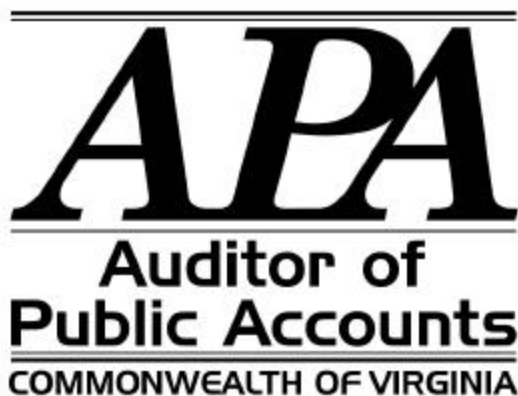


**VIRGINIA WAR MEMORIAL FOUNDATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Virginia War Memorial Foundation for the year ended June 30, 2002, 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 non-compliance 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, Incorporated, 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. On February 27, 2002, in order to better reflect the purpose of the Corporation, the Trustees changed the name to the Virginia War Memorial Educational Foundation, Incorporated (the Corporation), to better describe the purpose of the Corporation.

The Corporation received an advance ruling determination letter on October 12, 2000. During the determination period ending on December 31, 2003, the Corporation is a publicly-supported organization and grantors and contributors may rely on the organization's publicly-supported status to make tax-exempt donations to the Corporation. Therefore, all fund-raising efforts flow through the Corporation to ensure the tax-exempt status of donations received until this period ends and there is a final determination on the organization's tax-exempt status.

The following schedule reflects the financial activity, on a cash basis of accounting, for both the Foundation and the Corporation during fiscal year 2002.

	<u>Virginia War Memorial Foundation</u>	<u>Virginia War Memorial Educational Foundation, Inc.*</u>
Revenues:		
Appropriations – Carry forward	\$ 15,100	\$ -
Appropriations	366,584	-
Donations	-	26,687
Other	<u>20,164</u>	<u>116</u>
Total revenues	<u>401,848</u>	<u>26,803</u>
Expenses:		
Personnel	134,176	-
Contractual services	63,858	229,266
Supplies and materials	2,305	-
Continuous charges	22,573	-
Equipment	12,098	-
Plant and improvements	<u>121,444</u>	<u>-</u>
Total expenses	<u>356,454</u>	<u>229,266</u>
Net income/(loss) before transfers	45,394	(202,463)
Transfers in/(out)	<u>(173,434)</u>	<u>173,434</u>
Net income/(loss)	(128,040)	(29,029)
Beginning balance, July 1, 2001	<u>752,291</u>	<u>38,808</u>
Ending balance, June 30, 2002	<u><u>\$624,251</u></u>	<u><u>\$ 9,779</u></u>

* The Corporation operates on a calendar year basis and is audited by other auditors.

Budget Reductions

In fiscal year 2002, the Foundation had a reduction in its original General Fund appropriations of approximately \$97,750 as a result of statewide budget reductions. The Foundation anticipates additional budget reductions for fiscal years 2003 and 2004 of \$10,000 each year. The Foundation plans to absorb these reductions through a reduced amount of travel and administrative expenses. The Foundation will fund future renovations and program development by donations to the Corporation instead of General Fund appropriations.

Administrative Highlights

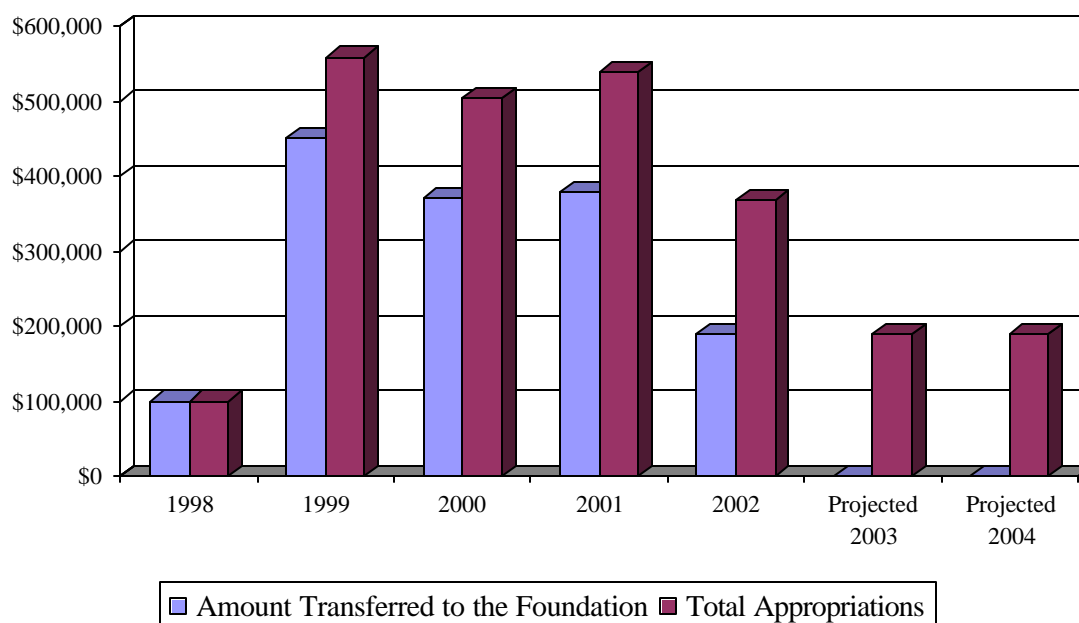
The Foundation has three employees responsible for supporting the Trustees and their mission. These responsibilities include:

- 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, and
- maintenance of the Foundation's internal accounting records.

The Department of General Services provides other administrative support including cash receipt, payroll accounting, procurement, contract management, and building and maintenance activities. Both the Foundation and Department of General Services provide similar support for the Corporation.

The Foundation receives General Fund appropriations through the Department of General Services to aid in its administrative activities and renovation efforts since fiscal year 1998. Beginning in fiscal year 2001, the Foundation relies solely on General Fund appropriations to fulfill its responsibilities. The following chart reflects General Fund appropriations dedicated to the Foundation since 1998.

General Fund Appropriations to the Virginia War Memorial Foundation



The Department of General Services retains the portion of the appropriations not transferred to the Foundation to cover the costs of the salaries and related benefits of the Foundation's three staff, as well as routine maintenance of the Memorial provided by the Department of General Service's Bureau of Facilities Management. The majority of amounts transferred to the Foundation have funded the repair of the Memorial, as well as its planned expansion over the next several years. However, there are no amounts for transfer to the Foundation for repair or renovation of the Memorial in fiscal years 2003 and 2004. The Foundation plans to use remaining cash balance to complete phase 2 renovations.

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. The Foundation is relying on General Fund appropriations to support these construction projects. 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 1</u>	<u>Phase 2</u>	<u>Phase 3</u>
Budget	\$ 500,000	\$450,000	\$2,393,000
Funding:			
Appropriations	500,000	412,500	-
Interest on investments	<u>-</u>	<u>37,500</u>	<u>-</u>
Total funding provided	500,000	450,000	-
Less:			
Total expenses as of June 30, 2002	<u>(499,100)</u>	<u>(50,800)</u>	<u>-</u>
Variance, Favorable/(unfavorable)	<u>\$ 900</u>	<u>\$399,200</u>	<u>\$ -</u>

During fiscal year 2002, the Trustees completed the first phase of the renovation of the Virginia War Memorial. Work in 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 begun the planning part of the second phase with the hiring of an architect to develop plans for the renovation of the auditorium. The third phase will provide for the addition of an educational wing to the Memorial upon completion of the second phase.

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, but the Trustees expect to pay for these projects primarily through private donations. Therefore, the Corporation is leading fund-raising efforts and managing these projects.

Fund-raising

The Corporation has engaged a fund-raising consulting firm to advise on its fund-raising activities. The Corporation has paid \$34,000 to the consultants as of June 30, 2002.

The Trustees deposit all donations to the Corporation in the Heritage Fund, which is specifically dedicated to education programs sponsored by the Corporation. At June 30, 2002, donations and transfers to the Corporation totaled \$329,581. These funds will support the three educational programs previously mentioned.

December 10, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

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, 2002. 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 Foundation's accounting records, 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 Department properly stated, in all material respects, the amounts recorded and reported 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 January 13, 2003.

AUDITOR OF PUBLIC ACCOUNTS

MAM/kva
kva:

VIRGINIA WAR MEMORIAL FOUNDATION
Richmond, Virginia

BOARD OF TRUSTEES

Frank D. Hargrove, Sr.
Chairman

William K. Barlow	John L. Marocchi
John Thomas Burch, Jr.	Stephen H. Martin
Adrian Cronauer	John W. Nicholson
John S. Edwards	James K. (Jay) O'Brien
Harold Fleenor	D. Nick Rerras
Willis C. Hardwick	E. Phillip Russell
William E. Kirkland	S. Judson Stanley
Francis Caroline Lane	Winsome E. Sears

Sandra D. Bowen
Ex-Officio

Jon C. Hatfield
Executive Director