	-	(1,659,135)
Net Costs - Access to Artistic Excellence	\$ 3,511,431	\$ 86,898,017	\$ 2,513,694	\$ 73,015,557	\$ 75,529,251
Learning in the Arts:					
Program Costs	\$ 713,119	\$ 16,063,338	\$ 679,340	\$ 14,515,723	\$ 15,195,063
Earned Revenue	(450,880)	-	(301,356)	-	(301,356)
Net Costs - Learning in the Arts	\$ 262,239	\$ 16,063,338	\$ 377,984	\$ 14,515,723	\$ 14,893,707
Partnerships for the Arts:					
Program Costs	\$ 317,513	\$ 56,775,926	\$ 169,424	\$ 40,609,962	\$ 40,779,386
Earned Revenue	(297,813)	-	(298,265)	-	(298,265)
Net Costs - Partnerships for the Arts	\$ 19,700	\$ 56,775,926	\$ (128,841)	\$ 40,609,962	\$ 40,481,121
Total:					
Program Costs	\$ 6,160,882	\$ 159,737,281	\$ 5,021,593	\$ 128,141,242	\$ 133,162,835
Earned Revenue	(2,367,512)	-	(2,258,756)	-	(2,258,756)
Net Cost of Operations	\$ 3,793,370	\$ 159,737,281	\$ 2,762,837	\$ 128,141,242	\$ 130,904,079

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 12: Apportionment Categories of Obligations Incurred

The NEA is provided with funding only under Category B.

Category B	Direct	Reimbursable	Total
Apportionments	\$ 206,620,701	\$ 2,607,730	\$ 209,228,431
Obligations	\$ 201,722,557	\$ 3,013,098	\$ 204,735,654

NOTE 13: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Fiscal Year 2011 Budget, which will include actual numbers for fiscal year 2009, has not yet been published. The FY 2011 Budget is expected to be published in February 2010 and to be available at <http://www.whitehouse.gov/omb/budget/>.

NOTE 14: Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in the Statement of Financing represent the change in the liability created in the current year.

NOTE 15: Undelivered Orders at the End of the Period

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

Undelivered Orders:	2009	2008 (Restated)
Direct	\$ 124,338,632	\$ 86,949,562
Reimbursable	1,994,001	2,155,926
Undelivered Orders, net, end of period	\$ 126,332,633	\$ 89,105,488

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 16: Incidental Custodial Collections

	2009	2008
Proprietary Receipts from the Public	\$ -	\$ 535,976
Intrabudgetary Receipts Deducted by Agencies	10,156	10,344
	\$ 10,156	\$ 546,320
Total Custodial Collections	\$ 10,156	\$ 546,320

NOTE 17: Restatements

Accrued Expenditures

September 2008 Balance Sheet

September 2008 NOTE 16: Earmarked Funds (presented in 2009 as NOTE 10: Earmarked Funds)

In its previously issued financial statements, NEA presented its grant liability accruals in the *Other* line item in the public liabilities section of the *Balance Sheet*, and in the *Other Liabilities* line of *NOTE 16: Earmarked Funds*. A review of OMB Circular A-136 revealed that a material amount reported in the *Other* line item of financial statements should be reported separately because of its individual significance to the *Balance Sheet*.

For the current presentation of the September 2008 *Balance Sheet*, NEA reduced the *Other* line in the Liabilities section by \$42,386,874 for the *All Other* column, \$503,825 for the *Earmarked* column, and \$42,890,699 for the *cumulative* column. An additional line was created in the Liability section named *Accrued Liabilities*, entering the above amounts in each of their respective columns. For the current presentation of *NOTE 10: Earmarked Funds*, NEA reduced the *Other Liabilities* line by \$504,929 and created two additional lines, *Accounts Payable*, which is increased by \$1,104 and *Accrued Expenses*, which was increased by \$503,825.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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Full Costing of Costs/Revenues Not Assigned/Attributable to Programs

September 2008 Statement of Net Cost.

September 2008 NOTE 16: Earmarked Funds (presented in 2009 as *NOTE 10: Earmarked Funds*),
September 2008 NOTE 10: Grants to the Public Costs and Intragovernmental Revenue (presented in 2009 as *NOTE 11: Intragovernmental Costs and Exchange Revenue*)

In its previously issued financial statements, NEA presented its program support and administrative revenue and expenditures below the *Program Costs* section of the *Statement of Net Cost*. According to OMB Circular A-136, “the reporting entity should report the full cost of each program’s output, which consists of: (a) both direct and indirect costs of the output, and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities”.

In order to properly report the full cost of programs, NEA has implemented a system by which all indirect costs and revenue are now distributed to program costs using an appropriate methodology prescribed by Statements of Federal Financial Accounting Standards (SFFAS) 4: “Managerial Cost Accounting Concepts and Standards for the Federal Government”.

For the current presentation of the September 2008 *Statement of Net Cost*, NEA reduced the *Costs Not Assigned to Programs* line by \$26,808,147. This amount is now distributed among the three active Program goals within the *Statement of Net Cost* by increasing *Access to Artistic Excellence Net Costs* by \$22,291,159 (includes \$133,590 of *Access to the Arts* costs that are being merged starting in FY 2009), increasing *Learning in the Arts Net Costs* by \$3,995,110, and increasing *Partnerships for the Arts Net Costs* by \$643,507. Included in these adjustments are reductions of \$11,961 to total gross costs and to earned revenue of the same amount due to an error in calculating each respective line item. However, these adjustments do not change the *Net Cost of Operations* total. For *NOTE 10: Earmarked Funds*, NEA removed \$930,426 from *Costs Not Attributable to Program Costs* and increased *Gross Program Costs* by \$930,426 to reflect full cost of programs. For *NOTE 11: Intragovernmental Costs and Exchange Revenue*, NEA increased the *Access to Artistic Excellence Net Costs* total by \$22,269,293 (includes \$133,590 of *Access to the Arts* costs that are being merged starting in FY 2009), increasing the *Learning in the Arts Net Costs* total by \$3,993,754, and increasing *Partnerships for the Arts Net Costs* total by \$642,642. In addition, breakouts between intragovernmental costs and revenue and public costs and revenue were added in accordance with OMB Circular A-136.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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Donation of Property

September 2008 Statement of Changes in Net Position.

September 2008 NOTE 16: Earmarked Funds (presented in 2009 as NOTE 10: Earmarked Funds,

September 2008 NOTE 19: Reconciliation of Net Cost of Operations to Budget (presented in 2009 as NOTE 18: Reconciliation of Net Cost of Operations to Budget)

In its previously issued financial statements, NEA presented the combined total of cash and property donations on the *Donations* line of the Statement of Changes in Net Position.

After the Fiscal Year 2008 audit, NEA created an automated process for financial statement preparation that helps ensure consistent and reliable reporting. Part of that process included a thorough review of the Treasury crosswalks and guidance showing the correct presentation of financial statement line items. That review revealed that donations of cash and property should be reported separately rather than combined.

For the current presentation of the September 2008 Statement of Changes in Net Position, NEA decreased the amount reported on the *Donations* line by \$42,000 and entered the amount on a new line called *Donations and Forfeitures of Property* to separate the cash and non-cash donations. For NOTE 10: Earmarked Funds, \$42,000 was removed from the *Donations* line in the Statement of Changes in Net Position section of the note and entered on a new line called *Donations or Forfeitures of Property*. For NOTE 18: Reconciliation of Net Cost of Operations to Budget, NEA reduced the amount reported on the *Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations* line by \$42,000 and entered the amount on a new line item called *Donations and Forfeitures of Property* to match Treasury guidance.

Unpaid Obligations and Uncollected Customer Payments

September 2008 Statement of Budgetary Resources

In its previously issued financial statements, NEA mistakenly published an incomplete version of the Statement of Budgetary Resources, omitting certain line items and amounts from the report. The first line item omitted was the *Unpaid Obligations* line under the *Obligated Balance Net, End of Period* section of the statement. The second line omitted was the *Uncollected Customer Payments from Federal Sources* line directly under the *Unpaid Obligations* line mentioned above.

For the current presentation of the September 2008 Statement of Budgetary Resources, NEA added \$132,641,937 to the *Unpaid Obligations* line and added \$355,310 to the *Uncollected Customer Payments from Federal Sources* to replace the lines omitted from the 2008 published Performance and Accountability Report.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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Offsetting Receipts

September 2008 Statement of Budgetary Resources

In its previously issued financial statements, NEA presented the amount reported on the *Less: Offsetting Receipts* line as a positive amount on the Statement of Budgetary Resources. After review of Treasury guidance on the correct presentation of the amount on this line, it was determined that the amount should be reflected as a negative amount.

For the current presentation of the September 2008 Statement of Budgetary Resources, NEA changed the \$546,320 amount previously presented as positive to a negative amount.

Net Outlays

September 2008 Statement of Budgetary Resources

In its previously issued financial statements, NEA miscalculated the total reported on the *Net Outlays* line of the Statement of Budgetary Resources by adding the Offsetting Receipts line to the calculation instead of subtracting it.

For the current presentation of the September 2008 Statement of Budgetary Resources, NEA decreased the *Net Outlays* line by \$1,092,640 to reflect the correct calculation of net outlays to match Treasury guidance.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 18: Reconciliation of Net Cost of Operations to Budget

	2009	2008 (Restated)
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 204,735,654	\$ 151,527,789
Less: Spending Authority from offsetting collections and recoveries	(5,166,000)	(4,146,618)
Obligations net of offsetting collections and recoveries	<u>\$ 199,569,654</u>	<u>\$ 147,381,171</u>
Less: Offsetting receipts	(10,156)	(546,320)
Net Obligations	<u>\$ 199,559,498</u>	<u>\$ 146,834,851</u>
Other Resources		
Donations and Forfeitures of Property	\$ -	\$ 42,000
Imputed financing from costs absorbed by others	1,467,190	1,328,387
Other Resources	-	-
Net Other Resources Used to Finance Activities	<u>\$ 1,467,190</u>	<u>\$ 1,370,387</u>
Total Resources Used to Finance Activities	<u>\$ 201,026,688</u>	<u>\$ 148,205,238</u>
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but not received	\$ (36,987,109)	\$ (17,031,233)
Resources that fund expenses recognized in prior periods	(8,115)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	10,156	546,320
Other Resources or adjustments to net obligated resources that do not affect net cost of operations	(1,467,190)	(1,370,387)
Total Resources used to finance items not part of the Net Cost of Operations	<u>\$ (38,452,258)</u>	<u>\$ (17,855,300)</u>
Total Resources Used to finance the Net Cost of Operations	<u>\$ 162,574,430</u>	<u>\$ 130,349,938</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring/Generating Resources in Future Periods (Note 14):		
Increase in Annual Leave Liability	\$ -	\$ 64,591
Other	(404,107)	(151,495)
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>\$ (404,107)</u>	<u>\$ (86,904)</u>
Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ -	\$ 6,642
Losses on Disposal of Assets	-	-
Other not Requiring Outlay of Resources	1,360,328	634,403
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 1,360,328</u>	<u>\$ 641,045</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>\$ 956,221</u>	<u>\$ 554,141</u>
Net Cost of Operations	<u><u>\$ 163,530,651</u></u>	<u><u>\$ 130,904,079</u></u>

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NOTE 19: Changes in Certain Footnote Line Items and Amounts

For September 2009 presentation, the order of many of the individual footnotes changed compared to September 2008 in order to correspond to the order prescribed in OMB Circular A-136 (Revised June 2009). In addition, individual September 2008 Note disclosure amounts were changed for a variety of reasons. Refer to NOTE 17: Restatements for information on disclosures related to financial statement restatements. Changes in footnote formatting and corrections of data entry errors not impacting NEA financial statements are listed below.

NOTE 11: Intragovernmental Costs and Exchange Revenues

In its previously issued financial statement footnotes, NEA reported grant costs and related intragovernmental revenue in NOTE 10: Grants to the Public Costs and Intragovernmental Revenue. For the current presentation, NEA adopted OMB Circular A-136 guidance and reported intragovernmental costs and revenue separately from costs with the public for both September 2009 and September 2008.

NOTE 14: Undelivered Orders at the End of the Period (presented in 2009 as NOTE 15: Undelivered Orders at the End of the Period)

In its previously issued financial statement footnotes, NEA presented supporting amounts for the total *Unpaid Obligated Balance, net, End of Period*. NEA also included unpaid obligated balances in addition to the undelivered order amounts required by OMB Circular A-136.

For the current presentation, NEA revised the components of the Note and presented only the amounts related to total undelivered orders, divided between Direct and Reimbursable amounts. The paid portion of undelivered orders as well as accounts payable amounts were removed from the Note to comply with the requirements of the Circular.

NOTE 19: Reconciliation of Net Cost of Operations to Budget (presented in 2009 as NOTE 18: Reconciliation of Net Cost of Operations to Budget)

In its previously issued financial statements, NEA included a \$344 custodial collection in the amount reported on the *Less: Spending Authority from Offsetting Collections and Recoveries* line as well as the *Other* line under the *Components not Requiring or Generating Resources* section of NOTE 19: Reconciliation of Net Cost of Operations to Budget. In order to calculate a *Net Cost of Operations* amount in this footnote that matches the *Net Cost of Operations* amount reported on the Statement of Net Cost, custodial activity must be excluded from the calculations.

For the current presentation of the September 2008 NOTE 18: Reconciliation of Net Cost of Operations to Budget, NEA reduced the *Less: Spending Authority from Offsetting Collections and Recoveries* by \$344 and NEA also reduced the *Other* line by \$344 in the *Components not Requiring or Generating Resources* section of the footnote.

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NOTE 20: Donations In-Kind

During FY 2009, NEA received in-kind gifts from several organizations. Gifts included payment of NEA staff travel, lodging, and meals, as well as payment of NEA staff registration fees to attend and/or participate in various arts related functions. Other in-kind support included award luncheon hosting and studio time for the Big Read program. The total value of these in-kind donations was \$22,779 in FY 2009.

In FY 2008, the NEA received a 2008 Ford Escape Hybrid from the Ford Motor Company, for use in association with The Big Read program and for other agency business. The fair market value of the donated vehicle is \$35,000.00. In addition, Ford Motor Company designed and installed a vehicle wrap at a cost estimated at \$7,000.00, for a total contribution of \$42,000.00. As it does not meet the capitalization threshold, nor would it have been purchased if not donated, it will not be shown as an asset or capitalized.

In FY 2008, the NEA continued its partnership with XM Satellite Radio, which aired a series of NEA-produced Jazz and Literary “Moments”. The total fair market value of the donated air time for these public service announcements, which ran numerous times each month on a number of different XM channels, is estimated at \$279,000. Additionally, the NEA and XM continued to partner on the radio broadcast series focusing on the books and authors featured in the NEA’s Big Read initiative. This series included NEA-produced content, and thus the air time provided by XM for these segments would be considered an additional in-kind donation. The NEA would not have purchased the public service announcements, and the program series air time isn’t for sale. In accordance with applicable guidance, the value of these contributions is not recognized in the financial statements.