



NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art.

**PERFORMANCE & ACCOUNTABILITY REPORT
FISCAL YEAR 2007**

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 2007

BLANK PAGE

NATIONAL ENDOWMENT FOR THE ARTS

www.arts.gov

Performance & Accountability Report for Fiscal Year 2007 November 2007

TABLE OF CONTENTS

| | |
|--|----|
| A Message from the Chairman | 1 |
| I. Management’s Discussion and Analysis | |
| Mission and Organizational Structure | 3 |
| President’s Management Agenda: Arts Endowment Status | 4 |
| Performance Goal Highlights: Trends and Actions..... | 8 |
| Analysis of Financial Statements..... | 10 |
| Systems, Controls, and Legal Compliance | 11 |
| Future Effects of Existing Events and Conditions..... | 11 |
| Organization Chart..... | 12 |
| Summary of Programmatic Goals and Outcomes | 13 |
| II. Management Assurances | |
| Overall Internal Control..... | 15 |
| Internal Control over Financial Reporting..... | 16 |
| III. Performance and Impact | |
| Agency-Wide Program Accomplishments | 18 |
| Achieving Agency Performance Goals | 19 |
| Access to Artistic Excellence | 19 |
| Learning in the Arts for Children and Youth..... | 23 |
| Partnerships for the Arts | 25 |
| National Initiatives..... | 27 |
| Research and Analysis | 40 |
| Performance Reports..... | 43 |
| IV. Financial Information | |
| A Message from the Director of Finance | 53 |
| Financial Statements and Related Auditor’s Report | |
| Management’s Comments on Auditor’s Report | |
| V. Other Accompanying Information | |
| Inspector General’s Summary of Top Management Challenges | |
| Chairman’s Response to Inspector General’s Summary | |

BLANK PAGE



Fiscal Year 2007

Performance and Accountability Report

~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2007 Performance and Accountability Report*. This report summarizes the Agency's performance and accomplishments – programmatically, financially, and operationally – during the past year.

Mission and Organizational Overview

The National Endowment for the Arts is a public agency dedicated to supporting excellence in the arts, both new and established; bringing the arts to all Americans; and providing leadership in arts education. Established by Congress in 1965 as an independent agency of the Federal government, the Arts Endowment supports art of indisputable artistic merit and broad public reach in all 50 States, the District of Columbia, and special jurisdictions, reaching rural areas, inner cities, and military installations – both here at home and overseas. We are committed to providing the American people with access to the best of their artistic legacy and do so through achievement of three clear and unambiguous goals:

- *Access to Artistic Excellence* – by supporting projects that encourage and support artistic excellence; preserve our cultural heritage; and provide access to the arts for all Americans.
- *Learning in the Arts* – by supporting projects that advance arts education for children and youth.
- *Partnerships for the Arts* – by developing and maintaining partnerships that support excellence in the arts – both new and established – bringing the arts to all Americans, and providing leadership in arts education.

We carry out our activities primarily with funds appropriated by the Congress to the Arts Endowment, but also with donated funds from the private sector and transfers from other Federal agencies. We pursue our goals primarily through grantmaking, but increasingly also through our leadership, convening, research, communication and dissemination, and partnership activities. All of these are discussed elsewhere in this report.

Performance Goals, Objectives, and Results

This Performance and Accountability Report demonstrates the successes achieved by the National Endowment for the Arts through the following strategies.

- Serving as a national voice and leader for excellence in the arts.
- Serving the American people by creating model programs of indisputable artistic merit and broad national reach.

- Ensuring complete geographic coverage of our programs.
- Developing and promoting effective models for arts education.
- Providing focused leadership and careful management to improve Agency performance and productivity.

Over the last several years, the National Endowment for the Arts has reinforced its historic commitment to excellence. A vast array of Agency programs and initiatives are providing Americans with opportunities to experience the best of the arts. These include:

- Program Initiatives such as *American Masterpieces* and its literary component, the *Big Read*, the expanded *NEA Jazz Masters* program, the *Arts Journalism Institutes*, the *Poetry Out Loud: National Recitation Contest*, the *Great American Voices* program, *Operation Homecoming: Writing the Wartime Experience* and the related *Beyond Glory* tour, as well as the establishment of an ongoing Shakespeare program that builds upon the success of the Arts Endowment's *Shakespeare in American Communities* initiative.
- Outreach such as the *Challenge America: Reaching Every Community* program; grant information workshops, held in communities throughout the Nation; an online newsletter; our user-friendly Web site; and the establishment of a Development Office that has successfully formed new partnerships with the public and private sectors to support the arts – such as The Sallie Mae Fund for *Shakespeare in American Communities*; The Verizon Company and Foundation for *NEA Jazz Masters*; and The Boeing Company for *Operation Homecoming*, *Great American Voices*, and the *Big Read*.
- Management improvements such as the signing of an inter-agency agreement with the Department of Transportation (DOT) to provide the Agency with its first Office of Federal Financial Management-compliant financial system; the introduction of new services made possible by increased application of technology, such as the requirement that all grant applications be submitted electronically; and the creation of an Agency intranet, which includes tools such as meeting room scheduling, Agency calendars, and electronic forms.

Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable; there are no material internal control weaknesses to report.



Dana Gioia
Chairman

November 15, 2007



NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art

Fiscal Year 2007

Performance and Accountability Report

~ Management's Discussion and Analysis ~

Mission and Organizational Structure

The National Endowment for the Arts is the Federal agency dedicated to supporting excellence in the arts – both new and established – bringing the arts to all Americans, and providing leadership in arts education. The Arts Endowment's successes are achieved through the following strategies.

- Serving as a national voice and leader for excellence in the arts.
- Serving the American people by creating model programs of indisputable artistic merit and broad national reach.
- Ensuring complete geographic coverage of our programs.
- Developing and promoting effective models for arts education.
- Providing focused leadership and careful management to improve Agency performance and productivity.

The Arts Endowment supports art of indisputable merit and broad public reach in all 50 States, the District of Columbia, and special jurisdictions, reaching rural areas, inner cities, and military bases. We are committed to providing the American people access to the best of their artistic legacy.

An independent Federal agency, the Arts Endowment was established by Congress in 1965 and is lead by a Chairman – appointed by the President and confirmed by the United States Senate – and advised by the National Council on the Arts. Fourteen private citizens are appointed by the President and confirmed by the Senate; six ex officio members are members of Congress appointed by Senate and House leadership.

The Arts Endowment is structured around several major programmatic and administrative Divisions headed by three Deputy Chairmen and a Chief Information Officer – all of whom report to a Senior Deputy Chairman, the Agency's Chief Operating Officer. The Senior Deputy Chairman reports to the Chairman, who also has a support staff and a number of office directors reporting directly to him. The major program Division, Grants and Awards, organized primarily around artistic disciplines, is chiefly responsible for handling the review of grant applications. An organizational chart can be found at the end of this section. In FY 2007, the Agency operated with a staffing level of approximately 158 full time equivalents.

President's Management Agenda: Arts Endowment Status

The first strategy identified by the Agency's Chairman, Dana Gioia, when he took office in 2003, was to *provide focused leadership and careful management to improve Agency performance and productivity*. We believe that the Arts Endowment has been quite successful in this effort. The following selected examples demonstrate how this success contributes to achievement of the President's Management Agenda (PMA).

1. Improved Grants Management

Interagency Efforts. The Arts Endowment participates in interagency work groups and specially formed teams to assist with government-wide streamlining efforts. Two examples are:

- In FY 2007, the Agency's CIO served as Chairman of the multi-agency Grants Executive Board, which oversees the Grants.gov and GMLoB initiatives.
- The Agency's Grants & Contracts Officer serves on the multi-agency Grants Policy Committee, which is the governing board for all grants streamlining activities under P.L. 106-107.

As part of these interagency efforts, the Arts Endowment has:

- Contributed to the development of a standard financial assistance opportunity announcement template, standard financial assistance award document templates, and standard financial and report formats for Federal grants and cooperative agreements with governmental and non-profit organizations.
- Contributed to the development of uniform terms and conditions for Government-wide requirements applicable to Federal awards. Title 2 CFR, Grants and Agreements, is in place and the various applicable OMB Circulars have been consolidated into Title 2 – providing a “one-stop shop” for grants policies. As part of this effort, the NEA moved its Suspension and Debarment regulations into Title 2 as well.
- Contributed to the establishment of more reasonable charges for the participation of small agencies in Grants.gov.

Internal Efforts. We continue to simplify our application requirements. Where possible, we have replaced hard copy application support items with electronic versions. Mirroring government-wide efforts, we have made many of our Agency-specific application forms "generic" so that they can be used across funding opportunities. This provides constituents – and our staff – with familiar and consistent application material.

Improved Grantee Compliance. Our efforts to help grantees improve their accountability and understanding of Federal grants include:

- The Arts Endowment's OIG has increased its financial management and compliance evaluations and limited scope audits of grantees by focusing on metropolitan areas where they can coordinate visits with several grantees during a fixed period of time. During FY 2007, 35 evaluations and audits in eight States were conducted.
- The Grantee Technical Assistance Program (GTAP) continues to provide one-on-one assistance in all areas of grants compliance. In FY 2007, focus was placed on the Regional Arts Organizations (RAOs); four RAOs that serve thousands of grantees in more than 35 States were included. Among the issues addressed were the management of multiple Federal grants and cooperative agreements; personnel activity/time and effort reporting; and management of subgrants. Also, as an outgrowth of the Agency's involvement with a government-wide National Policy Requirements working sub-group, clarification was provided on the "flow-down" requirements of various Federal laws, rules, regulations, and OMB Circulars to grantees and subgrantees.
- The NEA Web site helps applicants become more self-sufficient regarding Federal grants management through resources such as *Grant-At-A-Glance*, where grantees can access information about their current and past grants to help them manage their awards. A downloadable and fillable *Section 504* self-assessment workbook is also now available on our Web site. This Program Evaluation Workbook is designed to assist grant recipients in evaluating the current state of accessibility of their programs and activities to visitors and employees with disabilities. More specifically, the workbook is intended to assist organizations in their efforts to: (a) comply with the Endowment's regulations implementing Section 504 of the Rehabilitation Act of 1973, as amended, including the preparation of a self-evaluation of all programs, activities, policies and practices to determine areas of noncompliance, and (b) better understand the relationship between 504 and the Americans with Disabilities Act (ADA).

2. Effective Outreach

Grants Workshops. There is a great demand for funding from the Arts Endowment and, as a result, the grant process is extremely competitive. The Agency is committed to broad public and geographic outreach. By offering grants workshops, often hosted by Members of Congress, the Arts Endowment provides public service and important information to small and mid-size nonprofit organizations throughout the country. By providing general technical assistance to potential applicants and grantees at community, State, and national workshops and conferences, the Arts Endowment ensures that underserved areas have knowledge of funding opportunities available to them. Since the inception of the program in 2002, more than 4,100 people have attended 52 workshops conducted in 23 States.

National Initiatives. Planning for and effective delivery of the Agency's National Initiatives requires extensive interaction with arts organizations, school systems, and underserved communities – such as military installations – in all 50 States.

International Efforts. The Chairman of the National Endowment for the Arts is called upon by the U.S. Department of State, Bureau of Educational and Cultural Affairs, to represent the U.S. with cultural officials of other countries. Of recent note is the Arts Endowment's role in spearheading *Big Read* programs in Russia and Egypt, and literary anthologies with Russia, Pakistan, Northern Ireland, and Mexico.

3. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency's Strategic Plan. We manage our HC programs consistent with applicable internal controls and merit-based principles – confirmed by the 2004-2005 Human Resource Management Delegated Examining oversight review conducted by the Office of Personnel Management (OPM). And we build our budgets and programs consistent with our available HC resources.

We conduct assessments on an ongoing basis to ensure that our staffing level and competency mix are sufficient to operate effectively and achieve our mission. We sustain a high-performing workforce as evidenced by our capacity to manage our demanding application and grant workloads without commensurate increases in resources. Training is critical to this effort, particularly as employees retire and new staff arrive. In addition, we instituted annual leadership training to improve and enhance performance, and to serve as a key element of succession planning¹.

4. Expanded E-Gov

The National Endowment for the Arts has been an active partner in Grants.gov from its inception. We are pleased to report that the Agency continues to exceed the goals set by OMB and Grants.gov. The NEA posts electronic application packages for 100% of its discretionary and mandatory funding opportunities. In FY 2008, electronic application via Grants.gov will be required of all applicants, both organizations and individuals.

The National Endowment for the Arts is working with applicants to heighten awareness and acceptance of Grants.gov; encourage them to register with Grants.gov; and assist their transition to using Grants.gov through customized instructions, workshops, and technical assistance.

¹ The average years of Federal service for Agency staff is currently 15.2. By the end of FY 2007, approximately 27% of Agency staff were eligible for optional retirement.

The agency also is working internally to increase staff understanding of Grants.gov through training and information sharing, and to revise business practices to accommodate electronic applications. NEA staff can now access, review, print and update electronic application materials via their desktop PCs. In a pilot effort, we are making electronic application materials available to some NEA panelists so that they have the option of using “portable” versions (instead of bulky notebooks) that can be easily taken anywhere – while on travel, for example – to study in advance of panel meetings. In addition, another pilot project enables NEA panelists to preview visual arts work samples online.

Beyond Grants.gov, we are engaging in a similar work effort for the Grants Management Line of Business (GMLoB). The goal of GMLoB is to develop a government-wide solution to support end-to-end grants management activities that promote citizen access, customer service, and agency financial and technical stewardship. We believe the Agency’s urgent need for an upgraded grants management system can be fulfilled via a cross-servicing agreement with an OMB-identified GMLoB consortia – ideally led by an agency of similar size, with complementary mission and business processes.

In response to the Enterprise Human Resources Integration (EHRI) project, one of OPM’s e-gov initiatives, the Arts Endowment initiated implementation of an EHRI system in FY 2007; it is expected to become fully operational by the end of the first quarter of FY 2008. EHRI is a collaborative e-gov initiative designed to transform the way Federal HR specialists and managers access human resource information and the way all Federal employees access their personnel file information.

We are also working to ensure compliance with other applicable Administration initiatives such as those required by the Federal Funding Accountability and Transparency Act, which calls for a publicly-accessible and searchable database of all Federal grants and contracts.

5. Competitive Sourcing

We conduct our staffing inventory and subsequently submit it in compliance with the Federal Activities Inventory Reform (FAIR) Act. We use contracting as an important management tool, particularly in the areas of information and facilities management – pursuant to competition. For example, in FY 2004 – following a competition with federal agencies – we entered into a cross-servicing interagency agreement with the Department of Transportation’s Enterprise Services Center to provide the Agency with an Office of Federal Financial Management (OFFM)- compliant finance system.

6. Improved Financial Management

With the conversion of our legacy financial system to the Oracle-based fully-compliant financial system referenced above, we are beginning to see improvements in reliability and timeliness of financial information.

7. Integration of Budget and Performance

We prepare our budget requests as performance budgets, with performance data integrated throughout. This integration ensures that Agency goals, programs, and budget categories are aligned with and mirror one another. For example, Agency general goals and annual performance goals are one and the same. We have developed program outcomes and indicators to assess achievements in relation to plans. Indicators are generally statistical in nature. We also are using indicators to determine areas of adjustment or emphasis in our budget request, where appropriate.

Performance Goal Highlights: Trends and Actions

The National Endowment for the Arts is committed to serving the American people through three clear and unambiguous goals:

- *Access to Artistic Excellence* – by supporting projects that encourage and support artistic excellence, preserve our cultural heritage, and provide access to the arts for all Americans.
- *Learning in the Arts* – by supporting projects that advance arts education for children and youth.
- *Partnerships for the Arts* – by developing and maintaining partnerships that support excellence in the arts – both new and established – bring the arts to all Americans, and provide leadership in arts education.

For each of the above performance goals, we have identified several outcomes that we intend to achieve, and we have established performance indicators for each outcome – all of which tie directly back to our mission statement. Since FY 2007 has just ended, we cannot yet report on final accomplishments related to our grantmaking during that year. As we regularly explain in our annual performance reports, actual performance data from each fiscal year is not available until final reports on funded projects have been received. We have established a threshold of 90 percent of such reports as a level that allows us to make reliable assessments of actual performance. This threshold is usually reached within approximately two years after the end of the fiscal year in which the awards were made. These final reports include statistical data tied to our performance indicators that establish the degree to which we are accomplishing our objectives. As of the end of FY 2007, we have received final reports on slightly more than 14 percent of the grants awarded in that year.

In each year's performance plan, we provide estimates of what will be accomplished as a result of our funding. For example, with FY 2007 funding we estimate that 20-25 million individuals will directly benefit from projects whose primary purpose is to make art widely available to the public. Other estimates of Agency-wide accomplishments for the nearly 2,200 grants and cooperative agreements awarded that year include:

- 70 million individuals benefiting from Agency programs (exclusive of television and radio broadcast audiences), including 6.5 million children and youth.
- A combined audience of hundreds of millions receiving opportunities to benefit from Agency programs that support national and regional broadcast performances on radio and television, both single and recurring programs.
- 100 percent of Congressional districts receiving at least one direct grant.
- 3,700 communities participating in Agency-sponsored, discretionary projects - many benefiting from projects, such as touring and outreach, that take place in communities beyond that of the grant recipient.
- An additional 2,100 communities participating in projects funded by a combination of Federal funds and State Arts Agency and Regional Arts Organization funds; of these, some 1,800 served by grants made solely with Federal funds.
- 15,000 community organizations partnering with grantees on Arts Endowment-supported projects.
- Arts Endowment grants generating \$600-650 million in matching support; in our direct grant-making categories alone, this translates into a ratio of matching to Federal funds of greater than 10:1, far exceeding the required one-to-one match.
- Arts Endowment grants helping to make possible 34,000 concerts, readings, and performances; 4,000 exhibitions (including visual and media arts); and 10,000 artist residencies in schools and other locations.
- Internationally, 60 U.S. professional arts organizations and 325 artists providing performances, exhibits, and other arts activities in 23 countries.

The grantees' final reports provide the information that allows us to report what we have actually accomplished across the country with our programmatic activities. We have found the actual results to be quite consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data. Thus, we believe that the performance data we receive (which are reported in our annual performance reports) indicate that our goals for these programs are being met, and the critiques we receive from the panelists who convene to review grant applications and discuss program policies confirm that our programs are effective.

Because we are committed to broadening our reach to make more arts opportunities available to more people in more communities, in FY 2003 we initiated grant information workshops in underserved areas around the country, and we have expanded our support and convening of activities intended to broaden opportunities for people with disabilities to participate in the arts. In addition, we designated our Challenge America program as

Challenge America: Reaching Every Community in recognition of our expanded efforts to ensure geographic coverage of our programs, including making at least one award in every one of the Nation's 435 Congressional districts – an important measure in ensuring that Americans are provided the opportunity to experience excellent art. As a result of these and related efforts we have become more effective in our mission to make the arts widely available throughout the country.

A significant factor in our projected and actual performance is that, beyond establishing eligibility criteria, we have no control over how many applicants we will have each year, or to what category they will apply. Nonetheless, our performance projections over the past several years have proved to be consistent with actual performance as reported by our grantees, providing us with confidence that our projections are realistic and our programs effective. We can also confidently assert the efficiency of our programs as we have continued to do more with modest increases in our resources.

Analysis of Financial Statements

Underlying the Agency's programmatic achievements is our commitment to organizational excellence and sound financial management. In the five years that we have undertaken independent audits of our financial statements, only one material weakness has been identified (during the FY 2003 audit), and that was due to our reliance on an outmoded financial management information system, which we have since replaced. Our fiscal year 2005 audit acknowledged that we resolved that material weakness by transitioning to a new system through a cross-servicing agreement with the U.S. Department of Transportation's Enterprise Services Center. Since FY 2005, our transactions have been recorded in this new system.

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

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

Systems, Controls, and Legal Compliance

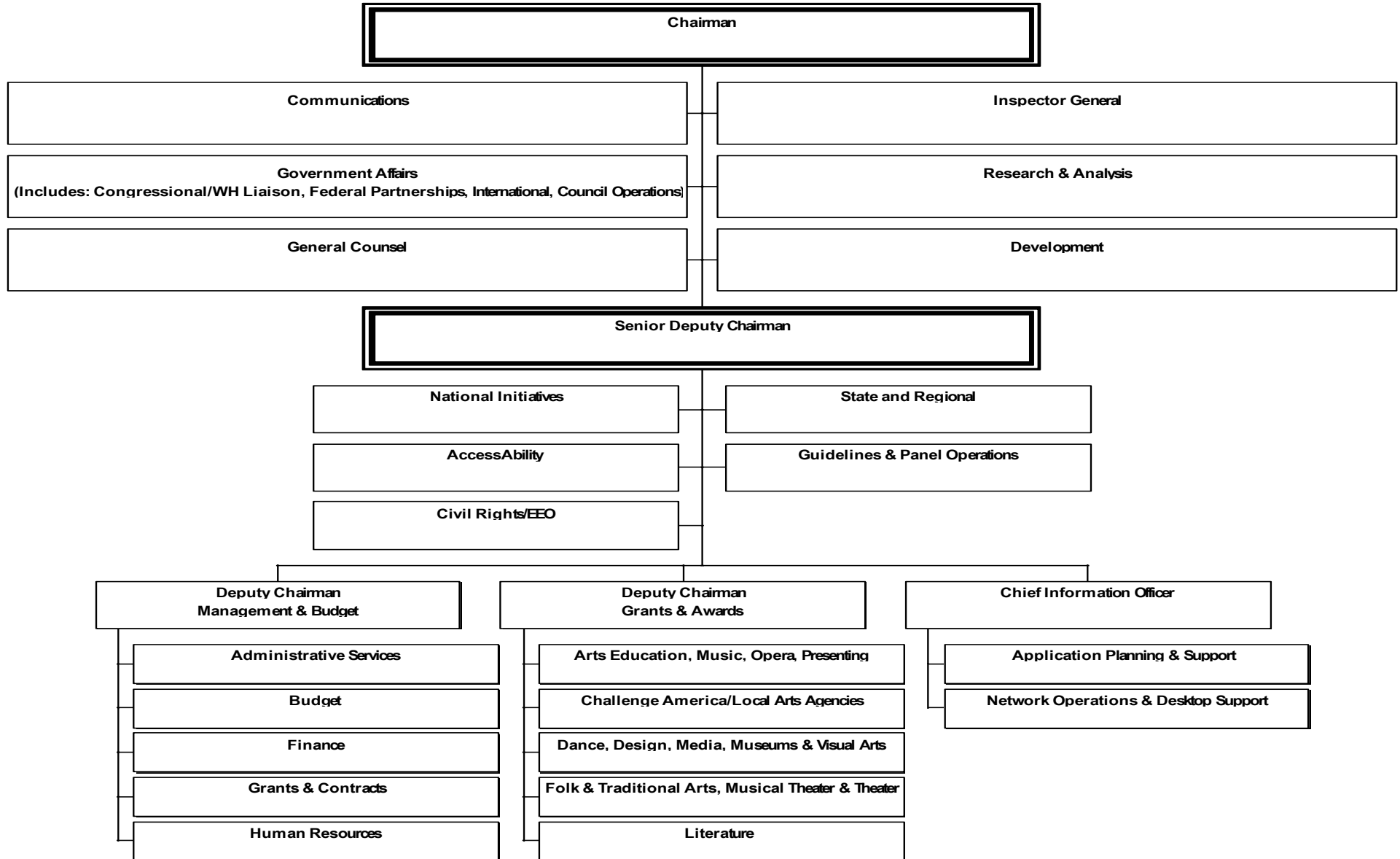
The National Endowment for the Arts is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and modify existing controls – and establish new ones as appropriate – to ensure that we are able to provide reasonable assurance that we are accountable for our resources. We also recognize the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations. As mentioned above, we eliminated the material weakness presented by our financial management system that was identified during our FY 2003 financial statements audit.

Future Effects of Existing Events and Conditions

Despite our resolution of the financial management system weakness, our capacity to improve productivity and efficiency continues to be limited by our reliance on an outdated grants management system. In the face of increasing demands on the Agency from multiple directions, we need to bring our grants management system up to the same level as our new financial management system. We are committed to pursuing this beginning in FY 2008, pending determinations related to the Grants Management Line of Business initiative.

National Endowment for the Arts Organization Chart

Approved October 2006



NEA Strategic Plan FY 2006-2011
Summary of Programmatic Goals and Outcomes

| <u>Goals</u> | | |
|---|--|--|
| Access to Artistic Excellence | Learning in the Arts | Partnerships for the Arts |
| To encourage and support artistic excellence; preserve our cultural heritage; and provide access to the arts for all Americans. | To advance arts education for children and youth. | To develop and maintain partnerships that support excellence in the arts – both new and established – bring the arts to all Americans, and provide leadership in arts education. |
| <u>Outcomes *</u> | | |
| 1. Artists and arts organizations have opportunities to create, interpret, present, and perform artistic work. | 1. Children and youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, State, or local arts education standards. | 1. Activities supported through partnerships with state arts agencies and regional arts organizations make the arts and arts education widely available. |
| 2. Audiences throughout the Nation have opportunities to experience a wide range of art forms and activities. | 2. Teachers, artists, and others demonstrate knowledge and skills necessary to engage children and youth in arts learning, consistent with national, State, or local arts education standards. | 2. Activities supported through partnerships with other public and private sector organizations make the arts and arts education widely available. |
| 3. The arts contribute to the strengthening of communities. | 3. National, State, and local entities demonstrate a commitment to arts learning for children and youth, consistent with national, State, or local arts education standards. | |
| 4. Artistic works and cultural traditions are preserved. | | |
| 5. Organizations enhance their ability to realize their artistic and public service goals. | | |
| * The outcomes refer to the intended results of Agency-funded grant projects and activities with arts organizations, arts service organizations, educational institutions, units of government, individuals, and other public and private sector organizations involved in arts activities. | | |

BLANK PAGE



NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art.

Fiscal Year 2007
Performance and Accountability Report
~ Management Assurances ~

Overall Internal Control

Pursuant to the Federal Manager's Financial Integrity Act of 1982 (Integrity Act), the Arts Endowment's major offices, administrative and programmatic, were asked to conduct an internal review of their respective activities to identify possible deficiencies in management controls. This important annual process enables us to provide reasonable assurance that the Arts Endowment's controls are achieving their intended objectives.

Mindful of the Administration's continuing emphasis on management accountability for effective and efficient performance, as well as the ever-present need to direct limited resources to their best use, Arts Endowment managers exercise close scrutiny over all operations. We draw upon internal and external expertise in reviewing and refining our operational policies and procedures, and work very closely with the Agency's Office of Inspector General in these endeavors.

Based on the review process described above, the Arts Endowment provides unqualified assurance that its internal management controls are adequate and effective. The Arts Endowment's Agency-wide internal management review identified no material weaknesses in FY 2007. As the following table indicates, the Agency has experienced no material weaknesses since 2003.

Integrity Act Section 2 - Internal Controls

| Material Weaknesses | | | |
|----------------------------|--|----------------------------|-------------------------------------|
| Reporting Year | Number reported for first time that year | Number corrected that year | Number pending correction that year |
| 2003 | 1 | 0 | 1 |
| 2004 | 0 | 0 | 1 |
| 2005 | 0 | 1 | 0 |
| 2006 | 0 | 0 | 0 |
| 2007 | 0 | 0 | 0 |

Internal Control over Financial Reporting

The Arts Endowment recognizes that maintaining the integrity of its systems is essential to good governance. By transitioning to a fully OFFM-compliant financial management system, we eliminated the one material weakness identified in five years of independent audits, and significantly strengthened our financial management operations.

The National Endowment for the Arts' management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The Arts Endowment conducted its assessment of the effectiveness of the Agency's internal control over financial reporting in accordance with *OMB Circulars A-123, Management's Responsibility for Internal Control*, and *A-136, Financial Reporting Requirements*. Based on the results of this evaluation, the National Endowment for the Arts can provide reasonable assurance that internal control over financial reporting as of September 30, 2007 was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

In addition, as the table below indicates, the Arts Endowment has no material non-conformances to report in FY 2007.

Integrity Act Section 4 - Financial Management Systems

| Material Non-Conformances | | | |
|----------------------------------|---|-----------------------------------|--|
| Reporting Year | Number reported for first time that year | Number corrected that year | Number pending correction that year |
| 2003 | 0 | 0 | 0 |
| 2004 | 0 | 0 | 0 |
| 2005 | 0 | 0 | 0 |
| 2006 | 0 | 0 | 0 |
| 2007 | 0 | 0 | 0 |



Dana Gioia
Chairman

November 15, 2007



NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art.

Fiscal Year 2007
Performance and Accountability Report
~ Performance and Impact ~

In this section, we provide documentation of the impact of the Agency's programs, projects, initiatives and activities. We present this information in five groupings.

Agency-Wide Program Accomplishments – Cumulative information on the impact of Agency activities, projects and initiatives.

Achieving Agency Performance Goals – Information on the impact of Agency activities, projects and initiatives by Agency goal, including specific project examples.

National Initiatives – Information on the impact of the Agency's National Initiatives, projects that cut across all agency goals.

Research and Analysis – Summary information on Agency research activities intended to inform the American public, opinion makers, and the arts field.

GPRA Performance Reports – Quantitative reports for fiscal years 2004 – 2007.

Agency-Wide Program Accomplishments

The breadth of activity resulting from the Agency's programs, projects, and initiatives is enormous as evidenced by the following information derived from Agency grant recipient reports. Based on activity to date and information provided from FY 2007 grantees, we can report and anticipate the following:

- **Nearly 2,200 awards were made in communities in all 50 States and 6 special jurisdictions.**
- **70 million individuals will benefit from Agency programs (exclusive of television and radio broadcast audiences) including 6.5 million children and youth.**
- **A combined audience of hundreds of millions will benefit from Agency programs that support national and regional broadcast performances on radio and television, both single and recurring programs.**
- **100 percent of Congressional districts received at least one direct grant.**
- **3,700 communities will participate in Agency-sponsored, discretionary projects - many benefiting from projects, such as touring and outreach, that take place in communities beyond that of the grant recipient.**
- **An additional 2,100 communities will participate in projects funded by a combination of Federal funds and State Arts Agency and Regional Arts Organization funds; of these, some 1,800 are served by grants made solely with Federal funds.**
- **15,000 community organizations will partner with grantees on Arts Endowment-supported projects.**
- **Arts Endowment grants will generate \$600-650 million in matching support; in our direct grant-making categories alone, this translates into a ratio of matching to Federal funds of greater than 10:1, far exceeding the required match.**
- **Arts Endowment grants will help make possible 34,000 concerts, readings, and performances; 4,000 exhibitions (including visual and media arts); and 10,000 artist residencies in schools and other locations.**
- **Internationally, 60 U.S. professional arts organizations and 325 artists will provide performances, exhibits, and other arts activities in 23 countries.**

Achieving Agency Performance Goals

The achievement of the Agency’s programmatic accomplishments occurs through three programmatic goals: Access to Artistic Excellence, Learning in the Arts, and Partnerships through the Arts, as follows.

Access to Artistic Excellence

Through Access to Artistic Excellence, the Arts Endowment encourages and supports artistic excellence, preserves our cultural heritage, and provides access to the arts for all Americans. More than 82% of the Agency’s FY 2007 Direct Endowment Grant funds were devoted to this effort, reflecting the high priority afforded to ensuring access to the arts for all Americans. The following table highlights accomplishments made possible with this funding.

Access to Artistic Excellence
Selected Performance Results – FY 2004-2007

| Fiscal Year | Total Non-Broadcast Audience | Children/ Youth | Concerts/ Readings/ Performances | Exhibitions | Artist Residencies |
|--------------------|-------------------------------------|------------------------|---|--------------------|---------------------------|
| 2004 Current | 30 m | 1.6 m | 20 k | 3 k | 3 k |
| 2005 Current | 78 m | 6.5 m | 33 k | 5 k | 4.3 k |
| 2006 Current | 71 m | 7 m | 36 k | 4.5 k | 6.8 k |
| 2007 Projected | 69 m | 5.9 m | 30 k | 3.5 k | 6.5 k |

[Numbers are rounded. k=thousand; m=million.]

The cumulative accomplishments reflected in this table result from the more than 1,900 direct grants and cooperative agreements awarded under this goal. Examples of specific programs, grants and their direct impact are presented below according to: Grants for Arts Projects, Arts on Radio and Television, Save America’s Treasures, International Activities, and innovative Leadership Initiatives.

Grants for Arts Projects: *Access to Artistic Excellence* recent examples:

The **Wheeling Symphony Society, Inc., in West Virginia**, was awarded a \$10,000 matching grant to support young people’s concerts and educational materials, reaching nearly 12,000 youth in eight counties, with music director Andre Raphael Smith conducting the performances.

In **Rhode Island**, the **Providence Black Repertory Company (aka Black Rep)**, was awarded an \$18,000 matching grant to support the development and production of a new theater work, *Black Maria*, based on the book of poems of the same name by writer Kevin Young. In the book, the author weaves a simple “film noir”-style tale through 80 poems in a manner that takes advantage of the novelty of writing poetry

based on a filmic genre. The work was adapted for the stage by artistic director Donald King and produced in February 2007.

The **Center for Southern Folklore in Memphis, Tennessee**, was awarded a \$15,000 matching grant to support preservation of the *Rev. L.O. Taylor Collection*. Rev. Taylor, a Memphis-based Baptist minister, was a photographer and filmmaker of Southern black life before the Civil Rights Movement. The grant is enabling the Center to index and transfer to digital format 16-mm film footage, audio discs, and photographs contained in the collection. Access to the collection will have a profound effect on the citizens of, and tourists to, the Memphis/Delta region, attracting educators and scholars from around the world, as well as individuals seeking personal information about their own culture and families.

In addition to activities noted above, through our *Arts on Radio and Television* funding area the Arts Endowment supports nationally broadcast performances of quality arts programs on radio and television that reach, through both single and recurring programs, a combined audience in the hundreds of millions annually. Examples of recent awards include:

ETV Endowment of South Carolina, Inc., in Spartanburg, received a \$60,000 matching grant to support the production of new programs for the weekly radio series *Marian McPartland's Piano Jazz*. Each one-hour program features pianist and host Marian McPartland collaborating with a fellow musician to explore the world of jazz through a mix of improvisational performance and discussion. Over the past 27 years, *Piano Jazz* has featured nearly 600 artists including such jazz legends as Bill Evans, Mary Lou Williams, Sarah Vaughn, Benny Carter, Lionel Hampton, and Dizzy Gillespie, as well as mid-career musicians and young artists. National Public Radio is distributing the programs to American audiences on 259 stations in the United States, and to international audiences via NPR's Worldwide Service, with a cumulative audience of more than 400,000 listeners per week.

Indiana Symphony Society, Inc., in Indianapolis, received a \$10,000 matching grant to support the production and distribution of the radio series *Indianapolis On-The-Air*. Featuring the Indianapolis Symphony Orchestra, the 13-part series features commentary by co-hosts Rich Kleinfeldt and the symphony's conductor laureate, Raymond Leppard. In 2007-08, the series will feature music director Mario Venzago conducting masterpieces by Johannes Brahms, with concerto performances by pianist André Watts and violinist Joshua Bell; the world premieres of commissioned works by James Beckel and David N. Baker; and performances of Richard Strauss's *Ein Heldenleben*, the Fifth Symphonies of Prokofiev and Shostakovich, and Mahler's First Symphony. The series is produced and distributed by CD Syndications, producer Vic Muenzer, to more than 250 radio stations.

Save America's Treasures grants support preservation and/or conservation of nationally significant intellectual and cultural artifacts and historic structures and sites. Since the start of the program in 1999, the Arts Endowment has been responsible for the review of applications requesting funds for the conservation of nationally significant art works and collections. *Save America's Treasures* funds are provided to the Arts Endowment from

the National Park Service and matched with at least an equal amount of non-Federal funds. The following two examples are highlights of the FY 2007 awards:

The Clyfford Still Museum in Denver, Colorado, was awarded a *Save America's Treasures* grant of \$150,000 to support conservation treatment of paintings identified as the most historically significant to the development of Abstract Expressionism in the 20th century. Clyfford Still (1904-80) was a renowned American painter and a pivotal innovator in American art, best known for large-scale, crusty, jagged plates of rich color painted during the 1940s and '50s. Mark Rothko, Willem de Kooning, and Jackson Pollock moved into their own versions of abstraction after Still. Despite their importance, very few of Still's works have been seen by the public or scholars. This grant is enabling the museum to conserve Still's works so they can be placed on display for the public at the Clyfford Still Museum when it opens in Denver in 2009.

The University of Mary Washington in Fredericksburg, Virginia, was awarded a *Save America's Treasures* grant of \$26,262 to support conservation treatment of clothing in the costume collection of the James Monroe Museum & Memorial Library. The Museum houses an impressive collection of clothing owned and used by the fifth president of the United States, members of his immediate family, and descendants. Many of the Monroe costumes are too fragile to be on display and are in need of conservation.

The Arts Endowment supports **International Activities** to promote the presentation of American arts and artists at international venues and to provide short-term residencies of foreign artists in the United States. In addition, the Arts Endowment has been active in supporting literary exchange programs that provide the work of U.S. writers to foreign audiences and provide opportunities for U.S. readers to experience the work of foreign writers. The Chairman of the National Endowment for the Arts is on the U.S. National Commission for the United Nations Educational, Scientific and Cultural Organization (UNESCO) and has served as an expert on American culture at UNESCO at the invitation of the U.S. Ambassador.

Examples of the Agency's international projects include:

- ***U.S.-Mexico Poetry Anthology***, a two-volume bilingual collection of selected poems of 50 U.S. and 50 Mexican poets born after 1946, which has become a model for literary exchanges with other countries. The Arts Endowment is partnering with the U.S. Department of State, Bureau of Educational and Cultural Affairs, on literary anthologies with Russia, Pakistan, and Northern Ireland, as part of the U.S. Global Cultural Initiative announced at the White House in September 2006. A significant aspect of each project is extensive public programming that engages writers with audiences in the partner country.
- ***Big Read Russia***, another NEA/Department of State partnership as part of the U.S. Global Cultural Initiative, extends the NEA's *Big Read* internationally to promote cross cultural dialogue and understanding through the reading of great literature. The *Big Read* in Russia began in October 2007 with community activities inspired by the reading and discussion of Harper Lee's *To Kill a*

Mockingbird. In early 2008, as many as five communities in the U.S. will read and discuss *The Death of Ivan Ilych* by Leo Tolstoy.

- ***Big Read Egypt*** will follow the model of *Big Read Russia* and will be implemented later in 2008. Egyptian communities will choose their book from among the titles *Fahrenheit 451*, *Grapes of Wrath*, and *To Kill a Mockingbird*. The Egyptian title for American communities has yet to be selected.
- ***ArtsLink Residencies***, which provide U.S. residencies for artists from Central Europe, Eurasia, and Russia.
- ***U.S./Japan Creative Artists' Program***, which supports residencies of U.S. artists in Japan.
- ***Open World Russian Cultural Leaders Program***, in which the Arts Endowment provides expertise and support for the *Open World Leadership Center's* programs that bring Russian cultural leaders and artists to the U.S. for short-term residencies.
- ***U.S. Artists International***, which supports performances of American dance and music ensembles at international festivals in European countries.

Leadership Initiatives provide an opportunity for the Arts Endowment to address special artistic or cultural needs – whether field- or geography-based. Examples include:

- ***Governors' Institute on Community Design, Mayors' Institute on City Design, and Your Town: Citizens' Institute on Rural Design***, design initiatives that bring public officials together with design professionals to discuss urban, rural, and regional design issues. Through these programs, the Arts Endowment is improving the livability of communities throughout the United States. Each year, approximately 60 communities – rural, urban, and regional – and 400 community leaders, designers, and planners participate in these workshops, ultimately benefiting the millions of residents in their respective communities. The *Mayors' Institute* alone has graduated more than 700 mayors since its first session in 1986. A *Mayors' Institute* Special Session for Disaster Recovery was held in April 2007, at Tulane University in New Orleans, bringing together Mississippi mayors from Ocean Springs, Moss Point, and Biloxi, and Louisiana mayors from St. John the Baptist Parish, Mandeville, and Zachary. Recent *Governors' Institute* events have been held for Governor Minter of Delaware, Governor Kaine of Virginia, Governor O'Malley of Maryland, and Governor Napolitano of Arizona. During FY 2007, the *Citizens' Institute on Rural Design* is working with communities in Weld County, Colorado; Plains, Georgia; Columbia, North Carolina; and Granbury, Texas.
- ***NEA Arts Journalism Institutes*** were established to improve arts criticism and to gain broader media coverage for classical music, opera, theater, musical theater, and dance as they compete for attention with the commercial entertainment industry. The Institutes provide in-depth instruction in the arts for print and

broadcast journalists working outside the country's major media markets. Professional development opportunities for these critics are often limited. The Institutes are convened at Columbia University in New York City, The University of Southern California in Los Angeles, and the American Dance Festival in partnership with Duke University in Durham, North Carolina. Each Institute employs a competitive application process to select 11-25 journalists. To date, 12 Institutes have engaged 220 journalists from 152 communities in 47 States and the District of Columbia. Plans are being developed for another round of Institutes in the coming year.

- ***NEA National Heritage Fellowships*** were established to recognize lifetime achievement, artistic excellence, and contributions to our nation's traditional arts heritage. The Arts Endowment annually awards these one-time-only Fellowships to master folk and traditional artists. A total of 327 Fellowships have been awarded since 1982; currently, each award is \$20,000.

Learning in the Arts for Children and Youth

Through *Learning in the Arts*, the Agency supports projects that help children and youth acquire knowledge, skills, and understanding of the arts in school-based and community-based settings. The following table highlights accomplishments made possible through this funding:

Learning in the Arts
Selected Performance Results – FY 2004-2007

| Fiscal Year | Children/ Youth | Concerts/ Readings/ Performances | Artist Residencies |
|--------------------|----------------------------|---|-------------------------------|
| 2004 Current | 1.3 m | 4.6 k | 7.1 k |
| 2005 Current | .8 m | 3.1 k | 2.7 k |
| 2006 Current | .3 m | 2 k | 3.5 k |
| 2007 Projected | .6 M | 4 k | 3.6 k |

[Numbers are rounded. k=thousand; m=million.]

The accomplishments listed in this table result from the hundreds of direct grants and cooperative agreements awarded under the Learning in the Arts goal each year. Examples of specific programs, grants, and their direct impact are presented below according to Grants for Arts Projects and innovative Leadership Initiatives.

Grants for Arts Projects: *Learning in the Arts* recent examples:

The **University of Kentucky Research Foundation** in **Lexington** received a \$15,000 matching grant to support the *Asian Folk Music Outreach Program* that provides professional development workshops for fifth- and sixth-grade public school teachers. In a week-long symposium, teachers learn to play relatively easy Asian instruments to understand the cultural context of the music, and how to use the instruments to teach basic music concepts such as tone, rhythm, and meter. With support from resident ethnomusicologist Han Kuo-Huang, teachers then introduce their students to non-Western musical forms.

In **Washington**, the **Tacoma Art Museum** was awarded a \$15,000 matching grant to support *Youth Connect: Tacoma Art Museum High School Internship Program*. After studying with museum staff, 11th- and 12th- grade high school interns, working under the supervision of museum staff, will provide elementary or home-school classrooms art-based lessons tied to museum exhibitions and integrated with music, math, science, and literature curricula, and will serve as docents for a related museum tour. The project, which will culminate in an exhibition of student artwork, is expected to serve approximately 400 elementary students and 16 high school interns.

Through innovative **Leadership Initiatives**, the Arts Endowment addresses special artistic or cultural needs – whether field- or geography-based. Examples include:

- The **NEA Arts Assessment Leadership Initiative** will build on the lessons learned from two recent model programs, the *NEA Summer Schools in the Arts for Children and Youth* and *NEA Teacher Institutes*. In both cases, we discovered that educators need more opportunities to learn how to assess both their students and the arts programs in which they participate. The *NEA Arts Assessment Leadership Initiative* will work to assist arts organizations, classroom teachers, superintendents, and principals to develop measurements to guide student learning.
- **NEA Education Leaders Institutes** bring together – often for the first time – local school superintendents, principals, and teachers, with key State and national education and arts leaders for focused planning on how to provide sequential, standards-based curriculum and assessments in K-12 arts education. The first Institute was held in Ohio in 2004.
- The **Arts Education Partnership**, formed in 1995 by the Arts Endowment, the U.S. Department of Education, the National Assembly of State Arts Agencies, and the Council of Chief State School Officers, is a private, nonprofit coalition of more than 140 national organizations engaged in identifying policies and practical steps for educators to achieve educational excellence by incorporating the arts into teaching and learning. Partnership organizations have led the national movement to establish education standards that include the arts, and have conducted and published groundbreaking research on the impact of learning in the arts on student achievement.

Partnerships for the Arts

Through *Partnerships for the Arts*, the Arts Endowment joins with a substantial network of public, private, and nonprofit agencies and organizations for the purpose of developing and maintaining partnerships that support excellence in the arts, both new and established; bring the arts to all Americans; and provide leadership in arts education. Examples of State/Regional and Federal Partnership programs, grants, and impact are presented below; an expanded discussion of National Initiatives follows.

State/Regional Partnerships

- **Forty percent (40%) of the Agency’s grantmaking funds are awarded to the State Arts Agencies and their Regional Arts Organizations through Partnership Agreements.** In recent years, more than 2,100 communities have been served each year through grants made possible by these agreements, in addition to those reached through the Agency’s direct grantmaking. Of these, approximately 1,800 have been enriched through projects supported entirely with Arts Endowment funds.
- Partnership funds to State Arts Agencies and Regional Arts Organizations are used for grantmaking and special initiatives in areas such as arts education, reaching underserved communities, and discipline-based activities; and for staff and/or administrative support. Examples of recent activity carried out with NEA Partnership funds are:

Maine Arts Commission. In Maine, the State arts agency has been instrumental in utilizing the arts to address a major State priority – economic development – through an initiative called “the creative economy.” The creative economy model showcases Maine arts and culture as major assets to the State’s quality of life – an increasingly important asset in attracting business investment.

The power of the arts to contribute to the quality of life and economic development for Maine communities is realized through the Arts Commission’s Community Arts Development program. The program helps build the capacity of local arts organizations and artists to showcase the arts in Maine by engaging them in conventions, cultural planning, workshops, technical assistance, and other development efforts.

Idaho Commission on the Arts. Each summer the **ArtsPowered Schools Institute** offers a residential professional opportunity designed to immerse educators in strategies for teaching and learning through the arts. The focus includes activities in the arts and their integration into the classroom via integrated curricula and lessons, authentic performance-based assessments, and partnerships with local artists and cultural organizations. Teachers who complete the Institute leave with a finished series of lesson plans they can implement in their classrooms.

Mid Atlantic Arts Foundation. ArtsCONNECT provides support for projects in which at least three performing arts presenters work collaboratively to present a single artist or touring company. Through this program, the Foundation supports 12-18 tours of performing arts groups per season, reaching 50-75 communities in the mid-Atlantic region.

Federal Partnerships

The *Coming Up Taller* awards program is a cooperative venture among the Arts Endowment, the Humanities Endowment, the Institute for Museum and Library Services, and the President's Committee on the Arts and the Humanities. The \$10,000 awards recognize and focus national attention on exemplary after-school programs fostering the creative and intellectual development of America's children and youth through education and practical experience in the arts or the humanities. In celebrating the 2006 recipients of the *Coming Up Taller* awards, Mrs. Laura Bush remarked that, "every single *Coming Up Taller* program helps young people use their creativity and their talents so they can succeed."

Exemplary organizations that recently received *Coming Up Taller* awards from the Arts Endowment include:

Greater New Orleans Youth Orchestra, Louisiana. Founded in 1994 by the Louisiana Philharmonic and local professional musicians, the Youth Orchestra provides disadvantaged young people with musical instruments, subsidized lessons, and opportunities to perform classical music in one of the orchestra's many groups. GNOYO comprises five orchestras, an annual Summer Festival, and an outreach program, that together provide multiple performance opportunities for the community's young people.

Shakespeare & Company, Shakespeare in the Courts, Lenox, Massachusetts. Created through a collaboration between the Berkshire Juvenile Court and Shakespeare & Company, one of the nation's largest Shakespeare festivals, Shakespeare in the Courts is an innovative project in which adjudicated 13-17-year-old juvenile offenders rehearse and perform scenes from Shakespeare's plays. This professional artistic training helps students increase their facility with language and reference materials. At the conclusion of the 12-week session, the participants give a performance. In response to the 40% of participants who requested to continue in the program, a voluntary, four-week intensive summer session was created to serve alumni.

National Initiatives

National Initiatives serve the American people through multi-faceted programs of indisputable artistic quality and merit, with broad national reach and multi-media educational materials. Begun in 2003, this strategy embodies the Agency's four-pronged commitment to artistic excellence, public accessibility, arts education, and partnership. Highlights of current National Initiatives follow.

American Masterpieces: Three Centuries of Artistic Genius

This program celebrates our Nation's greatest artistic achievements with performances, exhibitions, tours, and educational programming in all 50 States. Since its FY 2005 launch with support for visual arts exhibitions, this Arts Endowment initiative has supported 32 exhibitions that will travel to more than 100 communities, reaching an estimated 12 million people. One example of funded exhibitions is "Seeing Ourselves: Masterpieces of American Photography," organized by the George Eastman House in Rochester, New York. The exhibit showcases original historical and contemporary photographs of American life, and it will tour to ten communities.

American Masterpieces expanded in FY 2006 with the addition of grants for dance, choral music, musical theater, and literature – all of which were supported in FY 2007 as well. In FY 2008 – with sufficient funding – support will be provided for chamber music, dance, presenting, visual arts touring, and literature. Recent *American Masterpieces* awards include:

Lawrence University of Wisconsin, in Appleton, was awarded a \$50,000 matching grant to support an *American Masterpieces Choral Music Festival*. The 2008 festival of American choral music features an intensive day-long workshop for young composers, four days of performances, master classes, a commissioned work, a guest conductor residency, and participation by 250 high school and college singers drawing on 45 high schools and 15 colleges and universities. An estimated audience of 5,000 is expected to attend the performances in Appleton, Milwaukee, and Chicago, and thousands more are expected to listen to radio broadcasts.

Phoenix Art Museum, in Arizona, was awarded a \$215,000 matching grant to support the touring exhibition *Contemporary Rhythm: The Art of Ernest L. Blumenschien*, with accompanying catalogue. This first retrospective of Blumenschien's (1874-1960) work will contribute to the public's knowledge and understanding of Blumenschien's interpretation of the American West, and its significant influence on establishing Western art as central to American aesthetic development. Presented at the Phoenix Art Museum, the Denver Art Museum, and the Albuquerque Museum of Art and History, the exhibition is expected to be viewed by 300,000 people.

The Big Read

Substantial impact will be achieved by connecting Americans to our Nation's literary heritage through the *Big Read*, the literary component of *American Masterpieces*. The *Big Read* was developed in response to the Agency's 2004 research report, *Reading at Risk: A Survey of Literary Reading in America*, which revealed an alarming decline in literary reading. The *Big Read* is designed to help build a nation of active readers, and thus begin to reverse the trends identified in *Reading at Risk*.

Begun as a pilot in ten cities and towns in 2006, the *Big Read* expanded to nearly 200 communities in almost 50 States and U.S. territories in 2007. Between January and June of 2007, 72 communities engaged their citizens in reading and discussing a *Big Read* book. An additional 117 communities were selected to participate in this historic Federal reading initiative between September and December 2007. (See table on following page for complete list.)

The honorary Chair of the *Big Read* is Mrs. Laura Bush. On July 20, 2006 at a celebration of the *Big Read* at the Library of Congress, Mrs. Bush said, "As a former teacher and librarian and a lifelong reader, I understand not only the importance of literacy to a society, but also the pure joy and personal enrichment that comes with sitting down with a good book." She applauded the *Big Read* and the NEA for "developing a program whose goal is to bring communities together through literature and reading. I'm delighted to be a part of it."

In addition, to meet the challenge, other Federal and private agencies are joining the Arts Endowment to implement the *Big Read*. The Institute of Museum and Library Services has provided \$2.25 million in support for the program. Additionally, the W.K. Kellogg Foundation and the Community Foundations of America have assisted participating communities with funds to match NEA's grants for the *Big Read*; The Boeing Company contributed additional funds to bring the *Big Read* to military families; and the Paul G. Allen Family Foundation pledged \$200,000 to support grants to Pacific Northwest communities and the creation of the *Big Read* educational materials for those communities.

Examples of *Big Read* programs are:

The **National Steinbeck Center** in **Salinas, CA** was awarded \$20,000 to support a variety of events celebrating John Steinbeck's *The Grapes of Wrath*. Over the course of five weeks in the spring of 2007, the National Steinbeck Center organized 44 *Big Read* events and extended their reach beyond Salinas to schools and libraries in Monterey County. The launch event featured author Thomas Steinbeck, John Steinbeck's son; Salinas Mayor Dennis Donahue; dramatic readings, and free museum admission for tri-county residents. Other events included open book discussions at locations throughout the county, film screenings, *Common Ground* performed by SpectorDance Studio, an exhibit of Horace Bristol photography, and panel discussions with Steinbeck historians, faculty from local colleges, and county residents who lived during the Dust Bowl migration. During their *Big Read* programming, 1,000 English copies and 400 Spanish editions of *The Grapes of Wrath*

were distributed to eager participants – free of charge; schools and libraries helped distribute the books, and copies were handed out on “Meals on Wheels.”

The **Craven-Pamlico-Carteret Regional Library** in **New Bern, NC**, was awarded a grant of \$18,750. Serving three counties through a consortium of nine libraries, this program encouraged citizens to read *The Great Gatsby* by F. Scott Fitzgerald. Throughout March 2007, 76 diverse *Big Read* events took place, including 29 book clubs. Troops and families stationed at the nearby Marine Corps Air Station Cherry Point were among those who participated in the program. Programming included the State’s celebrated North Carolina Jazz Repertory Orchestra’s performance of Gatsby-era jazz, and an exhibition of vintage automobiles provided by the First Capital Automobile Club of America. New Bern’s *Big Read* also included “Random Acts of Literacy” during which free copies of *The Great Gatsby* were distributed throughout the counties.

The **Little Traverse Bay Bands of Odawa Indians** in **Michigan** received \$20,000 to support a month-long celebration of Harper Lee’s *To Kill a Mockingbird*. Their programming fostered partnerships between tribal and non-tribal organizations. Events encompassed a large part of the greater Northern Michigan community, including seven public libraries, the schools within the Charlevoix-Emmett Intermediate school district, local bookstores, churches, social service agencies, and the 4,000 members of the Little Traverse Bay Bands of Odawa Indians. Organizers distributed 1,500 free copies of the novel throughout the rural and economically diverse community. The Great Lakes Chamber Orchestra also got involved, commissioning a song cycle based on *To Kill a Mockingbird*. At the premiere, the piece was narrated and introduced by Mary Badham, the actress who portrays Scout in the 1962 film adaptation of the novel.

In 2007, many of the 189 funded programs engaged additional communities adjacent to the one in which the grant was awarded. The organizations, cities, and chosen books are listed below by State:

| State | City | Coordinating Organization Name | Book Title |
|-------|------------------|--|------------------------------|
| AK | Anchorage | Anchorage Municipal Libraries | Fahrenheit 451 |
| AK | Homer | Kachemak Bay Campus-Kenai Peninsula College-Univ. AK Anchorage | The Joy Luck Club |
| AL | Ozark | Ozark-Dale County Public Library | To Kill a Mockingbird |
| AL | Huntsville | Huntsville-Madison County Public Library | To Kill a Mockingbird |
| AR | Fayetteville | Fayetteville Public Library | Fahrenheit 451 |
| AR | Melbourne | Ozarka College | The Grapes of Wrath |
| AZ | Safford | Safford City - Graham County Library | Fahrenheit 451 |
| AZ | Avondale | West Valley Arts Council | To Kill a Mockingbird |
| CA | Redding | Shasta Public Libraries | To Kill a Mockingbird |
| CA | Rohnert Park | Rural California Broadcasting Corporation / KRCB | Fahrenheit 451 |
| CA | Pittsburg | Los Medanos College | To Kill a Mockingbird |
| CA | Berkeley | Berkeley Public Library | Their Eyes Were Watching God |
| CA | Pleasant Hill | Contra Costa County Library | Fahrenheit 451 |
| CA | Pleasanton | Pleasanton Public Library | The Maltese Falcon |
| CA | Rancho Cucamonga | Rancho Cucamonga Public Library Services | To Kill a Mockingbird |

| State | City | Coordinating Organization Name | Book Title |
|-------|-----------------|---|------------------------------|
| CA | Los Angeles | Will & Company | The Grapes of Wrath |
| CA | Downey | County of Los Angeles Public Library | Bless Me, Ultima |
| CA | Pomona | Cal Poly Pomona Foundation | Bless Me, Ultima |
| CA | Downey | County of Los Angeles Public Library | Fahrenheit 451 |
| CA | Saratoga | Montalvo Arts Center | Fahrenheit 451 |
| CA | Salinas | National Steinbeck Center | The Grapes of Wrath |
| CA | Fresno | Fresno County Library | The Joy Luck Club |
| CA | San Mateo | Peninsula Library System | To Kill a Mockingbird |
| CO | Alamosa | Adams State College | Fahrenheit 451 |
| CO | Greeley | Weld Library District | Bless Me, Ultima |
| CO | Englewood | Arapahoe Library Friends Foundation, Inc. | Fahrenheit 451 |
| CT | Hartford | Hartford Public Library | Their Eyes Were Watching God |
| CT | Bridgeport | City of Bridgeport (included Norwalk, Stamford, and Shelton) | To Kill a Mockingbird |
| CT | Waterbury | Mattatuck Historical Society | To Kill a Mockingbird |
| CT | New Haven | New Haven International Festival of Arts & Ideas | To Kill a Mockingbird |
| DC | Washington | Humanities Council of Washington DC | Their Eyes Were Watching God |
| FL | Gainesville | Alachua County Library District | Their Eyes Were Watching God |
| FL | Jacksonville | Jacksonville Public Library | Their Eyes Were Watching God |
| FL | Ocala | Marion County Public Library System | Their Eyes Were Watching God |
| FL | Clearwater | Pinellas Public Library Cooperative, Inc. | The Great Gatsby |
| FL | Fort Lauderdale | Florida Center for the Book / Broward Public Library Foundation | The Joy Luck Club |
| FL | Miami | Florida Center for the Literary Arts at Miami Dade College | A Farewell to Arms |
| FL | Orlando | Orange County Library System | Their Eyes Were Watching God |
| FL | Cocoa | Brevard County Libraries | To Kill a Mockingbird |
| FL | Palatka | Communities In Schools of Putnam County Inc | To Kill A Mockingbird |
| GA | Brunswick | Golden Isles Arts and Humanities Association | Fahrenheit 451 |
| GA | Valdosta | Valdosta State University, Odum Library | Their Eyes Were Watching God |
| GA | Columbus | Muscogee County Friends of Libraries | To Kill a Mockingbird |
| GA | Savannah | Armstrong Atlantic State University | Their Eyes Were Watching God |
| HI | Honolulu | Hawai'i Capital Cultural District | The Joy Luck Club |
| IA | Perry | Hometown Perry, Iowa | The Heart Is a Lonely Hunter |
| IA | Ames | Ames Public Library | My Antonia |
| IA | Sioux City | Sioux City Public Library | The Great Gatsby |
| ID | Rexburg | Madison Library District | My Antonia |
| ID | Boise | The Cabin | A Farewell to Arms |
| IL | Chicago | Beverly Arts Center | Fahrenheit 451 |
| IL | Chicago | Center for Asian Arts and Media at Columbia College Chicago | The Joy Luck Club |
| IL | Oak Park | Oak Park Public Library | A Farewell to Arms |
| IL | Orland Park | Orland Park Public Library | The Maltese Falcon |
| IL | Aurora | Aurora Public Library | My Antonia |
| IL | DeKalb | DeKalb Public Library | Fahrenheit 451 |
| IL | Rock Island | Quad City Arts | To Kill a Mockingbird |
| IL | Sterling | Sterling Public Library | My Antonia |
| IL | Ina | Rend Lake College | The Joy Luck Club |
| IL | Canton | Spoon River College | To Kill a Mockingbird |
| IL | Sterling | Sterling Public Library | Fahrenheit 451 |

| State | City | Coordinating Organization Name | Book Title |
|-------|-----------------|--|------------------------------|
| IL | Galesburg | Sandburg Days Festival | The Grapes of Wrath |
| IL | Libertyville | Cook Memorial Public Library District | The Great Gatsby |
| IL | Peoria | Peoria Public Library | To Kill a Mockingbird |
| IN | Frankfort | Frankfort Community Public Library | Bless Me, Ultima |
| IN | New Castle | New Castle-Henry County Public Library | The Great Gatsby |
| IN | Corydon | Harrison County Public Library | The Great Gatsby |
| IN | Warsaw | Kosciusko Literacy Services Inc | The Grapes of Wrath |
| IN | Terre Haute | Vigo County Public Library | The Great Gatsby |
| IN | Muncie | Muncie Public Library | To Kill a Mockingbird |
| IN | Bloomington | Bloomington Area Arts Cncl | Undecided |
| KS | Topeka | Topeka and Shawnee County Public Library | Fahrenheit 451 |
| KS | Kansas City | Kansas City Kansas Public Library | The Grapes of Wrath |
| KS | Shawnee Mission | Johnson County Library | The Joy Luck Club |
| KY | Frankfort | Kentucky State University | Their Eyes Were Watching God |
| KY | Louisville | Louisville Free Public Library Foundation | Their Eyes Were Watching God |
| LA | Houma | Houma Regional Arts Council | To Kill a Mockingbird |
| LA | Baton Rouge | East Baton Rouge Parish Library | To Kill a Mockingbird |
| MA | Deerfield | Pocumtuck Valley Memorial Association | Fahrenheit 451 |
| MA | Attleboro | Attleboro Public Library | Fahrenheit 451 |
| MD | Snow Hill | Worcester County Library | Their Eyes Were Watching God |
| MD | Towson | Towson University | Fahrenheit 451 |
| MD | Baltimore | Harbel Community Foundation | To Kill a Mockingbird |
| MD | Hagerstown | Community Foundation of Washington County MD, Inc. | To Kill a Mockingbird |
| MD | Owings Mills | Maryland Public Television | To Kill a Mockingbird |
| ME | Portland | Maine Writers & Publishers Alliance | The Joy Luck Club |
| ME | Bath | Patten Free Library | The Grapes of Wrath |
| MI | Escanaba | Escanaba Public Library | The Maltese Falcon |
| MI | Ironwood | Ironwood Carnegie Library | The Grapes of Wrath |
| MI | Scottville | West Shore Community College | Their Eyes Were Watching God |
| MI | Suttons Bay | Grand Traverse Band of Ottawa and Chippewa Indians | The Joy Luck Club |
| MI | Hartland | Cromaine District Library | Fahrenheit 451 |
| MI | Detroit | Detroit Public Library | Their Eyes Were Watching God |
| MI | Wyandotte | Wayne-Metropolitan Community Action Agency | To Kill a Mockingbird |
| MI | Monroe | Monroe County Community College | Fahrenheit 451 |
| MI | Jackson | Jackson Community College | To Kill A Mockingbird |
| MI | Harbor Springs | Little Traverse Bay Bands of Odawa Indians | To Kill a Mockingbird |
| MN | Cloquet | Carlton County Historical Society | To Kill a Mockingbird |
| MN | Grand Rapids | Grand Rapids Area Library | Fahrenheit 451 |
| MN | Fergus Falls | Fergus Falls, A Center for the Arts | My Antonia |
| MO | Parkville | Park University | A Farewell to Arms |
| MO | St Louis | Washington University in St. Louis | Fahrenheit 451 |
| MS | Starkville | Friends of Starkville Library: Starkville Reads | To Kill a Mockingbird |
| MT | Helena | Lewis & Clark Library | To Kill a Mockingbird |
| MT | Libby | Lincoln County Public Libraries | Their Eyes Were Watching God |
| MT | Havre | Havre-Hill County Library Foundation | The Grapes of Wrath |
| NC | Troy | Montgomery Community College | The Joy Luck Club |
| NC | Forest City | Rutherford County Arts Council | Fahrenheit 451 |

| State | City | Coordinating Organization Name | Book Title |
|-------|--------------|--|------------------------------|
| NC | Kinston | Lenoir Community College | Fahrenheit 451 |
| NC | Salisbury | Rowan Public Library | The Grapes of Wrath |
| NC | New Bern | Craven-Pamlico-Carteret Regional Library | The Great Gatsby |
| NC | Fayetteville | Cumberland County Public Library & Info Center | Their Eyes Were Watching God |
| NC | Asheville | A-B Tech Community College Foundation for Together We Read | To Kill a Mockingbird |
| ND | Devils Lake | Shakespeare Club-Lake Region Library | Fahrenheit 451 |
| ND | New Rockford | Dakota Prairie Regional Center for the Arts | Fahrenheit 451 |
| NH | Concord | Center for the Book at the New Hampshire State Library | Fahrenheit 451 |
| NH | Amherst | Northeast Cultural Coop | The Joy Luck Club |
| NJ | Salem | United Way of Salem County | To Kill a Mockingbird |
| NJ | Caldwell | Caldwell Public Library | The Age of Innocence |
| NM | Albuquerque | Bernalillo County | Bless Me, Ultima |
| NM | Roswell | High Plains Writing Project | To Kill a Mockingbird |
| NM | Las Cruces | The Regents of New Mexico State University | Bless Me, Ultima |
| NM | Santa Fe | Georgia O'Keeffe Museum | Bless Me, Ultima |
| NV | Reno | Friends of Washoe County Library | Fahrenheit 451 |
| NV | Las Vegas | Las Vegas-Clark County Library District | The Joy Luck Club |
| NY | Brooklyn | Brooklyn Public Library | To Kill a Mockingbird |
| NY | New York | Columbia University in the City of New York | To Kill a Mockingbird |
| NY | White Plains | Westchester Arts Council | Their Eyes Were Watching God |
| NY | Hudson | Hudson Area Association Library | Fahrenheit 451 |
| NY | Poughkeepsie | Poughkeepsie Public Library District | To Kill a Mockingbird |
| NY | New Paltz | Research Foundation of SUNY on behalf of SUNY New Paltz | Bless Me, Ultima |
| NY | Fredonia | Research Foundation for and on behalf of SUNY Fredonia | Fahrenheit 451 |
| NY | Rochester | Writers & Books | The Maltese Falcon |
| NY | Bath | Dormann Library | To Kill a Mockingbird |
| NY | Buffalo | Just Buffalo Literary Center Inc. | Their Eyes Were Watching God |
| NY | Albany | Upper Hudson Library System | Their Eyes Were Watching God |
| OH | Toledo | Toledo-Lucas County Public Library | To Kill a Mockingbird |
| OH | Newark | Newark Public Library | The Great Gatsby |
| OH | Parma | Cuyahoga County Public Library | Their Eyes Were Watching God |
| OK | Lawton | Lawton Public Library | The Grapes of Wrath |
| OK | Norman | Pioneer Library System | The Grapes of Wrath |
| OK | Stillwater | Stillwater Public Library | The Grapes of Wrath |
| OR | Enterprise | Fishtrap, Inc. | The Grapes of Wrath |
| PA | Erie | The Arts Council of Erie | The Great Gatsby |
| PA | Montrose | Susquehanna County Literacy Program | The Great Gatsby |
| PA | Scranton | Scranton Public Library | The Grapes of Wrath |
| PA | Kittanning | Kittanning Public Library | To Kill a Mockingbird |
| PA | Blue Bell | Montgomery County Community College Foundation | To Kill a Mockingbird |
| PA | Easton | Easton Area Public Library | Fahrenheit 451 |
| PA | Harrisburg | Jump Street | To Kill a Mockingbird |
| PA | Williamsport | Lycoming County Library System | To Kill A Mockingbird |
| PR | Ponce | Museo de Arte de Ponce | The Age of Innocence |
| RI | Warwick | RI Coalition Against Domestic Violence | Their Eyes Were Watching God |
| SC | Charleston | Charleston County Public Library | Their Eyes Were Watching God |
| SC | Spartanburg | Spartanburg County Public Libraries | The Great Gatsby |
| SC | Sumter | Sumter County Library | Fahrenheit 451 |

| State | City | Coordinating Organization Name | Book Title |
|-------|-----------------|--|------------------------------|
| SD | Brookings | South Dakota Center for the Book | My Antonia |
| TN | Knoxville | YWCA Knoxville | To Kill a Mockingbird |
| TN | Huntingdon | The Dixie Carter Performing Arts Center | To Kill a Mockingbird |
| TN | Memphis | Rhodes College | To Kill a Mockingbird |
| TN | Columbia | South Central Tennessee Workforce Alliance | To Kill a Mockingbird |
| TX | Houston | Houston Library Board | Bless Me, Ultima |
| TX | Corpus Christi | Friends of Corpus Christi Public Libraries | Bless Me, Ultima |
| TX | Kingsville | Texas A & M University Kingsville | Bless Me, Ultima |
| TX | Houston | Harris County Public Library | The Joy Luck Club |
| TX | El Paso | El Paso Public Library | To Kill a Mockingbird |
| UT | Salt Lake City | Utah Arts Council | Bless Me, Ultima |
| UT | Cedar City | Cedar City Public Library | Fahrenheit 451 |
| UT | Orem | Orem Public Library | My Antonia |
| UT | Salt Lake City | Friends of Salt Lake City Public Library | The Grapes of Wrath |
| UT | Cedar City | Cedar City Public Library | To Kill a Mockingbird |
| VA | Harrisonburg | Rockingham Library Assoc. (dba Massanutten Regional Library) | To Kill a Mockingbird |
| VA | Arlington | Arlington Cultural Affairs Division | Bless Me, Ultima |
| VA | Abingdon | Barter Foundation, Inc. d/b/a Barter Theatre | Fahrenheit 451 |
| VA | Hanover | Pamunkey Regional Library | Fahrenheit 451 |
| VA | Charlottesville | Virginia Foundation for the Humanities | The Great Gatsby |
| VA | Newport News | Newport News Public Library System | Their Eyes Were Watching God |
| VT | Montpelier | Vermont Arts Council | The Maltese Falcon |
| WA | Yakima | Yakima Valley Libraries | The Grapes of Wrath |
| WA | Seattle | Pat Graney Performance | Their Eyes Were Watching God |
| WA | Issaquah | King County Library System Foundation | Fahrenheit 451 |
| WA | Tumwater | Timberland Regional Library | My Antonia |
| WI | Richland Center | University of Wisconsin-Richland Library | The Grapes of Wrath |
| WI | Waukesha | Waukesha Public Library | Fahrenheit 451 |
| WI | Wausau | Marathon County Public Library | My Antonia |
| WI | St. Croix Falls | St. Croix Falls Public Library/Festival Theatre | My Antonia |
| WI | Eau Claire | University of Wisconsin-Eau Claire Center for Service-Learning | Fahrenheit 451 |
| WV | Martinsburg | Martinsburg-Berkeley County Public Libraries | The Joy Luck Club |
| WY | Cheyenne | The Wyoming Center for the Book Inc | My Antonia |

By the end of 2007, with support from The Boeing Company, the *Big Read* will also have reached at least 27 military bases (see table below), bringing programming and educational materials to military families across the United States. Additionally, U.S. military installations overseas may submit proposals for *Big Read* projects, through which they will receive copies of the *Big Read* educational and promotional materials.

| State | City | Coordinating Organization/ <i>Military Base</i> | Book |
|-------|------------|--|------------------------------|
| AL | Huntsville | Huntsville-Madison County Public Library/ <i>Redstone Arsenal</i> | To Kill a Mockingbird |
| AL | Ozark | Ozark-Dale County Public Library/ <i>Fort Rucker</i> | To Kill a Mockingbird |
| CA | Pleasanton | Pleasanton Public Library/ <i>Camp Parks Reserve Forces Training Area</i> | The Maltese Falcon |
| DC | Washington | Humanities Council of Washington DC/ <i>Bolling Air Force Base</i> | Their Eyes Were Watching God |

| State | City | Coordinating Organization/ <i>Military Base</i> | Book |
|-------|----------------|--|------------------------------|
| GA | Columbus | Muscogee County Friends of Libraries/ <i>Fort Benning</i> | To Kill a Mockingbird |
| GA | Savannah | Armstrong Atlantic State University/ <i>Fort Stewart</i> | Their Eyes Were Watching God |
| GA | Valdosta | Valdosta State University, Odum Library/ <i>Moody Air Force Base</i> | Their Eyes Were Watching God |
| HI | Honolulu | Hawai'i Capital Cultural District/ <i>Hickam Air Force Base</i> | The Joy Luck Club |
| HI | Honolulu | Hawai'i Capital Cultural District/ <i>Marine Corps Base Hawaii Kaneohe Bay</i> | The Joy Luck Club |
| HI | Honolulu | Hawai'i Capital Cultural District/ <i>Schofield Barracks</i> | The Joy Luck Club |
| ID | Boise | The Cabin/ <i>Mountain Home Air Force Base</i> | A Farewell to Arms |
| KS | Topeka | Topeka and Shawnee County Public Library/ <i>Fort Riley</i> | Fahrenheit 452 |
| KS | Topeka | Topeka and Shawnee County Public Library/ <i>Kansas National Guard</i> | Fahrenheit 454 |
| KS | Topeka | Topeka and Shawnee County Public Library/ <i>Wichita- McConnell Air Force Base</i> | Fahrenheit 453 |
| MT | Helena | Lewis & Clark Library/ <i>Montana National Guard Fort Harrison</i> | To Kill a Mockingbird |
| NC | Fayetteville | Cumberland County Public Library/ <i>Pope Air Force Base</i> | Their Eyes Were Watching God |
| NC | Fayetteville | Cumberland County Public Library/ <i>Fort Bragg</i> | Their Eyes Were Watching God |
| NC | New Bern | Craven-Pamlico-Carteret Regional Library/ <i>US Marine Corps Air Station Cherry Point</i> | The Great Gatsby |
| ND | Devils Lake | Shakespeare Club-Lake Region Library/ <i>Camp Grafton Army National Guard Post</i> | Fahrenheit 451 |
| NY | Brooklyn | Brooklyn Public Library/ <i>Fort Hamilton Army Base</i> | To Kill a Mockingbird |
| OK | Lawton | Lawton Public Library/ <i>Fort Sill</i> | The Grapes of Wrath |
| SC | Charleston | Charleston County Public Library/ <i>Charleston Air Force Base</i> | Their Eyes Were Watching God |
| SC | Charleston | Charleston County Public Library/ <i>Charleston Naval Weapons Station</i> | Their Eyes Were Watching God |
| SC | Sumter | Sumter County Library/ <i>Shaw Air Force Base</i> | Fahrenheit 451 |
| TX | El Paso | El Paso Public Library/ <i>Fort Bliss</i> | To Kill a Mockingbird |
| TX | Kingsville | Texas A & M University Kingsville/ <i>Kingsville Naval Air Station</i> | Bless Me, Ultima |
| UT | Salt Lake City | Utah Arts Council/ <i>Hill Air Force Base</i> | Bless Me, Ultima |

Big Read Television Spots

In support of the *Big Read*, the Arts Endowment produced television spots for ten of the *Big Read* titles. Communities receive these public service announcements (PSAs) customized for their choice of book. Local public and commercial television stations air the PSAs in support of *Big Read* activities in their community. The spots are distributed with reader's and teacher's guides that expand on the authors' lives and work. These educational materials are distributed to schools, libraries, and community organizations throughout the country, free of charge.

***Big Read* Radio Spots**

By the end of 2007, the Arts Endowment had produced 30-second radio PSAs for the first 16 *Big Read* featured titles. Local commercial and public radio stations are integral partners in the promotion of *Big Read* activities in participating communities. Ultimately, radio stations will encourage more citizens, young and old, to read and discuss great literature together. The Arts Endowment is committed to programming that reaches *all* Americans. Public service announcements designed for radio have the potential to greatly expand the reach of the *Big Read*.

As another vehicle for expanding access, the Agency has partnered with XM Satellite Radio to produce shows featuring as many as 12 of the *Big Read* books, intended for weekday broadcast on XM's "Sonic Theater" station. By donating its services, XM will join with the NEA in introducing one *Big Read* book each month to XM listeners.

The *Big Read* – Assessing the Impact

The Arts Endowment recognizes the need for short- and long-term assessment of outcomes, especially for a program as expansive and innovative as the *Big Read*. Soon after the ten pilot communities completed their programs, the Agency conducted an internal review of the data and took steps to ensure a national evaluation for 2007 and 2008. The Agency's Office of Research & Analysis is supervising the effort, and preliminary results are encouraging. Based on feedback reported in May 2007, more than half of *Big Read* survey respondents identified their community's chosen book as a new read for them, with 90% of all respondents reporting that they finished the book. Sixty-one percent of participants first learned of the *Big Read* through a library or museum, affirming the importance of the NEA's strategic partnership with the Institute of Museum and Library Services on this project.

The centrality of libraries to the *Big Read* was expected, but more gratifying were early anecdotal data showing that arts and literary organizations are forging unprecedented alliances with civic organizations and local media. Also welcome were data showing that 86% of community respondents said they either had attended or would like to attend a local *Big Read* event, and 90% would like to read more novels like the *Big Read* selection. Early results also exposed challenges facing *Big Read* organizers – the need to recruit more male readers into the program and to reach less-educated readers. The preliminary survey showed women participating at four times the rate of men (80% versus 20%), and more college graduates involved in the program (75%) than adults whose education stopped at high school.

Another interim report is due in late 2007, and final results of the ongoing evaluation will be issued in June 2008. A crucial survey piece will measure whether the *Big Read* is affecting literary reading rates for participants.

Poetry Out Loud: National Recitation Contest

Created by the NEA and the Poetry Foundation, *Poetry Out Loud: National Recitation Contest* is administered in partnership with the State Arts Agencies. By encouraging high

school students to memorize and perform great poems, *Poetry Out Loud* helps students master public speaking skills, build self-confidence, and learn about their literary heritage.

Poetry Out Loud began as a pilot in 2005 in Chicago and the Washington, DC, metropolitan area. In 2006, it expanded to all 50 State Capitals and the District of Columbia. Following further expansion within each State, the 2006-2007 cycle culminated with the National Finals at George Washington University's Lisner Auditorium in Washington, DC, on May 1, 2007, where 51 State champions competed. The Arts Endowment's partner, the Poetry Foundation, produces substantial educational materials for teachers participating in *Poetry Out Loud* and provides additional financial support for the National Finals, with a total contribution of approximately \$500,000.

During 2007-08, the third national year of *Poetry Out Loud*, teachers in an estimated 1,500 high schools will conduct State-level competitions involving as many as 200,000 students. The 2008 National Finals will take place in late April 2008 during National Poetry Month. Reactions from teachers and students participating in *Poetry Out Loud* have been enthusiastic:

Participating in the contest and seeing my students grow in confidence has been one of the best experiences of my teaching career. While I could insist that my students recite poetry without the contest, being a part of it and realizing that they're participating in something that is beyond the classroom has been a tremendous motivation for them. My students are generally thought of, and see themselves, as academic outcasts. Being a part of *Poetry Out Loud* has countered that perception.

- participating teacher

Competing in Washington, DC, was a wonderful and unforgettable experience. I think that *Poetry Out Loud* offers a great opportunity for our nation's students, and I just wanted to let you know how much it meant to me. I hope this incredible competition will take place for many years in the future!

-PA State Champion, Olivia Meldrum

Shakespeare for a New Generation

Shakespeare for a New Generation represents the current phase of the *Shakespeare in American Communities* initiative, the first of the Arts Endowment's National Initiatives, launched in New London, Connecticut in September 2003. Since then, the program has:

- Provided 3,000 performances of professional Shakespeare productions to more than 1,700 communities in all 50 States and the District of Columbia.
- Entertained more than 1,000,000 community audience members (including 770,000 students as mentioned below).
- Provided free performances and educational activities for approximately 770,000 students in 2,900 middle and high schools.

- Educators, especially those in rural areas, are thrilled by the opportunity for their students to experience live theater.

We are a very rural school, and we are limited in terms of accessibility to cultural events. Performances such as this give our students an understanding of what else is “out there”! Anything that opens up the world to students (in ways other than the Internet) can only benefit them and us.

- Teacher, Powell High School (Powell, WY), *Performance by Montana Shakespeare in the Parks*

- Reached more than 16 million students through the free distribution of 45,000 Shakespeare multi-media toolkits used by teachers in more than 22,000 middle and high schools, of which 30% are in rural communities.
 - The feedback received from approximately 7,000 teachers who responded to a survey of those who requested the toolkit has been enormously positive. The teachers reported that 99% of their students demonstrated a better understanding of Shakespeare after use of the toolkit.
- Provided professional performances of Shakespeare plays and educational activities to military families at 18 military installations in 14 States through a partnership with the Department of Defense, reaching an estimated 6,000 individuals.
- Generated nearly \$900,000 in private sector support.

Operation Homecoming: Writing the Wartime Experience

Operation Homecoming was created by the Arts Endowment to help U.S. troops and their families write about their wartime experiences. Selected by an independent NEA panel, the best submissions were published in a literary anthology in September 2006 by Random House. The anthology, entitled *Operation Homecoming: Iraq, Afghanistan, and the Home Front in the Words of U.S. Troops and Their Families*, is edited by Andrew Carroll.

Through this program, the Arts Endowment engaged some of America's most distinguished writers to conduct workshops at military installations, and provided educational resources to help the troops and their families share their stories. The Arts Endowment created an accompanying audio CD and online materials to inspire and develop writing skills.

In addition, the Arts Endowment toured the acclaimed one-man play *Beyond Glory*, in which Stephen Lang brings to the stage the personal accounts of Medal of Honor recipients. NEA brought the play, which recently ran off-Broadway to rave reviews, to 30 overseas and domestic military installations.

Accomplishments of *Operation Homecoming* include:

- Provided 55 writing workshops with distinguished authors – and related activities – for more than 6,000 people at 33 military installations in the U.S. and overseas (Asia, Europe, and the Middle East, including Afghanistan and on the USS Carl Vinson aircraft carrier in the Persian Gulf). Another 25,000 individuals have utilized our online educational resources or received copies of our print materials, including the *Operation Homecoming* audio CD.
- Collected nearly 2,000 submissions written by troops and military families for the *Operation Homecoming* anthology and historical archive. The submissions are comprised of approximately 12,000 pages of writing.
- Held 36 book readings, symposia, and conference discussions of the award-winning *Operation Homecoming* anthology at cultural centers, libraries, and military installations across the country from September 2006 to April 2007. These events included first-person accounts and readings by troops and writers.
- Distributing *Muse of Fire*, an educational DVD featuring accomplished writers and military personnel-turned-writers reading from their work and discussing the craft of writing. The film is being given free to military base libraries and educational centers, and veterans' facilities and hospitals. The film premiered at the National Archives in Washington, DC, on March 14, 2007.

The Arts Endowment secured more than \$1.2 million in private sector support for the *Operation Homecoming* initiative from FY 2004-2007.

Based on the positive response to this program, the Arts Endowment anticipates partnering with the U.S. Department of Veterans Affairs to provide writing workshops at veterans' hospitals, centers, and affiliated facilities.

NEA Jazz Masters

Through the *NEA Jazz Masters* program, which became a National Endowment for the Arts National Initiative in 2005, the Agency has celebrated America's truly indigenous art form for more than 25 years. Since its inception in 1982, 100 awards have been made, while the program has evolved into the highest honor in jazz in the United States. The mission of the *NEA Jazz Masters* initiative is to honor lifelong contributions in the field of jazz and to engage the honorees in performances, broadcasts, residencies, and educational activities in communities nationwide – with a special focus on developing future generations of jazz enthusiasts. Today, the *NEA Jazz Masters* initiative consists of the following components:

- The *NEA Jazz Masters Awards*.

- *NEA Jazz Masters Touring and Festivals* with performances and residencies occurring at selected regional festivals throughout the nation, with projected audiences of 18,000 per year.
- Television and radio programming featuring NEA Jazz Masters, including programs on PBS such as *Legends of Jazz* and *NPR Jazz Profiles*; and “Jazz Moments” on XM Satellite Radio and other stations nationwide. By the end of FY 2007, nearly 90 “Jazz Moments” had been produced; an additional 35 are anticipated in FY 2008.
- A compilation CD produced by Verve Music Group.
- The *NEA Jazz in the Schools* multimedia curriculum, which introduces high school students to jazz and its important role in American history. Available free-of-charge, *NEA Jazz in the Schools* can be found at: www.neajazzintheschools.org/home.php. For educators without Internet access, a limited number of educational toolkits have been made available. To date - through the toolkits alone - we have reached 4.5 million students nationwide.

Great American Voices Military Base Tour: Unforgettable Melodies from Opera & Broadway

Great American Voices Military Base Tour: Unforgettable Melodies from Opera & Broadway continued to provide performances of opera and musical theater classics for military families in 2006-2007. Due to the overwhelmingly positive response to the initial tour of 39 bases in 2005-2006, additional grants were awarded to six opera companies to provide additional performances and educational opportunities on nine military installations.

With each performance, a booklet and CD developed by the Arts Endowment as an introduction to opera and musical theater were distributed free of charge. In addition, educational activities were provided for adults and students at each base to enhance their knowledge and appreciation of the music. The Arts Endowment secured more than \$700,000 in private sector support for this initiative.

Great American Voices kicked off on July 4, 2005, at Camp Lejeune in Jacksonville, North Carolina, with a performance by Opera Carolina and the Winston-Salem Symphony for an audience of more than 15,000 Marines and their families. Camp Lejeune’s standard July 4th entertainment, their own Second Marine Division Band, had been deployed to Iraq.

Other tour highlights include a performance by young artists from the Washington National Opera at West Point for an audience of more than 1,000 freshman cadets in January 2006 that was reviewed in *The Wall Street Journal*. In March 2007, Los Angeles Opera carried out a two-day residency at Twentynine Palms High School and performed at the Sunset Cinema at Marine Corps Air Ground Combat Center Twentynine Palms. Los Angeles Opera was brought back to the base by popular demand, having carried out an extraordinarily successful residency in February 2006 as part of *Great American Voices*.

Research and Analysis

Through our Office of Research & Analysis (ORA), the Arts Endowment provides important data to inform the American public, civic leaders, and the arts field. A prime example is our 2004 *Reading at Risk* study, which found that literary reading in America is in dramatic decline, with fewer than half of American adults now reading literature. The report documented a drop in reading in all groups studied, with the steepest rate of decline – 28 percent – occurring in the youngest age group (18-24). The Arts Endowment conveyed the survey findings in a report, executive summary, and press releases. The survey has inspired countless news stories, op-ed pieces, and full-length articles that appear to this day. The report and its reception by the public were key factors in the Arts Endowment’s decision to develop national literary initiatives, discussed elsewhere in this document.

The Arts Endowment has continually sought ways to quantify the benefits of arts participation for the broader public. The Agency made new strides in this area with the November 2006 publication of a brochure titled *The Arts and Civic Engagement: Involved in Arts, Involved in Life*, available at www.arts.gov/pub/CivicEngagement.pdf. Based on data from the 2002 “Survey of Public Participation in the Arts” (SPPA), the report shows in an easily accessible format that arts participation correlates strongly with civic and community engagement. For example, Americans who read literature, attend theater, or enjoy classical or jazz music concerts are twice as likely as non-arts participants to engage in a variety of positive individual and social behaviors. Those activities include playing sports or attending sporting events, exercising, camping, hiking, and canoeing. Readers and arts participants are nearly three times as likely as non-participants to volunteer or do charity work.

Throughout FY 2007, often at the request of arts service organizations, ORA scheduled several speaking engagements and presentations of the data at regional and national meetings. Consequently, ORA made critical alliances with organizations such as Campus Compact, the Community College National Center for Community Engagement, and Federal researchers at the Corporation for National and Community Service. This vigorous outreach enabled the office to expand awareness of the NEA’s research activities, and the Agency’s program goals generally, to a broader constituency than arts groups alone. National and local media coverage of the *Arts and Civic Engagement* study granted additional public exposure to the vital links between arts and community engagement.

The *Arts and Civic Engagement* study, like the 2004 *Reading at Risk* report, stemmed from a rich and irreplaceable data source, the SPPA. The SPPA is the only large-scale arts survey of the general adult population, which has been regularly occurring since 1982. It measures participation in arts activities through attendance at live events, consumption of arts-related media, engagement in literary reading, and personal participation in other art forms. The survey also includes demographic information of participation ordered by sex, race, age, income, and education level. Conducted with the U.S. Census Bureau, the survey’s exceptional response rate (70% in 2002), combined with its formidable sample size (more than 17,000 Americans ages 18 and over), have helped the NEA’s research function win credibility among sociologists and economists,

arts organizations and artists, and the policy makers and news media who prize reliable statistics and trend data on arts participants.

In 2005, the Arts Endowment began planning for the next iteration of the national “Survey of Public Participation in the Arts,” to be conducted in FY 2008. An advisory committee consisting of subject matter experts, researchers, and survey methodologists was convened and the results of their deliberations used to determine the design, execution, and content of the next survey. A survey pre-test occurred in FY 2007, and final adjustments are being made to the questionnaire.

For the last two years, the Arts Endowment has stepped up production and distribution of technical notes covering specialized research topics in the arts. In FY 2006 and FY 2007, six NEA Research Notes were released, including Note #92, [*Airing Questions of Access: Classical Music Radio Programming and Listening Trends*](#), which explored factors affecting access to classical music on public radio. Other Research Notes assessed consumer expenditures on arts performances and the relationship between arts and volunteering.

In a move that will propel further outreach next year, ORA is completing a sequel report to *Reading at Risk*. The new report will unite frequently overlooked data from government agencies, academia, foundations, and the commercial sector to clarify the problem of declining reading rates among American youth. By compiling and publishing multi-study results that have surfaced since 2004, the Agency will make a compelling case for voluntary reading as a predictor of advanced literacy and other personal, professional, and societal benefits. Some findings from this draft report indicate:

- American children read more, on a voluntary basis, in early childhood and in the preteen years than shortly afterward, with notable declines in leisure reading occurring as they enter adolescence and progress through early adulthood.
- Those declines in leisure reading rates correspond with deteriorating test scores in prose reading among the adolescent population. By contrast, frequent voluntary readers score significantly higher on prose reading tests than infrequent readers.
- Declines in leisure reading and prose literacy are contributing to employer survey findings of key deficiencies in reading and writing skills among new entrants to the Nation’s workforce.

It is hoped that the new report, the development of which already has drawn widespread media attention in the wake of the *Harry Potter* book series’ conclusion, will translate to more community-based activities to reinforce leisure reading. With the same objective, the Arts Endowment is undertaking in FY 2007 and FY 2008 a national evaluation of the *Big Read*, in partnership with the Institute of Museum and Library Services and the regional arts organization, Arts Midwest. ORA presented evaluation goals and strategies to 117 community leaders and partners at a June 2007 *Big Read* orientation session.

The Arts Endowment’s partnership with other public and private sector organizations has resulted in targeted research initiatives. One example is *Creativity and Aging*, the

landmark study on the health impact of participation in the arts, commissioned in partnership with the National Institutes of Health, the U.S. Department of Health and Human Services, the AARP, and private foundations, and conducted by the Center on Aging, Health & Humanities at The George Washington University.

In FY 2006, ORA issued a revised edition of *How the United States Funds the Arts*, a report that has proved immensely popular with international visitors and audiences. In FY 2008, ORA plans to undertake reports on the financial characteristics of American theater companies, and on trends and classification of U.S. arts festivals.

Performance Reports

As required by the Government Performance and Results Act of 1993 (GPRA) and subsequent guidance from OMB on the preparation of performance budgets, the Arts Endowment is submitting performance data for Fiscal Years 2004 through 2007. The data relate to performance goals and indicators contained in applicable Performance Plans for the same period. The tables that follow this narrative compare actual performance as of September 30, 2007 with prior estimates. It is important to consider the following as one examines the tables.

First, we have determined that approximately 24 months must pass after the close of a fiscal year before sufficient information is received to fully assess the accomplishments of that year. The table below shows the trend of final report submissions over the most recent four-year period.

| Fiscal Year | # of Months Since Close of Year | # of Months Above or Below 24 Month Benchmark | % of Final Reports Received as of July 31, 2007 |
|-------------|---------------------------------|---|---|
| 2004 | 36 | 12 | 95 |
| 2005 | 24 | 0 | 93 |
| 2006 | 12 | -12 | 72 |
| 2007 | 0 | -24 | 14 |

Second, we rely upon information provided by our applicants and grantees when making projections. Performance projections rely upon information provided by our grantees – reflected in application forms, revised project/budget forms, and final reports. By the time we consider the Performance Report for a given fiscal year to be “final,” all the performance data come from grantee final reports.

Third, eligible applicants to the Arts Endowment have full discretion in choosing the funding area from which to seek support, and in determining the nature of their projects. From year to year, applicant interests may change from one area to another or from one type of project to another, thus adding to the challenge of making reliable estimates.

Beginning on page 44 is a set of tables with the most current performance data for Fiscal Years 2004 through 2007.

**National Endowment for the Arts
FY 2004 PERFORMANCE REPORT (FINAL)
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | FUNDING AREA | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2004 Revised Final Projections with FY 2006 Performance Plan (Performance as of 7-22-04; 5% of Final Reports Received) | | | FY 2004 FINAL Performance with FY 2007 PAR (Performance as of 9-30-07; 95% of Final Reports Received) | | | Difference | | |
|--|--------------------------------------|--|--|-----------|------------------|--|-----------|-------------------|----------------|------------|-----------------------|
| | | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | | |
| 1. ARTISTIC CREATIVITY AND PRESERVATION: Encourage and support artistic creativity and preserve our diverse cultural heritage. | Artistic Creativity and Preservation | | 1,196 | \$ 31,773 | | 1,203 | \$ 34,862 | | 7 | \$ 3,089 | |
| a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work. | | <i>The number of projects whose primary purpose is to create or present art.</i> | | | 825-900 | | 885 | | | | on target |
| | | <i>The number of artists participating in projects whose primary purpose is to create art.</i> | | | 70,000-80,000 | | 73,386 | | | | on target |
| b. Artistic works & cultural traditions are preserved. | | <i>The number of projects whose primary purpose is the presentation of diverse cultural traditions.</i> | | | 40-50 | | 51 | | | | increase |
| | | <i>The number of projects whose primary purpose is to repair, restore, or conserve artistic works.</i> | | | 55-65 | | 57 | | | | on target |
| c. Organizations enhance their ability to achieve their artistic & public service goals. | | <i>The number of projects whose primary purpose is professional development for staff of organizations that provide arts activities.</i> | | | 20-25 | | 23 | | | | on target |
| 2. LEARNING IN THE ARTS: Advance learning in the arts. | Learning in the Arts | | 254 | \$ 10,641 | | 275 | \$ 10,531 | | 21 | \$ (110) | |
| a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts. | | <i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | 185-195 | | 205 | | | | increase |
| | | <i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | .9m | | .9m | | | | on target |
| b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning. | | <i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i> | | | 45-55 | | 54 | | | | on target |
| c. National, State, and local entities demonstrate a commitment to arts learning for children & youth. | | <i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i> | | | 3-5 | | 5 | | | | on target |
| 3. ACCESS TO THE ARTS: Make the arts more widely available in communities throughout the country. | Access to the Arts | | 604 | \$ 17,201 | | 620 | \$ 12,581 | | 16 | \$ (4,620) | |
| a. Audiences nationwide have opportunities to experience a wide range of art forms & activities. | | <i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i> | | | 25-30m | | 29m | | | | on target |
| b. Communities are strengthened through access to the arts. | | <i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i> | | | 175-200 | | 216 | | | | increase |

**National Endowment for the Arts
FY 2004 PERFORMANCE REPORT (FINAL)
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | FUNDING AREA | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2004 Revised Final Projections with FY 2006 Performance Plan (Performance as of 7-22-04; 5% of Final Reports Received) | | | FY 2004 FINAL Performance with FY 2007 PAR (Performance as of 9-30-07; 95% of Final Reports Received) | | | Difference | | |
|---|---------------------------|--|--|-------------------|------------------|--|------------------|-------------------|----------------|-------------------|-----------------------|
| | | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | | |
| 4. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts. | Partnerships for the Arts | | | | | | | | | | |
| <i>State Partnerships</i> | | | | | | | | | | | |
| State & Regional | | | | \$ 24,549 | | | \$ 24,548 | | 0 | \$ (1) | |
| Underserved Set-Aside | | | | \$ 6,898 | | | \$ 6,832 | | 0 | \$ (66) | |
| Challenge America | | | | \$ 8,721 | | | \$ 8,721 | | 0 | \$ - | |
| Subtotal State Partnerships | | | 63 | \$ 40,168 | | 63 | \$ 40,101 | | 0 | \$ (67) | |
| <i>Other Public & Private Partnerships</i> | | | | | | | | | | | |
| Other Public & Private Partnerships | | | 9 | \$ 1,138 | | 9 | \$ 1,038 | | 0 | \$ (100) | |
| Total Partnerships for the Arts | | | 72 | \$ 41,306 | | 72 | \$ 41,139 | | 0 | \$ (167) | |
| a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly. | | <i>The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment .</i> | | | 2,000-2,500 | | | 1,791 | | | decrease |
| b. State arts agencies, regional arts organizations, & the Arts Endowment work together to achieve common or complementary goals. | | <i>The number of initiatives between the Arts Endowment, the State arts agencies, & the regional arts organizations.</i> | | | 3-5 | | | 9 | | | increase |
| c. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment. | | <i>The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.</i> | | | 10-15 | | | 10-15 | | | on target |
| GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.) | | | 2,126 | \$ 100,921 | | 2,170 | \$ 99,113 | | 44 | \$ (1,808) | |
| Cross-Cutting Indicators | | | | | | | | | | | |
| <i>The amount of matching funds reported by Arts Endowment grantees.</i> | | | | | 550-600m | | 559m | | | | on target |
| <i>The number of communities directly benefiting from Arts Endowment-funded projects.</i> | | | | | 3,900-4,200 | | 3,700 | | | | decrease |

**National Endowment for the Arts
FY 2005 PERFORMANCE REPORT
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | FUNDING AREA | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2005 Projections with FY 2007 Performance Plan (Performance as of 7-11-05; 6% of Final Reports Received) | | | FY 2005 Current Performance with FY 2007 PAR (Performance as of 9-30-07; 93% of Final Reports Received) | | | Difference | | |
|--|-------------------------------------|--|--|-----------|---------------------|--|-----------|-------------------|----------------|-----------|-----------------------|
| | | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | | |
| 1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans. | Access to Artistic Excellence | | 1,843 | \$ 48,273 | | 1,843 | \$ 48,273 | | 0 | \$ - | |
| a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work. | | <i>The number of projects whose primary purpose is to create or present art.</i> | | | 900-1,000 | | 994 | | | on target | |
| | | <i>The number of artists participating in projects whose primary purpose is to create art.</i> | | | 150,000- 200,000 | | 190,079 | | | on target | |
| b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities. | | <i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i> | | | 35-45 m | | 38m | | | on target | |
| c. The arts contribute to the strengthening of communities. | | <i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i> | | | 200-225 | | 228 | | | on target | |
| d. Artistic works & cultural traditions are preserved. | | <i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i> | | | 175-200 | | 189 | | | on target | |
| e. Organizations enhance their ability to achieve their artistic & public service goals. | | <i>The number of projects whose primary purpose is to assist organizations to enhance their ability to achieve their artistic & public service goals.</i> | | | 250-275 | | 266 | | | on target | |
| 2. LEARNING IN THE ARTS: Advance learning in the arts for children and youth. | Learning in the Arts | | 204 | \$ 11,096 | | 204 | \$ 11,096 | | 0 | \$ - | |
| a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts consistent with national, state, or local arts education standards. | | <i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | 150-175 | | 158 | | | on target | |
| | | <i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | 300,000- 400,000 | | 334,000 | | | on target | |
| b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning consistent with national, state, or local arts education standards. | | <i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i> | | | 30-40 | | 35 | | | on target | |
| | | <i>The number of teachers and artists directly participating in projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i> | | | 5,000-7,000 | | 6,745 | | | on target | |
| c. National, State, and local entities demonstrate a commitment to arts learning for children & youth consistent with national, state, or local arts education standards. | | <i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i> | | | 5-10 | | 8 | | | on target | |

**National Endowment for the Arts
FY 2005 PERFORMANCE REPORT
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | FUNDING AREA | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2005 Projections with FY 2007 Performance Plan (Performance as of 7-11-05; 6% of Final Reports Received) | | | FY 2005 Current Performance with FY 2007 PAR (Performance as of 9-30-07; 93% of Final Reports Received) | | | Difference | | |
|---|---------------------------|---|--|------------------|------------------|--|------------------|-------------------|----------------|-----------|-----------------------|
| | | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | | |
| 3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts. | Partnerships for the Arts | | | | | | | | | | |
| <i>State Partnerships</i> | | | | | | | | | | | |
| State & Regional | | | | \$ 23,969 | | | \$ 23,969 | | \$ - | | |
| Underserved Set-Aside | | | | \$ 6,553 | | | \$ 6,553 | | \$ - | | |
| Challenge America | | | | \$ 8,570 | | | \$ 8,570 | | \$ - | | |
| National Initiative: American Masterpieces | | | | \$ - | | | \$ - | | \$ - | | |
| Subtotal State Partnerships | | | | \$ 39,092 | | | \$ 39,092 | | \$ - | | |
| <i>Other Public & Private Partnerships</i> | | | | \$ 1,287 | | | \$ 1,287 | | \$ - | | |
| Total Partnerships for the Arts | | | 63 | \$ 40,379 | | 64 | \$ 40,379 | 1 | \$ - | | |
| a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly. | | <i>The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.</i> | | | 2,250-2,750 | | 1,933 | | | decrease | |
| b. State arts agencies, regional arts organizations, & the Arts Endowment work together to achieve common or complementary goals. | | <i>The number of initiatives between the Arts Endowment, the State arts agencies, & the regional arts organizations.</i> | | | 5-10 | | 5-10 | | | on target | |
| c. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment. | | <i>The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.</i> | | | 10-15 | | 10-15 | | | on target | |
| GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.) | | | 2,110 | \$ 99,748 | | 2,111 | \$ 99,748 | 1 | \$ - | | |
| Cross-Cutting Indicators | | <i>The amount of matching funds reported by Arts Endowment grantees.</i> | | | 500-600m | | 525m | | | on target | |
| | | <i>The number of distinct communities directly benefiting from Arts Endowment-funded projects.</i> | | | 4,250-4,750 | | 3,800 | | | decrease | |

**National Endowment for the Arts
FY 2006 PERFORMANCE REPORT
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2006 Projections with FY 2008 Performance Plan (Performance as of 7-26-06; 9% of Final Reports Received) | | | FY 2006 Current Performance with FY 2007 PAR (Performance as of 9-30-07; 72% of Final Reports Received) | | | Difference | | |
|--|--|--|-----------|------------------|--|-----------|-------------------|-------------|--------|-----------------------|
| | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | |
| 1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans. | | 1,964 | \$ 49,982 | | 2,020 | \$ 50,157 | | 56 | \$ 175 | |
| a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work. | <i>The number of projects whose primary purpose is to create or present art.</i> | | | 1,000-1,250 | | 1,150 | | | | on target |
| | <i>The number of artists participating in projects whose primary purpose is to create art.</i> | | | 75,000-100,000 | | 92,000 | | | | on target |
| b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities. | <i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i> | | | 30-35 m | | 33 m | | | | on target |
| c. The arts contribute to the strengthening of communities. | <i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i> | | | 175-225 | | 190 | | | | on target |
| d. Artistic works & cultural traditions are preserved. | <i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i> | | | 150-200 | | 210 | | | | increase |
| e. Organizations enhance their ability to achieve their artistic & public service goals. | <i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals..</i> | | | 225-275 | | 252 | | | | on target |
| 2. LEARNING IN THE ARTS: Advance arts education for children and youth. | | 210 | \$ 10,463 | | 211 | \$ 10,563 | | 1 | \$ 100 | |
| a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards. | <i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | 200-225 | | 210 | | | | on target |
| | <i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | .25-.5m | | .3 m | | | | on target |
| b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards. | <i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i> | | | 2 | | 2 | | | | on target |
| c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards. | <i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i> | | | 2-5 | | 5 | | | | on target |

**National Endowment for the Arts
FY 2006 PERFORMANCE REPORT
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2006 Projections with FY 2008 Performance Plan (Performance as of 7-26-06; 9% of Final Reports Received) | | | FY 2006 Current Performance with FY 2007 PAR (Performance as of 9-30-07; 72% of Final Reports Received) | | | Difference | | |
|---|---|--|-------------------|------------------|--|-------------------|-------------------|-------------|---------------|-----------------------|
| | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | |
| 3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts. | | | | | | | | | | |
| <i>State Partnerships</i> | | | | | | | | | | |
| State & Regional | | | \$ 23,357 | | | \$ 23,357 | | \$ - | | |
| Underserved Set-Aside | | | \$ 6,284 | | | \$ 6,282 | | \$ (2) | | |
| Challenge America | | | \$ 7,064 | | | \$ 7,063 | | \$ (1) | | |
| National Initiatives | | | \$ 4,730 | | | \$ 4,730 | | \$ - | | |
| Subtotal State Partnerships | | | \$ 41,435 | | | \$ 41,432 | | \$ (3) | | |
| <i>Other Public & Private Partnerships</i> | | | \$ 250 | | | \$ 280 | | \$ 30 | | |
| Total Partnerships for the Arts | | 80 | \$ 41,685 | | 84 | \$ 41,712 | | 4 | \$ 27 | |
| a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly. | <i>The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.</i> | | | 1,900- 2,250 | | 1,800- 2,000 | | | | decrease |
| b. State arts agencies, regional arts organizations, & the Arts Endowment work together to achieve common or complementary goals. | <i>The number of initiatives between the Arts Endowment, the State arts agencies, & the regional arts organizations.</i> | | | 2-4 | | 10 | | | | increase |
| c. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment. | <i>The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.</i> | | | 5-15 | | 10 | | | | on target |
| GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.) | | 2,254 | \$ 102,130 | | 2,315 | \$ 102,432 | | 61 | \$ 302 | |
| Cross-Cutting Indicators | <i>The amount of matching funds reported by Arts Endowment grantees.</i> | | | 575-650 m | | 552 m | | | | decrease |
| | <i>The number of distinct communities directly benefiting from Arts Endowment-funded projects.</i> | | | 3,750- 4,000 | | 3,750- 4,000 | | | | on target |

**National Endowment for the Arts
FY 2007 PERFORMANCE REPORT
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2007 Projected Performance (as of July 26, 2006) | | | FY 2007 Projections with FY 2009 Performance Plan (Performance as of 9-30-07; 14% of Final Reports Received) | | | Difference | | |
|--|--|--|-----------|----------------|---|-----------|-------------------|-------------|------------|-----------------------|
| | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | |
| 1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans. | | 2,050 | \$ 51,424 | | 1,902 | \$ 49,659 | | (148) | \$ (1,765) | |
| a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work. | <i>The number of projects whose primary purpose is to create or present art.</i> | | | 1,050-1,300 | | | 1,037 | | | decrease |
| | <i>The number of artists participating in projects whose primary purpose is to create art.</i> | | | 75,000-150,000 | | | 172,000 | | | increase |
| b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities. | <i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i> | | | 35-45 m | | | 23 m | | | decrease |
| c. The arts contribute to the strengthening of communities. | <i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i> | | | 175-225 | | | 178 | | | on target |
| d. Artistic works & cultural traditions are preserved. | <i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i> | | | 150-200 | | | 207 | | | increase |
| e. Organizations enhance their ability to achieve their artistic & public service goals. | <i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals..</i> | | | 225-275 | | | 274 | | | on target |
| 2. LEARNING IN THE ARTS: Advance arts education for children and youth. | | 210 | \$ 10,549 | | 208 | \$ 10,251 | | (2) | \$ (298) | |
| a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards. | <i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | 200-225 | | | 204 | | | on target |
| | <i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i> | | | .5-1.5 m | | | .6 m | | | on target |
| b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards. | <i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i> | | | 15-30 | | | 1 | | | decrease |
| c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards. | <i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i> | | | 2-5 | | | 3 | | | on target |

**National Endowment for the Arts
FY 2007 PERFORMANCE REPORT
September 2007**

| GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES) | SELECTED PERFORMANCE MEASURES (INDICATORS) | FY 2007 Projected Performance (as of July 26, 2006) | | | FY 2007 Projections with FY 2009 Performance Plan (Performance as of 9-30-07; 14% of Final Reports Received) | | | Difference | | |
|---|---|--|------------|---------------|---|------------|-------------------|-------------|------------|-----------------------|
| | | # of Awards | \$ | Target Levels | # of Awards | \$ | Current Levels | # of Awards | \$ | Extent of Activity |
| Dollars rounded to the nearest thousand. | | | | | | | | | | |
| 3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts. | | | | | | | | | | |
| <i>State Partnerships</i> | | | | | | | | | | |
| State & Regional | | | \$ 25,152 | | | \$ 23,162 | | \$ (1,990) | | |
| Underserved Set-Aside | | | \$ 6,812 | | | \$ 6,227 | | \$ (585) | | |
| Challenge America | | | \$ 5,639 | | | \$ 6,998 | | \$ 1,359 | | |
| National Initiatives | | | \$ 3,941 | | | \$ 3,941 | | \$ - | | |
| Subtotal State Partnerships | | | \$ 41,544 | | | \$ 40,328 | | \$ (1,216) | | |
| <i>Other Public & Private Partnerships</i> | | | \$ 300 | | | \$ 474 | | \$ 174 | | |
| Total Partnerships for the Arts | | 80 | \$ 41,844 | | 83 | \$ 40,802 | | 3 | \$ (1,042) | |
| a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly. | <i>The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.</i> | | | 2,000-2,500 | | | 1,900 | | | decrease |
| b. State arts agencies, regional arts organizations, & the Arts Endowment work together to achieve common or complementary goals. | <i>The number of initiatives between the Arts Endowment, the State arts agencies, & the regional arts organizations.</i> | | | 2-4 | | | 10 | | | increase |
| c. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment. | <i>The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.</i> | | | 5-15 | | | 15 | | | on target |
| GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.) | | 2,340 | \$ 103,817 | | 2,193 | \$ 100,712 | | (147) | \$ (3,105) | |
| Cross-Cutting Indicators | <i>The amount of matching funds reported by Arts Endowment grantees.</i> | | | 575-650 m | | | 608 m | | | on target |
| | <i>The number of distinct communities directly benefiting from Arts Endowment-funded projects.</i> | | | 3,750-4,250 | | | 3,700 | | | decrease |

BLANK PAGE



NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art.

***Fiscal Year 2007
Performance and Accountability Report
~ A Message from the Director of Finance ~***

I am pleased to join with Chairman Gioia in presenting the National Endowment for the Arts' *Fiscal Year 2007 Performance and Accountability Report*. This report summarizes the Arts Endowment's performance and accomplishments – programmatically, financially, and operationally – during the past year.

Fiscal Year 2007 was a time of great accomplishment for the Arts Endowment's financial operations. Through a cross-servicing agreement with the U.S. Department of Transportation, the NEA, since FY 2005, has been using a Federal financial system that is fully compliant with the Office of Management and Budget's Office of Federal Financial Management requirements. This year, we improved our functional knowledge of the new system in order to complete the reconciliation required by the conversion process, documented standard operating procedures, reviewed and developed various transactional flows to comply with new requirements, and successfully completed our fifth consecutive financial statements independent audit. In FY 2007, all transactions were recorded in the new system, and no issues of non-compliance or material weaknesses were identified.

Fiscal Year 2008 will be challenging as we continue to enhance Agency efficiency and effectiveness in the areas of internal and external reporting, among others. The upgrading of our finance system represents one of the most significant steps the Arts Endowment has taken in recent years in its ongoing commitment to ensure that we are fully accountable for the use of the funds that have been entrusted to us for the benefit of the American people.

A handwritten signature in blue ink that reads "Sandra L. Stueckler".

Sandra L. Stueckler
Director of Finance

November 15, 2007

BLANK PAGE

***Financial Statements
and Related Auditor's Report***

BLANK PAGE



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 National Endowment for the Arts as of September 30, 2007 and 2006, 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, 2007 and 2006 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 or significant deficiencies under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified two significant deficiencies in financial reporting related to recording the use of appropriations and calculation of imputed costs.

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*.

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, 2007 and 2006, 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, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

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

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, 2007 and 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Arts Endowment's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arts Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arts Endowment's internal control.

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

misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section of the report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified two significant deficiencies in financial reporting related to recording the use of appropriations and calculation of imputed costs.

1. The Arts Endowment receives funds from other government agencies, which are classified as reimbursable funds. They are recorded separately from the funds received via direct appropriations. As of June 30, 2007, transactions applicable to reimbursable funds were incorrectly applied to accounts that were designed to record the use of direct appropriations only.

The United States Standard General Ledger (USSGL) prescribes the appropriate entry to record direct appropriations used during the fiscal year. Under the USSGL, funds that are not directly appropriated to an agency are not to be posted to Unexpended Appropriations – Used (account 3107) and Expended Appropriations (account 5700), two accounts designed to record usage of direct appropriations.

The Delphi financial management system required transaction codes for non-appropriated reimbursable funds to be changed manually in two places during data entry in order to ensure the transactions were applied correctly. The Arts Endowment performed procedures quarterly to monitor these accounts for incorrect entries. For the third fiscal quarter of 2007, the Arts Endowment review did not include all of the funds in which these incorrect entries occurred. As a result, Unexpended Appropriations and Cumulative Results of Operations were misstated by \$933,967 on the Balance Sheet and the Statement of Changes in Net Position as of June 30, 2007.

Recommendation

We recommend the Arts Endowment formalize their review procedures and that those procedures include sufficient detail to ensure a thorough review for these errors for all funds that are not derived from direct appropriations.

Management Response

In August 2007, the Arts Endowment:

1. Corrected the accounting by posting a journal voucher for the reversing of the erroneous 3107 and 5700 accounts in the reimbursable funds.
2. Notated each gift/reimbursable obligation document with the transaction code B302R to remind the invoice technician to select that transaction code.
3. Changed the quarter-end integrity check to run the Summary II Trial Balance reports specifically, for all funds in Treasury Account Symbol 59x8040 (the

- gift funds), and for reimbursable funds 00300R0000 and 00350R0000 in Treasury Account Symbol 59x0100 (with Budget Year as the second parameter in each report) to achieve a total universe for this adjustment.
4. Requested that the Delphi staff modify the application programs and/or setup of the Arts Endowment's set of books and/or provide warning notices to link the proper transaction code to the funding obligation.
 5. Created a formalized quarter-end checklist to include this integrity check.

Auditor's Comment

The Arts Endowment implemented the corrective actions noted above during the fourth quarter of 2007 and, as of September 30, 2007, the aforementioned accounts included only the use of direct appropriations.

2. The Arts Endowment records imputed costs each quarter to recognize costs incurred, but not billed, by the Office of Personnel Management (OPM) for management of Federal benefits. The imputed costs are based on factors provided by the OPM. Each quarter, the Arts Endowment recorded imputed costs for expected post-retirement health benefits based on the quarterly cost factor for that quarter, multiplied by the average number of enrollees in health insurance. For the fourth quarter of 2007, the Arts Endowment recorded imputed costs for health benefits based solely on the fourth quarter factor; however, the health insurance factors in the OPM Benefits Administration Letters are designed to be cumulative. Therefore, the Arts Endowment multiplied the average number of enrollees times \$1,438, the quarterly factor, instead of the annual factor of \$5,572 per enrollee.

The Arts Endowment considered the health benefits factors individually by quarter to calculate the imputed costs and financing and then reversed those entries after quarter end; however, those factors are cumulative in nature.

In the initial drafts of the financial statements, imputed costs and imputed financing were understated by \$612,865 for the year ended September 30, 2007. As indicated in management's response, the Arts Endowment recorded an adjustment to correct the financial statements and supporting records and systems prior to issuing the final 2007 financial statements.

Recommendation

We recommend the Arts Endowment use the quarterly health benefits factors cumulatively instead of individually.

Management Response

The Arts Endowment has confirmed that the annual rate of \$5,572 per constructed enrollee (148.25) results in imputed costs and financing of \$826,049, a difference of

\$612,865 to the health benefits portion. A journal voucher was created for the difference and the Trial Balance Report as well as the 2007 financial statements have been revised.

The integrity controls checklist has been updated to include assurances that the official Benefits Administration Letter from OPM is included in the imputed costs journal voucher documentation. Additionally, the worksheet item labels will be clarified to ensure that the appropriate rate is used cumulatively beginning with the first quarter reports in fiscal year 2008.

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.

RESPONSIBILITIES

Management Responsibilities

Management of the Arts Endowment is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met; and (3) complying with applicable laws and regulations. In fulfilling these responsibilities, 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 fiscal year 2007 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*. 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 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, with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. 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. 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.

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

DISTRIBUTION

This report is intended solely for the information and use of the management, the 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, 2007

National Endowment for the Arts
CONSOLIDATED BALANCE SHEET
As of September 30, 2007 and 2006
(In Dollars)

| | September 30, 2007 | | | September 30, 2006 | | |
|---|---------------------------|---------------------|-----------------------|---------------------------|---------------------|-----------------------|
| ASSETS: | All Other | Earmarked Funds | Cumulative | All Other | Earmarked Funds | Cumulative |
| Intragovernmental: | | | | | | |
| Fund Balance With Treasury (Note 2) | \$ 122,346,295 | \$ 3,585,766 | \$ 125,932,061 | \$ 121,226,003 | \$ 2,545,947 | \$ 123,771,950 |
| Investments (Note 3) | | 1,110,560 | 1,110,560 | | 2,280,450 | 2,280,450 |
| Accounts Receivable (Note 4) | 180 | | 180 | (510) | | (510) |
| Other Assets (Note 6) | 500,000 | | 500,000 | | | |
| Total Intragovernmental | \$ 122,846,475 | \$ 4,696,326 | \$ 127,542,801 | \$ 121,225,493 | \$ 4,826,397 | \$ 126,051,890 |
| Accounts Receivable (Note 4) | 69,826 | | 69,826 | 55,368 | 1,200 | 56,568 |
| Property, Plant and Equipment, Net (Note 5) | 6,642 | | 6,642 | 33,211 | | 33,211 |
| TOTAL ASSETS | \$ 122,922,943 | \$ 4,696,326 | \$ 127,619,269 | \$ 121,314,072 | \$ 4,827,597 | \$ 126,141,669 |
| LIABILITIES: | | | | | | |
| Intragovernmental: | | | | | | |
| Accounts Payable (Note 7) | \$ 3,907,775 | \$ 2,256 | \$ 3,910,031 | \$ 1,172,727 | \$ 1,701 | \$ 1,174,428 |
| Total Intragovernmental | \$ 3,907,775 | \$ 2,256 | \$ 3,910,031 | \$ 1,172,727 | \$ 1,701 | \$ 1,174,428 |
| Other (Notes 7,8) | 49,413,209 | 493,419 | 49,906,628 | 39,925,054 | 125,633 | 40,050,687 |
| TOTAL LIABILITIES | \$ 53,320,984 | \$ 495,675 | \$ 53,816,659 | \$ 41,097,781 | \$ 127,334 | \$ 41,225,115 |
| Commitments and contingencies (Note 1) | | | | | | |
| NET POSITION: | | | | | | |
| Unexpended Appropriations | \$ 72,528,426 | | \$ 72,528,426 | \$ 76,209,756 | | \$ 76,209,756 |
| Cumulative Results of Operations | (2,926,467) | 4,200,651 | 1,274,184 | 4,006,535 | 4,700,263 | 8,706,798 |
| TOTAL NET POSITION | \$ 69,601,959 | \$ 4,200,651 | \$ 73,802,610 | \$ 80,216,291 | \$ 4,700,263 | \$ 84,916,554 |
| TOTAL LIABILITIES AND NET POSITION | \$ 122,922,943 | \$ 4,696,326 | \$ 127,619,269 | \$ 121,314,072 | \$ 4,827,597 | \$ 126,141,669 |

The accompanying notes are an integral part of these statements

National Endowment for the Arts
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2007 and 2006

| | FY 2007 | | | FY 2006 | | |
|--|---------------------|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|
| | Earmarked Funds | All Other Funds | Consolidated Total | Earmarked Funds | All Other Funds | Consolidated Total |
| Cumulative Results of Operations: | | | | | | |
| Beginning Balances | \$ 4,700,263 | \$ 4,006,535 | \$ 8,706,798 | \$ 3,803,275 | \$ 3,283,059 | \$ 7,086,334 |
| Expended Appropriations Prior-Period Adjustments | | (106,090) | (106,090) | | | |
| Prior-Period Adjustments Correction of Errors | | (182,772) | (182,772) | | (38,454) | (38,454) |
| Adjusted Beginning Balance | <u>\$ 4,700,263</u> | <u>\$ 3,717,673</u> | <u>\$ 8,417,936</u> | <u>\$ 3,803,275</u> | <u>\$ 3,244,605</u> | <u>\$ 7,047,880</u> |
| Budgetary Financing Sources: | | | | | | |
| Appropriations Used | | 128,349,264 | 128,349,264 | | 119,917,197 | 119,917,197 |
| Non-Exchange Revenue | 73,123 | - | 73,123 | 85,499 | 1,650 | 87,149 |
| Donations | 1,646,455 | | 1,646,455 | 3,111,003 | | 3,111,003 |
| Other Financing Sources (Non-Exchange) | | | | | | |
| Imputed financing | | 1,196,222 | 1,196,222 | | 1,201,203 | 1,201,203 |
| Total Financing Sources | <u>\$ 1,719,578</u> | <u>\$ 129,545,486</u> | <u>\$ 131,265,064</u> | <u>\$ 3,196,502</u> | <u>\$ 121,120,050</u> | <u>\$ 124,316,552</u> |
| Net Cost of Operations | <u>(2,219,189)</u> | <u>(136,189,626)</u> | <u>(138,408,815)</u> | <u>(2,299,514)</u> | <u>(120,358,120)</u> | <u>(122,657,634)</u> |
| Net Change | \$ (499,611) | \$ (6,644,140) | \$ (7,143,750) | \$ 896,988 | \$ 761,930 | \$ 1,658,918 |
| Cumulative Results of Operations | \$ 4,200,652 | \$ (2,926,467) | \$ 1,274,185 | \$ 4,700,263 | \$ 4,006,535 | \$ 8,706,798 |
| Unexpended Appropriations: | | | | | | |
| Beginning Balance | | \$ 76,209,756 | \$ 76,209,756 | | \$ 71,720,600 | \$ 71,720,600 |
| Corrections of Errors | | 106,090 | 106,090 | | | |
| Adjusted Beginning Balance | | <u>\$ 76,315,846</u> | <u>\$ 76,315,846</u> | | <u>\$ 71,720,600</u> | <u>\$ 71,720,600</u> |
| Budgetary Financing Sources: | | | | | | |
| Appropriations Received | | \$ 124,561,844 | \$ 124,561,844 | | \$ 126,264,000 | \$ 126,264,000 |
| Other Adjustments | | | | | (1,857,647) | (1,857,647) |
| Appropriations Used | | (128,349,264) | (128,349,264) | | (119,917,197) | (119,917,197) |
| Total Budgetary Financing Sources | | <u>\$ (3,787,420)</u> | <u>\$ (3,787,420)</u> | | <u>\$ 4,489,156</u> | <u>\$ 4,489,156</u> |
| Total Unexpended Appropriations | | <u>\$ 72,528,426</u> | <u>\$ 72,528,426</u> | | <u>\$ 76,209,756</u> | <u>\$ 76,209,756</u> |
| Net Position | <u>\$ 4,200,652</u> | <u>\$ 69,601,959</u> | <u>\$ 73,802,610</u> | <u>\$ 4,700,263</u> | <u>\$ 80,216,291</u> | <u>\$ 84,916,554</u> |

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2007 and 2006
(In Dollars)

| | 2007 | 2006 |
|---|------------------------------|------------------------------|
| BUDGETARY RESOURCES | | |
| Unobligated Balance: | | |
| Balance Beginning of Period | \$ 8,444,147 | \$ 6,995,690 |
| Net Transfers | | |
| Recoveries of Prior Year Obligations: | | |
| Actual Recoveries | 2,297,604 | 1,854,924 |
| Budget Authority: | | |
| Appropriation | 126,309,601 | 129,331,069 |
| Spending Authority from Offsetting Collections: | | |
| Collections Earned | 151,328 | 4,515,570 |
| Advances Received | 2,371,387 | |
| Permanently Not Available: | | |
| Enacted reductions | 0 | (1,857,647) |
| Pursuant to Public Law | | |
| TOTAL BUDGETARY RESOURCES | <u>\$ 139,574,067</u> | <u>\$ 140,839,606</u> |

STATUS OF BUDGETARY RESOURCES

| | | |
|--|------------------------------|------------------------------|
| Obligations Incurred: | | |
| Direct | \$ 129,056,811 | \$ 128,256,019 |
| Reimbursable | 2,938,335 | 4,139,440 |
| Unobligated Balance: | | |
| Apportioned Currently Available | 7,578,921 | 8,444,147 |
| Unobligated Balance Not Available: | | |
| Other | | |
| TOTAL STATUS OF BUDGETARY RESOURCES | <u>\$ 139,574,067</u> | <u>\$ 140,839,606</u> |

CHANGE IN OBLIGATED BALANCE:

| | | |
|---|-------------------------|-------------------------|
| Obligated Balance Beginning of Period | \$ 117,567,480 | \$ 112,735,090 |
| Obligations Incurred: | \$ 131,995,147 | \$ 132,395,459 |
| Less: Gross Outlays | (127,811,493) | (125,708,145) |
| Less: Recoveries of Prior Year Obligations: | (2,297,604) | (1,854,923) |
| Obligated Balance Net, End of Period: | <u>\$ 119,453,529</u> | <u>\$ 117,567,480</u> |
| Net Outlays: | | |
| Disbursements | \$ (127,811,493) | \$ (125,708,145) |
| Collections | 2,522,715 | 4,515,570 |
| Less: Offsetting receipts | 1,791,135 | 3,067,069 |
| Net Outlays | <u>\$ (123,497,643)</u> | <u>\$ (118,125,506)</u> |

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, 2007 and 2006
(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 with the mission 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 by the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

These statements were prepared from the books and records of the NEA in conformity with accounting principles generally accepted in the United States, and the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), Revised June 29, 2007, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated July 24, 2006.
- *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 NEA.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

C. Basis of Accounting

Transactions are recorded on a budgetary basis, and 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 Accountant's Council designated FASAB as the accounting standards authority for Federal government entities.

D. Revenues and Other Financing Sources

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

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

NEA was granted the authority to receive donations and to invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding and the NEA observes the same guidelines for the appropriate use of donated funds as for appropriated funds. This authority allows the Chairman to incur representation and reception expenses.

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.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

E. Fund Balance with Treasury

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

F. Advances and Prepayments

NEA records payments for grants where the grantee has not yet incurred the expense (but expects to within 30 days) as advances, and reduces the advances by charges to expense in the next month.

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 was raised to \$50,000 for individual purchases and \$50,000 for bulk purchases with a minimum \$10,000 per item in FY 2004. Service lives are as shown below:

| <u>Description</u> | <u>Life</u> |
|-------------------------------|---------------|
| Leasehold Improvements | Term of Lease |
| Capital Leases | Term of Lease |
| Office Furniture | 7 Years |
| Computer Equipment & Software | 3 Years |
| Office Equipment | 5 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.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

I. Accounts Payable

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

J. Accounts Receivable

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

K. Annual, Sick and Other Leave

Annual leave is accrued as it is 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.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

Note 1. Significant Accounting Policies

L. Retirement Plans (Continued):

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

M. Imputed Benefit Costs

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

N. Use of Estimates

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

O. Contingencies

There are no commitments or contingencies that require disclosure.

P. Earmarked Fund

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 2: Fund Balances With Treasury

| | September 30, 2007 | September 30, 2006 |
|--|---------------------------|---------------------------|
| Fund Balance: | | |
| Trust Funds | \$ 3,585,766 | \$ 2,545,947 |
| Appropriated Funds | 122,346,295 | 121,226,003 |
| Custodial Funds (Nonentity) | - | - |
| Fund Balance with Treasury - Subtotal | \$ 125,932,061 | \$ 123,771,950 |
| Invested in Public Debt Treasury Bills, net | 1,100,388 | 2,178,886 |
| Invested in Public Debt Savings Bonds | - | 60,791 |
| Fund Balance With Treasury - Total | \$ 127,032,449 | \$ 126,011,627 |
| Status of Budgetary Resources: | | |
| Unobligated Balance: | | |
| Available Other | \$ 5,263,699 | \$ 4,153,395 |
| Available Trust Fund | 2,315,221 | 4,290,752 |
| Available Total for Prior Year | - | - |
| Subtotal - Available | \$ 7,578,920 | \$ 8,444,147 |
| Unavailable | - | - |
| Obligated Balance not yet Disbursed Other | 117,082,596 | 117,072,608 |
| Obligated Balance not yet Disbursed Trust Fund | 2,370,933 | 494,872 |
| Obligated Balance not yet Disbursed Prior Year | - | - |
| | \$ 127,032,449 | \$ 126,011,627 |

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 3: Investments

| September 30, 2007 | Cost | Amortization Method | Unamortized Premium / Discount | Investments Net | Market Value Disclosure |
|---------------------------------------|---------------------|------------------------|--------------------------------------|--------------------|----------------------------|
| Intragovernmental Securities: | | | | | |
| Non-Marketable: Par Value | \$ 1,100,388 | Effective Interest | \$ 24,612 | \$ 1,125,000 | \$ 1,125,000 |
| Accrued Interest on Public Debt Bills | 10,173 | | | | 10,173 |
| Accrued Interest on Donated Bonds | | | | | |
| Face Value of Donated Savings Bonds | | | | | |
| Total | \$ 1,110,561 | | | | \$ 1,135,173 |
| | | | | | |
| September 30, 2006 | Cost | Amortization Method | Unamortized Premium / Discount | Investments Net | Market Value Disclosure |
| Intragovernmental Securities: | | | | | |
| Non-Marketable: Par Value | \$ 2,178,886 | Effective Interest | \$ 54,114 | \$ 2,233,000 | \$ 2,233,000 |
| Accrued Interest on Public Debt Bills | 40,771 | | | | 40,771 |
| Accrued Interest on Donated Bonds | 42,292 | | | | 42,292 |
| Face Value of Donated Savings Bonds | 18,500 | | | | 18,500 |
| Total | \$ 2,280,450 | | | | \$ 2,334,563 |

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 4: Accounts Receivable

| | September 30, 2007 | September 30, 2006 |
|------------------------------------|---------------------------|---------------------------|
| Gross Receivables: | | |
| Custodial Receivable (Nonentity) | \$ 67,500 | \$ 75,000 |
| Receivables Due from Govt entities | 180 | (510) |
| Receivables Due from the Public | 2,326 | 56,568 |
| | \$ 70,006 | \$ 131,058 |
| Allowance for Uncollectibles: | | 75,000 |
| Net Receivables | \$ 70,006 | \$ 56,058 |

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 5: General Property, Plant, And Equipment

| Class of Property | September 30, 2007 | | | September 30, 2006 | | |
|---------------------------|---|--------------------------|-----------------|---|--------------------------|------------------|
| | Cost | Accumulated Depreciation | Book Value | Cost | Accumulated Depreciation | Book Value |
| Furniture & Equipment | \$ 132,845 | \$ 126,203 | \$ 6,642 | \$ 132,845 | \$ 99,634 | \$ 33,211 |
| Total | \$ 132,845 | \$ 126,203 | \$ 6,642 | \$ 132,845 | \$ 99,634 | \$ 33,211 |
| Capitalization Threshold: | 2007 | | | 2006 | | |
| | \$50,000 individual purchase | | | \$50,000 individual purchase | | |
| | \$50,000 aggregate purchases where individual items each exceed \$10,000 | | | \$50,000 aggregate purchases where individual items each exceed \$10,000 | | |
| Useful Life: | Computer equipment = 3yrs | | | Computer equipment = 3yrs | | |
| | Computer software = 3yrs | | | Computer software = 3yrs | | |
| | Office equipment = 5yrs | | | Office equipment = 5yrs | | |
| | Furniture = 7yrs | | | Furniture = 7yrs | | |
| | Leasehold improvements = lease term | | | Leasehold improvements = lease term | | |
| | Straight-line method used to depreciate cost of PPL over its useful life. | | | Straight-line method used to depreciate cost of PPL over its useful life. | | |

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 6: Other Assets

| | September 30, 2007 | September 30, 2006 |
|------------------------------|---------------------------|---------------------------|
| Intragovernmental: | | |
| Open World Leadership Center | \$ 500,000 | - |
| | - | - |
| Total Other Assets | \$ 500,000 | - |

Other Information:

The Open World Program enables emerging leaders from Russia and other Eurasian countries to experience American democracy and civil society in action.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 7: Liabilities Not Covered By Budgetary Resources

| | September 30, 2007 | September 30, 2006 |
|--|----------------------------|----------------------------|
| Intragovernmental | | |
| Other: | | |
| Accrued Unfunded Leave Non-Federal | \$ 1,271,227 | \$ 1,195,930 |
| Actuarial FECA Liability Federal | 1,059,390 | 724,428 |
| FECA Liability Unfunded Federal | <u>160,538</u> | <u>-</u> |
| Total Liabilities Not Covered By Budgetary Resources | <u><u>\$ 2,491,155</u></u> | <u><u>\$ 1,920,358</u></u> |

NOTE 8: Liabilities

| | September 30, 2007 | | | September 30, 2006 | | |
|---|---------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|
| | Non-Current | Current | Total | Non-Current | Current | Total |
| Intragovernmental | | | | | | |
| Accrued Payables - Invoices Federal | \$ - | \$ 34,162 | \$ 34,162 | \$ - | \$ 141,604 | \$ 141,604 |
| Custodial Liability - Federal | - | 67,500 | 67,500 | - | 35,199 | 35,199 |
| Employer Contributions - Federal | - | 113,235 | 113,235 | - | 273,197 | 273,197 |
| Other Post Employment Benefits Federal | - | 103,819 | 103,819 | - | - | - |
| Actuarial FECA Liability Federal | - | 1,059,390 | 1,059,390 | - | 724,428 | 724,428 |
| Unfunded FECA Liability Federal | - | 160,538 | 160,538 | - | - | - |
| Advances to Other Govt Agencies Federal | - | 2,371,387 | 2,371,387 | - | - | - |
| Public | | | | | | |
| Accrued Payables - Invoices Public | - | \$ 48,087,530 | \$ 48,087,530 | - | \$ 38,311,267 | \$ 38,311,267 |
| Accrued Funded Payroll - Public | - | 532,267 | 532,267 | - | 529,669 | 529,669 |
| TSP Employer Contributions Public | - | 15,606 | 15,606 | - | 13,821 | 13,821 |
| Other Post Employment Benefits Public | - | - | - | - | - | - |
| Accrued Unfunded Leave Public | - | 1,271,227 | 1,271,227 | - | 1,195,930 | 1,195,930 |
| Total Liabilities | <u><u>\$ -</u></u> | <u><u>\$ 53,816,660</u></u> | <u><u>\$ 53,816,660</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 41,225,115</u></u> | <u><u>\$ 41,225,115</u></u> |

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 9: Operating Rental Lease Agreement

| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|---------------------|-----------|-------------|-------------|-------------|-------------|-------------|-----------|
| Total Annual Rental | \$992,100 | \$2,219,317 | \$2,217,653 | \$2,232,267 | \$2,160,677 | \$2,169,415 | \$181,778 |

Brief Description of Occupancy Agreement:

The current occupancy agreement includes rental of office space and one surface parking space for a period of 66 months commencing on or about May 1, 2003 thru October 31, 2008. 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.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 10: Grants to the Public Costs and Intragovernmental Revenue

| | <u>2007</u> | <u>2006</u> |
|--|------------------|--------------------|
| Artistic Creativity & Preservation: | | |
| Gross Cost of Grants to the Public | \$ 56,990,210 | \$ 47,291,582 |
| Less: Earned Revenue | <u>(70,275)</u> | <u>(3,803,225)</u> |
| Total AC&P Costs | \$ 56,919,935 | \$ 43,488,357 |
| | | |
| Learning in the Arts: | | |
| Gross Cost of Grants to the Public | \$ 12,022,057 | \$ 10,480,586 |
| Less: Earned Revenue | <u>(300,000)</u> | <u>(300,000)</u> |
| Total Learning in the Arts Costs | \$ 12,022,057 | \$ 10,180,586 |
| | | |
| Access to the Arts: | | |
| Gross Cost of Grants to the Public | \$ (235,697) | \$ 2,652,189 |
| Less: Earned Revenue | <u>(235,697)</u> | <u>(235,697)</u> |
| Total Access to the Arts Costs | \$ (235,697) | \$ 2,652,189 |
| | | |
| Partnerships for the Arts: | | |
| Gross Cost of Grants to the Public | \$ 42,988,010 | \$ 40,226,996 |
| Less: Earned Revenue | <u>(180,000)</u> | <u>(180,000)</u> |
| Total Access to the Arts Costs | \$ 42,988,010 | \$ 40,046,996 |

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

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 11: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget, which includes actual numbers for fiscal year 2007, has not yet been published. Actual numbers for fiscal year 2007 will be included in the President's Budget for fiscal year 2009, which will be published in February 2008, and will be available at <http://www.whitehouse.gov/omb>.

NOTE 12: 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 13: Apportionment Categories of Obligations Incurred

The NEA is provided with funding only under Category B.

| Category B | Direct | Reimbursable |
|----------------|----------------|--------------|
| Apportionments | \$ 126,309,601 | \$ 2,522,715 |
| Obligations | \$ 129,056,811 | \$ 2,938,335 |

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:

| Unpaid Obligations: | 2007 | 2006 |
|--|-----------------------|----------------------|
| Undelivered Orders | \$ 70,567,281 | \$ 77,992,876 |
| Accounts Payable | <u>48,886,248</u> | <u>39,574,604</u> |
| Total unpaid obligated balance, net, end of period | <u>\$ 119,453,529</u> | <u>\$117,567,480</u> |

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 15: Earmarked Funds

| Balance Sheet | Gifts and Donations | |
|---|----------------------------|---------------------------|
| | September 30, 2007 | September 30, 2006 |
| ASSETS | | |
| Fund balance with Treasury | \$ 3,585,766 | \$ 2,545,947 |
| Investments | 1,110,560 | 2,280,450 |
| Taxes and Interest Receivable | - | - |
| Other Assets | - | 1,200 |
| Total Assets | \$ 4,696,326 | \$ 4,827,597 |
| Other Liabilities | \$ 495,675 | \$ 127,334 |
| Total Liabilities | \$ 495,675 | \$ 127,334 |
| Unexpended Appropriations | | |
| Cumulative Results of Operations | \$ 4,200,651 | \$ 4,700,263 |
| Total Liabilities and Net Position | \$ 4,696,326 | \$ 4,827,597 |
| Statement of Net Cost | | |
| Gross Program Costs | \$ 1,719,566 | \$ 1,306,998 |
| Less Earned Revenue | - | - |
| Net Program Costs | 1,719,566 | 1,306,998 |
| Costs Not Attributable to Program Costs | 499,623 | 992,516 |
| Net Cost of Operations | \$ 2,219,189 | \$ 2,299,514 |
| Statement of Changes in Net Position | | |
| Net Position Beginning of Period | \$ 4,700,263 | \$ 3,803,275 |
| Non-Exchange Revenue | 73,123 | 85,499 |
| Donations | 1,646,455 | 3,111,003 |
| Net Cost of Operations | (2,219,189) | (2,299,514) |
| Change in Net Position | \$ (499,611) | \$ 896,988 |
| Net Position End of Period | \$ 4,200,652 | \$ 4,700,263 |

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2007 and 2006
(In Dollars)

NOTE 16: Statement of Financing

| | 2007 | 2006 |
|--|-----------------------|-----------------------|
| Resources Used to Finance Activities: | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$ 131,995,146 | \$ 132,395,459 |
| Less: Spending Authority from offsetting collections and recoveries | (4,820,318) | \$ (6,370,493) |
| Obligations net of offsetting collections and recoveries | \$ 127,174,828 | \$ 126,024,966 |
| Less: Offsetting receipts | (1,719,670) | (3,067,069) |
| Net Obligations | \$ 125,455,158 | \$ 122,957,897 |
| Other Resources | | |
| Imputed financing from costs absorbed by others | \$ 1,196,222 | \$ (1,201,203) |
| Other Resources | - | - |
| Net Other Resources Used to Finance Activities | \$ 1,196,222 | \$ (1,201,203) |
| Total Resources Used to Finance Activities | \$ 126,651,380 | \$ 121,756,694 |
| 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 | \$ 9,175,745 | \$ (4,999,426) |
| Budgetary offsetting collections and receipts that do not affect net cost of operations | \$ 1,719,670 | \$ 3,067,069 |
| Other Resources or adjustments to net obligated resources that do not affect net cost of operations | \$ (1,196,222) | \$ 1,201,203 |
| Total Resources used to finance items not part of the Net Cost of Operations | \$ 9,699,193 | \$ (731,154) |
| Total Resources Used to finance the Net Cost of Operations | \$ 136,350,573 | \$ 121,025,540 |
| 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 11): | | |
| Increase in Annual Leave Liability | \$ 75,297 | \$ 64,697 |
| Other | 334,962 | 362,702 |
| Total components of Net Cost of Operations that will require or generate resources in future periods | \$ 410,259 | \$ 427,399 |
| Components not Requiring or Generating Resources: | | |
| Depreciation and Amortization | \$ 26,569 | \$ 26,569 |
| Losses on Disposal of Assets | - | - |
| Other not Requiring Outlay of Resources | \$ 1,621,414 | \$ 1,178,126 |
| Total components of Net Cost of Operations that will not require or generate resources | \$ 1,647,983 | \$ 1,204,695 |
| Total components of net cost of operations that will not require or generate resources in the current period | \$ 2,058,242 | \$ 1,632,094 |
| Net Cost of Operations | \$ 138,408,815 | \$ 122,657,634 |

BLANK PAGE



NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art.

The Nancy Hanks Center
1100 Pennsylvania Avenue NW
Washington, DC 20506-0001
202/682-5414
www.arts.gov

Dana Gioia
Chairman

November 15, 2007

Mr. Daniel L. Shaw
Inspector General
National Endowment for the Arts
1100 Pennsylvania Ave. NW #601
Washington, DC 20506

Dear Mr. Shaw:

Thank you for managing the audit of the Arts Endowment's Fiscal Year 2007 financial statements, and related review of our internal controls and compliance with laws and regulations, as required by the Accountability of Tax Dollars Act of 2002. This was the Arts Endowment's fifth full financial audit, and we are proud to have once again received a "clean" opinion.

We appreciate the time and effort committed by you, your colleagues, and the auditors from the independent accounting firm of Leon Snead & Company, P.C., who worked on this audit. We take our financial accounting and reporting responsibilities seriously, and welcome your oversight and insight to strengthen our financial operations.

Sincerely,

A handwritten signature in blue ink that reads "Dana Gioia".

Dana Gioia
Chairman

BLANK PAGE




The Nancy Hanks Center
1100 Pennsylvania Avenue NW
Washington, DC 20506-0001
202/682-5400
www.arts.gov

MEMORANDUM

Memo 08-01

DATE: October 2, 2007

TO: Dana Gioia, Chairman

FROM: Daniel L. Shaw, Inspector General 

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

The National Endowment for the Arts is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget in November 2007. The PAR contains a number of sections that address issues ranging from performance to financial management. OMB Circular A-136 requires that the Inspector General provide the Agency head with a summary of the top management and performance challenges facing the Agency.

After careful analysis, it is our assessment that the areas of Financial Management, Human Capital, Information Technology, and Grantee Accountability represent the top management and performance challenges for the National Endowment for the Arts (NEA). The rationale for our perspective on each is outlined below.

The Office of Inspector General (OIG) has enjoyed strong support from Agency management and looks forward to working with you as we address matters of mutual interest. We also welcome any comments or reactions to our assessment.

Financial Management. Since October 2004, the NEA has contracted with the Enterprise Services Center of the Department of Transportation (DOT-ESC) to provide the Agency with its first Office of Federal Financial Management (OFFM)-compliant system. The prior one did not fully comply with all of the requirements of the Joint Financial Management Improvement Program (the predecessor to the OFFM), and was identified as a material weakness during the Agency's fiscal year (FY) 2003 audit.

During FY 2007, the NEA has progressed in its knowledge and understanding of the Oracle Federal Financial System, underwent an upgrade to Version 11i.5.10, instituted documented operating procedures accompanied with staff training, and completed the reconciliation of the remainder of the conversion issues. Changes in the federal financial

arena have created the need to reassess various workflows, including the accounting for leases and interagency activities. The Agency has responded to both and is in the process of formalizing the changes, which will be completed in FY 2008.

Human Capital. Maintaining the right mix of technical knowledge and expertise is essential to the NEA completing its mission. Just like many other federal agencies, the NEA will be facing the potential retirement of a substantive number of its staff within the next several years. This includes our own Office of Inspector General where two of the three staff members will be eligible to retire within the next year. Now is the time for the NEA to meet the challenge and determine which offices will be impacted, how new staff will be recruited and trained, and the impact of staff transitions to the Agency's workload and mission.

Information Technology. The rapid changes in information technology and Federal requirements provide an ongoing challenge to all Federal agencies. The *E-Government Act of 2002* addressed various aspects of Federal management and the promotion of electronic government services. It also required improvements in the methods by which government information, including information on the Internet, is organized, preserved, and made accessible to the public.

NEA's move to e-grants represents an important opportunity. The NEA has been an active participant in Grants.gov since its inception and employs a team effort to work with this initiative.

As the NEA receives more applications and reports electronically, the challenge is to develop procedures and policies for handling electronic data and paper concurrently, while moving toward accepting all data electronically. This will likely change what people do and certainly change how they do it. In addition, the awards database system is outdated (a Wang design) and not constructed to easily transition to integrate with Grants.gov, nor will the system handle the increasingly sophisticated demands of electronic grants processing. The Agency is caught in a balancing act between developing "work-around" systems, while waiting for another E-Government initiative – the Grants Management Line of Business (GMLoB) – to set parameters and timelines instituting government-wide "cradle to grave" systems. The Office of Management and Budget has mandated that agencies select a system used by the Department of Education, the Department of Health and Human Services, or the National Science Foundation. If the system used by any of those three is not suitable, agencies may request an exemption, but must provide an alternative solution. The NEA is partnering with other cultural agencies and the National Archives to review GMLoB at the Departments of Education and Health and Human Services.

New government-wide requirements for information security in recent years provide challenges to all federal agencies, including the NEA. The *Federal Information Security Management Act of 2002* requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. As noted in the OIG's required evaluations

of information security during the past few years, the NEA has made significant progress to comply with these requirements despite limited resources to devote to this effort.

New in 2006 was the requirement to report on privacy compliance. Increased oversight has been sought in light of the occurrence of several instances of data theft and loss at several Federal agencies. The E-Government Act and Privacy Act provide legislative guidance for the control and dissemination of personal information and personally identifiable information. While NEA complies with these laws and has revised its privacy policy to improve guidance and control, this will continue to be an area requiring attention.

We acknowledge and encourage the NEA to continue its commitment to the e-government initiatives.

Grantee Accountability. As the nation's largest public funding provider for the arts, NEA awards approximately 2,300 grants and cooperative agreements annually. The organizations supported vary considerably in size and in experience in financial management, particularly as they relate to Federal financial management requirements. The continuing challenge, facing each Federal grant-making agency, is to ensure that recipients adhere to and comply with the applicable fiscal requirements.

To assist grantees in these efforts, the NEA provides either a copy of or website reference to the *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)* and the *OIG Financial Management Guide for Non-Profit Organizations (Financial Management Guide)*. The *General Terms* incorporate Office of Management and Budget requirements, Federal laws, rules, regulations, and Executive Orders that apply to grants and cooperative agreements. The *Financial Management Guide* provides practical information on what is expected from grantee organizations in terms of fiscal responsibility. The NEA enhances its communication with grantees through a Web-based program that provides all grantees with general information on the status of their grant – including amount awarded, grant period, amount disbursed, and the status of required final report submission. In addition, since 2003, the NEA's Grants and Contracts Office has provided considerable technical assistance through its *Grantee Technical Assistance Program*, which is directed at grantees identified during the grant process in greatest need of such help.

There continues to be a limited number of organizations that have not complied with all applicable federal grant requirements. These organizations are typically identified by the Agency's Grants and Contracts Office and referred to the OIG for audit or review. Upon evaluating these organizations, the OIG generally has four common findings: failure to comply with the requirement that costs be accounted for separately by grant award, that requested funds must be expended within 30 days after receipt, that actual costs incurred be reported on the final Financial Status Report, and that a Section 504 self-evaluation be on file. Occasionally, the OIG finds that some grantees are not maintaining personnel activity (time sheets) reports prorating the actual time charged to NEA grants.

We acknowledge and encourage the NEA's efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Implementation of Web-based and technical assistance programs, we believe, will improve the likelihood of grantee compliance, irrespective of past experience in managing Federal awards.



NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art.

The Nancy Hanks Center
1100 Pennsylvania Avenue NW
Washington, DC 20506-0001
202/682-5414
www.arts.gov

A handwritten signature in blue ink, appearing to read "Dana Gioia", written over a horizontal line.

Dana Gioia

Chairman

MEMORANDUM

DATE: October 5, 2007

TO: Daniel L. Shaw, Inspector General

SUBJECT: Response to OIG Memorandum Concerning Top Management Challenges

Upon arriving at the National Endowment for the Arts, I identified a series of objectives important to the achievement of the National Endowment for the Arts' goals and mission. One of these objectives focused on management:

Provide focused leadership and careful management to improve
Agency performance and productivity.

More than four years have elapsed since this objective was established, and I am pleased to report that we have made tremendous progress. While our focus has encompassed all aspects of the Agency's operations, I am particularly proud of the progress we have made in the areas of financial management, information technology management, grantee accountability, and human resource management.

For 20 years, the Arts Endowment operated with an antiquated financial management system that did not meet the Federal government's financial management system standards. Today, we rely upon a state-of-the-art, Oracle-based system that fully complies with government requirements. When I arrived, our information technology operations were inconsistent and our knowledge base not current. Today, we have a robust operation with systems continually in operation and with staff keenly aware of current and future technology trends. Four years ago we found that recent efforts to improve grantee accountability were lacking, in need of an infusion of increased use of technology, better communication, and better tools. Today, all applicants can apply to the agency electronically, all application and grant requirements are available online, and grantees have electronic access to the status of their grant and grant payments. We have also instituted a technical assistance program that has been particularly helpful to recipients with the greatest need. None of the above could have been achieved without quality leadership and management. Through organizational improvements, key staff appointments, and professional development, the Arts Endowment of today is a productive, effective, and, I would suggest, model Federal agency with a dynamic, extraordinarily capable, and accomplished staff.

We welcome the OIG's observations in these important management areas and have the following comments.

In the area of financial management, we appreciate the OIG's observations as to the progress made during the past few years. We also acknowledge our intention to continually assess process and procedures, including implementation of a revised asset capitalization policy that addresses both purchases and leases.

Regarding information technology management, next year all applicants will be required to submit applications electronically to the Agency through the government-wide Grants.gov portal. The Arts Endowment appreciates the OIG's recognition of our efforts to fully participate in the Grants.gov efforts and E-gov initiatives in general. Through the efforts of our electronic application team, Agency staff is well trained and prepared for operating within an electronic-based environment. We also acknowledge requirements related to the Grants Management Line of Business (GMLoB) and will be conducting assessments of the available options. Finally, we appreciate the OIG's recognition of the progress made concerning information security and privacy, and will continue to be vigilant, ensuring compliance with government-wide requirements.

As a Federal, grantmaking agency, grantee accountability is an imperative. Every effort is made to ensure that grantees comply with government-wide and Agency-specific requirements. Use of technology to communicate requirements and improve operations is one of the keys to this effort. Our Grantee Technical Assistance Program has also proved to be enormously helpful. We are continually developing materials to be of assistance, and we participate in the annual meetings of arts service groups as vehicles for sharing information and responding to specific questions. Over time, we would expect the OIG's findings in this area to diminish.

Succession planning is a particularly important matter for the Federal government in general and the country as a whole. Over the next decade, it is anticipated that a substantial portion of the "baby-boomers" will be retiring; the Arts Endowment is not immune to this possibility. At present, 25% of our staff is eligible for optional retirement with an additional 11% eligible for early retirement. To plan for this potential, we are in the process of developing a succession plan. As part of this effort, we have conducted assessments of current staff and projected when staff might retire based on government-wide statistics. We have identified particular areas within the Agency where vulnerability exists due to potential retirements and lack of adequate backup.

As a small Federal agency, our challenges in this arena are substantive. Costs prevent much duplication; most positions are singular in nature. Thus, we rely upon cross-training and professional development. We have instituted leadership training to provide staff with the knowledge necessary to assume new roles and duties. In areas such as the OIG, our plans include early hires in anticipation of retirements to ensure continuity of operations.

Over the years we have enjoyed a strong and positive working relationship with the OIG. We appreciate their observations and look forward to addressing matters of mutual concern.