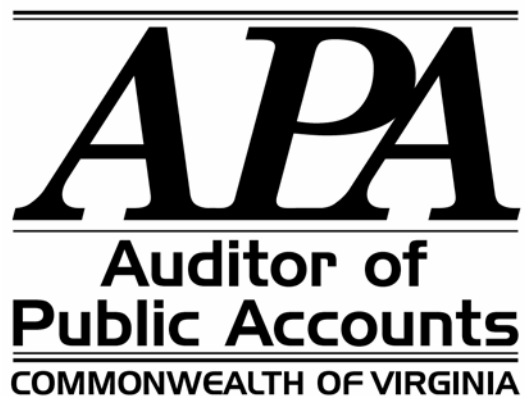


VIRGINIA'S MUSEUMS

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



EXECUTIVE SUMMARY

This report contains the results of our combined audit of the following museums*:

Science Museum of Virginia
Virginia Museum of Fine Arts
Frontier Culture Museum of Virginia

Gunston Hall
Jamestown Yorktown Foundation
Virginia Museum of Natural History

* We refer to these agencies collectively throughout the report as Virginia's Museums.

The Science Museum of Virginia has unpaid vendor bills and operating loans from its foundation totaling \$777,341 or approximately 10 percent of its annual revenues. Our audit of Virginia's Museums found that all the museums, with the exception of two, have annual payroll expenses that exceed current general fund appropriation, and as a result, have a significant reliance on special revenues for operational expenses. However, three of the six museums missed their estimated special revenue collections in excess of 10 percent. As a result, Virginia's Museums incur the risk of having operating deficits similar to the Science Museum.

In addition, the lack of funding has resulted in the Museums having small administrative staffs that by their nature does not provide for a good internal control structure. The best resolution for this issue is the sharing of general operating functions such as accounting, purchasing, payroll, marketing, development, reservations, and human resources. This structure allows smaller organizations to concentrate on their primary service delivery functions while improving internal controls like segregation of duties and minimizing operating costs. The savings gained from this sharing could improve the museums financial health and provide additional needed funding for exhibits, maintenance needs, debt, or the initiation of capital campaigns.

Historically, the Museums have been reluctant or opposed to any form of administration sharing of resources and have cited their independent boards, management structure, dispersed locations, and differing mission as reasons not to attempt this sharing. The long-term financial health of all of these entities depends on a rational approach to their common administrative and operating needs. Only the Virginia Museum of Fine Arts has the depth of financial resources for long-term sound stability, however, this assumes that the Commonwealth will contribute its current support and increase that support to maintain the new capital construction it has undertaken.

- TABLE OF CONTENTS -

EXECUTIVE SUMMARY

VIRGINIA'S MUSEUMS STATEWIDE FUNDING AND OPERATING ISSUES

VIRGINIA'S MUSEUMS HIGHLIGHTS AND FINANCIAL INFORMATION:

The Science Museum of Virginia

The Virginia Museum of Fine Arts

The Frontier Culture Museum of Virginia

Gunston Hall

The Jamestown-Yorktown Foundation

The Virginia Museum of Natural History

INDEPENDENT AUDITOR'S REPORT

AGENCY RESPONSES:

The Science Museum of Virginia

The Virginia Museum of Fine Arts

The Jamestown-Yorktown Foundation

The Virginia Museum of Natural of History

APPENDIX A

MUSEUM OFFICIALS

VIRGINIA'S MUSEUMS STATEWIDE FUNDING AND OPERATING ISSUES

Virginia's Museums have the collective responsibilities of preserving, interpreting, and promoting history, culture, the arts, and sciences throughout the Commonwealth. Virginia's Museums receive a variety of funding to cover the expenses in their efforts to meet these responsibilities including general fund appropriations and special revenue which includes entrance fees, gift shop revenue, gifts, and related foundation grants and loans. Our review of Virginia's Museums found that all museums, with the exception of two, cannot meet payroll obligations using current general fund appropriations. As a result, there is a significant reliance on special revenues for operational expenses and, in one case; the Science Museum of Virginia has an operational deficit of approximately \$777,341.

The largest operating expense at each of the museums is payroll. The table below details each museum's general fund appropriation and the amount spent on payroll. As noted below, all the museums with the exception of Gunston Hall and Natural History have payroll expenses that exceed their general fund appropriations. Four of six of the museums must rely on approximately one-fourth or more of their special revenue to cover the payroll expenses not covered by general funds. As a result, properly estimating special revenue collections and achieving these budgeted estimates for special revenue is critical to meeting operating expenses for the museums.

	<u>General Fund**</u>	<u>Special Revenue*</u>	<u>Total Funding</u>	<u>Payroll Expenses</u>	<u>Total Operating Expenses</u>	<u>Percentage of Payroll Expenses¹</u>	<u>Percentage of Special Revenue²</u>
The Science Museum of Virginia	\$3,950,250	\$4,072,140	\$8,022,390	\$5,241,782	\$8,291,890	63%	32%
Virginia Museum of Fine Arts	6,423,942	1,403,600	7,827,542	7,746,588	12,624,568	61	94
Frontier Culture Museum of Virginia	1,222,331	672,696	1,895,027	1,379,689	1,716,879	80	23
Gunston Hall	584,046	337,701	921,747	427,737	656,529	65	-
Jamestown York- town Foundation (JYF)	5,327,787	5,463,572	10,791,359	7,817,786	10,791,739	72	46
Jamestown 2007***	241,460	5,246,945	5,488,405	1,341,880	3,422,805	39	21
JYF & 07 Combined	5,604,118	10,710,517	16,279,764	9,206,871	14,214,544	64	34
Virginia Museum of Natural History	1,717,784	444,601	2,162,385	1,465,828	1,843,372	80	-

¹ as a percentage of Total Operating Expenses

² needed to cover payroll

* Does not include special revenue for capital projects

** Does not include general funding for maintenance reserve

*** Jamestown 2007 includes dedicated special revenue for operations

However, the table below "Special Revenue Budget to Actual" shows that only one museum, the Virginia Museum of Fine Arts, met their budget estimate for special revenue in 2004. Gunston Hall and the Virginia Museum of Natural History underestimated special revenue by 56 percent and 46 percent respectively as show in the table below. Museum staff must monitor actual special revenue collections and total expenses to ensure expenses do not exceed funding. If this does not occur the museum will incur off-CARS (Commonwealth Accounting and Reporting System) deficit financing to cover expenses.

Special Revenue *Budget to Actual

	<u>Budgeted Special Revenue</u>	<u>Actual Special Revenue Collected</u>	<u>Difference</u>	<u>Percentage Under/Over Budget</u>
The Science Museum of Virginia	\$4,072,140	\$3,875,986	\$(196,154)	(5)%
Virginia Museum of Fine Arts	1,403,600	1,841,095	437,495	31
Frontier Culture Museum of Virginia	672,696	592,808	(79,888)	(12)
Gunston Hall	337,701	147,181	(190,520)	(56)
Jamestown-Yorktown Foundation	5,463,572	5,994,600	531,028	10
Jamestown 2007	5,246,945	4,272,010	(974,935)	(19)
Jamestown Yorktown Foundation and 2007 Combined	10,710,517	10,266,610	(443,907)	(4)
Virginia Museum of Natural History	444,601	241,407	(203,194)	(46)

*Does not include Special Revenue for capital projects

The Science Museum of Virginia

For the past three years, the Science Museum of Virginia has continued to spend in excess of its general fund and special revenue funding. In fiscal years 2002 and 2003, the museums total funding decreased by \$1.3 million due to budget cuts, in state appropriations and not meeting their special revenue collection goal for gifts, while only decreasing expenses \$326,093.

In fiscal year 2004, despite efforts to significantly cut back on personal and contractual services, the overall deficit reached \$777,341, due to the Science Museum accumulating 638,904 in unpaid vendor invoices and obtaining a \$250,000 loan from the Science Museum of Virginia Foundation, Incorporated to cover payroll expenses.

Adding to the Science Museum's failure to meet its special revenue estimates was a decline in admissions collections, which we believe is a direct effect of the Science Museum's deteriorating museum exhibits. This, coupled with the state budget cuts previously mentioned, is a leading factor in the significant cash flow problems the museum has experienced since 2000. In addition, management has consistently and significantly overestimated its projected revenues and underestimated its projected expenses as shown in both of the tables above.

The Science Museum has covered its expenses incurred in excess of its overall funding by not paying invoices timely and incurring loans with the Science Museum of Virginia Foundation, Incorporated. In the final quarter of fiscal year 2004, the Science Museum paid 35 percent of its accounts payable more than 30 days after receipt of goods, services, and invoice; resulting in \$638,904 in accounts payable at fiscal year end. During fiscal year 2005 management borrowed an additional \$150,000 from the Foundation and spent \$551,483 from current general fund appropriations to satisfy the outstanding operational accounts payable. As a result, the Museum decreased their accounts payables to \$87,421 but increased their total loan payable to the Foundation to \$400,000 to cover other operational expenses.

The Science Museum has made some progress; it has begun paying down its accounts payable, and is attempting to slow the increase of expenses by continuing its hiring freeze. However, in order to improve cash management and remain a viable going concern, the Science Museum's management must develop and implement a more aggressive, comprehensive plan of action.

The Museums Need to Share Administrative Functions

As a result of funding issues the majority of museums have a small number of administrative staff that by its nature does not allow for a good internal control structure. This is evident by the internal control findings regarding access to various systems at the Science Museum and Jamestown Yorktown Foundation.

Over the past several years a number of agencies, including the Governor's Office, have addressed this issue by sharing general operating functions such as accounting, purchasing, payroll, marketing, development, reservations, and human resources. This structure allows smaller organizations to concentrate on their primary service delivery functions while improving internal controls like segregation of duties and minimizing operating costs. The savings gained from this consolidation could improve the museums financial health and provide additional needed funding for exhibits, maintenance needs, debt, or the initiation of capital campaigns.

All the museums, including the Science Museum of Virginia, have plans to expand or host large special events, which will increase their reliance on special revenue to fund related expenditures. Before these plans move forward, the administration should assess the current physical and financial condition of museums and develop a museum plan that addresses the Commonwealth's role and expectations related to funding and the quality of services the museums could offer. As part of this plan, the Administration should consider consolidating all the museums under one secretariat and require partnerships between the museums and a state agency that can provide general operating functions. Museums that share resources and reduce general operating costs can provide the Commonwealth the opportunity to achieve plans for future expansion. However, not addressing the current financial and physical condition of museums will lead to the administration closing the doors of some museums.

Museums Discussed In Other Reports

The remainder of this report highlights the operations and financial information for each of the museums during fiscal year 2004. We have also included the Virginia Museum of Natural History in our separate report entitled "Secretary of Natural Resources Agencies."

Many of the museums' operations have undergone audit review during other recent audits performed by our office. A listing of those reports and the museums included in them follows. The reader may access these reports through our website, www.apa.virginia.gov.

Review of Deferred Maintenance in the Commonwealth, December 2004

Science Museum of Virginia
Virginia Museum of Fine Arts
Frontier Culture Museum of Virginia

Gunston Hall
Jamestown-Yorktown Foundation
Virginia Museum of Natural History

Statewide Review of Agency-Owned Vehicles, June 2004

Virginia Museum of Fine Arts

Virginia Museum of Natural History

VIRGINIA'S MUSEUMS HIGHLIGHTS AND FINANCIAL INFORMATION

Science Museum of Virginia

The Science Museum of Virginia, headquartered in Richmond, Virginia raises public understanding of science and technology throughout the Commonwealth. They accomplish this through informal hands-on teaching and learning experiences and by various educational outreach programs.

In addition to the Broad Street location, the Science Museum operates the Virginia Aviation Museum in Sandston, Virginia. The Virginia Aviation Museum's collection features a wide variety of vintage aircraft, aircraft and aviation artifacts, and memorabilia donated by others or on loan from the National Air and Space Museum, and descriptive exhibits on the history of aviation in Virginia.

The Science Museum also operates the Danville Science Center and the future Belmont Bay Science Center in Prince William County, Virginia. In addition, it plans to operate additional museums in Bristol, Virginia and Harrisonburg, Virginia. Below are the net assets reported as of June 30, 2004 for each foundation.

Science Museum of Virginia Foundation	\$ 11,328,875
Belmont Bay Foundation (Unaudited)	\$ 17,568
Danville Science Center Foundation	\$ 1,513,368

Financial Highlights

General Fund appropriations account for approximately 49 percent of the \$8.4 million in actual funding that the Science Museum received for fiscal year 2004. Special revenues constitute another 49 percent from the collection of admission and membership dues, merchandise and food sales, facility rentals and support from the Science Museum of Virginia Foundation.

The following chart illustrates the Science Museum's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

<u>Fund Type</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General	\$3,856,891	\$ 4,115,005	\$4,115,005*
Special:			
Operating	4,067,463	4,072,140	3,875,986
Capital	-	1,100,160	(22,524)
Trust and Agency	600,000	1,300,000	117,120
Debt	-	12,029,364	-
Federal	-	317,578	21,776
Total	<u>\$8,524,354</u>	<u>\$22,934,247</u>	<u>\$8,047,363</u>

*includes maintenance reserve funds

While the Science Museum's actual funding is \$8 million, total operating and capital costs are approximately \$10 million with the personal service cost constituting 52 percent and contractual services primarily for architectural and engineering services as well as custodial services being 21 percent. The remaining 27 percent includes expenses for supplies and materials, plant and improvements, continuous charges, and other miscellaneous expenses.

The Science Museum's also has a total debt appropriation for \$12 million related to the expansion of the Danville Science Center with \$3.7 million in general obligation bonds, the future Belmont Bay Museum which the Commonwealth has committed \$5 million, IMAX Dome wing renovations with \$2 million in general obligation bonds and the East/West Terrance renovations with \$1.3 million in bond proceeds. The Danville Science Center has obtained the use of the Southern Railway Administration Office Building to create additional exhibit and office space, in addition to the \$3.7 million of general obligation bonds, the museum also has \$694,000 in private contributions, and a \$630,000 pass-through grant from the Virginia Department of Transportation.

During fiscal year 2004, the Science Museum also obtained federal funds and state matching funds to reimburse Virginia Tech for expenses incurred in the collaborative effort to develop two Smart Cars-Smart Highways exhibits. Additionally, the Small Business Administration awarded the Science Museum \$496,750 in August of 2003 to further the development of the Belmont Bay Science Center.

The chart below shows the Science Museum's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses by Program

<u>Budgetary Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
Museum and cultural services	\$8,524,354	\$ 8,922,008	\$ 8,291,890
Capital outlay**	-	14,012,239	1,823,747*
Total	<u>\$8,524,354</u>	<u>\$22,934,427</u>	<u>\$10,115,637</u>

*includes maintenance reserve funds

**see Appendix A for capital projects information

Internal Control Findings and Recommendations

Improve Cash Management

As previously mentioned on page 2, the Science Museum's lack of available funding has led to the development of several problems discussed in previous sections and an ongoing issue with cash flow.

Improve Controls over Fixed Assets

The Science Museum is not tracking its assets in and updating the Fixed Asset Accounting and Control System (FAACS). It does identify and capitalize assets via an in-house fixed assets listing; however, the Science Museum does not report those assets to the State or reconcile their listing with the Commonwealth Accounting and Reporting System (CARS) or FAACS. Additionally, the Science Museum has not conducted a physical inventory of its assets for at least four years. State guidelines require agencies to

establish and implement cost-beneficial internal controls to ensure the timely and accurate posting of transactions and adjustments, and the resolution of discrepancies in fixed assets. They are also required to perform inventories at least every two years and to properly maintain the FAACS. Improper recordation and tracking of assets makes it difficult to value, maintain, locate, and protect these items. Management should review current policies and implement necessary internal controls to ensure correct and timely recordation, valuation, and where necessary, depreciation or disposal of its assets.

Virginia Fine Arts Museum

The purpose of the Virginia Museum of Fine Arts, located in Richmond, is to collect, preserve, exhibit, and interpret art, to encourage the study of the arts, and thus to enrich the lives of all. Fine Arts features permanent collections and original masterworks of art spanning more than 5,000 years from six continents. Special temporary exhibits also present views of art from all over the world. The performances featured by Fine Arts provide a full range of concerts, films, theater, and dance from classical to contemporary.

Fine Arts has affiliations with the following organizations which are independently incorporated and exist for the sole purpose of soliciting, receiving, investing, and managing private donations for Fine Arts. The net assets reported as of June 30, 2004 were as follows:

Virginia of Fine Arts Foundation	\$165,082,034
Council Sales Shop of the Virginia Museum of Fine Arts	585,907

Financial Highlights

Special revenues, constituting 53 percent of the \$15.5 million in actual funding that Fine Arts received for fiscal year 2004, are from support from the Virginia Museum of Fine Arts Foundation, membership dues, and the collection of admission for special exhibits. The remaining 47 percent comes from General Fund appropriations.

The following chart illustrates Fine Arts' original budget, adjusted budget, and actual funding received for all of their funds:

Analysis of Budgeted and Actual Funding

<u>Fund Type</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General	\$ 6,160,343	\$ 7,266,246	\$ 7,266,246*
Special:			
Operating	7,650,491	1,403,600	1,841,095
Capital	36,130,000	38,148,325	1,568,148
Debt service	-	40,876,991	-
Dedicated special revenue	-	6,250,491	4,844,859
Federal	<u>100,000</u>	<u>128,376</u>	<u>28,376</u>
Total	<u>\$50,040,834</u>	<u>\$94,074,029</u>	<u>\$15,548,724</u>

*includes maintenance reserve funds

Overall, the chart below reflects the Virginia Museum of Fine Arts' actual expenses by program as compared to the program's original and adjusted budget. Fine Arts spent approximately \$17 million in operating and capital expenses, of which 45 percent represents payroll and benefits of employees, and 43 percent represents contractual services for items such as architectural and engineering services as well as skilled services. The remaining 12 percent includes other miscellaneous operating expenses.

In August of 2003, the Virginia Museum of Fine Arts transferred \$6.2 million out of special revenue into dedicated special revenue creating the variance between the original and adjusted budget shown in the table above. The change from special revenue to dedicated special revenue occurred to set apart operational support paid by the Foundation from other non-general funds.

The Virginia Museum of Fine Arts includes in their budget for special revenue, debt service, and dedicated special revenue fund to break ground in fall 2005 for its \$83 million multi-year museum expansion and sculpture garden project which the state has committed \$32 million. Fine Arts also has a \$12 million parking deck project and \$3 million to upgrade Fine Arts' fire suppression systems. Fine Arts spent \$4.4 million on these capital projects during fiscal year 2004 as noted below and the remaining funds will carry forward until the project's completion.

Analysis of Budget to Actual Expenses, by Program

<u>Budgetary Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
Museum and Cultural Services	\$13,910,834	\$14,168,908	\$12,624,568
Capital Outlay**	<u>36,130,000</u>	<u>79,905,120</u>	<u>4,416,494*</u>
Total	<u>\$50,040,834</u>	<u>\$94,074,028</u>	<u>\$17,041,062</u>

*includes maintenance reserve funds

**see Appendix A for capital projects information

Internal Control Findings and Recommendations

Strengthen Controls Over Commonwealth Accounting and Reporting System (CARS) Access

Due to a lack of monitoring between the Accounting and Fiscal Services Office and the Information Technology Department, responsibilities over CARS security were not fulfilled. We found the primary and backup CARS security officers are not familiar with CARS security requirements, including the requirement for periodic review of employees' access, or the need for timely deletion of access for terminated employees. In addition, Fine Arts was not able to produce evidence of recent user access review.

The Comptroller outlines duties of CARS security officers; their responsibility for a comprehensive system of internal control over both on-line and off-line access to CARS tables and files; and CARS records retention requirements. Weak or missing internal controls over sensitive system access increase the risk of unauthorized access into the systems, placing at risk money and sensitive information.

It is the responsibility of management to ensure that adequate internal controls exist within Fine Arts to prevent unauthorized access to CARS data. Management needs to monitor access controls to ensure the integrity of the transactions submitted through CARS. Appropriate system access should depend on position and responsibilities. Unnecessary access increases the risk of unauthorized changes and misuse of the systems. We recommend Fine Arts strengthen internal controls over CARS.

Frontier Culture Museum of Virginia

The Frontier Culture Museum of Virginia, located in Staunton, commemorates and educates visitors about the influence of pioneer culture on the creation and development of the United States. The 220-acre site offers visitors the experience of 17th, 18th, and 19th century European and American customs. The site features period furnishings, crops, animals, foods, and costumed interpreters that help create a living illustration of life in Europe before immigration to America and the culture the immigrants built on one of America's first frontiers.

Frontier Culture has an affiliation with the American Frontier Culture Foundation which is independently incorporated and exists for the sole purpose of soliciting, receiving, investing, and managing private donations for Frontier Culture. The net assets reported as of June 30, 2004 were \$1,451,812.

Financial Highlights

General Fund appropriations account for approximately 69 percent of the \$1.9 million in actual funding that Frontier Culture received for fiscal year 2004. Special revenues constitute 31 percent of the total funding and represent the collection of admission and other miscellaneous revenues including rental income from land leased to a gas station.

The following chart illustrates Frontier Culture's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

<u>Fund Type</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General	\$1,185,374	\$1,324,711	\$1,324,711*
Special:			
Operating	642,696	672,696	592,808
Capital	-	-	(35)
Debt service	-	950,000	-
Total	<u>\$1,828,070</u>	<u>\$2,947,407</u>	<u>\$1,917,484</u>

*includes maintenance reserve funds

Total operating costs are approximately \$1.8 million with the personal service cost constituting 78 percent and contractual services primarily for custodial, maintenance and research services being 13 percent. The remaining 9 percent is for supplies and materials, continuous charges, and other various expenses.

The chart below shows Frontier Culture's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses by Program

<u>Budgetary Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Museum and Cultural Services	\$1,828,070	\$1,895,027	\$1,716,879
Capital Outlay**	-	1,052,380	54,336*
Total	<u>\$1,828,070</u>	<u>\$2,947,407</u>	<u>\$1,771,215</u>

*includes maintenance reserve funds

**see Appendix A for capital projects information

The Frontier Culture Museum capital outlay project is for renovation of a barn to use as a maintenance building. Frontier Culture spent \$92 on this project during the year and \$54,244 for maintenance reserve.

Gunston Hall

Gunston Hall, located in Lorton, is a 550-acre national historic landmark and the former home of George Mason. Gunston Hall promotes and educates the public about 18th century life, as well as the historical significance and contributions of its owner.

Gunston Hall has affiliation with the Gunston Hall Regents Fund and Gunston Hall Foundation which are independently incorporated and exist for the sole purpose of soliciting, receiving, investing, and managing private donations for Gunston Hall. The net assets reported as of June 30, 2004 were \$6,237,117.

Financial Highlights

General fund appropriations account for 82 percent and special revenue funds constitute 17 percent of the actual funding received in fiscal year 2004. Gunston Hall receives Special revenue from admission receipts and funds provided by Gunston Hall's private foundation for supplies and personnel expenses. The drop of \$190,520 between budget and actual special revenue reflects a failure to meet their special revenue estimate due to a 38 percent reduction in visitation between fiscal years 2002 and 2004 as well as a decrease in donations from the private foundation.

The following chart illustrates Gunston Hall's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

<u>Fund Type</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General	\$507,339	\$ 703,018	\$703,018*
Special:			
Operating	334,648	337,701	147,181
Debt service	-	2,029,000	-
Federal	-	9,526	9,526
Total	<u>\$841,987</u>	<u>\$3,079,245</u>	<u>\$859,725</u>

*includes maintenance reserve funds

Total operating and capital costs are approximately \$2.1 million with the personal service cost constituting 20 percent, 13 percent for contractual services for architectural and engineering services and mechanical maintenance services, and 58 percent for plant and improvements primarily for additions to the Ann Mason building. The remaining 9 percent is for supplies and materials, and other miscellaneous expenses.

Gunston Hall has approximately \$2.0 million in capital project funding from the sale of bonds issued through the Virginia Public Building Authority (VPBA). The proceeds, designated for additions to Ann Mason Hall, are included in the schedule above as debt service. In addition to the VPBA bonds, Gunston Hall received funding from the private foundation and the remainder out of the general fund. Gunston Hall spent

\$1.7 million since the project began in 2001, spent \$1.4 million during fiscal year 2004 as noted below. The remaining funds will carry forward until the building's completion in 2005.

The chart below shows Gunston Hall's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses, by Program

<u>Budgetary Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Museum and Cultural Services	\$841,987	\$ 864,176	\$ 656,529
Capital Outlay**	-	2,215,069	1,456,621*
Total	<u>\$841,987</u>	<u>\$3,079,245</u>	<u>\$2,113,150</u>

*includes maintenance reserve funds

**see Appendix A for capital projects information

Jamestown-Yorktown Foundation

The Jamestown-Yorktown Foundation serves to educate and promote understanding and awareness of Virginia's role in the creation of the United States of America. The Foundation administers two living history museums: the Jamestown Settlement, located in Williamsburg, and the Yorktown Victory Center, located in Yorktown. The sites depict the lives of English settlers and Powhatan Indians at the dawn of colonial America and the lives of continental Army soldiers and Tidewater farming families during the Revolution.

The Foundation continues to move forward with plans for the Jamestown 2007 Commemoration. Out of 22 projects, the Foundation completed an additional two projects, the Theater and Exhibit Gallery and Central Support Complex, with 17 active projects remaining as of June 30, 2004. The Foundation is relying on general fund appropriations, museum and vehicle license plate revenue, as well as bond proceeds to support these construction projects. The schedule on page 11 highlights the capital projects, their budgets, funding source, and total expenses as of June 30.

The foundation has affiliations with the following organizations which are independently incorporated and exist for the sole purpose of soliciting, receiving, investing, and managing private donations for the museum. The net assets reported as of June 30, 2004 were as follows:

Jamestown-Yorktown Foundation, Inc.	\$8,451,421
Jamestown-Yorktown Educational Trust, Limited	\$4,719,572*
*as of December 31, 2004	

Status of Prior Year Management Recommendation

Our audit found that Jamestown-Yorktown Foundation has made some progress towards implementing the recommendation titled "Review and Update Internal Controls" made in our 2003 report. They have attempted to address the recommendation by using part-time staff to study workloads and determine potential weaknesses in internal controls. In addition, management is seeking to hire consultants to answer the following questions:

- Do planned staffing strategies provide an efficient and effective solution to getting the tasks accomplished at projected visitation levels?
- Does the Foundation provide flexibility at various potential visitation levels?
- Can the Foundation maintain existing performance levels?
- Can the Foundation maintain internal controls for each function?
- What proven strategies can the Foundation employ to improve on Foundation's plans?

Management needs to continue their efforts and make a commitment to ensure the necessary changes to the Foundation's internal control system occur. The success of this effort is highly dependent on management guidance and direction, and if any management change occurs, it is essential that they have the same commitment; otherwise, progress may be negatively impacted.

Financial Highlights

The financial information below presents the Jamestown-Yorktown Foundation separately from its sub-agency, Jamestown 2007, due to the anticipated increase in revenues and expenses the Foundation will incur to plan and coordinate the event.

Jamestown-Yorktown Foundation

General Fund appropriations account for approximately 42 percent of the \$13.7 million in actual funding that the Foundation received for fiscal year 2004. Special revenues, constituting 58 percent, are from the collection of admission and other miscellaneous revenues, including a loan from the Jamestown-Yorktown Foundation, Incorporated. The special revenue adjusted budget for capital is higher than actual funding received due to not raising the estimated funds. The adjusted budget for dedicated special revenue was also higher than actual funding due to a refund of a prior year expense.

The following chart illustrates the Foundation's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

<u>Fund Type</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General	\$ 5,039,578	\$ 5,706,627	\$ 5,706,627*
Special :			
Operating	5,456,975	5,463,572	5,994,600
Capital	488,000	4,413,237	926,000
Debt service	-	43,587,659	-
Dedicated special revenue	-	857,841	1,046,261
Federal	-	48,557	48,558
Total	<u>\$10,984,553</u>	<u>\$60,077,493</u>	<u>\$13,722,046</u>

*includes maintenance reserve funds

Total operating and capital costs of the Jamestown-Yorktown Foundation are approximately \$20.9 million with the personal service cost constituting 38 percent and 14 percent for contractual services for custodial, maintenance, and research services. In addition, 39 percent for plant and improvements primarily to construct several buildings. The remaining 9 percent includes other miscellaneous expenses.

The chart below shows the Foundation's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses, by Program

<u>Budgetary Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Museum and Cultural Services	\$10,496,553	\$10,811,943	\$10,791,739
Capital Outlay**	<u>488,000</u>	<u>49,265,550</u>	<u>10,112,215*</u>
Total	<u>\$10,984,553</u>	<u>\$60,077,493</u>	<u>\$20,903,954</u>

*includes maintenance reserve funds

**see Appendix A for capital projects information

Jamestown 2007

All funds collected by Jamestown 2007 benefit the Jamestown-Yorktown Foundation's effort towards preparing for 2007. Jamestown 2007 received \$4.4 million in actual revenue for the fiscal year 2004. About 93 percent of this revenue represents motor vehicle license fees shown below as dedicated special revenue funds. The change \$1 million reduction between adjusted budget and actual funding reflects a reduction in the Appropriation Act. The remaining 7 percent of revenue primarily represents general funds and miscellaneous revenues.

The following chart illustrates the Jamestown 2007's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

<u>Fund Type</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General	\$ 424,439	\$ 241,460	\$ 241,460
Special:			
Operating	23,565	30,164	48,220
Dedicated special revenue	<u>5,000,000</u>	<u>5,216,781</u>	<u>4,131,469</u>
Total	<u>\$5,488,004</u>	<u>\$5,488,405</u>	<u>\$4,421,149</u>

Jamestown 2007 spent approximately \$3.4 million during fiscal year 2004. About 39 percent of these expenses represent payroll and benefits of Jamestown-Yorktown Foundation employees; 26 percent for contractual services; and 27 percent for transfer payments, including a grant made to the Association for the Preservation of Historic Antiquities for assisting the National Park Service with programmatic activities and

payments to the Jamestown-Yorktown Foundation from license plate revenue and other support. The remaining 8 percent represents other operating expenses and acquisition of equipment.

The chart below shows the Foundation's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses, by Program

<u>Budgetary Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Historic and Commemorative Attraction	<u>\$5,448,004</u>	<u>\$5,448,405</u>	<u>\$3,442,805</u>

Internal Control Findings and Recommendations

Strengthen Controls over Paciolan System

Our audit found that Jamestown-Yorktown Foundation has made some progress since the recommendation made in our 2004 report; however, controls over Paciolan access and security are still not sufficient according to industry best practices. Failure to strengthen controls could leave the Foundation's revenue accounting system vulnerable to error, theft, and intrusion. The Paciolan ticketing system is, in several respects, inherently flawed. The agency must compensate for these weaknesses by instituting policies and procedures, including:

- The IT Manager should forward unusual or questionable access requests to the Security Manager for review and authorization.
- The IT Team should actively monitor system logs and investigate unusual events.

Looking forward, management and the IT Team must jointly ensure their next ticketing system employs effective, comprehensive access and security controls.

Virginia Museum of Natural History

The Virginia Museum of Natural History, located in Martinsville, serves to preserve, study, and interpret the Commonwealth's natural heritage by providing research sites, exhibits and programs for the public. Due to budget reductions, the Museum no longer funds or maintains the two branches at Virginia Tech, in Blacksburg, and at the University of Virginia, in Charlottesville.

The museum has an affiliation with the Virginia Museum of Natural History Foundation which is independently incorporated and exists for the sole purpose of soliciting, receiving, investing, and managing private donations for the museum. The net assets of the Virginia Museum of Natural History Foundation reported as of June 30, 2004 were \$345,009.

Financial Highlights

General fund appropriations account for 87 percent of the approximately \$2 million in actual funding that the Foundation received for fiscal year 2004. Special revenues, constituting 12 percent are from the collection of admissions and other miscellaneous revenues. The special revenue adjusted budget is higher than actual funding received due to not raising the estimated funds for a new museum building.

The new building will cost approximately \$14.8 million and will receive funding from the sale of bonds issued through the Virginia Public Building Authority (VPBA). The bond proceeds are included as debt service in the schedule below. The Museum anticipates funding any additional costs with General Fund appropriations. Since the museum began construction in June 2004, there is only a small portion of the funds spent during the fiscal year, however, they will carry forward until the building's completion in January 2006. The Museum expects the new building to open to the public in the fall of 2006.

The following chart illustrates the Museum's original budget, adjusted budget, and actual funding received for all of their funds.

Total operating and capital costs are approximately \$1.9 million with the personal service costs constituting 80 percent and continuing charges primarily heating, lighting and other operating costs being 10 percent.

Analysis of Budgeted and Actual Funding

<u>Fund Type</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
General	\$1,513,966	\$ 1,737,207	\$1,737,207*
Special			
Operating	444,601	444,601	241,407
Capital	3,445,000	3,445,000	-
Debt service	-	14,789,000	-
Federal	-	30,000	20,455
Total	<u>\$5,403,567</u>	<u>\$20,445,808</u>	<u>\$1,999,069</u>

*includes maintenance reserve funds

The chart below shows the Museum's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses, by Program

<u>Budgetary Program</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Museum and Cultural Services	\$1,958,567	\$ 2,069,454	\$1,843,372
Capital Outlay**	<u>3,445,000</u>	<u>18,376,354</u>	<u>95,218*</u>
Total	<u>\$5,403,567</u>	<u>\$20,445,808</u>	<u>\$1,938,590</u>

*includes maintenance reserve funds

**see Appendix A for capital projects information



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

August 9, 2005

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

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

We have audited selected financial records and operations of **Virginia's Museums** for the year ended June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Museum's activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS, reviewed the adequacy of the Museum's internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Museum'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, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles:

- Revenues
- Expenses, including payroll
- Fixed Assets
- Capital Outlay

We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the audit. We considered control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Museums' controls were adequate, had been placed in operation, and were being followed.

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, regulations, contracts, and grant agreements. 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 Museums properly stated, in all material respects, the revenues and expenses recorded in the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that represent a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial processes being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. This material weakness describes the deficit spending at the Science Museum in the section entitled "Virginia's Museums Statewide Funding and Operating Issues." We noted some additional matters involving internal control and its operation that we considered necessary to bring to management's attention. These matters are described within the section titled "Virginia's Museums Highlights and Financial Information" under the Science Museum of Virginia, Virginia Museum of Fine Arts, and Jamestown-Yorktown Foundation sections of this report, in the subsections entitled "Internal Control Findings and Recommendations."

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters 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 citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at the museums and held exit conferences on August 8 and 9, 2005.

AUDITOR OF PUBLIC ACCOUNTS

SW:sks
sks:98

AGENCY RESPONSES

We discussed the report with management at all of the museums; however, the Frontier Culture Museum of Virginia and Gunston Hall have elected not to provide a response.

The responses for the Science Museum of Virginia, Virginia Museum of Fine Arts, Jamestown-Yorktown Foundation, and the Virginia Museum of Natural History can be found on the following pages.



August 17, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
Commonwealth of Virginia

Dear Mr. Kucharski:

Thank you for transmitting to us a draft copy of your audit report on Virginia's Museums.

We appreciate the opportunity to respond to portions of the audit that address the Science Museum of Virginia, and our response is attached. As our response makes clear, the items which are highlighted by you have been addressed by the staff, the Finance Committee, and the Trustees of the Science Museum. Your report makes a valuable contribution to the ongoing efforts to improve all of our state agency museums.

With warmest regards,

Copy to: Trustees of the Science Museum of Virginia

SCIENCE MUSEUM OF VIRGINIA

WALTER R.T. WITSCHHEY, PH.D., DIRECTOR

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DANVILLE SCIENCE CENTER • VIRGINIA AVIATION MUSEUM • BELMONT BAY SCIENCE CENTER • RICE RIVER CENTER

RESPONSE TO THE AUDITOR OF PUBLIC ACCOUNTS
Report on Virginia's Museums Highlights and Financial Information
from
The Science Museum of Virginia

Introduction

For the Science Museum of Virginia, the APA reports expenses more than revenues for FY02, FY03, and FY 04 citing the use of vendor credit and Foundation support, and highlights only two out of the many techniques employed by the Museum to deal with sharply reduced state funding, and attendance below Museum forecasts.

In the response below, we illustrate the magnitude of state budget cuts, and discuss the magnitude and reasons for reduced attendance (Section 1 below).

We further discuss the options considered and employed to meet the rapidly deteriorating revenue conditions (Section 2).

We then discuss the Science Museum's current situation, our earlier responses to cash flow problems, and additional steps we have taken to improve cash management (Section 3).

The APA further discusses controls over fixed assets, and we report on steps taken to improve control over fixed assets prior to the recommendations of the APA (Section 4).

The Science Museum then comments about subjective items for which there are differing interpretations by the APA and the Science Museum of similar sets of facts. (Section 5)

Lastly, the Science Museum responds to the APA recommendation to consolidate administrative functions for the six Virginia Museums (Section 6).

Section 1 – reduction in state funding and attendance for the Science Museum

The change in state funding (General Fund) for partial support of the operations of the Science Museum of Virginia, and for major maintenance is shown below. From this table we see that state funding for operations and maintenance was nearly 20% lower in the FY03-04 biennium than in FY-01-02:

Fiscal Year	2001	2002	2003**	2004
General Fund Received *	4,479,787	4,725,024	3,860,654	3,932,354
GF % Change		5.47%	-18.29%	1.86%
Maintenance Reserve	464,162	330,312	357,505	164,755
MR % change		-29%	8%	-54%

* from Agency financial statements

** includes both reduced budget and mid-year reversions

The change in admissions and admissions revenue for the same period is shown below:

Fiscal Year	2001	2002	2003	2004
Major Events	Economic downturn	September 11, 2001 attacks		Two new malls open in Richmond
Admissions***	234,663	203,735	223,126	214,008
Admissions % change		-13%	10%	-4%
Admissions Revenue***	\$1,030,694	\$1,176,386	\$1,214,488	\$1,363,653
Revenue % change		14%	3%	12%
Admissions Budget	\$1,573,300	\$1,317,907	\$1,254,918	\$1,322,517
Percent Realized	66%	89%	97%	103%
Shortfall vs. plan	\$542,606	\$141,521	\$40,430	(\$41,136)
Membership program revenues	\$240,304	\$213,191	\$293,043	\$332,480

*** Broad Street Station site

As the table shows, the most significant problem associated with admissions revenue is the poor forecasting of revenues in FY 2001 and FY 2002. The Science Museum implemented a new ARIMA (Auto-regressive integrated moving average) forecasting technique to address this problem at the recommendation of the Department of Treasury and ARIMA is in use today. Improvement in forecasting is clear in the table above for 2003 and 2004. The Science Museum also initiated a new Membership Program whose results are also evident above.

The APA cites “deteriorating museum exhibits” as a key factor in the decline of attendance, however it omits mention of the three most important factors, as determined by comparing Science Museum attendance with science centers nationwide, and comparing the Science Museum with other cultural attractions in the Richmond area.

The most important factors in admissions declines in the years above are:

1. An economic decline beginning May 2001 reduced attendance nationwide in science centers and cultural institutions.
2. Attacks of September 11, 2001 sharply reduced attendance due to changed public reaction, changed travel patterns, and changed school policy. Both school groups and the general public curtailed their visits even further.
3. Opening of two new malls in Richmond in fall 2003 greatly affected attendance at local Richmond cultural attractions.
4. Visitor experience: deteriorating exhibits, poorer public space maintenance, and reduced direct service staff at the Science Museum.
5. Price increases for paid admission to the Science Museum.
6. New cultural attractions created added competition for visitors.

In fact, the Science Museum reported increases in admissions revenue for all three years (due to price increases, not to increases in the number of paid admissions.)

Cash flow problems then resulted from sharply reduced General Fund support, and from failure to meet admissions revenue targets in FY2001 and FY 2002, as well as constraints on the speed with which expenses could be cut.

Science Museum Audit Response

Section 2 – cost control responses by the Science Museum to revenue shortfalls

Because of the impact on the state budget of the economic downturn mentioned above, and shortfalls in state collections, Administrations instituted major mid-year spending cutbacks in both the Gilmore and Warner administrations. At a time of lower attendance, mid-year budget cuts have an especially compounding effect reducing revenues—staff and program cuts make it impossible to accept donor support for programs the museum cannot deliver.

During the same period of time, and adding to the Museum's cash flow difficulties, the state instituted employee raises that the Science Museum was mandated to implement, but the state did not fully fund the raises—a cost increase. In addition, the state implemented, but did not fully fund an employee bonus program in August 2003—another cost increase to the Science Museum at this difficult time.

Due to existing state personnel policies, reductions in workforce under the Workforce Transition Act are both costly and lengthy. Individual state employees may be eligible for as much as six months severance. Layoffs do not produce rapid savings—any savings accrue in subsequent years.

Furthermore, both Administrations asked the Science Museum to minimize the disruption to operations and the unfavorable publicity that would be associated with draconian personnel cutbacks and partial closings. The Science Museum acted in accord with those wishes.

In order to achieve spending reductions, however, the Science Museum quietly took these steps:

- Laid off workers
- Reduced the hours of wage employees
- Implemented a hiring freeze, and did not fill positions vacated by attrition
- Twice cut the pay of all employees by 10% for four months
- Deferred exhibit and building maintenance
- Cut back on public programs
- Deferred staff raises (other than those mandated by the state)

The APA rightly points out that 2/3 of the budget of the Science Museum is for personnel. Of this, approximate 80% is compensation for full-time salaried employees.

Notwithstanding the difficulty of workforce reductions, the Science Museum has ultimately reduced full-time salaried staff from 116 to 79 persons, a 1/3 cut in staffing.

The Science Museum also considered, but did not implement, a reduction in the number of days per week that it is open to the public. From prior experience, this alternative produced too much public ill will and too little savings.

A number of Science Museum responses have addressed cash flow from the revenue side. These include fund-raising for and the development of new exhibit galleries to replace old ones. In addition, the Museum has shifted more staff into direct customer service and gallery education positions. The Museum has also mounted an aggressive new campaign to sell revenue-producing memberships.

In order to meet cash flow needs during this period, the Science Museum also paid vendors late in the year, and utilized the support of its Foundation.

Science Museum Audit Response

Thus, in a time of declining revenues, the Science Museum undertook major steps to reduce expenses, and reduced them, and to increase revenue with new activities (such as enhanced facility rentals) and increased prices where possible. It also relied on both vendor credit and the support of its Foundation (created for the sole purpose of such support) to meet cash needs.

Section 3 – Museum’s further responses

While we closely monitor paid attendance at the Broad Street Station site because of its revenue impact, that is but a part of the Science Museum’s service to the citizens of the Commonwealth. The table below gives a more accurate portrayal of citizens served.

	FY01	FY02	FY03	FY04
Visitors to Science Museum sites	526,303	500,604	528,372	478,938
Program Attendance Offsite	185,716	204,519	215,194	155,603
Other Programmatic Reach*	5,483,503	5,025,568	2,695,176	5,336,348
Total	6,195,522	5,730,691	3,438,742	5,970,889

* including newspaper columns and features, radio and TV broadcasts. In 2001, Museum interns polled every PBS broadcaster in the nation to identify SMV-related broadcasts. That poll showed reaching an annual audience of 37 million viewers, which is not included in these totals.

At the end of Fiscal Year 2005, the Museum has succeeded in maintaining most services including 363-day-per-year public operations, retaining many key employees, starting a new exhibits installation programs now nearing completion for Labor Day 2005, and attracting a major international convention to central Virginia—the Annual Conference of the Association of Science-Technology Centers.

The Science Museum has in place an operating plan to continue expense reductions, while at the same time to avoid use of vendor credit in accord with state policy.

As of this time, the Museum has no overdue vendor invoices, and no operating loans or other obligations to its Foundations.

A newly employed Chief Financial Officer (CFO) has implemented more tightly controlled spending plans, reduced spending authority in some areas, and implemented tighter budget controls.

The Museum’s Board of Trustees has increased its oversight with more frequent meetings of the Finance Committee. The Finance Committee has further reviewed and analyzed a draft of this audit in order to assure that proper corrective actions have been taken.

Section 4 – Fixed Asset Accounting.

The new-hired CFO has implemented a plan to properly inventory and report fixed assets and implementation of the plan is underway today.

Section 5 – Subjective items

Level of General Fund Support

The APA accurately points out that the Science Museum (and three other of Virginia's Museums) has annual payroll expenses that exceed General Fund appropriations, and as a result, must rely heavily on Special Revenue collections.

This is, of course, the way these state agencies were designed to operate: as public-private partnerships, and in the case of the Science Museum, it has traditionally been as a 50:50 partnership. It means, however, that a reduction in state funding mid-year of over 18% creates extraordinary management challenges.

Other Museums more heavily reliant on state funds were requested to reduce their level of state support to below 60% by the General Assembly, a move that reduces the amount of total payroll covered by General Fund Appropriation.

The Science Museum regularly pays its employees 50% from state tax dollars (General Fund) and 50% from non-state dollars such as admissions, fees, gifts, grants, and enterprise profits (Special Fund revenues).

Thus, what the APA highlights (not enough General Fund support to meet payroll and the requirement to meet special fund revenue forecasts more closely), *the Science Museum also perceives as an effective solution by the General Assembly* to the funding of state educational/cultural institutions as public-private partnerships.

Borrowing from Foundation

Second, the APA treats the use of funds supplied by the Science Museum of Virginia Foundation (when labeled as debt) as equivalent to other obligations of the state, when it is not. Funds advanced by the SMV Foundation could be treated as transfers (gifts) to the Museum not subject to repayment. Structuring this support as "debt" is a deliberate technique used by both the Foundation and the Museum to encourage and manage balanced operating budgets.

When one reviews the state-encouraged support by 501c3 charitable foundations for museums, the picture is very different.

The following table shows the operating support provided to the Science Museum by its foundations for the audit years.

Fiscal Year	2001	2002	2003*	2004
501c3 operating support	1,320,555	1,311,697	1,280,000	1,228,132
501c3 exhibit-building support	242,420	1,105,248	552,594	137,401
TOTAL Foundations Support	1,562,975	2,416,945	1,832,594	1,365,533
(Portion of support earmarked as debt)	200,000	200,000	0	(150,000)

Section 6 – APA recommendation to consolidate administrative functions

In its audit of Virginia's Museums, the APA proposes actions (consolidation of administrative functions) which on their face appear neither to be well researched, nor well substantiated.

In every administration, at least from Governor Wilder onward, this issue has been studied. Each time, Museums and the Administration have rejected some of the proposed consolidations because they were demonstrably ineffective, but adopted others. The most detailed analysis of this problem is contained in the Rowland Report of 1992.

In this climate of continual study, there is also a long-term cycle of centralization and decentralization by administrations.

Today Virginia's Museums already rely on centralized accounting, centralized purchasing, centralized information technology services, and centralized payroll, or have out-sourced these or other functions to another state agency.

Additionally, in the case of the Science Museum, for example, the development function (which the APA proposes to consolidate) is performed by a separate corporation (the Science Museum of Virginia Foundation, Inc.) and therefore is not available for consolidation.

To the extent warranted by lower cost and higher effectiveness, the Science Museum of Virginia prefers to perform essential functions itself. Where out-sourcing such functions is a lower cost and more effective solution, the Science Museum has adopted that approach.

Conclusion

In 1975, the U.S. ranked third in the world in the percentage of students pursuing natural science and engineering degrees. Now it is 17th.¹

In *Keeping America Competitive*¹ Cable and Allen suggest five key strategies for improving math and science education. The activities of the Science Museum directly address two of the strategies:

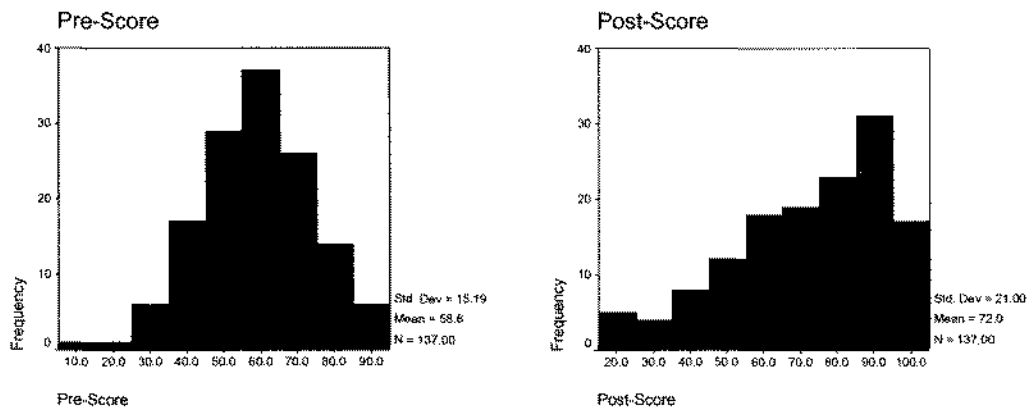
- To strengthen teacher knowledge and skills in science and math; and

¹ 2005 Charles Cable and Michael Allen, Education Commission of the United States (NSF # 0450138) "Keeping America Competitive: Five Strategies to Improve Mathematics and Science Education."

- To promote public awareness of the importance of math and science education in the country's future

Thus, funding for science education through the Science Museum directly affects both the quality of teaching and the performance of students.

When fully funded, the programs of the Science Museum are especially effective. The Science Museum's SOL Enrichment Program for the City of Richmond Public Schools is one such example. In its most recent program year, our work with 11 teachers and 274 students produced marked significant improvements in Science Standards of Learning test scores. The charts below show the direct improvement in scores after participation in the Science Museum program.



The Science Museum has gone to great lengths to preserve such programs and to increase their support by the private sector. This has enjoyed notable success, notwithstanding the difficulty to support such programs with adequate staff during appropriation cutbacks by the state.

Philip Morris USA (supporter of the Science SOL Enrichment program at the Science Museum) says: *"We have a history of support to the Science Museum that spans more than 20 years. As part of our company's commitment to improving primary and secondary education in Richmond, we believe the Science Museum of Virginia's SOL Enrichment Program is fundamental to helping improve student achievement and represents an important investment in the workforce of the future."*

In sum, the Science Museum of Virginia has had cash flow problems during the audit period due to sharply reduced General Fund support, and market factors affecting Special Fund revenues. In this climate, the Science Museum has relied on a number of techniques to transition to 1/3 fewer staff with minimal disruptions to public service and effective program delivery.

These efforts have succeeded.

VMFA

August 17, 2005

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

Dear Mr. Kucharski,

Thank you for providing the opportunity to comment on your department's audit of Virginia's cultural institutions. We also appreciate the time that Sherry Wyatt and Lindsey Grinnell dedicated to a closing conference with our staff. This letter provides our comments on the draft report that was sent to us via e-mail on July 29, 2005.

The Virginia Museum of Fine Arts (VMFA) has developed a system of policies, procedures, and internal controls to manage and protect its assets. We have qualified staff in place to perform the duties required to assure a good internal control structure. As other State agencies, we have been affected by declining General Fund support. The budget reductions have occurred concurrently with increased responsibilities associated with unfunded mandates and decentralization of functions formerly performed by central staff agencies. Mandated participation in eVA; modifications in classification, compensation, and benefits management; changes in other operating systems related to inventories and accounting; requirements related to strategic planning; new reporting requirements; and the founding of VITA, for example, have collectively added significantly to workloads of administration staff.

The audit report recognizes the impact that the budget reductions and workload have had on Virginia's cultural institutions and suggests a course of action. The draft we received recommends that the cultural institutions be consolidated within one secretariat and that partnerships between the museums and a state agency to provide general operating functions be required. The report concludes that such an arrangement will result in the museums' having the opportunity to focus on their primary services while reducing administrative costs. We are very interested in the basis for the conclusion that such an arrangement can indeed reduce costs since our recent experience with consolidated agencies and functions indicates that such arrangements do not always reduce costs and, in fact, may increase expenses considerably. At this point, we reserve additional comment and welcome the opportunity to discuss this recommendation in greater depth with your office, the Administration, our Trustees, and other cultural institutions to explore both the potential benefits and the disadvantages of such an approach.

The audit revealed one failure in our staff's monitoring of employee access to the Commonwealth Accounting and Reporting System (CARS). We have taken the following action to assure that the actions of the VMFA's CARS Security Officer are properly monitored:

1. VMFA has designated a new security officer and has submitted the required signatory forms to the Department of Accounts. We have reviewed the list of people with authorized access to CARS and certify that the current list is accurate and complete.
2. We have instituted a procedure that requires that the CARS Security Officer provide copies of requests to the museum's Accounting Manager.
3. We are in the process of preparing a request to the Department of Accounts to request that DOA provide agencies automated notice of the changes that they have made in the list of employees authorized access to CARS. We will also request that DOA permit an agency to designate a CARS Security Officer who is not authorized to release funds. Our policy has been to separate the Security Officer from the release of funds and we wish to continue this practice.

We believe that these actions will assure continuous and proper monitoring of CARS access in the future.

Thank you and your staff for the guidance and assistance provided throughout the audit process.

Sincerely,



Carol Amato
Chief Operating Officer

C: Charlotte Minor, Michael Brand; Leon Garnett, Elizabeth Wong



Jamestown-Yorktown Foundation

P.O. Box 1607, Williamsburg, Virginia 23187-1607
(757) 253-4838 (757) 253-5299 Fax (757) 253-5110 TDD www.historyisfun.org

August 16, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 North 14th Street, 8th Floor
Richmond, Virginia 23219

Dear Mr. Kucharski:

I appreciate the opportunity to comment on the portions of the Auditor of Public Accounts Virginia's Museums 2004 report that are applicable to the Jamestown-Yorktown Foundation and Jamestown 2007. The Foundation values your comments and findings and will give serious consideration to the general and specific recommendations discussed in the audit.

Regarding the finding concerning strengthening of internal controls over the Paciolan ticketing system, the Foundation has been active in rectifying this weakness over the past year. The Foundation has identified a majority of the funding required to replace the ticketing system in FY2006 and has incorporated comprehensive access and security controls into the new system requirements. Furthermore, a new database administrator position has been approved that will allow the active monitoring of system activity for the existing software and its future replacement. The acknowledgement that progress has been made on strengthening controls from the previous finding is appreciated.

With respect to the comments regarding the museums' general need to share administrative functions, similar suggestions have been raised in the past, including consolidation of museums. The Rowland report completed in the early 1990s was the most detailed analysis of museum consolidation, involving extensive and active participation from museum staff, with the result that the museums maintained their own autonomy.

Since that study was completed, our agency has taken advantage of opportunities to strengthen, consolidate, and outsource administrative functions where possible in order to stretch resources, to ensure better business practices, and to comply with state guidelines. As directed by the Board of Trustees and the Department of Planning and Budget (DPB), we strive to maintain high professional standards, and we are open to pursuing opportunities for additional operational efficiencies within our financial constraints. The Commonwealth's

An Agency of the
Commonwealth of Virginia

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Mr. Walter J. Kucharski
August 16, 2005
Page 2 of 2

new performance-based budgeting and strategic planning led by DPB and the enterprise application PPEA proposal currently under review by VITA are good examples of areas that will identify agency needs and help improve efficiencies.

The Jamestown-Yorktown Foundation carefully balances the relationship between general funds and special revenue generation. The Foundation is partially self-supporting and, as such, is keenly aware of the importance of keeping expenditures within revenues generated to avoid operating deficits, including payroll. Our staff closely monitors its admissions revenues monthly and makes internal budget and staffing adjustments as necessary in response to admissions levels. Because of the reliance on special revenues, the Foundation tries to take a conservative stance in estimating revenues and requesting appropriations. Excluding Jamestown 2007, the Jamestown-Yorktown Foundation exceeded its estimate of special revenue generation for FY2004. The Jamestown 2007 revenue shortfall arose due to an inconsistency between the appropriation amount and the actual funding that is provided in the Appropriation Act and is taken into account when budgeting.

We continue to focus on special revenues to support our programming and operations. Our reservations, marketing, and development teams search for new efficiencies to engage customers and constituents and to maximize return on investments. Please note these unique programs are driven by our products, our customers, and by competition in the various marketplaces.

I will be reviewing the audit findings with our Board of Trustees and discussing your comments with them. Please extend our appreciation to your staff for their assistance with this audit. We look forward to being kept apprised of further discussions regarding these important observations and suggestions.

Sincerely,

A handwritten signature in black ink, appearing to read "Philip Emerson", written in a cursive style.

Philip G. Emerson

PGE/jlp

cc: The Honorable Vincent F. Callahan, Jr.
The Honorable Thomas K. Norment, Jr.
The Honorable M. Kirkland Cox
Mr. J. Jeffrey Lunsford
Ms. Jean L. Puckett



Virginia Museum of Natural History

in association with the Smithsonian Institution

1001 Douglas Avenue, Martinsville, VA 24112 276-666-8600 www.vmnh.net

TO: Walter Kucharski
Auditor of Public Accounts, Richmond
Commonwealth of Virginia

CC: Lindsey M. Grinnell

FROM: Timothy J. Gette
Executive Director
Virginia Museum of Natural History

REF: Report on Virginia's Museums, p. 1-3, 13-14

DATE: August 12, 2005

Dear Mr. Kucharski,

I have reviewed the Report on Virginia's Museums provided to me by Ms. Lindsey M. Grinnell of your office and feel that it is necessary to respond. In doing this, I want to state that although the Virginia Museum of Natural History is a small agency; we had a perfect audit in 2004.

While it is true the lack of funding and budget cutbacks faced by Virginia Museums in 2003 resulted in staff reductions and smaller administrative staffs, we do not agree with the blanket statement that this has been the cause of a lack of good internal control structure. The fact is that the failure of the Virginia Museum of Natural History to meet its projections was due to a delay in the building project caused by legal issues over title to the land raised by the Attorney General's office. I would also like to point out that much has changed over the last year in terms of staffing and support for the Museum and it would appear that this audit report reflects history rather than actual practice.

During the last session of the Legislature, it was our understanding that it is the intent of the Legislature that Virginia's Museums become more self-sufficient and be less dependent on general fund appropriations. We are working with the Virginia Museum of Natural History Foundation to increase private donations and earned revenue so that we can meet our state mandated mission of providing natural history education for children and life-long learners throughout the Commonwealth.

We further, and strongly disagree, that the best resolution for this issue is the sharing of general operating functions such as accounting, purchasing, payroll, marketing, development, reservations and human resources.

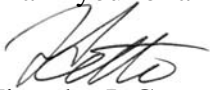
While the concept of sharing general operating functions may work in theory, and in the case of marketing there may be some opportunities to collaborate, each Museum has its own mission and customer base that must be targeted and taken care of. While the Museums are state agencies, they also operate in the quasi-world of the non-profit community which means that funds are generated from Foundations, corporations and individual donors. Combining a development function such as proposed in this report would in fact result in less money for Virginia Museums as the donors that currently give to the multiple Virginia Museums would now give to only one entity.

Donor cultivation and fundraising is very personal and can not be shared by Virginia Museums. While we certainly collaborate and discuss donor potential, donors give only when they have been properly cultivated and solicited.

Your statement that the Museums have been reluctant or opposed to any form of administration sharing of resources and have cited their independent boards, management structure, dispersed location and differing mission as reasons not to attempt this sharing is interesting. The Virginia Museum of Natural History shares resources with our sister Museums and, as an example, our scientists and educators are currently working with the Science Museum of Virginia to develop an exhibit at their facility in Richmond.

We do not agree with your suggestion that the long term financial health of all of these entities depends on a rational approach to their common administrative and operating needs. We do feel that voluntary cooperation and sharing of resources is important and we already do this.

Thank you for allowing me the opportunity to respond to this report.



Timothy J. Gette
Executive Director

Project Number	Projects*	Total Appropriations	General Fund
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THE SCIENCE MUSEUM OF VIRGINIA

16254	Adaptive Reuse of Transportation - Railroad Siding	\$ 446,730	\$ -
16537	Belmont Bay Life Science Center	5,000,000	-
16538	Addition to the Danville Science Center	5,019,500	16,500
16737	Renovation of East/West Terrace and Stormwater/Sewage System	1,684,000	-
16783	Imax Dome Infrastructure Renovations	2,043,614	43,614

Total		\$ 14,193,844	\$ 60,114
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VIRGINIA MUSEUM OF FINE ARTS

16011	Upgrade Fire Suppression	\$ 2,900,000	\$ 200,000
16439	Parking Deck	11,588,000	200,000
16495	Museum Expansion and Sculpture Garden	65,148,325	-

Total		\$ 79,636,325	\$ 400,000
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FRONTIER CULTURE MUSEUM OF VIRGINIA

16021	Restoration/Maintenance Building	\$ 950,000	\$ -
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JAMESTOWN-YORKTOWN FOUNDATION

15894	Visitor Reception and Cafe Building	\$ 6,180,000	\$ 4,885,000
16024	Jamestown Interim Exhibit of the Collection	2,816,153	-
16025	Park Entry for Jamestown's 2007 Celebration	694,000	5,418
16026	Jamestown Theater and Exhibit Gallery	30,384,106	635,726
16027	2007 Commemorative Monument	29,200	29,200
16133	Jamestown Entrance Plaza, Parking Lots and Roadways	5,443,000	682,000
16469	Jamestown Riverfront Amenities and Shipwright Bldg	1,964,920	117,920
16472	Central Support Complex	7,352,285	217,231
16473	Jamestown Maintenance Building	795,315	33,315
16474	Jamestown Powhatan Village	1,646,371	78,950
16475	Jamestown Fort (Construction Of 9 Buildings)	2,109,000	53,000
16476	Jamestown Ships Replacement	2,786,420	26,550
16670	Jamestown 2007 Special Exhibition	700,000	-

Total		\$ 62,900,770	\$ 6,764,310
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GUNSTON HALL

15407	Handicapped Access	\$ 60,982	\$ -
16305	Additions to Ann Mason Building	2,029,000	-

Total		\$ 2,089,982	\$ -
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VIRGINIA MUSEUM OF NATURAL HISTORY

16154	New Museum Facility	\$ 18,356,931	\$ 122,931
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*Does not include appropriation for maintenance reserve.

APPENDIX A

Special Revenue	Trust and Agency	Bond Proceeds	Other	FY 2004 Expenditures	Prior Year's Expenditures	Project Balance June 30, 2004
\$ -	\$ -	\$ -	\$ 446,730	\$ 75,745	\$ 366,590	\$ 4,394
-	-	5,000,000	-	-	-	5,000,000
630,000	194,000	3,679,000	500,000	166,367	81,993	4,771,140
-	-	1,684,000	-	1,164,862	340,889	178,248
-	-	2,000,000	-	266,214	-	183,786
\$ 630,000	\$ 194,000	\$ 12,363,000	\$ 946,730	\$ 1,673,188	\$ 789,472	\$ 10,137,568
\$ -	\$ -	\$ 2,700,000	\$ -	\$ 13,383	\$ 162,594	\$ 2,724,023
3,000,000	-	8,388,000	-	493,576	904,492	10,189,932
35,148,325	-	30,000,000	-	3,283,041	3,033,190	58,832,094
\$ 38,148,325	\$ -	\$ 41,088,000	\$ -	\$ 3,789,999	\$ 4,100,276	\$ 71,746,050
\$ -	\$ -	\$ 950,000	\$ -	\$ 92	\$ 17,304	\$ 932,604
\$ 880,000	\$ -	\$ 415,000	\$ -	\$ 183,536	\$ 5,885,827	\$ 110,637
25,000	-	2,791,153	-	1,576,484	564,074	675,595
-	-	688,582	-	2,810	581,642	109,548
-	-	29,748,380	-	2,568,912	6,445,969	21,369,225
-	-	-	-	1,550	7,895	19,755
370,000	-	4,391,000	-	1,196,544	572,606	3,673,850
-	-	1,847,000	-	19,284	104,488	1,841,148
-	-	7,107,081	27,973	4,277,957	383,943	2,690,385
-	-	762,000	-	-	33,315	762,000
558,421	-	1,009,000	-	17,341	78,943	1,550,087
600,000	-	1,456,000	-	90,178	100,391	1,918,431
1,994,000	-	577,450	188,420	77,261	46,877	2,662,282
700,000	-	-	-	-	-	700,000
\$ 5,127,421	\$ -	\$ 50,792,646	\$ 216,393	\$ 10,011,857	\$ 14,805,970	\$ 38,082,943
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,774	\$ 32,208
-	-	2,029,000	-	1,443,036	215,184	370,780
\$ -	\$ -	\$ 2,029,000	\$ -	\$ 1,443,036	\$ 243,958	\$ 402,988
\$ 3,445,000	\$ -	\$ 14,789,000	\$ -	\$ 90,220	\$ -	\$ 18,266,710

VIRGINIA'S MUSEUMS

(As of June 30, 2004)

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Michael Brand, Director

FRONTIER CULTURE MUSEUM OF VIRGINIA

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GUNSTON HALL

David Reese, Director

JAMESTOWN-YORKTOWN FOUNDATION

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