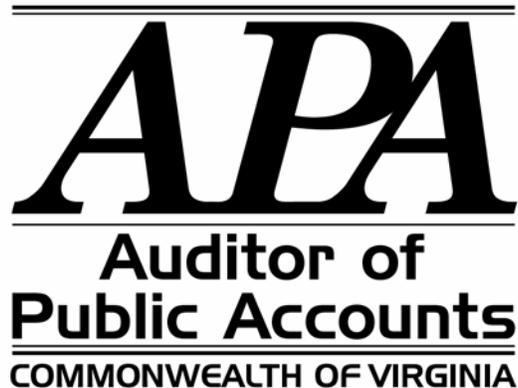


**VIRGINIA WAR MEMORIAL FOUNDATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of the Virginia War Memorial Foundation for the year ended June 30, 2003, found:

- proper recording and reporting of transactions, in all material respects, in the Foundation's accounting records;
- no matters involving the internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

- TABLE OF CONTENTS -

AUDIT SUMMARY

AGENCY HIGHLIGHTS AND FINANCIAL INFORMATION:

Overview

Budget Reductions

Administrative Highlights

Strategic Plan Highlights

INDEPENDENT AUDITOR'S REPORT

OFFICIALS

AGENCY HIGHLIGHTS AND FINANCIAL INFORMATION

Overview

The Virginia War Memorial Foundation's (the Foundation) Board of Trustees (the Trustees) determines how to honor Virginians for faithful service in time of war and oversees all Foundation activities. The Trustees also verify that the War Memorial includes the names of all Virginians killed-in-action or listed as "missing-in-action" from World War II, the Korean War, the Vietnam War, or the Persian Gulf War.

In 1998, the Trustees developed a strategic plan for the Memorial, which focused on the renovation and expansion of the Memorial to include educational facilities, as well as the development of the educational programs. To further support its mission and provide a greater incentive for donations, the Trustees established the Virginia War Memorial Educational Foundation, Incorporated (Corporation), to act as an administrative fund-raising arm of the Foundation as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The Corporation is a publicly-supported organization, and grantors and contributors may rely on its publicly-supported status to make tax-exempt donations. Therefore, all fund-raising efforts flow through the Corporation to ensure the tax-exempt status of donations received.

The following schedule reflects the financial activity, on a cash basis of accounting, for both the Foundation and Corporation during fiscal year 2003.

	<u>Virginia War Memorial Foundation</u>	<u>Virginia War Memorial Educational Foundation*</u>
Revenues:		
Appropriations	\$ 174,117	\$ -
Donations		59,573
Other	<u>7,329</u>	<u>76</u>
Total revenues	<u>181,446</u>	<u>59,649</u>
Expenses:		
Personnel	171,266	-
Contractual services	19,029	267,282
Supplies and materials	2,330	-
Continuous charges	23,508	-
Equipment	260	-
Plant and improvements	<u>39,845</u>	<u>-</u>
Total expenses	<u>256,238</u>	<u>267,282</u>
Net income/(loss) before transfers	(74,792)	(207,633)
Transfers in /(out)	<u>(233,500)</u>	<u>233,500</u>
Net income/(loss)	(308,292)	25,867
Beginning balance, July 1, 2002	<u>624,251</u>	<u>9,778</u>
Ending balance, June 30, 2003	<u>\$ 315,959</u>	<u>\$ 35,645</u>

Budget Reductions

As with all state agencies, the Foundation has undergone recent budget reductions in its General Fund appropriations. Budget cuts for fiscal year 2003 amounted to approximately \$25,000. The Foundation absorbed these reductions by decreasing travel and administrative expenses. For fiscal year 2004, the Foundation anticipates similar budget reductions of \$25,000 and also plans to absorb these reductions by decreasing travel and administrative expenses. The Foundation will fund future program development by donations to the Corporation instead of General Fund appropriations.

Administrative Highlights

The Foundation has two employees responsible for supporting the Trustees and their mission. These responsibilities include:

- Management and the daily operations of the Memorial
- Coordination of board meetings and communications
- Development and implementation of educational programs
- Oversight over renovation of Memorial facilities and grounds
- Coordination of fund-raising activities
- Maintenance of the Foundations' internal accounting records
- Collection and preservation of books, manuscripts, war artifacts, and memorabilia

The Department of General Services (General Services) provides other administrative support including cash receipt, payroll accounting, procurement, contract management, and building and maintenance activities.

The Foundation has received General Fund appropriations through General Services to aid in its administrative activities and renovation efforts since fiscal year 1998. General Services retains a portion of the appropriations to cover the costs of operations including the salaries and related benefits of the Foundation's two staff, as well as routine maintenance of the Memorial provided by the Department of General Services' Bureau of Facilities Management.

In prior years, General Services would transfer any remaining amounts to the Foundation to fund repair and planned expansion of the Memorial. However, due to a reduction in General Fund appropriations, no amounts were available for transfer in fiscal year 2003 and management does not anticipate having any funds for fiscal year 2004. The Foundation plans to use the remaining cash balance towards completing Phase Two renovations, which we will discuss in the following section.

Strategic Plan Highlights

Construction

The strategic plan addresses multiple issues concerning the renovation and expansion of the War Memorial. The Trustees divided the majority of these issues into three phases with the first two phases focusing on renovation and the third phase focusing on expansion. For the most part, the Foundation is relying on General Fund appropriations to support these construction projects. Further, the Foundation hopes to establish a public-private partnership to assist in funding Phase Three. The following schedule highlights the three phases, their budgets, funding source, total expenses as of June 30, and outstanding commitments. A brief description of each phase follows the schedule.

	<u>Phase One</u>	<u>Phase Two</u>	<u>Phase Three</u>
Budget	<u>\$500,000</u>	<u>\$450,000</u>	<u>\$4,500,000</u>
Funding:			
Appropriations	500,000	412,500	-
Interest from investments	<u>-</u>	<u>37,500</u>	<u>-</u>
Total funding provided	<u>500,000</u>	<u>450,000</u>	<u>-</u>
Less:			
Expenditures prior to fiscal year 2003	499,100	50,800	-
Expenditures in fiscal year 2003	-	40,200	-
Outstanding commitments	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses and commitments	<u>499,100</u>	<u>91,000</u>	<u>-</u>
Variance: favorable (unfavorable)	<u>\$ 900</u>	<u>\$359,000</u>	<u>\$ -</u>

During fiscal year 2002, the Trustees completed the first phase of renovating the Virginia War Memorial. This phase included replacing and upgrading electrical service; repairing retaining walls, handrails and sidewalks; and converting the planter into a stage area. The Foundation spent \$499,100 on this phase.

The Trustees have decided to implement Phase Two as multiple projects including improving the Memorial auditorium, lighting, sound equipment, security, and signage. The Trustees continued Phase Two planning through fiscal year 2003 and will begin construction to renovate the auditorium during fiscal year 2004. The third phase will provide for the addition of an educational wing to the Memorial upon completion of the second phase. Currently, capital funding is not available for Phase Three; however, eventually the Trustees would like to develop a public-private partnership to provide future funding.

Educational Programs

The Trustees identified three educational projects which include: "Salute to Virginia Veterans," "Into Battle," and "Virginians at War: Historic Interviews." Each of these projects is at various stages of completion, and the Trustees will pay for these projects through private donations. The Corporation is leading fund-raising efforts and managing these projects.

Fund Raising

During fiscal year 2003, the Corporation engaged a fund-raising consultant to advise on its fund-raising activities and has paid \$112,321 towards its fund-raising effort. The Trustees deposit all donations to the Corporation to fund education programs sponsored by the Corporation. For fiscal year 2003, donations and transfers to the Corporation were \$59,573 and \$233,500, respectively. These funds provided support for the three educational programs previously mentioned.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

April 8, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Vice Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

Board of Trustees
Virginia War Memorial Foundation

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Virginia War Memorial Foundation** for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Foundation's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Foundation's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We

performed audit tests to determine whether the Foundation's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Foundation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Foundation's accounting records. The Foundation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Foundation's accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We discussed this report with management on April 13, 2004.

AUDITOR OF PUBLIC ACCOUNTS

JP/kva
kva:

VIRGINIA WAR MEMORIAL FOUNDATION
Richmond, Virginia

BOARD OF TRUSTEES

Frank D. Hargrove, Sr.
Chairman

William K. Barlow	John L. Marocchi
John S. Edwards	Stephen H. Martin
Harold W. Fleenor	John W. "Jack" Nicholson
Willis C. Hardwick	Roger L. Overstreet
John G. Hekman	D. Nick Rerras
William R. Janis	E. Philip Russell
Francis Caroline Lane	Winsome E. Sears

S. Judson Stanley

Sandra D. Bowen
Ex-Officio

Jon C. Hatfield
Executive Director