National Endowment for the Arts

Audit of Financial Statements

As of and for the Years Ended September 30, 2012 and 2011

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants

LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

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 Arts Endowment as of September 30, 2012 and 2011, 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 audit 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, 2012 and 2011, 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. We noted one significant deficiency in internal control related to the Arts Endowment's method for allocating indirect costs in its Statement of Net Cost.

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, 2012 and 2011, 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, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1R to the financial statements, in 2012 the Arts Endowment changed its presentation of the Statement of Net Cost and its method of allocating costs to the programs presented therein.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures, Summary of Management Challenges, Summary of Financial Statement Audit and Management Assurances, and reporting details related to the Improper Payments Improvement Act, as amended by the Improper Payments Elimination and Recovery Act, are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 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 and grant agreements, 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 and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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, 2012 and 2011, in accordance with auditing standards generally accepted in the Unites 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 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 deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance 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; however, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

1. The Arts Endowment's cost allocation methodology did not ensure that costs were allocated across all programs in the Statement of Net Cost for the nine months ended June 30, 2012.

   Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*, paragraph 71 states:

   > Regardless of whether a reporting entity uses a cost accounting system or cost finding techniques, the methods and procedures followed should be designed to perform at least a certain minimum level of cost accounting and provide a basic amount of cost.… Each reporting entity should measure the full cost of outputs so that total operational costs and total unit costs of outputs can be determined.

   When developing its cost allocation methodology, the Arts Endowment determined that most of its costs were associated with activities related to soliciting, evaluating, and awarding grants to meet its strategic goals. Therefore, the cost allocation methodology measured the percentage of applications received under each strategic goal during a given fiscal year and applied those percentages to allocate to the goals the indirect costs incurred in the following year when the grantees actually began to spend the grant funds.

   The Arts Endowment implemented a new strategic plan for fiscal years 2012 through 2016. Under the new strategic plan, Arts Endowment defined goals related to Arts Creation, Engagement with the Arts, and Contribution of the Arts. During 2011, the solicitations and evaluations of grant applications were conducted for 2012 grants being awarded under the new goals. Therefore, the cost allocation methodology applied in the

June 30, 2012 financial statements allocated all indirect costs to the goals of the new strategic plan.

The Arts Endowment determined that the nature and emphasis of the new goals were sufficiently different from the goals reported under the previous strategic plan (Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts) that the new goals could not be combined with or mapped to the old goals in the Statement of Net Cost. Thus, the Arts Endowment reported costs related to its old goals separately from the costs of the new goals. Because the cost allocation methodology only allocated indirect costs to the new goals, the costs of the old goals as reported in the Statement of Net Cost included only direct costs. However, during fiscal year 2012, Arts Endowment continued to make payments to the recipients of grants awarded under the old goals, monitor the performance of those grantees, closeout existing grants, and perform other activities (including OIG audits and evaluations). The cost allocation methodology did not take into account how the indirect costs associated with those activities related to the old goals.

The gross costs for Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts line items reported on the Statement of Net Cost for the nine months ended June 30, 2012, were understated by the amount of any indirect costs associated with those program goals. If the Arts Endowment had not adjusted its cost methodology, we estimate that the total of the gross costs of the Arts Creation, Engagement with the Arts, and Contribution of the Arts programs could have overstated the gross costs of the new goals and understated the gross costs of the old goals by approximately $1 million for the year ended September 30, 2012.

The issue pertained only to the presentation of the gross cost line items under each goal. The Net Cost of Operations line item on the Statement of Net Cost equaled the Arts Endowment's total gross costs, net of total earned revenues, for the nine months ended June 30, 2012, and was unaffected by the issue with the cost allocation methodology.

Recommendation

We recommended that NEA modify its cost allocation methodology to ensure that the indirect costs associated with the discontinued program goals are considered in its allocation of indirect costs to programs.

Management Response

NEA concurred that the original cost allocation approach applied indirect costs only to goals where new grants were being issued and did not properly allocate a portion of those costs to the older strategic goals to account for payment and other follow-up actions. The Arts Endowment created a new methodology that more appropriately allocates the indirect costs based on activity related to both awarding grants in the current year and following up on older grants. The methodology was implemented in September 2012.

Auditor's Comment

Audit procedures we conducted on the Statement of Net Cost for the year ended September 30, 2012 included tests of the Arts Endowment's revised methodology for allocating indirect costs to both the old and the new goals. The corrective actions taken by the Arts Endowment were sufficiently effective to result in the unmodified opinion on the financial statements taken as a whole reported under the caption "Opinion on the Financial Statements" on page 2 of our report.

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).

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.

DISTRIBUTION

This report is intended solely for the information and use of the management, the Chairman, the Senior Deputy 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, PC

Leon Snead & Company, P.C.
November 8, 2012

National Endowment for the Arts
BALANCE SHEET
As of September 30, 2012 and 2011
(In Dollars)

	September 30, 2012			September 30, 2011 (Restated)		
ASSETS (Notes 2-6):	All Other	Earmarked Funds	Cumulative	All Other	Earmarked Funds	Cumulative
Intragovernmental:						
Fund Balance With Treasury (Note 2)	$ 146,123,230	$ 2,505,426	$ 148,628,656	$ 155,168,055	$ 1,535,232	$ 156,703,287
Investments (Note 3)	-	-	-	-	842,086	842,086
Accounts Receivable (Note 4)	-	-	-	525	-	525
Other Assets (Note 6)	394,607	55,510	450,117	762,993	-	762,993
Total Intragovernmental	$ 146,517,837	$ 2,560,936	$ 149,078,773	$ 155,931,573	$ 2,377,318	$ 158,308,891
Assets with the Public:						
Accounts Receivable, Net (Note 4)	$ 31,250	$ -	$ 31,250	$ 36,250	$ -	$ 36,250
General Property, Plant and Equipment, Net (Note 5)	195,881	-	195,881	-		-
Other Assets (Note 6)	2,750	-	2,750	-	-	-
TOTAL ASSETS	$ 146,747,718	$ 2,560,936	$ 149,308,654	$ 155,967,823	$ 2,377,318	$ 158,345,141
LIABILITIES (Notes 7,8):						
Intragovernmental:						
Accounts Payable (Note 8)	$ 1,025,925	$ -	$ 1,025,925	$ 1,360,228	$ -	$ 1,360,228
Total Intragovernmental	$ 1,025,925	$ -	$ 1,025,925	$ 1,360,228	$ -	$ 1,360,228
With the Public:						
Accrued Liabilities (Note 8)	$ 48,680,544	$ 59,464	$ 48,740,008	$ 45,029,996	$ 5,762	$ 45,035,758
Other (Note 8)	2,354,341	-	2,354,341	2,718,215	1,160	2,719,375
TOTAL LIABILITIES	$ 52,060,810	$ 59,464	$ 52,120,274	$ 49,108,439	$ 6,922	$ 49,115,361
Commitments and Contingencies (Note 10)						
NET POSITION:						
Unexpended Appropriations	$ 96,974,607	$ -	$ 96,974,607	$ 110,005,052	$ -	$ 110,005,052
Cumulative Results of Operations	(2,287,699)	2,501,472	213,773	(3,145,668)	2,370,396	(775,272)
TOTAL NET POSITION	$ 94,686,908	$ 2,501,472	$ 97,188,380	$ 106,859,384	$ 2,370,396	$ 109,229,780
TOTAL LIABILITIES AND NET POSITION	$ 146,747,718	$ 2,560,936	$ 149,308,654	$ 155,967,823	$ 2,377,318	$ 158,345,141

The accompanying notes are an integral part of these statements

National Endowment for the Arts
STATEMENT OF NET COST
For the Years Ended September 30, 2012 and September 30, 2011
(In Dollars)

		2012	2011
Program Costs (Note 12):			
Access to Artistic Excellence:			
Gross Costs		$ 37,495,146	$ 92,410,965
Less: Earned Revenue		(1,518,231)	(2,132,762)
	Net Access to Artistic Excellence Costs	$ 35,976,915	$ 90,278,203
Learning in the Arts:			
Gross Costs		$ 9,912,285	$ 20,239,275
Less: Earned Revenue		(462,965)	(120,469)
	Net Learning in the Arts Costs	$ 9,449,320	$ 20,118,806
Partnerships for the Arts:			
Gross Costs		$ 41,379,165	$ 54,297,547
Less: Earned Revenue		-	(1,346)
	Net Partnerships for the Arts Costs	$ 41,379,165	$ 54,296,201
Arts Creation:			
Gross Costs		$ 18,734,038	$ -
Less: Earned Revenue		(26,950)	-
	Net Arts Creation Costs	$ 18,707,088	$ -
Engagement with the Arts:			
Gross Costs		$ 41,917,608	$ -
Less: Earned Revenue		(116,927)	-
	Net Engagement with the Arts Costs	$ 41,800,681	$ -
Contribution of the Arts:			
Gross Costs		$ 12,608,678	$ -
Less: Earned Revenue		(793)	-
	Net Contribution of the Arts Costs	$ 12,607,885	$ -
Total Program Costs		$ 159,921,054	$ 164,693,210
Net Cost of Operations		$ 159,921,054	$ 164,693,210

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, 2012 and 2011
(In Dollars)

	FY 2012			FY 2011		
	Earmarked Funds	**All Other Funds**	**Consolidated Total**	**Earmarked Funds**	**All Other Funds**	**Consolidated Total**
Cumulative Results of Operations:						
Beginning Balances	$ 2,370,396	$ (3,145,668)	$ (775,272)	$ 2,641,116	$ (3,140,359)	$ (499,243)
Adjusted Beginning Balances	$ 2,370,396	$ (3,145,668)	$ (775,272)	$ 2,641,116	$ (3,140,359)	$ (499,243)
Budgetary Financing Sources:						
Appropriations Used		$ 159,051,437	$ 159,051,437		$ 162,221,600	$ 162,221,600
Non-Exchange Revenue	420	-	420	1,421	-	1,421
Donations	623,308	-	623,308	550,214	-	550,214
Other Financing Sources (Non-Exchange)						
Imputed financing	-	1,234,934	1,234,934	-	1,643,947	1,643,947
Total Financing Sources	$ 623,728	$ 160,286,371	$ 160,910,099	$ 551,635	$ 163,865,547	$ 164,417,182
Net Cost of Operations	492,652	159,428,402	159,921,054	822,354	163,870,856	164,693,210
Net Change	$ 131,076	$ 857,969	$ 989,045	$ (270,719)	$ (5,309)	$ (276,028)
Cumulative Results of Operations	$ 2,501,472	$ (2,287,699)	$ 213,773	$ 2,370,396	$ (3,145,668)	$ (775,272)
Unexpended Appropriations:						
Beginning Balances		$ 110,005,052	$ 110,005,052		$ 117,536,652	$ 117,536,652
Adjusted Beginning Balances		$ 110,005,052	$ 110,005,052		$ 117,536,652	$ 117,536,652
Budgetary Financing Sources:						
Appropriations Received		$ 146,255,000	$ 146,255,000		$ 155,000,000	$ 155,000,000
Other Adjustments		(234,008)	(234,008)		(310,000)	(310,000)
Appropriations Used		(159,051,437)	(159,051,437)		(162,221,600)	(162,221,600)
Total Budgetary Financing Sources		$ (13,030,445)	$ (13,030,445)		$ (7,531,600)	$ (7,531,600)
Total Unexpended Appropriations		$ 96,974,607	$ 96,974,607		$ 110,005,052	$ 110,005,052
Net Position	$ 2,501,472	$ 94,686,908	$ 97,188,380	$ 2,370,396	$ 106,859,384	$ 109,229,780

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and September 30, 2011
(In Dollars)

	2012	2011
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, Oct 1	$ 11,139,844	$ 13,643,609
Unobligated Balance Brought Forward, Oct 1, as Adjusted	$ 11,139,844	$ 13,643,609
Recoveries of Prior Year Unpaid Obligations	1,145,554	4,376,659
Unobligated Balance from Prior Year Budget Authority, Net	$ 12,285,398	$ 18,020,268
Appropriations (discretionary and mandatory)	$ 146,645,657	$ 155,240,959
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,248,823	3,118,769
TOTAL BUDGETARY RESOURCES	$ 160,179,878	$ 176,379,996
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 13)	$ 147,249,891	$ 165,240,151
Unobligated Balance, End of Year:		
Apportioned	12,910,898	11,122,145
Unapportioned	19,089	17,700
Total Unobligated Balance, End of Year	$ 12,929,987	$ 11,139,845
TOTAL BUDGETARY RESOURCES	$ 160,179,878	$ 176,379,996
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations, Brought Forward, Oct 1	$ 148,918,202	$ 164,244,806
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct 1	(2,513,610)	(1,989,123)
Obligated Balance, Start of Year (Net), Before Adjustments	$ 146,404,592	$ 162,255,683
Obligated Balance, Start of Year (Net), as Adjusted	$ 146,404,592	$ 162,255,683
Obligations Incurred	$ 147,249,891	$ 165,240,151
Outlays (Gross)	(157,507,586)	(176,190,096)
Change in Uncollected Customer Payments from Federal Sources	697,327	(524,487)
Recoveries of Prior Year Unpaid Obligations	(1,145,554)	(4,376,659)
Obligated Balance, End of Year:		
Unpaid Obligations, End of Year (Gross)	137,514,952	148,918,202
Uncollected Customer Payments from Federal Sources, End of Year	(1,816,283)	(2,513,610)
Obligated Balance, End of Year (Net)	$ 135,698,669	$ 146,404,592
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (discretionary and mandatory)	$ 147,894,480	$ 158,359,727
Actual Offsetting Collections (discretionary and mandatory)	(1,946,150)	$ (2,594,282)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	697,327	(524,487)
Budget Authority, Net (discretionary and mandatory)	$ 146,645,657	$ 155,240,959
Outlays, Gross (discretionary and mandatory)	$ 157,507,586	$ 176,190,096
Actual Offsetting Collections (discretionary and mandatory)	(1,946,150)	$ (2,594,281)
Outlays, Net (discretionary and mandatory)	$ 155,561,436	$ 173,595,815
Distributed Offsetting Receipts	(627,004)	(554,034)
Agency Outlays, Net (discretionary and mandatory)	$ 154,934,432	$ 173,041,781

The accompanying notes are an integral part of these statements.

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

NOTE 1. Significant Accounting Policies:

A. Reporting Entity

The National Endowment for the Arts (NEA) is an independent Federal agency whose mission is to advance artistic excellence, creativity, and innovation for the benefit of individuals and communities. 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 August 3, 2012, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements (*Circular A-136), dated October 27, 2011.
- 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.

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, 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, 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.

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.

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 using the straight-line method. NEA's capitalization threshold is $50,000 for individual purchases and $50,000 for bulk purchases with a minimum $10,000 per item. Service lives are as shown below:

Description	Life
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.

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 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.

NOTE 1. Significant Accounting Policies (Continued):

N. Use of Estimates

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

O. Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

P. Earmarked Funds

Amounts reported as earmarked funds are 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.

Q. Fiduciary Activities

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

R. Change in Accounting Principle

In fiscal year 2012, the Endowment began operating under a new strategic plan. The latest plan established new goals and objectives that are separate from those established under the previous plan. As a result, NEA created three new programs that appear on the Statement of Net Cost - Arts Creation, Engagement with the Arts, and Contribution of the Arts. Prior to this fiscal year, allocation of administrative costs were based solely on the percentage of grant applications received for each major program. However, with the introduction of a new strategic plan with new major programs, an additional allocation

NOTE 1. Significant Accounting Policies (Continued):

methodology was developed. With the new methodology adopted this fiscal year, costs related to servicing grants awarded under the prior strategic plan are allocated specifically to the goals under the previous strategic plan - Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts. Any remaining administrative costs are allocated to the new strategic plan programs on the basis of grant applications received for current fiscal year awards. In addition, the format of the Statement of Budgetary Resources as determined by the Department of Treasury changed in FY 2012 resulting in a new presentation this year.

(In Dollars)

NOTE 2: Fund Balance With Treasury

	September 30, 2012	September 30, 2011
Fund Balance:		
Trust Funds	$ 2,505,426	$ 1,535,232
Appropriated Funds	146,123,230	155,168,055
Fund Balance with Treasury – Subtotal	$ 148,628,656	$ 156,703,287
Invested in Public Debt Treasury Bills, net	-	841,149
Fund Balance With Treasury – Total	$ 148,628,656	$ 157,544,436
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	$ 10,710,270	$ 9,071,993
Available Trust Fund	2,200,628	2,050,152
Subtotal – Available	$ 12,910,898	$ 11,122,145
Unavailable	19,089	17,700
Obligated Balance not yet Disbursed Other	$ 137,210,154	$ 148,591,973
Obligated Balance not yet Disbursed Trust Fund	304,798	326,229
Subtotal - Obligated	137,514,952	148,918,202
Unfilled Orders – Reimbursable	(1,816,283)	(2,513,610)
	$ 148,628,656	$ 157,544,436

(In Dollars)

NOTE 3: Investments

September 30, 2012*	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	$ -	Effective Interest	$ -	$ -	$ -
Accrued Interest on Public Debt Bills	-				-
Total	$ -				$ -

September 30, 2011	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	$ 841,149	Effective Interest	$ 1,357	$ 842,506	$ 842,506
Accrued Interest on Public Debt Bills	937				937
Total	$ 842,086				$ 843,443

*Due to low Treasury yields, investments that matured in fiscal year 2012 were not re-invested as of September 30, 2012. When yields increase, available funds will be reinvested.

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.

(In Dollars)

NOTE 4: Accounts Receivable

	September 30, 2012		September 30, 2011	
Gross Receivables:				
Custodial Receivables (Nonentity)	$	31,250	$	36,250
Receivables Due from Govt entities		-		525
Receivables Due from the Public		-		-
	$	31,250	$	36,775
Allowance for Uncollectibles:		-		-
Net Receivables	$	31,250	$	36,775

NOTE 5: General Property, Plant, And Equipment

Class of Property	September 30, 2012 Cost	Accumulated Depreciation	Book Value	September 30, 2011 Cost	Accumulated Depreciation	Book Value
Furniture & Equipment	$ 205,675	$ 9,794	$ 195,881	$ 132,845	$ 132,845	$ -
Total	$ 205,675	$ 9,794	$ 195,881	$ 132,845	$ 132,845	$ -

(In Dollars)

NOTE 6: Other Assets

	September 30, 2012	September 30, 2011
Intragovernmental:		
Open World Leadership Center (1)	$ 20,882	$ 58,095
Department of Commerce (2)	334,000	667,500
Department of Transportation (3)	39,725	37,398
Institute of Museum and Library Services (4)	55,510	-
Total Intragovernmental	$ 450,117	$ 762,993
With the Public:		
Advance to Vendor for October Services (4)	$ 2,750	$ -
Total Other Assets	$ 452,867	$ 762,993

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 provided to Census Bureau to provide statistics to the agency.
3. Advance provided to the Department of Transportation for the purchase of Metrocheks and accounting system hosting.
4. Advance to vendor for October services funded with FY 2012 dollars.

(In Dollars)

NOTE 7: Liabilities Not Covered By Budgetary Resources

	September 30, 2012	September 30, 2011
Intragovernmental:		
Unfunded FECA Liability	$ 7,960	$ 2,972
Custodial Liability	31,250	36,250
Total Intragovernmental	$ 39,210	$ 39,222
Accrued Unfunded Leave	$ 1,349,813	$ 1,470,149
Actuarial FECA Liability	17,673	10,628
Total Liabilities Not Covered by Budgetary Resources	$ 1,406,696	$ 1,519,999
Total Liabilities Covered by Budgetary Resources (Note 8)	$ 50,713,578	$ 47,595,362
Total Liabilities	$ 52,120,274	$ 49,115,361

Liabilities not covered by budgetary resources are financial responsibilities that do not yet have financial resources provided by Congress. Action from Congress is required before resources can be provided.

(In Dollars)

NOTE 8: Other Liabilities

	September 30, 2012			September 30, 2011		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental:						
Accrued Payables - Invoices	$ -	$ -	$ -	$ -	$ -	$ -
Custodial Liability	-	31,250	31,250	-	36,250	36,250
Employer Contributions	-	222,813	222,813	-	219,854	219,854
Other Post Employment Benefits	-	-	-	-	603	603
Unfunded FECA Liability	-	7,960	7,960	-	2,972	2,972
Advances from Other Government Agencies	-	763,902	763,902		1,100,549	1,100,549
Total Intragovernmental Liabilities	$ -	$ 1,025,925	$ 1,025,925	$ -	$ 1,360,228	$ 1,360,228
With the Public:						
Accrued Payables - Invoices	$ -	$ 42,172	$ 42,172	$ -	$ 202,449	$ 202,449
Accrued Funded Payroll	-	908,291	908,291	-	1,001,830	1,001,830
TSP Employer Contributions	-	36,391	36,391	-	34,319	34,319
Actuarial FECA Liability	-	17,673	17,673	-	10,628	10,628
Accrued Unfunded Leave	-	1,349,814	1,349,814	-	1,470,149	1,470,149
Total Other Liabilities	$ -	$ 2,354,341	$ 2,354,341	$ -	$ 2,719,375	$ 2,719,375
Accrued Liabilities	-	48,740,008	48,740,008	-	45,035,758	45,035,758
Total Liabilities with the Public	$ -	$ 51,094,349	$ 51,094,349	$ -	$ 47,755,133	$ 47,755,133
Total Liabilities	$ -	$ 52,120,274	$ 52,120,274	$ -	$ 49,115,361	$ 49,115,361

(In Dollars)

NOTE 9: Operating Leases

Brief Description of Occupancy Agreement:

The current annual occupancy agreement includes rental of the Old Post Office (OPO) building office space and one surface parking space with estimates for FY 2013. 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. During FY 2012, the OPO was declared as surplus property, requiring NEA to search for new space for FY 2014. NEA, working with GSA, has chosen to move to the Constitution Center. GSA anticipates the move occurring in January 2014, and is currently working with NEA to develop an occupancy agreement.

	FY 2011	FY 2012	FY 2013
Total Annual Rental	$2,820,725	$2,877,774	$2,777,192

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
$167,304	$169,519	$169,687	$172,160	$170,160

NOTE 10: Commitments and Contingencies

The Arts Endowment is subject to a potential claim related to a class action lawsuit brought generally by former federal employees against more than fifty agencies of the United States government, including the Arts Endowment. No amounts have been accrued in the Arts Endowment financial statements because the amount of any judgment or settlement of the suit that might occur in the future cannot be reasonably determined.

(In Dollars)

NOTE 11: Earmarked Funds

Gifts and Donations

Balance Sheet	**September 30, 2012**	**September 30, 2011**
ASSETS		
Fund Balance with Treasury	$ 2,505,426	$ 1,535,232
Investments	-	842,086
Other Assets	55,510	-
Total Assets	$ 2,560,936	$ 2,377,318
LIABILITIES		
Accounts Payable	$ -	$ -
Accrued Expenses	59,464	5,762
Other Liabilities	-	1,160
Total Liabilities	$ 59,464	$ 6,922
NET POSITION		
Cumulative Results of Operations	$ 2,501,472	$ 2,370,396
Total Liabilities and Net Position	$ 2,560,936	$ 2,377,318

Statement of Net Cost	**September 30, 2012**	**September 30, 2011**
Gross Program Costs	$ 492,652	$ 822,354
Less Earned Revenue	-	-
Net Cost of Operations	$ 492,652	$ 822,354

Statement of Changes in Net Position	**September 30, 2012**	**September 30, 2011**
Net Position Beginning of Period	$ 2,370,396	$ 2,641,116
Non-Exchange Revenue	420	1,421
Cash Donations	623,308	550,214
Less: Net Cost of Operations	(492,652)	(822,354)
Change in Net Position	$ 131,076	$ (270,719)
Net Position End of Period	$ 2,501,472	$ 2,370,396

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 12: Intragovernmental Costs and Exchange Revenue

	FY 2012			FY 2011		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
Access to Artistic Excellence:						
Program Costs	$ 445,758	$ 37,049,388	$ 37,495,146	$ 4,731,128	$ 87,679,837	$ 92,410,965
Earned Revenue	(1,518,231)	-	(1,518,231)	(2,132,762)	-	(2,132,762)
Net Costs - Access to Artistic Excellence	$ (1,072,473)	$ 37,049,388	$ 35,976,915	$ 2,598,366	$ 87,679,837	$ 90,278,203
Learning in the Arts:						
Program Costs	$ 13,445	$ 9,898,840	$ 9,912,285	$ 935,874	$ 19,303,401	$ 20,239,275
Earned Revenue	(462,965)	-	(462,965)	(120,469)	-	(120,469)
Net Costs - Learning in the Arts	$ (449,520)	$ 9,898,840	$ 9,449,320	$ 815,405	$ 19,303,401	$ 20,118,806
Partnerships for the Arts:						
Program Costs	$ 14,256	$ 41,364,909	$ 41,379,165	$ 80,588	$ 54,216,959	$ 54,297,547
Earned Revenue	-	-	-	(1,346)	-	(1,346)
Net Costs - Partnerships for the Arts	$ 14,256	$ 41,364,909	$ 41,379,165	$ 79,242	$ 54,216,959	$ 54,296,201

(In Dollars)

NOTE 12: Intragovernmental Costs and Exchange Revenue (continued)

	FY 2012			FY 2011		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
Arts Creation:						
Program Costs	$ 2,153,081	$ 16,580,957	$ 18,734,038	$ -	$ -	$ -
Earned Revenue	(26,950)	-	(26,950)	-	-	-
Net Costs - Arts Creation	$ 2,126,131	$ 16,580,957	$ 18,707,088	$ -	$ -	$ -
Engagement with the Arts:						
Program Costs	$ 3,618,750	$ 38,298,858	$ 41,917,608	$ -	$ -	$ -
Earned Revenue	(116,927)	-	(116,927)	-	-	-
Net Costs - Engagement with the Arts	$ 3,501,823	$ 38,298,858	$ 41,800,681	$ -	$ -	$ -
Contribution of the Arts:						
Program Costs	$ 76,486	$ 12,532,192	$ 12,608,678	$ -	$ -	$ -
Earned Revenue	(793)	-	(793)	-	-	-
Net Costs - Contribution of the Arts	$ 75,693	$ 12,532,192	$ 12,607,885	$ -	$ -	$ -
Total (including previous page):						
Program Costs	$ 6,321,776	$ 155,725,144	$ 162,046,920	$ 5,747,590	$ 161,200,197	$ 166,947,787
Earned Revenue	(2,125,866)	-	(2,125,866)	(2,254,577)	-	(2,254,577)
Net Cost of Operations	$ 4,195,910	$ 155,725,144	$ 159,921,054	$ 3,493,013	$ 161,200,197	$ 164,693,210

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. NEA adopted a new strategic plan beginning in FY 2012 creating Arts Creation, Engagement with the Arts, and Contribution of the Arts programs. As a result, these programs had no activity in FY 2011 and prior years. Costs for grants issued in prior years are recorded to the Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts programs.

(In Dollars)

NOTE 13: Apportionment Categories of Obligations Incurred

The NEA is provided with funding only under Category B.

Category B	Direct	Reimbursable	Total
Apportionments	$ 146,646,256	$ 1,091,891	$ 147,738,147
Obligations	$ 146,085,833	$ 1,164,058	$ 147,249,891

NOTE 14: 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:	2012	2011
Direct	$ 86,732,758	$ 101,234,667
Reimbursable	1,287,558	1,953,257
Undelivered Orders, net, end of period	$ 88,020,316	$ 103,187,924

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

The differences between the FY 2011 Statement of Budgetary Resources and the FY 2011 actual numbers presented in the FY 2012 Budget of the United States Government (Budget) are summarized below. All differences below are due to rounding multiple component lines of the Budget of the US Government to millions, compared to the NEA financial statements, which are presented in dollars.

The President's Fiscal Year 2014 Budget, which will include actual numbers for fiscal year 2012, has not yet been published. The FY 2014 Budget is expected to be published in February 2013 and to be available at http://www.whitehouse.gov/omb/budget/.

FY 2011 (in $ millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 176	$ 165	$ 1	$ 173
Difference (see above)	$ 2	-	-	-
Budget of US Government	$ 178	$ 165	$ 1	$ 173

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

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in Note 20 - Reconciliation of Net Cost of Operations to Budget represent the change in the liability created in the current year.

(In Dollars)

NOTE 17: Incidental Custodial Collections

	2012	2011
Proprietary Receipts from the Public	$ -	$ 70
Intrabudgetary Receipts Deducted by Agencies	5,000	3,750
Total Custodial Collections	$ 5,000	$ 3,820

NOTE 18: Fiduciary Activities

The Endowment has several paintings on loan from various artists to be displayed in certain offices. These pieces are not assets of the Endowment, but they are managed and insured with the intent to return these pieces to the artists according to their respective loan agreements. The artworks are valued and insured at fair market value.

National Endowment for the Arts
Schedule of Fiduciary Activity
For the Years Ended September 30, 2012 and 2011

	September 30, 2012 Various Paintings	**September 30, 2011** Various Paintings
Fiduciary net assets, beginning of year	$ 94,000	$ 7,000
Contributions	-	87,000
Disposition of assets, net	(5,500)	-
Increase/(Decrease) in fiduciary net assets	(5,500)	87,000
Fiduciary net assets, end of period	$ 88,500	$ 94,000

(In Dollars)

NOTE 18: Fiduciary Activities (continued)

Fiduciary Net Assets
As of September 30, 2012 and 2011

	September 30, 2012	September 30, 2011
FIDUCIARY ASSETS		
Other Assets (various paintings)	$ 88,500	$ 94,000
FIDUCIARY LIABILITIES		
Less: Liabilities	-	-
Total Fiduciary net assets	$ 88,500	$ 94,000

Items included in the other assets line above consist of several paintings from various artists.

NOTE 19: Restatements

The Endowment's actuarial FECA liability was incorrectly reported as an intragovernmental liability in FY 2011 when it should have been included in liabilities with the public. The restatement of the Balance Sheet for FY 2011 reflects a $10,628 reduction in intragovernmental liabilities and a $10,628 increase in liabilities with the public. A corresponding adjustment is reflected in Notes 7 and 8. There is no overall impact to total liabilities.

(In Dollars)

NOTE 20: Reconciliation of Net Cost of Operations to Budget

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 147,249,891	$ 165,240,151
Less: Spending Authority from offsetting collections and recoveries	(2,394,377)	(7,495,427)
Obligations net of offsetting collections and recoveries	$ 144,855,514	$ 157,744,724
Less: Offsetting receipts	(627,004)	(554,034)
Net Obligations	$ 144,228,510	$ 157,190,690
Other Resources		
Imputed financing from costs absorbed by others	$ 1,234,934	$ 1,643,947
Other Resources	-	-
Net Other Resources Used to Finance Activities	$ 1,234,934	$ 1,643,947
Total Resources Used to Finance Activities	$ 145,463,444	$ 158,834,637
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	$ 14,133,634	$ 5,221,872
Resources that fund expenses recognized in prior periods	(120,337)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	627,004	554,034
Resources that Finance the Acquisition of Assets	(205,675)	-
Other Resources or adjustments to net obligated resources that do not affect net cost of operations	-	-
Total Resources used to finance items not part of the Net Cost of Operations	$ 14,434,626	$ 5,775,906
Total Resources Used to finance the Net Cost of Operations	$ 159,898,070	$ 164,610,543
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 16):		
Increase in Annual Leave Liability	$ -	$ 72,314
Other – Change in FECA Liability	7,045	7,712
Total components of Net Cost of Operations that will require or generate resources in future periods	$ 7,045	$ 80,026
Components not Requiring or Generating Resources:		
Depreciation and Amortization	$ 9,794	$ -
Other not Requiring Outlay of Resources	6,145	2,641
Total components of Net Cost of Operations that will not require or generate resources	$ 15,939	$ 2,641
Total components of net cost of operations that will not require or generate resources in the current period	$ 22,984	$ 82,667
Net Cost of Operations	$ 159,921,054	$ 164,693,210

NOTE 21: Donations In-Kind

During FY 2012, 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. The total value of these in-kind donations was $51,910 in FY 2012 and $16,841 in FY 2011.