
National Endowment for the Arts
Audit of Financial Statements
As of and for the Years Ended
September 30, 2010 and 2009

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, 2010 and 2009, 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 Arts Endowment'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, 2010 and 2009, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified no material weaknesses in financial reporting.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the Arts Endowment as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

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, 2010 and 2009, 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 the 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, 2010 and 2009, 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 material weakness is a deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies,

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance of the Arts Endowment.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

We noted another control deficiency over financial reporting and its operation that we have reported to the management of the Arts Endowment and those charged with governance in a separate letter dated November 8, 2010.

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 Federal Managers Financial Integrity Act (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 the 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.

DISTRIBUTION

This report is intended solely for the information and use of the management, 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.
Leon Snead & Company, P.C.
November 8, 2010

ATTACHMENT I

Status of Prior Year Findings

<u>Description</u>	<u>Prior Report Date</u>	<u>Status as of September 30, 2010</u>
1. The Arts Endowment did not have a cost accounting methodology sufficient to report the full costs of outputs in general purpose financial statements.	November 9, 2009	1. The Arts Endowment developed a cost accounting methodology, which was implemented for financial reporting for the third quarter of 2009. The method has been used consistently for financial reporting since that time, so this finding was fully resolved.
2. The Arts Endowment did not have procedures in place to record advances to grantees.	November 9, 2009	2. The Arts Endowment developed procedures sufficient to provide reasonable assurance as to whether payments made to grantees were advances or reimbursements. The finding was fully resolved.

National Endowment for the Arts
BALANCE SHEET
As of September 30, 2010 and 2009
(In Dollars)

ASSETS:	September 30, 2010			September 30, 2009		
	All Other	Earmarked Funds	Cumulative	All Other	Earmarked Funds	Cumulative
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 173,065,458	\$ 1,993,429	\$ 175,058,887	\$ 187,979,812	\$ 2,473,931	\$ 190,453,743
Fund Balance With Treasury Under a						
Investments (Note 3)	-	840,666	840,666	-	839,810	839,810
Accounts Receivable (Note 4)	62	-	62	620	-	620
Other Assets (Note 6)	827,310	-	827,310	405,026	-	405,026
Total Intragovernmental	\$ 173,892,830	\$ 2,834,095	\$ 176,726,925	\$ 188,385,458	\$ 3,313,741	\$ 191,699,199
Accounts Receivable, Net (Note 4)	40,000	-	40,000	47,500	-	47,500
Other Assets (Note 6)	879,986	-	879,986	579,527	-	579,527
TOTAL ASSETS	\$ 174,812,816	\$ 2,834,095	\$ 177,646,911	\$ 189,012,485	\$ 3,313,741	\$ 192,326,226
LIABILITIES:						
Intragovernmental:						
Accounts Payable (Note 7,8)	\$ 1,927,529	\$ -	\$ 1,927,529	\$ 2,860,879	\$ -	\$ 2,860,879
Total Intragovernmental	\$ 1,927,529	\$ -	\$ 1,927,529	\$ 2,860,879	\$ -	\$ 2,860,879
Accrued Liabilities (Notes 7,8)	54,740,278	192,978	54,933,256	52,704,992	524,493	53,229,485
Other (Notes 7,8)	3,748,716	-	3,748,716	2,801,971	-	2,801,971
TOTAL LIABILITIES	\$ 60,416,523	\$ 192,978	\$ 60,609,501	\$ 58,367,842	\$ 524,493	\$ 58,892,335
Commitments and contingencies (Note 1)						
NET POSITION:						
Unexpended Appropriations	\$ 117,536,652	\$ -	\$ 117,536,652	\$ 133,982,086	\$ -	\$ 133,982,086
Cumulative Results of Operations	(3,140,359)	2,641,117	(499,242)	(3,337,443)	2,789,248	(548,195)
TOTAL NET POSITION	\$ 114,396,293	\$ 2,641,117	\$ 117,037,410	\$ 130,644,643	\$ 2,789,248	\$ 133,433,891
TOTAL LIABILITIES AND NET POSITION	\$ 174,812,816	\$ 2,834,095	\$ 177,646,911	\$ 189,012,485	\$ 3,313,741	\$ 192,326,226

The accompanying notes are an integral part of these statements

National Endowment for the Arts
STATEMENT OF NET COST
For Years Ended September 30, 2010 and September 30, 2009
(In Dollars)

	2010	2009
Program Costs (Note 11):		
Access to Artistic Excellence:		
Gross Costs	\$ 111,806,892	\$ 92,028,267
Less: Earned Revenue	(1,291,709)	(1,618,819)
Net Access to Artistic Excellence Costs	\$ 110,515,183	\$ 90,409,448
Learning in the Arts:		
Gross Costs	\$ 18,380,391	\$ 16,776,457
Less: Earned Revenue	(423,064)	(450,880)
Net Learning in the Arts Costs	\$ 17,957,327	\$ 16,325,577
Partnerships for the Arts:		
Gross Costs	\$ 58,067,257	\$ 57,093,439
Less: Earned Revenue	(338,208)	(297,813)
Net Partnerships for the Arts Costs	\$ 57,729,049	\$ 56,795,626
Total Program Costs	\$ 186,201,559	\$ 163,530,651
Net Cost of Operations	\$ 186,201,559	\$ 163,530,651

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2010 and 2009
(In Dollars)

	<u>FY 2010</u>			<u>FY 2009</u>		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	\$ 2,789,248	\$ (3,337,443)	\$ (548,195)	\$ 3,584,593	\$ (3,266,163)	\$ 318,430
Adjusted Beginning Balances	\$ 2,789,248	\$ (3,337,443)	\$ (548,195)	\$ 3,584,593	\$ (3,266,163)	\$ 318,430
Budgetary Financing Sources:						
Appropriations Used		\$ 183,945,434	\$ 183,945,434		\$ 160,663,695	\$ 160,663,695
Non-Exchange Revenue	856	-	856	3,956	-	3,956
Donations	520,988	-	520,988	529,185	-	529,185
Other Financing Sources (Non-Exchange)						
Imputed financing	-	1,783,234	1,783,234	-	1,467,190	1,467,190
Total Financing Sources	\$ 521,844	\$ 185,728,668	\$ 186,250,512	\$ 533,141	\$ 162,130,885	\$ 162,664,026
Net Cost of Operations	669,975	185,531,584	186,201,559	1,328,486	162,202,165	163,530,651
Net Change	\$ (148,131)	\$ 197,084	\$ 48,953	\$ (795,345)	\$ (71,280)	\$ (866,625)
Cumulative Results of Operations	\$ 2,641,117	\$ (3,140,359)	\$ (499,242)	\$ 2,789,248	\$ (3,337,443)	\$ (548,195)
Unexpended Appropriations:						
Beginning Balances		\$ 133,982,086	\$ 133,982,086		\$ 89,645,781	\$ 89,645,781
Adjusted Beginning Balances		\$ 133,982,086	\$ 133,982,086		\$ 89,645,781	\$ 89,645,781
Budgetary Financing Sources:						
Appropriations Received		\$ 167,500,000	\$ 167,500,000		\$ 205,000,000	\$ 205,000,000
Appropriations Used		(183,945,434)	(183,945,434)		(160,663,695)	(160,663,695)
Total Budgetary Financing Sources		\$ (16,445,434)	\$ (16,445,434)		\$ 44,336,305	\$ 44,336,305
Total Unexpended Appropriations		\$ 117,536,652	\$ 117,536,652		\$ 133,982,086	\$ 133,982,086
Net Position	\$ 2,641,117	\$ 114,396,293	\$ 117,037,410	\$ 2,789,248	\$ 130,644,643	\$ 133,433,891

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF BUDGETARY RESOURCES
For Years Ended September 30, 2010 and September 30, 2009
(In Dollars)

	2010	2009
BUDGETARY RESOURCES		
Unobligated Balance, Start of Year:		
Brought Forward, October 1	\$ 12,557,670	\$ 6,591,199
Recoveries of Prior Year Unpaid Obligations	2,059,272	1,473,694
Budget Authority (Note 12):		
Appropriation	168,021,614	205,536,125
Spending Authority from Offsetting Collections:		
Earned		
Collected	2,221,078	3,452,271
Change in Unfilled Customer Orders:		
Advance Received	(472,047)	(891,390)
Without Advance from Federal Sources	502,388	1,131,425
Subtotal	170,273,033	209,228,431
TOTAL BUDGETARY RESOURCES	\$ 184,889,975	\$ 217,293,324
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 12):		
Direct	\$ 169,038,416	\$ 201,722,556
Reimbursable	2,207,950	3,013,098
Subtotal	171,246,366	204,735,654
Unobligated Balance:		
Apportioned	13,643,609	12,557,670
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 184,889,975	\$ 217,293,324
CHANGE IN OBLIGATED BALANCES:		
Obligated Balance, Net, Start of Year:		
Unpaid Obligations, Start of Year	\$ 180,222,586	\$ 132,641,937
Uncollected Customer Payments from Federal Sources, Start of Year	(1,486,735)	(355,310)
Total, Unpaid Obligated Balance, Brought Forward, Net	\$ 178,735,851	\$ 132,286,627
Obligations Incurred	\$ 171,246,366	\$ 204,735,654
Gross Outlays	(185,164,874)	(155,681,312)
Recoveries of Prior Year Unpaid Obligations	(2,059,272)	(1,473,694)
Change in Uncollected Customer Payments from Federal Sources	(502,388)	(1,131,425)
Obligated Balance Net, End of Period:		
Unpaid Obligations	164,244,806	180,222,586
Uncollected Customer Payments from Federal Sources	(1,989,123)	(1,486,735)
Total, Unpaid Obligated Balance, Net End of Period	\$ 162,255,683	\$ 178,735,851
NET OUTLAYS		
Net Outlays:		
Gross Outlays	\$ 185,164,874	\$ 155,681,312
Offsetting Collections	(1,749,031)	(2,560,881)
Less: Distributed Offsetting Receipts	(550,808)	(10,156)
Net Outlays	\$ 182,865,035	\$ 153,110,275

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, 2010 and 2009
(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 September 29, 2010, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated September 10, 2009.
- 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, 2010 and 2009
(In Dollars)

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.

The Financial Systems Integration Office (FSIO) within the General Services Administration, ceased operations in April 2010. The work products and source documents remain under the management of the OMB Office of Federal Financial Management and the Chief Financial Officers (CFO) Council and can be located on the web at www.cfoc.gov.

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
For the Years Ended September 30, 2010 and 2009
(In Dollars)

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.

Certain grantees receiving grant awards under the American Recovery and Reinvestment Act (ARRA) are paid in advance of expenditure with anticipation that cash disbursement will take place by the grantee within 30 days of their request. Amounts reported as advances are estimated based on expenditure reporting to NEA by grantees as of the balance sheet date.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

G. General Property, Plant and Equipment, Net

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

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

H. Liabilities

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

I. Accounts Payable

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

J. Accounts Receivable

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

K. Annual, Sick and Other Leave

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

L. Retirement Plans

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

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

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

M. Imputed Benefit Costs

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2010 and 2009
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

N. Use of Estimates

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

Certain Significant Estimates

Advances to grantees related to the American Recovery and Reinvestment Act (ARRA) are estimated as of the balance sheet date. Formal reporting on expenditures by these grant recipients is provided to the agency within 45 days of the balance sheet date. The amounts estimated for use in the financial statements and the amounts due to be reported in the near term by grant recipients could vary significantly, creating the potential for a material effect to the financial statements.

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, 2010 and 2009
(In Dollars)

NOTE 2: Fund Balance With Treasury

	September 30, 2010	September 30, 2009
Fund Balance:		
Trust Funds	\$ 1,993,429	\$ 2,473,931
Appropriated Funds	173,065,458	187,979,812
Fund Balance with Treasury – Subtotal	<u>\$ 175,058,887</u>	<u>\$ 190,453,743</u>
Invested in Public Debt Treasury Bills, net	<u>840,405</u>	<u>839,778</u>
Fund Balance With Treasury – Total	<u><u>\$ 175,899,292</u></u>	<u><u>\$ 191,293,521</u></u>
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	\$ 11,821,692	\$ 10,870,238
Available Trust Fund	<u>1,821,917</u>	<u>1,687,432</u>
Subtotal – Available	\$ 13,643,609	\$ 12,557,670
Obligated Balance not yet Disbursed Other	\$ 163,232,889	\$ 178,596,308
Obligated Balance not yet Disbursed Trust Fund	<u>1,011,917</u>	<u>1,626,278</u>
Subtotal - Obligated	164,244,806	180,222,586
Unfilled Orders – Reimbursable	<u>(1,989,123)</u>	<u>(1,486,735)</u>
	<u><u>\$ 175,899,292</u></u>	<u><u>\$ 191,293,521</u></u>

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 3: Investments

September 30, 2010	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 840,405	Effective Interest	\$ 337	\$ 840,742	\$ 840,742
Accrued Interest on Public Debt Bills	261				261
Total	\$ 840,666				\$ 841,003
<hr/>					
September 30, 2009	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 839,778	Effective Interest	\$ 223	\$ 840,001	\$ 840,001
Accrued Interest on Public Debt Bills	32				32
Total	\$ 839,810				\$ 840,033

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
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NOTE 4: Accounts Receivable

	September 30, 2010	September 30, 2009
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 40,000	\$ 47,500
Receivables Due from Govt entities	62	620
Receivables Due from the Public	-	-
	\$ 40,062	\$ 48,120
 Allowance for Uncollectibles:	 -	 -
 Net Receivables	 \$ 40,062	 \$ 48,120

NOTE 5: General Property, Plant, And Equipment

Class of Property	September 30, 2010			September 30, 2009		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Furniture & Equipment	\$ 132,845	\$ 132,845	\$ -	\$ 132,845	\$ 132,845	\$ -
Total	\$ 132,845	\$ 132,845	\$ -	\$ 132,845	\$ 132,845	\$ -

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 6: Other Assets

	September 30, 2010	September 30, 2009
Intragovernmental:		
Open World Leadership Center (1)	\$ 95,493	\$ 363,187
Department of Commerce (2)	667,500	-
Department of Transportation (3)	64,317	41,839
With the Public:		
Grant Advances – Various States (4)	879,986	579,527
Total Other Assets	\$ 1,707,296	\$ 984,553

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. Advance to the Census Bureau to conduct survey of public participation in the arts.
3. Advance to the Department of Transportation for the purchase of Metrocheks and accounting system hosting.
4. 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
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NOTE 7: Liabilities Not Covered By Budgetary Resources

	September 30, 2010	September 30, 2009
Accrued Unfunded Leave Non-Federal	\$ 1,397,835	\$ 1,327,703
Actuarial FECA Liability Federal	2,914	503,788
Unfunded FECA Liability Federal	650	6,416
Total Liabilities Not Covered By Budgetary Resources	\$ 1,401,399	\$ 1,837,907

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 8: Liabilities

	September 30, 2010			September 30, 2009		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental:						
Accrued Payables - Invoices	\$ -	\$ 22,543	\$ 22,543	\$ -	\$ 1,273	\$ 1,273
Custodial Liability	-	40,000	40,000	-	47,500	57,656
Employer Contributions	-	194,269	194,269	-	170,240	170,240
Other Post Employment Benefits	-	7,539	7,539	-	-	-
Actuarial FECA Liability	-	2,914	2,914	-	503,788	503,788
Unfunded FECA Liability	-	650	650	-	6,416	6,416
Advances from Other Government Agencies	-	1,659,614	1,659,614		2,131,662	2,131,662
Public:						
Accrued Payables - Invoices	\$ -	\$ 1,409,562	\$ 1,409,562	\$ -	\$ 660,530	\$ 660,530
Accrued Funded Payroll	-	910,710	910,710	-	788,880	788,880
TSP Employer Contributions	-	30,609	30,609	-	24,858	24,858
Accrued Unfunded Leave	-	1,397,835	1,397,835	-	1,327,703	1,327,703
Accrued Liabilities	-	54,933,256	54,933,256	-	53,229,485	53,229,485
Total Liabilities	<u>\$ -</u>	<u>\$ 60,609,501</u>	<u>\$ 60,609,501</u>	<u>\$ -</u>	<u>\$ 58,892,335</u>	<u>\$ 58,892,335</u>

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 9: Operating Leases

Brief Description of Occupancy Agreement:

The current annual occupancy agreement includes rental of OPO office space and one surface parking space with estimates for FY 2011 and FY 2012. 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	FY 2011	FY 2012
Total Annual Rental	\$2,707,166	\$2,765,581	\$2,760,427	\$2,766,167

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
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NOTE 10: Earmarked Funds

Gifts and Donations

Balance Sheet	September 30, 2010	September 30, 2009
ASSETS		
Fund Balance with Treasury	\$ 1,993,429	\$ 2,473,931
Investments	840,666	839,810
Total Assets	<u>\$ 2,834,095</u>	<u>\$ 3,313,741</u>
LIABILITIES		
Accounts Payable	\$ -	\$ -
Accrued Expenses	192,978	524,493
Other Liabilities	-	-
Total Liabilities	<u>\$ 192,978</u>	<u>\$ 524,493</u>
NET POSITION		
Cumulative Results of Operations	<u>\$ 2,641,117</u>	<u>\$ 2,789,248</u>
Total Liabilities and Net Position	<u>\$ 2,834,095</u>	<u>\$ 3,313,741</u>
Statement of Net Cost		
Gross Program Costs	\$ 669,975	\$ 1,328,486
Less Earned Revenue	-	-
Net Cost of Operations	<u>\$ 669,975</u>	<u>\$ 1,328,486</u>
Statement of Changes in Net Position		
Net Position Beginning of Period	\$ 2,789,248	\$ 3,584,593
Non-Exchange Revenue	856	3,956
Cash Donations	520,988	529,185
Less: Net Cost of Operations	<u>(669,975)</u>	<u>(1,328,486)</u>
Change in Net Position	<u>\$ (148,131)</u>	<u>\$ (795,345)</u>
Net Position End of Period	<u>\$ 2,641,117</u>	<u>\$ 2,789,248</u>

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NOTE 11: Intragovernmental Costs and Exchange Revenue

	FY 2010			FY 2009		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Access to Artistic Excellence:						
Program Costs	\$ 5,332,771	\$ 106,474,121	\$ 111,806,892	\$ 5,130,250	\$ 86,898,017	\$ 92,028,267
Earned Revenue	(1,291,709)	-	(1,291,709)	(1,618,819)	-	(1,618,819)
Net Costs - Access to Artistic Excellence	\$ 4,041,062	\$ 106,474,121	\$ 110,515,183	\$ 3,511,431	\$ 86,898,017	\$ 90,409,448
Learning in the Arts:						
Program Costs	\$ 862,837	\$ 17,517,554	\$ 18,380,391	\$ 713,119	\$ 16,063,338	\$ 16,776,457
Earned Revenue	(423,064)	-	(423,064)	(450,880)	-	(450,880)
Net Costs - Learning in the Arts	\$ 439,773	\$ 17,517,554	\$ 17,957,327	\$ 262,239	\$ 16,063,338	\$ 16,325,577
Partnerships for the Arts:						
Program Costs	\$ 123,145	\$ 57,944,112	\$ 58,067,257	\$ 317,513	\$ 56,775,926	\$ 57,093,439
Earned Revenue	(338,208)	-	(338,208)	(297,813)	-	(297,813)
Net Costs - Partnerships for the Arts	\$ (215,063)	\$ 57,944,112	\$ 57,729,049	\$ 19,700	\$ 56,775,926	\$ 56,795,626
Total:						
Program Costs	\$ 6,318,753	\$ 181,935,787	\$ 188,254,540	\$ 6,160,882	\$ 159,737,281	\$ 165,898,163
Earned Revenue	(2,052,981)	-	(2,052,981)	(2,367,512)	-	(2,367,512)
Net Cost of Operations	\$ 4,265,772	\$ 181,935,787	\$ 186,201,559	\$ 3,793,370	\$ 159,737,281	\$ 163,530,651

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
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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	\$ 168,189,712	\$ 2,083,322	\$ 170,273,034
Obligations	\$ 169,038,416	\$ 2,207,950	\$ 171,246,366

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

The President's Fiscal Year 2012 Budget, which will include actual numbers for fiscal year 2010, has not yet been published. The FY 2012 Budget is expected to be published in February 2011 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:	2010	2009
Direct	\$ 106,534,470	\$ 124,338,632
Reimbursable	1,909,905	1,994,001
Undelivered Orders, net, end of period	\$ 108,444,375	\$ 126,332,633

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NOTE 16: Incidental Custodial Collections

	2010	2009
Intrabudgetary Receipts Deducted by Agencies	\$ 7,500	\$ 10,156
	<hr/>	<hr/>
Total Custodial Collections	\$ 7,500	\$ 10,156

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 17: Reconciliation of Net Cost of Operations to Budget

	2010	2009
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 171,246,366	\$ 204,735,654
Less: Spending Authority from offsetting collections and recoveries	(4,310,690)	(5,166,000)
Obligations net of offsetting collections and recoveries	<u>\$ 166,935,676</u>	<u>\$ 199,569,654</u>
Less: Offsetting receipts	(550,808)	(10,156)
Net Obligations	<u>\$ 166,384,868</u>	<u>\$ 199,559,498</u>
Other Resources		
Imputed financing from costs absorbed by others	\$ 1,783,234	\$ 1,467,190
Other Resources	-	-
Net Other Resources Used to Finance Activities	<u>\$ 1,783,234</u>	<u>\$ 1,467,190</u>
Total Resources Used to Finance Activities	<u>\$ 168,168,102</u>	<u>\$ 201,026,688</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	\$ 17,918,599	\$ (36,987,109)
Resources that fund expenses recognized in prior periods	(500,874)	(8,115)
Budgetary offsetting collections and receipts that do not affect net cost of operations	550,808	10,156
Other Resources or adjustments to net obligated resources that do not affect net cost of operations	(1,783,234)	(1,467,190)
Total Resources used to finance items not part of the Net Cost of Operations	<u>\$ 16,185,299</u>	<u>\$ (38,452,258)</u>
Total Resources Used to finance the Net Cost of Operations	<u>\$ 184,353,401</u>	<u>\$ 162,574,430</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	\$ 70,133	\$ -
Other	-	(404,107)
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>\$ 70,133</u>	<u>\$ (404,107)</u>
Components not Requiring or Generating Resources:		
Other not Requiring Outlay of Resources	\$ 1,778,025	\$ 1,360,328
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 1,778,025</u>	<u>\$ 1,360,328</u>
Total components of net cost of operations that will not require or generate resources in the current period	<u>\$ 1,848,158</u>	<u>\$ 956,221</u>
Net Cost of Operations	<u><u>\$ 186,201,559</u></u>	<u><u>\$ 163,530,651</u></u>

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NOTE 18: Donations In-Kind

During FY 2010, 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 \$29,982 in FY 2010 and \$22,779 in FY 2009.

NOTE 19: Change in Calculation of Offsetting Receipts on the Statement of Budgetary Resources

The Department of the Treasury's FAST Book (Federal Account Symbols and Titles) is used to determine which receipt accounts are to be considered distributed offsetting receipts. For fiscal year 2010, the FAST Book added the Endowment's gift receipt account in its list of distributed offsetting receipt accounts. This gift receipt account was not included in the fiscal year 2009 FAST Book and as a result, the *Less: Offsetting Receipts* line of the Statement of Budgetary Resources for fiscal year 2010 includes NEA gift receipts where the current presentation of the fiscal year 2009 amount does not. Had the current criteria been applied during fiscal year 2009, the amount reported on the current presentation of fiscal year 2009 for the *Less: Offsetting Receipts* line of the Statement of Budgetary Resources would have increased by \$529,186.