

**ATTESTATION REPORT
OF THE
NEBRASKA ARTS COUNCIL**

JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

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Issued on May 16, 2014

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NEBRASKA ARTS COUNCIL

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NEBRASKA ARTS COUNCIL

BACKGROUND

The Nebraska Arts Council (Council) was created in 1965; however, its present form is the result of LB 121 (1973). Pursuant to the statutes resulting from that legislation, Neb. Rev. Stat. §§ 82-309 to 82-316 (Reissue 2008), the Council consists of 15 members appointed by the Governor and approved by the Legislature. Section 82-309 directs Council members to be selected “from among citizens of Nebraska who are known for their professional competence and experience in connection with the arts.”

The Council’s own web site, at <http://www.nebraskaartscouncil.org/>, contains the following:

Nebraska Arts Council’s mission is to promote, cultivate and sustain the arts for the people of Nebraska. In achieving this purpose, the Nebraska Arts Council provides grants and services to artists, organizations and communities.

The Council meets four times annually to conduct business. Though not paid for their services, Council members are reimbursed for the “actual and necessary expenses incurred in the performance of their duties,” per § 82-210.

Section 82-312 sets out the duties of the Council, as follows:

(1) To stimulate and encourage throughout the state the study and presentation of the performing and fine arts and public interest and participation therein;

(2) To make such surveys as may be deemed advisable of public and private institutions within the state engaged in artistic and cultural activities, including, but not limited to, music, theatre, dance, painting, sculpture, architecture, and allied arts and crafts, and to make recommendations concerning appropriate methods to encourage participation in and appreciation of the arts to meet the legitimate needs and aspirations of persons in all parts of the state;

(3) To take such steps as may be necessary and appropriate to encourage public interest in the cultural heritage of our state and to expand the state’s cultural resources; and

(4) To encourage and assist freedom of artistic expression essential for the well-being of the arts.

In carrying out this statutory mandate, the Council allocates the majority of its funding – which comes from State and Federal sources – to Nebraska schools and nonprofit corporations in the form of matching grants.

In addition to its grant programs, the Council provides nonprofit administrative research and advisory services to the State’s cultural community, maintains an extensive database of information concerning the arts as a component of economic development, and undertakes activities to support and enhance arts education in Nebraska schools. The Council also conducts the biennial Governor’s Arts Awards and manages several exhibits at the Governor’s Residence and the Fred Simon Gallery in the Council’s Omaha office.

NEBRASKA ARTS COUNCIL

BACKGROUND

(Concluded)

Through LB 664 (1978), the Legislature designated the Council to administer the acquisition of artwork for public buildings. Neb. Rev. Stat. §§ 82-317 to 82-329 (Reissue 2008, Cum. Supp. 2012) govern the resulting “1% for Art” program, which requires “all boards, agencies, commissions, or departments of state government . . . [to] spend at least one percent of any appropriation for the original construction of any state building for the acquisition of works of art.” The Council maintains the inventory for, as well as facilitates the administration of, the State’s collection of public art.

The Legislature created both the Cultural Preservation Endowment Fund and the Nebraska Arts and Humanities Cash Fund with LB 779 (1998). Addressed in Neb. Rev. Stat. §§ 82-331 to 82-333 (Reissue 2008, Cum. Supp. 2012, Supp. 2013), the Cultural Preservation Endowment Fund is used to hold and manage Legislative appropriations. A private dollar-for-dollar match must be established in order for the Council to access any money in the Cultural Preservation Endowment Fund.

NEBRASKA ARTS COUNCIL

EXIT CONFERENCE

An exit conference was held May 2, 2014, with the Nebraska Arts Council (Council) to discuss the results of our examination. Those in attendance for the Council were:

NAME	TITLE
Suzanne Wise	Executive Director
Robert Nefsky	Chair - Nebraska Arts Council
Tim Hart	Finance Committee - NAC
Marty Skomal	Director of Programs – NAC
Michael Markey	Grants Manager – NAC
J.D. Hutton	Artist Services & Communications Manager
Jamie Scriptor	Administrative Coordinator
Kathleen Kuszak	Director of Administration
Stephanie O’Keefe	Finance Committee Head – NAC
Mark Laughlin	Finance Committee - NAC

NEBRASKA ARTS COUNCIL

SUMMARY OF COMMENTS

During our examination of the Nebraska Arts Council, we noted certain deficiencies and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Monitoring of Recipient Payments:*** The Council did not have adequate monitoring procedures for recipients of Federal and State monies. The Council had \$2,024,499 in aid payments during the calendar year.
2. ***1% for Art Program:*** The Council lacked adequate supporting documentation for the fees collected, policies for the inspection of artwork, and procedures for ensuring the inventory listing was complete for the State.
3. ***Federal Cash Draws Not Expended Timely:*** Two of two Federal advanced cash draws tested were not expended within the required 30 days. The draws were 101 days and 22 days over the 30-day Federal guidelines.
4. ***Internal Controls Over Fixed Assets:*** One employee performed all procedures related to the fixed assets for the Council, and no documented secondary review was performed.
5. ***Federal Information to Grantees:*** The Council did not inform subrecipients of Federally-required information, such as CFDA title, award name and number, and the funding source of grants.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Council.

Draft copies of this report were furnished to the Council to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

1. Monitoring of Recipient Payments

A good internal control plan requires the Council to establish policies and procedures for adequate monitoring of recipients' use of Federal and State monies to ensure it is spent in accordance with Federal and State requirements.

OMB Circular A-133 § __.400(d) states, as is relevant:

A pass-through entity shall perform the following for the Federal awards it makes . . . (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

During testing of 11 aid payments, we noted eight Federal aid recipients and three State aid recipients did not have adequate monitoring to ensure the use of funds met Federal or State requirements.

Entities that received \$50,000 or more from the Council were required to submit a financial statement audit. The Council relied upon these audits for its monitoring procedures; however, this would only provide the Council with information regarding the financial stability of the entity and whether there were findings for the items selected for testing by the auditors. This would not provide the Council with enough information to ascertain monies granted were tested for allowability and met Federal and State requirements. Therefore, the Council needed to perform further procedures, such as reviewing accounting records, obtaining detailed invoices, etc., to ensure monies given were used for the purposes granted. For the fiscal year ended June 30, 2013, there were 353 grants, of various types, awarded to recipients with only three on-site reviews performed by the Council.

Furthermore, the Council made aid payments totaling \$582,954 from the Nebraska Arts and Humanities Cash Fund in accordance with Neb. Rev. Stat. § 82-332 (Supp. 2013). The Council also did not have documented monitoring procedures for these payments to ensure only allowable expenditures were made with the monies granted.

Without adequate policies and procedures for monitoring funds given to entities, there is an increased risk of noncompliance with Federal and State requirements, resulting in possible loss or abuse of Federal and State funds.

We recommend the Council establish policies and procedures for adequate monitoring of Federal and State grants, including payments from the Nebraska Arts and Humanities Cash Fund, to ensure that such monies are used as required by Federal and State laws.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Monitoring of Recipient Payments (Concluded)

Council's Response: The Nebraska Arts Council is in full compliance with applicable requirements. Subgrantees must submit a Project Evaluation and Final Report that provides a detailed accounting of expenditures which are thoroughly reviewed by NAC staff. All subgrantees are subject to random audits which are performed annually. Basic Support Grant subgrantees must submit audited financial statements and 990s in addition to the Final Report. The National Endowment for the Arts' (NEA) Partnership Agreement contract states: "While providing leadership for their states, the SAAs [State Arts Agencies] also work cooperatively with the Arts Endowment to achieve common goals and outcomes. ... Partnership Agreement funding enables the SAAs to address priorities identified at the state level as well as the NEA outcomes." The NEA's General Terms & Conditions for Grants and Cooperative Agreements to Organizations states, "A subgrant exists when funds are regranted to an individual or an organization for activities conducted independently of the direct award recipient and for the benefit of the subgrantee's program objectives." In other words, the NEA does not require the NAC or its subgrantees to provide specific allocation information. Both the NAC and its subgrantees are subjected to rigorous public review of mission, goals and objectives prior to receipt of federal or state funds. Misuse of federal and state funds by subgrantees would entail misrepresentation on their audited financial statements, 990s and Final Reports which would endanger their not for profit status. Therefore, by requiring these documents for review in addition to conducting random audits, the NAC is assured that funds are being properly used.

Regarding aid payments from the Nebraska Arts and Humanities Cash Fund, Neb. Rev. Stat. §82-332 does not stipulate the nature of allowable expenditures. The process of distributing funds to the Nebraska Cultural Endowment (NCE) is transparent. The transferred funds are monitored quarterly by the NCE's Investment and Finance Committee and are audited annually. The funds are redistributed to Humanities Nebraska and to the NAC Development Corp for uses outlined in the statute. Humanities Nebraska and the NAC Development Corp. follow identical procedures. All audit findings are reviewed by the NAC annually. The Nebraska Arts Council will develop a monitoring policy for Federal aid recipients and for recipients of state aid from the Nebraska Arts and Humanities Cash Fund.

Auditor's Response: The Council is responsible for ensuring Federal monies and State matching funds are used for authorized purposes in compliance with laws, regulations, and grant agreements. The Council stated they obtained audited financial statements and Form 990s (Internal Revenue Service, Return of Organization Exempt From Income Tax) along with project evaluations and final reports. However, financial statement audits and the Form 990 do not provide assurances that monies have been spent in compliance with Federal requirements. The Council should establish adequate policies and procedures to ensure the project evaluations and final reports are accurate by performing reviews of accounting records and supporting documentation, such as invoices. Additionally, the Council should ensure payments from the Nebraska Arts and Humanities Cash Fund are also being used appropriately in accordance with State law.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. 1% for Art Program

A good internal control plan requires the Council to establish and approve policies and procedures related to the 1% for Art program. Furthermore, good internal controls require secondary reviews of procedures performed to ensure adherence with policies.

During testing of the Council's administration of the 1% for Art program, we noted the following concerns:

- The Council did not have policies and procedures to ensure all entities of State government, as specified in Neb. Rev. Stat. § 82-319 (Reissue 2008), were reporting to the Council regarding adherence to the requirements of Neb. Rev. Stat. § 82-320 (Reissue 2008). The Council relied upon State entities to contact the Council and did not have documented procedures to identify construction projects independently.

Section 82-319 states, in relevant part:

All boards, agencies, commissions, or departments of state government shall, after January 1, 1979, spend at least one percent of any appropriation for the original construction of any state building for the acquisition of works of art.

Section 82-320 states:

The Nebraska Arts Council shall determine the amount of money to be made available for the purchase of art for each project subject to section 82-319. The selection of, commissioning of artists for, reviewing of design, execution and placement of, and the acceptance of works of art for each project shall be the responsibility of the Nebraska Arts Council in consultation with the committee established pursuant to section 82-321.

- Neb. Rev. Stat. § 82-326 (Cum. Supp. 2012) provides, as is relevant:

The amount of money made available from any appropriations under the provisions of sections 82-317 to 82-329, 85-106 to 85-106.03, and 85-304 to 85-304.03 shall be used, in addition to the cost of the works of art, to provide for the administration by the contracting agency, the architect, and the Nebraska Arts Council, and for all costs of installation of the works of art.

The Council Director established a fee schedule that had not been approved by the Council. Furthermore, there was no supporting documentation for how the schedule was determined to be reasonable and adequate for the Council's administration.

- Neb. Rev. Stat. § 82-329 (Cum. Supp. 2012) requires:

The Nebraska Arts Council shall maintain an inventory of all works of art purchased under sections 82-317 to 82-329, 85-106 to 85-106.03, and 85-304 to 85-304.03 and shall inspect each work of art on a regular schedule to determine its condition.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

2. 1% for Art Program (Concluded)

The Council did not have a written and approved policy for the inspection of art work. Staff performed the inspection for each piece of artwork once every three years. Furthermore, one employee performed all procedures related to the inspection, and there was no secondary supervisory review.

When adequate supporting documentation is not on file for policies and procedures, and the Council has not approved policies in place, there is an increased risk of loss of State funds or noncompliance with State laws.

We recommend the Council establish policies and procedures for the identification of construction projects that would meet requirements of State law to participate in the 1% for Art program. This could include working with the Department of Administrative Services – Building Division. We also recommend all policies and procedures be reviewed by the Council for approval and fees be reviewed and supported for reasonableness. Lastly, we recommend the Council establish procedures for a secondary review of inspection procedures performed.

Council's Response: The Nebraska Arts Council will develop policies and procedures for the items cited and will submit them for board approval.

3. Federal Cash Draws Not Expended Timely

The National Endowment for the Arts – General Terms and Conditions for Grants and Cooperative Agreements to Organizations (updated December 2012), Section 6(a), Requests for Advance or Reimbursement, states, in relevant part:

Payment requests must reflect allowable project-related expenses already incurred (reimbursement) and/or expenses to be incurred within 30 days from the date the authorizing official signs the request (advance). All costs must be incurred within the approved period of support.

Section 6(a) concludes with the following warning:

IMPORTANT: Funds must be disbursed immediately upon receipt. *If you cannot do so, you must return the funds to the Arts Endowment. If interest is earned on advanced funds, please contact the G&C [Grants & Contracts] Office.*

During testing of Federal cash draws, we noted two of two draws tested were not expended within the required 30 days from the date the authorizing official signed the request.

- For the first cash draw tested, the funds were requested on March 1, 2013, and were required to be spent by March 31, 2013. The funds were received by the Council on March 13, 2013. The Council did not expend all of the funds until July 10, 2013; this was 131 days after the funds were requested and 101 days over the 30-day deadline.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Federal Cash Draws Not Expended Timely** (Concluded)

- For the second cash draw tested, the funds were requested on September 24, 2013, and were required to be spent by October 24, 2013. The funds were received on October 22, 2013. The Council did not expend all of the funds until November 15, 2013; this was 52 days after the funds were requested and 22 days over the 30-day deadline.

During the attestation examination, the Council contacted the National Endowment for the Arts to obtain clarification of the 30-day cash draw requirement. In response to that inquiry, the Council received an email message explaining that four to six weeks could pass before the requested funds were received and processed. Therefore, the Council was encouraged to “consider developing written guidance regarding the ‘30 days’ policy.” Such policy, the email continued, “should outline and take into account the variety of things that can happen, allowing you to have your case by case issues covered.”

We recommend the Council ensure advanced cash draws are expended within the required 30-day time frame. We also recommend the Council consider the recommendation provided by the National Endowment for the Arts and develop written guidance regarding the 30-day policy.

Council’s Response: The Nebraska Arts Council will develop a policy that will take into account how to address funds that are not received from the National Endowment for the Arts in a timely manner.

4. **Internal Controls Over Fixed Assets**

A good internal control plan includes a proper segregation of duties, so no one individual is in a position to perform all phases of a transaction from beginning to end without an independent secondary review.

During testing, we noted one employee performed all procedures for the fixed assets of the Council. The individual added and deleted items from the inventory listing, performed the annual inventory, and reviewed reports generated from the accounting system. There was no documented secondary review of reports, such as the Fixed Asset Additions and Retirements report or the integrity reports from the accounting system. Furthermore, there was no documented approval of assets surplus or deleted from the system during the calendar year.

Without procedures to ensure an adequate segregation of duties exists, there is an increased risk of loss or misappropriation of assets.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Internal Controls Over Fixed Assets** (Concluded)

We recommend the Council implement policies and procedures to ensure an adequate segregation of duties exists, which would include a documented review of fixed asset reports generated from the accounting system. The Council should require two employees to complete the annual inventory, and both employees should document their review. We also recommend a supervisor document approval of surplused items on the Surplus Property Notification form.

Council's Response: The Nebraska Arts Council has a staff of ten and has limited fixed assets. The NAC believes that adequate controls exist over the employee assigned to the task because of supervisor review and supervisor signed reports issued to the Department of Administrative Services. In the case of the "no documented secondary review of reports", the document that was sent to DAS Materiel Division was signed, but the agency copy was filed before obtaining the supervisor's signature. The NAC will ensure that all agency copies bear the supervisor's signature before filing.

5. **Federal Information to Grantees**

OMB Circular A-133 § __.400(d) states, as is relevant:

A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.

The National Endowment for the Arts – General Terms and Conditions for Grants and Cooperative Agreements to Organizations (updated December 2012), Section 31(b), Subgranting to Eligible Organizations, Units of State and/or Local Government, states, in relevant part:

[Y]ou must inform subgrantees that they are receiving Federal funds from the National Endowment for the Arts, and that they must comply with these mandates.

You must also:

- *Provide them with your Federal award number and associated CFDA number (the CFDA number is on your award letter or cooperative agreement document).*
- *Instruct them that there may be no overlapping project costs between Federal awards, whether they receive them directly from a Federal agency or indirectly, such as through a state agency or other entity.*

A good internal control plan requires adequate procedures to ensure all required Federal information is provided to subrecipients when awards are made.

NEBRASKA ARTS COUNCIL

COMMENTS AND RECOMMENDATIONS

(Concluded)

5. Federal Information to Grantees (Concluded)

The Council did not inform subrecipients of all required information when grant awards were made. During testing, we noted eight of eight subrecipients tested were not informed of the CFDA title, award name, and award number in accordance with OMB Circular A-133.

Furthermore, the Council did not inform the subrecipients of the funding source or the requirements for overlapping projects. The award letter informed the recipients they could be receiving a grant from State, Federal, or private sources, and they needed to contact the Council to determine what they had been granted.

When all required information is not provided to the subrecipient, there is an increased risk of noncompliance with Federal regulations and grant requirements.

We recommend the Council develop procedures to ensure subrecipients are provided all required information. We further recommend the recipient be made aware of the source of funding to ensure compliance with Federal regulations.

Council's Response: When converting the agency from paper to digital files, the cited information was inadvertently dropped on the form. The necessary documentation has been updated to include the Federal grant award number, CFDA number, and instructions.



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NEBRASKA ARTS COUNCIL

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Arts Council
Omaha, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Arts Council (Council) for the period January 1, 2013, through December 31, 2013. The Council's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Schedule of Revenues, Expenditures, and Changes in Fund Balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

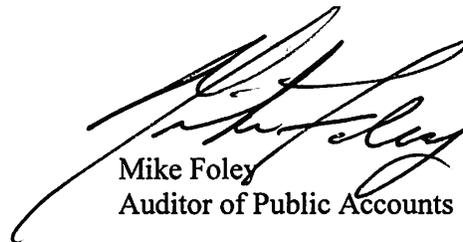
In our opinion, the schedule referred to above presents, in all material respects, the Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Council for the period January 1, 2013, through December 31, 2013, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance

and other matters; accordingly, we express no such opinions. Our examination disclosed no findings that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Council management, others within the Council, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

May 7, 2014



Mike Foley
Auditor of Public Accounts

NEBRASKA ARTS COUNCIL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2013

	General Fund 10000	Nebraska Arts Council Cash Fund 26900	Nebraska Arts & Humanities Cash Fund 26920	Fine Arts Federal Fund 46910	Totals (Memorandum Only)
REVENUES:					
Appropriations	\$ 1,442,363	\$ -	\$ -	\$ -	\$ 1,442,363
Intergovernmental	-	-	-	821,600	821,600
Miscellaneous	2,160	298	552	-	3,010
TOTAL REVENUES	1,444,523	298	552	821,600	2,266,973
EXPENDITURES:					
Personal Services	421,677	-	6,135	164,043	591,855
Operating	102,822	1,000	-	22,690	126,512
Travel	12,077	-	690	2,247	15,014
Government Aid	905,787	-	582,954	535,708	2,024,449
TOTAL EXPENDITURES	1,442,363	1,000	589,779	724,688	2,757,830
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,160	(702)	(589,227)	96,912	(490,857)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	25	-	-	-	25
Deposit to General Fund	(2,185)	-	-	-	(2,185)
Operating Transfers In	-	-	612,954	-	612,954
TOTAL OTHER FINANCING SOURCES (USES)	(2,160)	-	612,954	-	610,794
Net Change in Fund Balances	-	(702)	23,727	96,912	119,937
FUND BALANCES, January 1, 2013	539	16,280	565	95,486	112,870
FUND BALANCES, December 31, 2013	<u>\$ 539</u>	<u>\$ 15,578</u>	<u>\$ 24,292</u>	<u>\$ 192,398</u>	<u>\$ 232,807</u>
FUND BALANCES CONSIST OF:					
General Cash	\$ -	\$ 15,578	\$ 24,292	\$ 53,398	\$ 93,268
Petty Cash	250	-	-	-	250
Deposits with Vendors	289	-	-	-	289
Accounts Receivable Invoiced	-	-	-	139,000	139,000
TOTAL FUND BALANCES	\$ 539	\$ 15,578	\$ 24,292	\$ 192,398	\$ 232,807

The accompanying notes are an integral part of the schedule.

NEBRASKA ARTS COUNCIL

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2013

1. Criteria

The accounting policies of the Nebraska Arts Council (Council) are on the basis of accounting, as prescribed by the State of Nebraska's Director of the Department of Administrative Services (DAS). Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the Director of DAS include:

The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes[.]

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows.

State Accounting does not require the Council to record all accounts receivable and related revenues in EnterpriseOne. As such, the Council's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payables posted in the general ledger as of December 31, 2013, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2013, **does not** include amounts for goods and services received before December 31, 2013, which had not been posted to the general ledger as of December 31, 2013.

The Council had no accounts receivable, not recorded in EnterpriseOne, at December 31, 2013. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Council are:

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

NEBRASKA ARTS COUNCIL

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

40000 – Federal Funds – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

The major revenue account classifications established by State Accounting and used by the Council are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income, reimbursement for expenses incurred by the Council for 1% for Art projects, and reimbursement of funds from grantees for unused grant monies.

The major expenditure account classifications established by State Accounting and used by the Council are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Council.

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any State officer, employee, or member of any commission, council, committee, or board of the State.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant accounting classifications and procedures established by State Accounting and used by the Council include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger.

NEBRASKA ARTS COUNCIL

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. Reporting Entity

The Council is a State agency established under and governed by the laws of the State of Nebraska. As such, the Council is exempt from State and Federal income taxes. The schedule includes all funds of the Council included in the general ledger.

The Council is part of the primary government for the State of Nebraska.

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Council takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

NEBRASKA ARTS COUNCIL

NOTES TO THE SCHEDULE
(Concluded)

5. Capital Assets (Concluded)

For the CAFR, the State requires the Council to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of three years.

Capital asset activity of the Council recorded in the State Accounting System for the calendar year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	\$ 42,485	\$ -	\$ 2,277	\$ 40,208
Total	42,485	-	2,277	40,208
Less accumulated depreciation for:				
Equipment				40,054
Total capital assets, net of depreciation				\$ 154

Note: The accumulated depreciation noted in the table above was calculated in the accounting system through September 30, 2013. Depreciation for October through December 2013 was not run in the accounting system until after the end of the calendar 2013.

6. Transfers

The Council received \$612,954 of operating transfers into the Nebraska Arts and Humanities Cash Fund (Cash Fund) from the Nebraska Cultural Preservation Endowment Fund (Endowment Fund) in accordance with Neb. Rev. Stat. § 82-331 (Supp. 2013). Only earnings from the Endowment Fund can be transferred for use by the Council in the Cash Fund.

7. Component Units

The Nebraska Cultural Endowment and the Nebraska Arts Council (NAC) Development Corporation are component units of the Nebraska Arts Council, as defined by the Government Accounting Standards Board (GASB). Financial information for these component units was not included in the financial schedule of the Council. Additional information on the component units is available from the Nebraska Arts Council. During the calendar year, the Council remitted \$602,954 to the Nebraska Cultural Endowment and \$17,500 to the NAC Development Corporation.

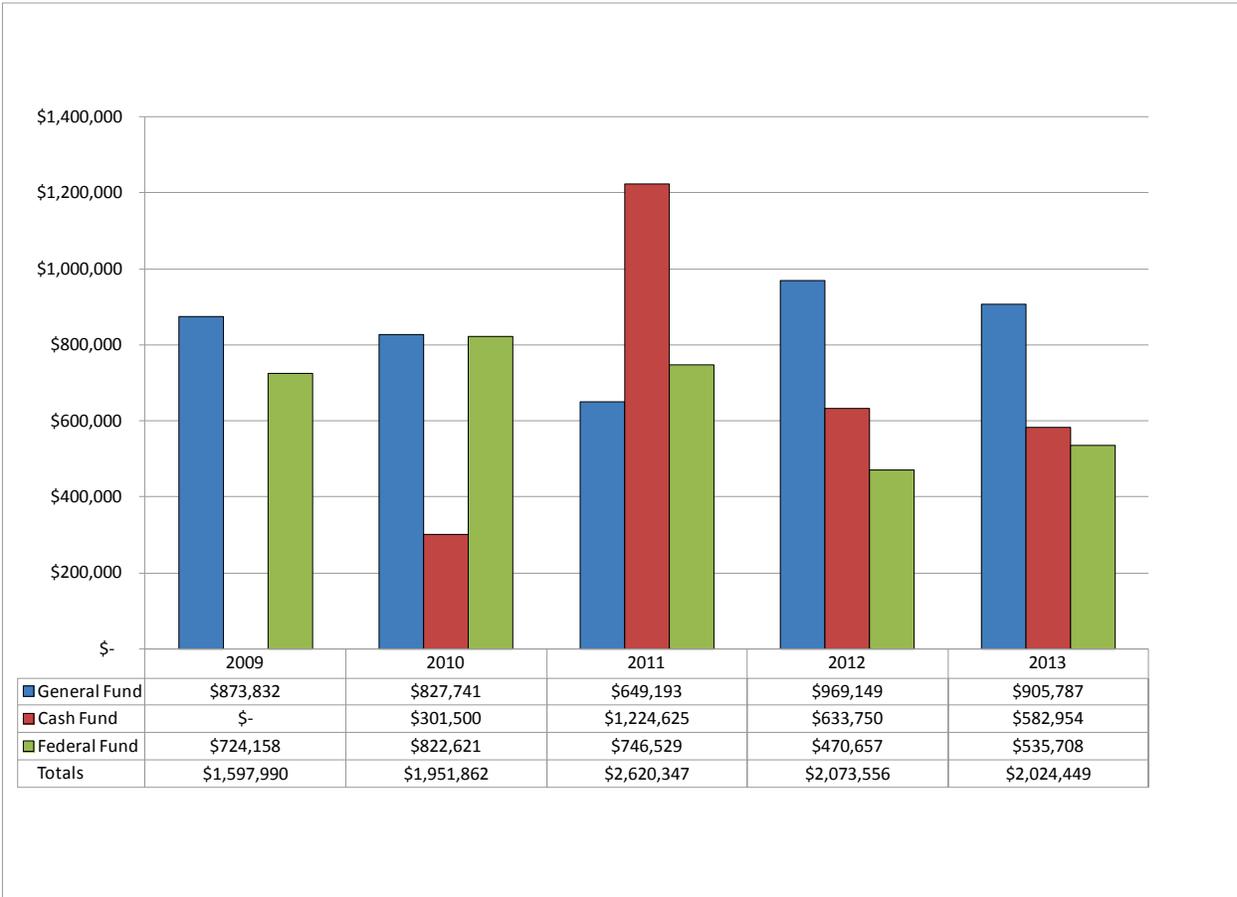
NEBRASKA ARTS COUNCIL

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

NEBRASKA ARTS COUNCIL

GOVERNMENT AID EXPENDITURES BY FUND TYPE
For Calendar Years Ended December 31, 2009, through 2013

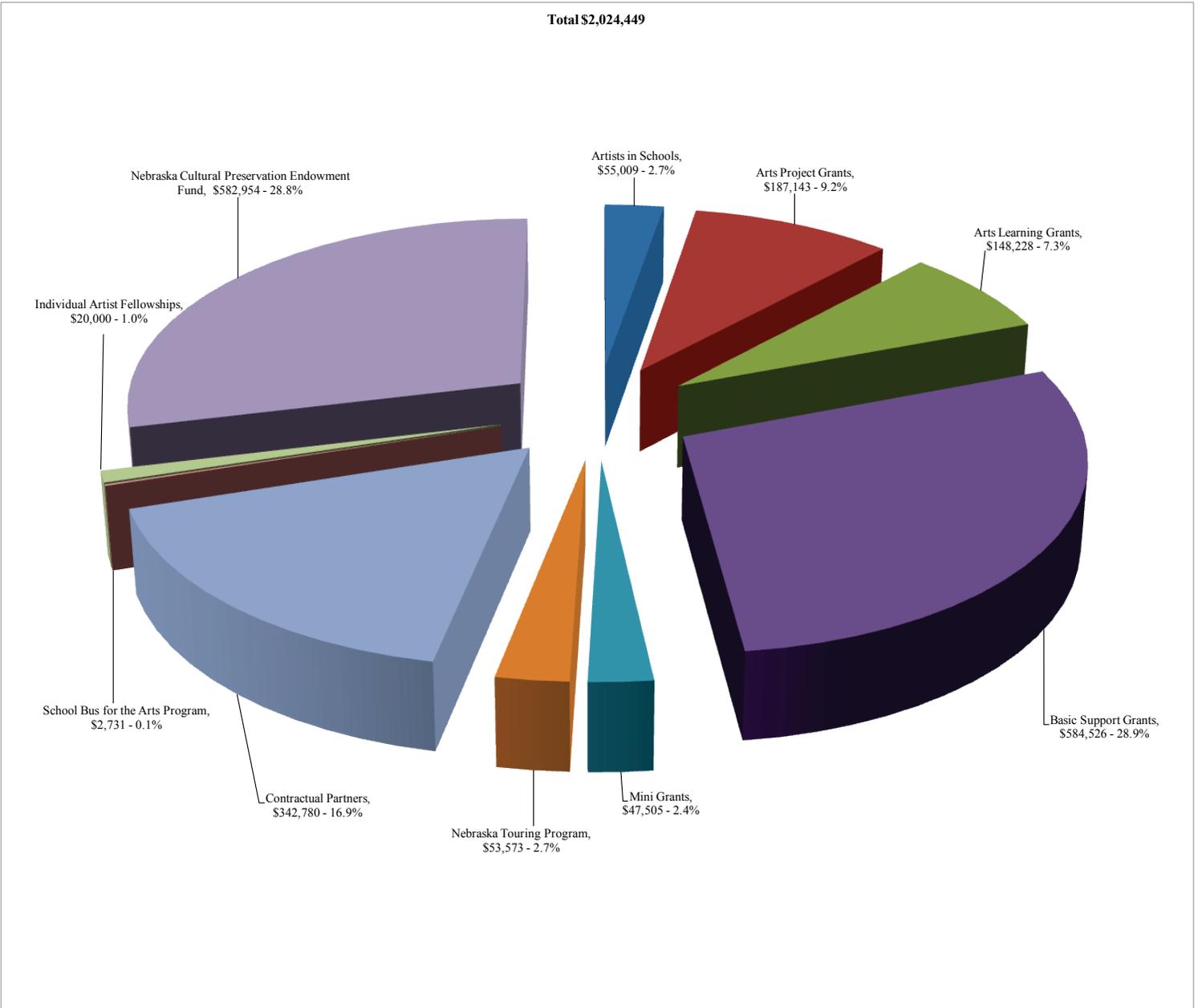


Note: For calendar year 2009, there were no expenditures from the Cash Fund because the Nebraska Cultural Preservation Endowment Fund did not have earnings to transfer to the Cash Fund. According to Neb. Rev. Stat. § 82-331(1) (Supp. 2013), the Nebraska Cultural Preservation Endowment Fund "[s]hall consist of funds appropriated or transferred by the Legislature, and only the earnings of the fund may be used as provided in this section." Furthermore, § 82-331(7) states, "All investment earnings from the Nebraska Cultural Preservation Endowment Fund shall be credited to the Nebraska Arts and Humanities Cash Fund."

NEBRASKA ARTS COUNCIL

**EXPENDITURES BY GRANT PROGRAMS
For Calendar Year Ended December 31, 2013**

Total \$2,024,449



Programs for Organizations & Artists

Artists in Schools/ Communities Residency Sponsor Grants

\$55,009

Support Council roster artist residencies that include at least 20 contact hours with participants. During residencies, artists share their expertise and work with teachers or staff to help students achieve educational goals in the arts and other academic disciplines.

NEBRASKA ARTS COUNCIL

Programs for Organizations & Artists
(Continued)

Arts Project Grants	\$187,143
Support for arts programming, productions, or events open to the general public. Support is limited to an arts project taking place within a defined period of time. The program or event may have multiple components and/or performances.	
Arts Learning Grants	\$148,228
Support for programs with a strong educational emphasis in preK-12 schools or in community settings. Projects should involve a sequential arts education curriculum that addresses local or national educational learning standards in the arts and may also be aligned with standards in other disciplines.	
Basic Support Grants	\$584,526
Provide annual operating support to eligible community, volunteer, and discipline-based Nebraska arts organizations. This category offers grants to support three major areas: major arts organizations, discipline-based arts organizations, and community-based arts organizations.	
Mini Grants	\$47,505
Provide quick access to funds supporting a variety of arts projects that use artists or arts activities as a key component. Examples of project types include exhibitions, performances, poetry readings, commissions and/or support of new work development, arts festivals, community murals, and cultural heritage projects.	
Nebraska Touring Program	\$53,573
Review Nebraska artists and performing arts organizations for inclusion in the Council's Artist Directory, used by nonprofit organizations to select performances and exhibits.	
School Bus for the Arts Program	\$2,731
Helps underwrite the cost of field trips and admission fees to attend arts events, such as live music, dance, or theatre performances and cultural exhibits at museums or other venues.	
Individual Artist Fellowships	\$20,000
For Nebraska artists in literature, performing arts, and visual arts, which alternate in a three-year cycle.	

NEBRASKA ARTS COUNCIL

Programs for Organizations & Artists
(Concluded)

Contractual Partners

\$342,780

Nebraska Cultural Endowment (NCE): The NCE is a 501(c)(3) nonprofit corporation that exists solely to fundraise and invest the funds raised on behalf of the Council and the Nebraska Humanities Council.

Humanities Nebraska (HN): The HN is a 501(c)(3) nonprofit corporation affiliated with the National Endowment for the Humanities, a Federal agency. Its mission is to cultivate an understanding of Nebraska history and culture.

Special Initiatives: Special Initiative projects assist arts communities in developing resources and support Nebraska's arts industry, provide arts education initiatives that have sustained impact on a community, showcase Nebraska artists of exceptional quality, and promote understanding among cultures with sustained, long-term impact.

Nebraska Cultural Preservation Endowment Fund

\$582,954

This fund, as established by § 82-331, benefits the Nebraska Arts Council and Humanities Nebraska. The revenue is distributed 70% for projects designated by the Council and 30% as designated by Humanities Nebraska.