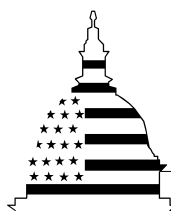


March 2006

FINANCIAL AUDIT

American Battle Monuments Commission's Financial Statements for Fiscal Years 2005 and 2004



G A O

Accountability ★ Integrity ★ Reliability

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of [GAO-06-348](#), a report to Senate and House Committees on Veterans' Affairs

Why GAO Did This Study

In accordance with 36 U.S.C. 2103, GAO is responsible for conducting audits of the agencywide financial statements of the American Battle Monuments Commission (the Commission). GAO audited the financial statements of the Commission for the fiscal years ended September 30, 2005, and 2004. The audits were done to determine whether, in all material respects, (1) the Commission's financial statements were reliable, and (2) Commission management maintained effective internal control over financial reporting and compliance with laws and regulations. Also, GAO tested Commission management's compliance with selected laws and regulations.

The Commission was created in 1923 to commemorate the sacrifices and achievements of U.S. Armed Forces where they have served overseas since April 6, 1917, and at locations within the United States as directed by Congress. The Commission designs, administers, operates, and maintains 24 American military cemeteries on foreign soil and 25 federal memorials, monuments, and markers, 22 of which are on foreign soil. The Commission was also responsible for designing and constructing the national World War II Memorial on the Capitol Mall in Washington, D.C., and for maintaining six nonfederal memorials with funds provided by those memorials' sponsors.

www.gao.gov/cgi-bin/getrpt?GAO-06-348.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

FINANCIAL AUDIT

American Battle Monuments Commission's Financial Statements for Fiscal Years 2005 and 2004

What GAO Found

In GAO's opinion, the financial statements of the American Battle Monuments Commission as of September 30, 2005, and 2004, and for the fiscal years then ended, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. Also in GAO's opinion, the Commission maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2005. In addition, GAO found no instances of Commission noncompliance in fiscal year 2005 with selected provisions of laws and regulations GAO tested.

However, GAO's work identified inadequate internal controls as of September 30, 2005, in two areas of information technology and in recognition of property and accounts payable that we considered to be reportable conditions. The Commission recorded audit adjustments to correct its property and accounts payable at year-end and is working to improve internal controls in these areas in the future.

For fiscal year 2005, the Commission incurred program costs of \$42.7 million to maintain its 24 cemeteries and 25 federal memorials from appropriated funds. It also incurred program costs of \$4.3 million for construction, dedication, and other costs related to the World War II Memorial funded by private contributions and investment earnings. On November 1, 2004, the World War II Memorial was transferred to the National Park Service, which assumed responsibility for its perpetual care. Another \$0.2 million of program costs were incurred by other trust funds for grave site flowers and repair and maintenance of nonfederal memorials funded by private contributions.

World War I St. Mihiel American Cemetery and Memorial, Thiaucourt, France



Source: American Battle Monuments Commission official photo.

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Abbreviations

FMFIA	Federal Managers’ Financial Integrity Act of 1982
OMB	Office of Management and Budget

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United States Government Accountability Office
Washington, D.C. 20548

March 1, 2006

The Honorable Larry E. Craig
Chairman
The Honorable Daniel K. Akaka
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate

The Honorable Steve Buyer
Chairman
The Honorable Lane Evans
Ranking Minority Member
Committee on Veterans' Affairs
House of Representatives

In accordance with 36 U.S.C. 2103, this report presents the results of our audits of the American Battle Monuments Commission's (the Commission) financial statements for the fiscal years ended September 30, 2005, and 2004.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations and the House Committee on Appropriations. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairman of the Commission, and other interested parties. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your staffs have any questions concerning this report, please contact me at (202) 512-3406. Key contributors to this engagement were Roger R. Stoltz, Patricia A. Summers, Bruce E. Cain, Erik S. Huff, Jesus J. Moreno, Jeremy F. Cockrum, and Brian M. Lanners. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Steven J. Sebastian
Director
Financial Management and Assurance



United States Government Accountability Office
Washington, D.C. 20548

To the Chairman of the American Battle Monuments Commission

In accordance with 36 U.S.C. 2103, we are responsible for conducting audits of the agencywide financial statements of the American Battle Monuments Commission (the Commission). In our audits of the Commission's financial statements for fiscal years 2005 and 2004, we found

- the consolidating financial statements as of and for the fiscal year ended September 30, 2005, and comparative consolidated totals as of and for the fiscal year ended September 30, 2004, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although internal controls should be improved, the Commission maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2005; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other supplementary information and (2) the objectives, scope, and methodology of our audit.

Opinion on Financial Statements

The Commission's consolidating balance sheet as of September 30, 2005, and its related consolidating statements of net cost and changes in net position; budgetary resources; and financing, with accompanying notes for the fiscal year then ended, and comparative consolidated totals as of and for the fiscal year ended September 30, 2004, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Opinion on Internal Control

Although certain internal controls should be improved, the Commission maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2005. Internal control provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the consolidating financial statements would be prevented or detected on a

timely basis. Our opinion is based upon criteria established under 31 U.S.C. 3512 (c), (d) [Federal Managers' Financial Integrity Act (FMFIA)], and Office of Management and Budget (OMB) Circular No. A-123, *Management Accountability and Control* (June 21, 1995).

However, our work identified the need to improve certain internal controls, as described below, that we consider reportable conditions. Reportable conditions are significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Commission's ability to meet internal control objectives or meet OMB criteria for reporting matters under FMFIA. In addition, misstatements may occur in other Commission financial information not included in this report as a result of these reportable conditions.

Reportable Conditions

During our audit, we noted deficiencies in controls over information technology systems and in recognition of property and accounts payable as of September 30, 2005. Commission management disclosed these conditions in its fiscal year 2005 FMFIA report and is working to implement corrections for all internal control deficiencies.

Deficient Controls over Information Technology Systems

Inadequate controls over information technology systems were identified in the two following areas.

- **User documentation:** While the Commission's existing accounting system, implemented on October 1, 2001, has adequate user documentation, there continued to be a lack of user documentation to support its older legacy subsystems that were still used during fiscal year 2005, primarily for payroll. This condition has existed since our first audit of the Commission's financial statements in fiscal year 1997 and includes the Clipper system used by the European Regional Office and the dBase IV system used by the Mediterranean Regional Office. Commission personnel have learned how to use these legacy subsystems over the years, primarily through on-the-job training, and have limited support to explain how subsystems functions should be performed and to answer questions.

In January 2004, this condition was partially corrected when payroll processing for the Commission's General Schedule employees was converted to the General Services Administration, which provided

sufficient user documentation. During fiscal year 2005, a contractor began designing and documenting a new payroll system for the Commission's Foreign Service National employees, which is to be operational by September 30, 2006. Further efforts to improve user documentation are ongoing.

- **Security program and access controls:** During our fiscal year 2005 audit, we continued to identify some security controls over the Commission's computer system, such as administrative controls over network configuration, passwords, and access to files, that were not effective at all Commission locations as of September 30, 2005. This condition may allow unauthorized parties access to the Commission's computer system and network resources that could result in damage, deletion, or theft of computerized data. Since the installation of the Commission's automated accounting system in fiscal year 2002, we have conducted annual security and general controls reviews. In separate Limited Official Use reports issued after our fiscal years 2002 through 2004 audits, we communicated detailed information and made specific recommendations to strengthen Commission internal controls in information technology, accounting procedures, and financial reporting. While the Commission has implemented many of these recommendations, further efforts are needed.

Improper Recognition of Property and Accounts Payable

As of September 30, 2005, the Commission had not recognized almost \$1 million of property and accounts payable in its accounting records. Proper expensing of heritage asset additions, while capitalizing and depreciating general property additions over accounting policy limits, is necessary for accountability and proper presentation. Proper cutoff of accrued liabilities for goods, services, and benefits received in fiscal year 2005, but invoiced and paid in fiscal year 2006, is also necessary for accountability and proper presentation. We noted that while proper accounting for property and payables has improved during fiscal year 2005, year-end adjustments were still needed to correct property balances by \$0.4 million and accounts payable by \$0.6 million as of September 30, 2005. Thus, in our view, these two matters continue to represent a reportable condition.

In an effort to meet Department of the Treasury year-end closing requirements for fiscal year 2005 by November 15, 2005, Commission accounting staff did not allow for a thorough review of closing balances at headquarters. This would include adjustment of obviously incorrect balances such as a credit balance in a property account that properly has a

debit balance, and a failure to recognize a liability for September 2005 construction costs for the Normandy Interpretive Center. In addition, a vacant finance officer position at the Commission's European Regional Office during year-end closing stretched headquarters and regional accounting resources. Despite these conditions, the Commission has made significant improvement in reducing its postclosing accounting adjustments from 45 for fiscal year 2004 to zero for fiscal year 2005. The Commission subsequently corrected property and accounts payable accounts discussed above through year-end audit adjustments in order to fairly present its financial statements for fiscal year 2005 in conformity with U.S. generally accepted accounting principles.

Compliance with Laws and Regulations

Our tests of the Commission's compliance with selected provisions of laws and regulations for fiscal year 2005 disclosed no instances of noncompliance reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

The Commission's Management Discussion and Analysis and other information related to heritage assets contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with officials of the Commission. On the basis of this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

Objectives, Scope, and Methodology

Commission management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad internal control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the Commission's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting

principles, and (2) Commission management maintained effective internal control that provides reasonable assurance that the following objectives were met:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and other information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with applicable laws and regulations: Transactions are executed in accordance with (1) laws governing the use of budgetary authority; (2) other laws and regulations that could have a direct and material effect on the financial statements; and (3) any other laws, regulations, or governmentwide policies identified by OMB guidance.

We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and for which OMB guidance requires testing and (2) performing limited procedures with respect to certain other information appearing in the Commission's annual financial report. In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by Commission management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- obtained an understanding of the recording, processing, and summarizing of performance measures as reported in the Commission's Management's Discussion and Analysis;

-
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
 - considered the process for evaluating and reporting on internal control and financial management systems under FMFIA; and
 - tested compliance with selected provisions of the following laws and regulations:
 - the Commission's enabling legislation codified in 36 U.S.C. Chapter 21,
 - public laws applicable to the World War II Memorial Fund,
 - Departments of Veterans' Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 2005,
 - Miscellaneous Appropriations and Offsets Act, 2005,
 - Antideficiency Act,
 - Pay and Allowance System for Civilian Employees, and
 - Prompt Payment Act.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the Commission. We limited our tests of compliance to those required by OMB audit guidance that we deemed applicable to the Commission's financial statements for the fiscal year ended September 30, 2005. We caution that

noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Commission Comments and Our Evaluation

Commission management was provided with a draft of this report and concurred with its facts and conclusions.

A handwritten signature in black ink, reading "Steven J. Sebastian". The signature is fluid and cursive, with the first name "Steven" and last name "Sebastian" clearly legible.

Steven J. Sebastian
Director
Financial Management and Assurance

January 31, 2006

Annual Financial Report of the American Battle Monuments Commission

Annual Financial Report

ANNUAL FINANCIAL REPORT

THE AMERICAN BATTLE MONUMENTS COMMISSION

FOR THE YEAR ENDED SEPTEMBER 30, 2005

Management's Discussion and Analysis

AMERICAN BATTLE MONUMENTS COMMISSION
ANNUAL FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Commission Profile

The American Battle Monuments Commission (the Commission)—guardian of America's overseas commemorative cemeteries and memorials—honors the service, achievements and sacrifice of United States Armed Forces. Since 1923, the Commission has executed this mission by (1) commemorating the achievements and sacrifices of United States Armed Forces where they have served since April 6, 1917, through the erection and maintenance of suitable memorial shrines; (2) designing, constructing, operating and maintaining permanent American military burial grounds in foreign countries; and (3) controlling the design and construction on foreign soil of U.S. military memorials, monuments, and markers by other U.S. citizens and organizations, both public and private, and encouraging their maintenance. Our fiscal year 2005 appropriation supported our continued commitment to the worldwide responsibilities that flow from this mission.

In performance of its mission, the Commission administers, operates and maintains 24 permanent American military cemeteries; 25 Federal memorials, monuments, and markers; and six nonfederal memorials. While three memorials are located in the United States, the remaining memorials and all of our cemeteries are located in 14 foreign countries, the U.S. Commonwealth of the Northern Mariana Islands, and the British dependency of Gibraltar. These cemeteries and memorials are among the most beautiful and meticulously maintained shrines in the world. As of September 30, 2005, interred in the cemeteries are 124,917 U.S. War Dead: 30,921 of World War I, 93,246 of World War II, and 750 of the Mexican American War. Additionally, 6,133 American Veterans and others are interred in the Mexico City and Corozal Cemeteries. The Commission's World War I, World War II, and Mexico City Cemeteries are closed to future burials except for the remains of U.S. War Dead found from time to time in the World War I and II battle areas.

In addition to grave sites, the World War I and II cemeteries, together with three memorials on U.S. soil, commemorate by name on Tablets of the Missing the 94,135 U.S. servicemen and women who were Missing in Action or lost or buried at sea in their general region during the World Wars and the Korean and Vietnam Wars.

Most of our facilities range in age from 45 to 91 years old with our Mexico City Cemetery being over 150 years old. The permanent structures and plantings, which make our facilities among the most beautiful memorials in the world, are aging and require increased funding to maintain them at the current standards. Accordingly, we prioritize the use of our maintenance and engineering funds very carefully to ensure the most effective utilization of our available resources. All of the plantings, including the lawns and to some extent the meadows, must be cut and shaped, fed and treated with insecticides and fungicides at regular intervals during the growing season. The plantings also must be replaced when their useful lives are exhausted or they receive major storm damage.

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The Commission also administers trust funds to (1) build memorials authorized by Congress, but financed primarily from private contributions, commemorative coin proceeds, and investment earnings; (2) decorate grave sites with flowers from private contributions; and (3) maintain and repair nonfederal war memorials with private contributions.

Organizational Structure

The Commission's organizational structure for fiscal year 2005 is presented in Figure 1 below.

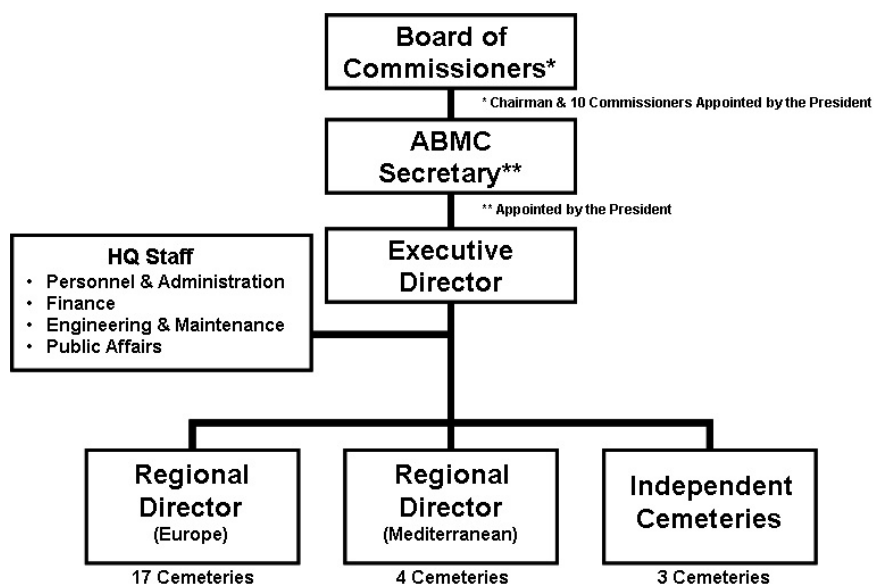


Figure 1. The Commission's Organizational Structure

The Commission's policymaking body consists of an 11-member Board of Commissioners appointed by the President of the United States for an indefinite term and whose members serve without pay. The commissioners establish policy and ensure proper staff functioning in carrying out the mission of the Commission. During inspections, they observe, inquire, comment upon, and make recommendations on any and all aspects of Commission operations. The Commission's daily operations are directed by an Executive Level Secretary, who is appointed by the President and assisted by an Executive Director, a member of the Senior Executive Service.

The Commission's headquarters office is in Arlington, Virginia and regional offices are located in Garches, France, just outside Paris, and in Rome, Italy.

For fiscal year 2005, the Commission maintained its authorization for 390 full-time equivalent (FTE) positions. U.S. citizens constituted 66 members of the staff, while the remaining 324 were Foreign Service Nationals employed at our regional offices and at the cemeteries in the countries where the Commission operates.

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Operations Management

The Commission's fiscal year 2005 funding focused on personnel costs, service fees, scheduled maintenance and repairs, supplies, materials, spare parts, replacement of uneconomically repairable equipment, and capital improvements, as well as funding toward completion of the design and construction of the Normandy Cemetery Interpretive Center.

The Commission's fiscal year 2005 appropriation of \$41,100,000 was available for salaries and expenses. Of this total, \$9,100,000 was allocated for the design and construction of the Normandy Cemetery Interpretive Center. A government-wide rescission of 0.80% reduced the Commission's Salaries and Expenses appropriation by \$328,800, causing it to reduce spending in much needed engineering projects to accommodate this loss.

Within its fiscal year 2005 appropriation, the Commission targeted \$2.0 million to continue an Infrastructure Modernization Program. As previously noted, our cemeteries and their infrastructure are aging. With the help of Congress and the Office of Management and Budget over the last six years, the Commission has worked to eliminate its backlog of deferred maintenance projects. We must now continue our efforts to upgrade or replace outdated and deteriorating systems.

The Infrastructure Modernization Program enables us to take a systemic look at our infrastructure and address areas that will: (1) reduce the growth of operational and routine maintenance costs and (2) promote more effective long-term planning and budgeting. The first phase of this program, conducted during fiscal years 2000 and 2001, established a baseline assessment of our installations by utilizing in-depth technical surveys. These surveys, conducted by professional engineering firms applying current industry standards, regulations, and technological advances, assessed our electrical and structural systems and identified what needed to be accomplished at our facilities. A subsequent study, conducted in fiscal year 2002, examined our diverse water systems at each facility. The second phase, which began in fiscal year 2002 and will continue through fiscal year 2007, addresses corrective actions in electrical and structural systems.

The Productivity Improvement Program continued its investment in projects and equipment that contributed to Commission operational efficiency and effectiveness. The largest effort in fiscal year 2005 was in the area of equipment where the Commission purchased new equipment to replace aging machines. Special mowers and street sweepers acquired during the year enabled the Commission to operate more effectively and efficiently, thus freeing up personnel for additional tasks at cemeteries that they would not be able to normally perform. The use of larger, more productive equipment also drives the Commission's need to improve drainage in and around the cemetery plot areas through core aeration and sanding. The program further supported the Commission's headstone improvement program by providing engraving bits and manpower. The program also helped Commission efforts in the area of automation with a decision to implement Commission-wide the Trims site management system, as well as the continued implementation of an improved Information Technology network. In addition, the program developed new ideas, such as the Netherlands American Cemetery weather station. This project was designed to reduce over-watering and mowing requirements within the cemetery, as well as to save funding.

The shrines to America's War Dead entrusted to the Commission's care require a formidable annual program of maintenance and repair of facilities, equipment, and grounds. This care includes upkeep of more than 131,000 graves and headstones and 73 memorial structures (within and external to the cemeteries) on approximately 1,600 acres of land. Additionally, the Commission maintains 41 residential quarters for assigned personnel; 24 maintenance facilities; 67 miles of roads and

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walkways; 911 acres of flowering plants, fine lawns, and meadows; nearly 3 million square feet of shrubs and hedges; and over 11,000 ornamental trees.

Care and maintenance of these resources is exceptionally labor intensive, thus personnel costs accounted for approximately 56 percent of the Commission's fiscal year 2005 obligations. The remaining 44 percent funded other operating costs. Figure 2 below shows the obligation of funds by object class under the Commission's fiscal year 2005 obligations.

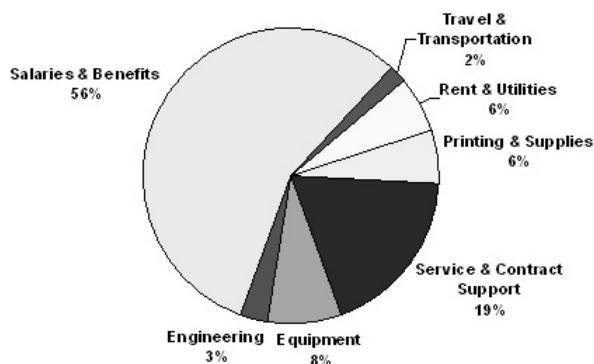


Figure 2. The Commission's Fiscal Year 2005 Obligations by Object Class

Mission and Goals

During fiscal year 2005, the Commission reassessed its mission and goals to help ensure that our commemorative cemeteries and memorials continue to be shrines to this great nation's core value that the United States is a beacon for liberty and freedom throughout the world.

The Commission's revised mission statement:

The American Battle Monuments Commission—guardian of America's overseas commemorative cemeteries and memorials—honors the service, achievements, and sacrifice of United States Armed Forces.

The Commission's goals:

- To develop, operate, maintain, and improve the Commission's facilities as the world's best commemorative sites.
- To value and invest in each employee.
- To have the Commission's commemorative sites recognized worldwide as inspirational and educational visitor destinations.
- To make the Commission's business and resource management the best in government.

President's Management Agenda Initiatives

The Commission made significant progress in the implementation of each item within the President's Management Agenda as follows.

Strategic Management of Human Capital

In fiscal year 2002, we began a worldwide manpower study that outlined our manpower requirements, position descriptions, workloads, and manpower distribution. This effort was to ensure that we deploy our workforce so that we have the right person with the right skills in every position. We expect to implement the study recommendations into fiscal year 2007.

Competitive Sourcing

We have used competitive sourcing initiatives in a number of ways to improve performance and save costs. Our fiscal year 2005 budget contained funding for upgrades, hosting, and 24-hour support of our financial management system. These funds allowed us to outsource support to contractors experienced in providing such services and enabled us to support our worldwide operations without increasing the size of our financial management staff. The resources devoted to our Infrastructure Modernization Program and engineering programs largely supported competitive sourcing of our infrastructure improvement efforts, allowing our government employees to focus on our daily mission of maintaining our cemeteries while implementing complex systems and upgrading our physical plant. Most of our construction and engineering projects were contracted out, since these projects are usually unique and beyond the capability of our limited staff.

Improved Financial Performance

Since fiscal year 1997, the Commission has been required to produce financial statements and the Comptroller General of the United States has been required to independently audit these statements. Each year, the Commission has earned an unqualified opinion on its financial statements from the Government Accountability Office. However, we recognize that improved financial performance is more than achieving an unqualified audit opinion. It is about putting useful and timely information in the hands of Commission management so that they can make informed decisions. The fiscal year 2005 budget not only supported our daily accounting operations and proper internal controls, but allowed us to identify additional management needs and reports to provide the best financial information available.

Expanded E-Government

Over the last several years, the Commission expanded access to valuable information through the use of online tools. We maintain a Web site that allows visitors to gather information on our organization and our cemeteries and memorials with their locations. We will continue our efforts to enable citizens to make contributions to our flower funds electronically through the use of credit cards. This will allow greater ability for citizens to arrange for flowers to commemorate loved ones who made the ultimate sacrifice for our nation.

Budget and Performance Integration

A key element in linking budget and performance is having timely and reliable financial data. We achieved that with our integrated financial system. Another key element is the process by which the Commission ties performance within the organization to the budget formulation process. In fiscal

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year 2005, we implemented a Cemetery Evaluation Review System that uses existing policies and standards to assess and prioritize both requirements and resources. Evaluations and reviews form the basis for future budget requirements.

We are pressing forward in the budget process to ensure that our funding requests support the objectives of the agency and the President's Management Agenda.

Selected Performance Goals and Results

During fiscal year 2005, the Commission demonstrated an ability to achieve performance results through a number of specific projects that tie directly to its strategic goals as follows.

1. In support of next of kin and other customers who use our services, the Commission provides burial and memorialization site information; letters authorizing non-fee passports for members of the immediate family traveling overseas primarily to visit the cemetery; in-country travel and accommodation information; and upon arrival at the cemetery, escort to the appropriate grave or memorialization site. Requesters are provided a photograph that is taken of the appropriate headstone or section on the Tablet of the Missing, which is mounted on a color lithograph of the cemetery or memorial where a serviceman or woman is buried or commemorated by name. The Commission also purchases floral decorations with donor funds and the donor is provided with a photograph of the headstone or Tablet of the Missing with the decoration in place.
2. In addition to responding to inquiries by friends and relatives of the War Dead interred or memorialized at its sites, the Commission also provides information to the Executive Branch, Members of Congress, other government agencies, historians, and other interested individuals. During fiscal year 2005, the Commission responded to more than 7,500 inquiries and provided 2,500 cemetery lithographs and photos during the year.
3. The Commission's Internet Web site at www.abmc.gov provides visitors a convenient, user friendly, method to access information on the Commission, as well as its cemeteries, memorials, monuments, markers, and headquarters operations. In addition, information on the U.S. War Dead from the Korean War and those interred or commemorated at its World War I and World War II cemeteries are accessible on the Web-site. The Commission redesigned its Web site to modernize its graphic presentation and improve the visitor's ability to navigate through the site. In addition, the Commission completed an extensive review and update of the Korean War Veterans Memorial Honor Roll database and began work to add to the Web site a database of burials at our Corozal American Cemetery in Panama.
4. During fiscal year 2005, an estimated two million American and foreign citizens visited Commission cemeteries. Most visitors paid homage collectively to the interred Honored War Dead. Many had more personal reasons for visiting a friend or relative who never returned home from war. Regardless of the visitors' motivations, Commission employees dedicated themselves to making each visit gratifying and memorable. The Commission's overseas commemorative sites are recognized for their beauty and inspirational qualities, yet few Americans are aware of their existence; the Commission estimates that 85 percent of its visitors are foreign citizens. As a result, the Commission embarked on an effort to increase public awareness of these commemorative sites so that more Americans add the sites to their itineraries when traveling overseas.

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5. Throughout the year, at sites around the world, the Commission hosted a variety of special events and commemorations including celebrations for Memorial Day, Independence Day, and Veterans Day. In addition, military units held ceremonies to honor their fallen comrades, and local organizations paid tribute to those who died while liberating their regions. The President of the United States participated in a ceremony at the Commission's Netherlands American Cemetery on May 8, 2005, to commemorate the 60th anniversary of V-E Day, the ending of World War II in Europe. Earlier in May, The American Legion sponsored well attended ceremonies at the Commission's Florence and Sicily-Rome Cemeteries to commemorate the 60th anniversary of the ending of WWII hostilities in Italy. All ceremonies reflected a solemn respect for America's Honored War Dead and appreciation for the sacrifices of all veterans.
6. The American Veterans of WWII, Korea, and Vietnam (AMVETS) and the Robert R. McCormick Tribune Foundation have generously donated chromatically tuned bells in carillons to enhance our overseas cemeteries. AMVETS installed the first carillon in our Manila cemetery in 1985. They subsequently formed a partnership with the foundation, and in April 2005 delivered a carillon to the St. Mihiel American Cemetery, the 16th donated over the years.
7. The Commission initiated a replacement and renovation program for old headstones at the Oise-Aisne American Cemetery in Fere-en-Tardenois, France, in fiscal year 2004. This program uses a computer controlled engraving machine to renovate and refinish severely degraded headstones. It took several years of planning to acquire the custom machine and special tooling, as well as to establish the required training and procedures for the program to work effectively and efficiently. The work at Oise-Aisne is expected to be completed in FY 2006. The program will then focus on the next World War I cemetery, Aisne-Marne American Cemetery.
8. For fiscal years 2002 through 2005, the Commission has received a total of \$27 million of appropriations, net of rescissions, to build a visitor interpretive center at the Normandy American Cemetery. This is to be the Commission's first interpretive center and it will help us tell the story of those that fought there. The construction of this facility started at the end of fiscal year 2005 and is programmed to be finished in 2007.

The Commission will review and revise its mission, goals, and performance criteria during the upcoming budget year.

Management Integrity: Controls, Systems, Compliance, and Challenges

The Commission is cognizant of the importance of, and need for, management accountability and responsibility as the basis for quality and timeliness of program performance, mission accomplishment, increased productivity, cost effectiveness, and compliance with applicable laws. It has taken measures to ensure that the annual evaluation of these controls is performed in a conscientious and thorough manner according to OMB regulations and guidelines and in compliance with 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA). The Commission's evaluation of its system of internal management practices and controls during fiscal year 2005 revealed no material weaknesses. The objectives of the Commission's internal management control policies and procedures are to provide reasonable assurance that:

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1. Obligations and costs are in compliance with applicable law;
2. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation;
3. Revenue and expenditures applicable to agency operations are promptly recorded and accounted for; and
4. Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Based on its evaluation, the Commission concluded that there is reasonable assurance that it complies with the provisions of FMFIA. The reasonable assurance concept recognizes that the cost of internal controls should not exceed the benefits expected to be derived and that the benefits reduce the risk of failing to achieve stated objectives.

Future Risks and Reactions

Current foreign currency losses threaten our ability to sustain our day-to-day operations. In order to insulate the Commission's annual appropriation against major changes in its purchasing power, Congress enacted legislation in 1988 (codified in 36 U.S.C. 2109) to establish a foreign currency fluctuation account in the U.S. Treasury. Due to unfavorable exchange rates between the U.S. Dollar and the European Euro in fiscal year 2004, our foreign currency fluctuation account experienced significant losses that reduced its balance to \$0.8 million as of September 30, 2004.

For fiscal year 2005, Congress appropriated \$12.0 million into the Commission's Foreign Currency Fluctuation Account, less \$96,000 for the 0.80% rescission. This appropriation will be used to offset foreign exchange losses to the U.S. Dollar primarily by the European Euro. It also reduces the Commission's risk that the funding appropriated for its operations (in the salaries and expenses appropriation) will be jeopardized due to vagaries in currency fluctuations. By maintaining close scrutiny on the Commission's obligation status, as well as monitoring and distributing the Foreign Currency Fluctuation Account balance, our overall financial risk to operations is reduced.

On a long-term basis, the Commission expects to face further government-wide rescissions that will require it to reexamine priorities and shift funding to maintain essential operations.

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Consolidating Balance Sheet

AMERICAN BATTLE MONUMENTS COMMISSION CONSOLIDATING BALANCE SHEET As of September 30, 2005 (With Comparative Consolidated Total as of September 30, 2004)					
	<u>General Fund</u>	<u>Trust Funds</u>		<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u>	<u>Other Trust Funds</u>	<u>Total 2005</u>	<u>Total 2004</u>
<u>Assets</u>					
Intragovernmental:					
Fund balance with Treasury (note 2)	\$37,836,018	\$10,194,604	\$325,664	\$48,356,286	\$41,004,822
Treasury investments, net (note 3)		7,902,162	58,086	7,960,248	5,111,149
Total Intragovernmental	37,836,018	18,096,766	383,750	56,316,534	46,115,971
Cash and foreign accounts (note 4)	87,181		309	87,490	112,018
Accounts receivable	31,425			31,425	
Contributions receivable, net (note 5)		207,040		207,040	733,769
General property and equipment, net (note 6)	1,995,704	0		1,995,704	2,481,017
Heritage property (note 6)	0			0	0
Total Assets	\$39,950,328	\$18,303,806	\$384,059	\$58,638,193	\$49,442,775
<u>Liabilities</u>					
Intragovernmental:					
Accounts payable	\$553,403	\$3,381,859		\$3,935,262	\$1,066,453
Accrued salaries and benefits	79,845			79,845	389,963
Total Intragovernmental	633,248	3,381,859		4,015,107	1,456,416
Accounts payable	1,584,924	51,091	\$15	1,636,030	2,365,860
Other liabilities (note 7)	3,104,815	50		3,104,865	3,027,696
Total Liabilities	5,322,987	3,433,000	15	8,756,002	6,849,972
Commitments and contingencies (note 8)					
<u>Net Position</u> (notes 9, 10)					
Unexpended appropriations	34,749,909			34,749,909	23,981,588
Cumulative results of operations (deficit)	(122,568)	14,870,806	384,044	15,132,282	18,611,215
Total Net Position	34,627,341	14,870,806	384,044	49,882,191	42,592,803
Total Liabilities and Net Position	\$39,950,328	\$18,303,806	\$384,059	\$58,638,193	\$49,442,775

The accompanying notes are an integral part of these statements.

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Consolidating Statement of Net Cost and Changes in Net Position

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING STATEMENT OF NET COST AND CHANGES IN NET POSITION
For the Year Ended September 30, 2005
(With Comparative Consolidated Total for the Year Ended September 30, 2004)

	General Fund	Trust Funds		Total Funds	Total Funds
	Cemeteries and Memorials	World War II Memorial	Other Trust Funds	Total 2005	Total 2004
PROGRAM COSTS					
Intragovernmental program costs:					
Operations and maintenance	\$2,784,988	\$142,964		\$2,927,952	\$2,610,749
Design and construction		2,702,633		2,702,633	25,695,105
Program costs with the public:					
Operations and maintenance	29,256,468		\$184,058	29,440,526	26,209,003
Fund raising		46,644		46,644	2,370,080
Administrative		685,496		685,496	1,712,123
Design and construction		653,218		653,218	17,693,527
Memorial costs		52,738		52,738	111,708
Property and equipment (note 6)	2,232,441	2,000		2,234,441	3,594,990
Foreign currency losses, net	8,377,092			8,377,092	8,123,747
Net Cost of Operations	\$42,650,989	\$4,285,693	\$184,058	\$47,120,740	\$88,121,032
CHANGES IN NET POSITION					
Cumulative Results (Deficit) - Start of Year	(\$8,034)	\$18,303,570	\$315,679	\$18,611,215	\$62,355,620
Budgetary Financing Sources					
Appropriations used	41,906,879			41,906,879	39,719,420
Total Budgetary Financing Sources	41,906,879	-	-	41,906,879	39,719,420
Other Financing Sources					
Contributions	62,285	756,661	252,183	1,071,129	3,412,647
Treasury investment earnings		96,268	240	96,508	636,144
Imputed financing	567,291			567,291	608,416
Total Other Financing Sources	629,576	852,929	252,423	1,734,928	4,657,207
Total Financing Sources	42,536,455	852,929	252,423	43,641,807	44,376,627
Less: Net Cost of Operations	42,650,989	4,285,693	184,058	47,120,740	88,121,032
Net Increase (Decrease) for the Year	(114,534)	(3,432,764)	68,365	(3,478,933)	(43,744,405)
Cumulative Results (Deficit) - End of Year	(122,568)	14,870,806	384,044	15,132,282	18,611,215
Unexpended Appropriations -Start of Year	23,981,588	-	-	23,981,588	22,804,842
Budgetary Financing Sources					
Appropriations received	52,675,200			52,675,200	40,896,166
Appropriations used	(41,906,879)			(41,906,879)	(39,719,420)
Increase in unexpended appropriations	10,768,321	-	-	10,768,321	1,176,746
Unexpended Appropriations -End of Year	34,749,909	-	-	34,749,909	23,981,588
TOTAL NET POSITION- END OF YEAR	\$34,627,341	\$14,870,806	\$384,044	\$49,882,191	\$42,592,803

The accompanying notes are an integral part of these statements.

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Consolidating Statement of Budgetary Resources

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2005
(With Comparative Consolidated Total for the Year Ended September 30, 2004)

	<u>General Fund</u>	<u>Trust Funds</u>		<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u>	<u>Other Trust Funds</u>	<u>Total 2005</u>	<u>Total 2004</u>
<u>Budgetary Resources</u>					
Budgetary Authority:					
Appropriations	\$53,100,000			\$53,100,000	\$41,300,000
Net transfer in for net foreign exchange loss	8,949,331			8,949,331	4,746,681
Other (contributions collected)		\$1,427,429	\$251,702	1,679,131	5,942,021
Less: Rescinded	(424,800)			(424,800)	(243,670)
Unobligated Balances:					
Start of year	16,935,677	15,902,937	309,739	33,148,353	60,001,729
Net transfer (out) for net foreign exchange (loss)	(8,949,331)			(8,949,331)	(4,746,681)
Recoveries of prior year obligations	(411,746)			(411,746)	
Total Budgetary Resources	\$69,199,131	\$17,330,366	\$561,441	\$87,090,938	\$107,000,080
<u>Status of Budgetary Resources</u>					
Obligations incurred - direct	\$53,537,275	\$3,288,504	\$182,213	\$57,007,992	\$73,851,727
Unobligated balances available	15,661,856	14,041,862	379,228	30,082,946	33,148,353
Total Status of Budgetary Resources	\$69,199,131	\$17,330,366	\$561,441	\$87,090,938	\$107,000,080
<u>Net Outlays</u>					
Obligations incurred	\$53,537,275	\$3,288,504	\$182,213	\$57,007,992	\$73,851,727
Plus: Obligated balances, start of year:					
Undelivered orders	7,045,911	1,519,594	50,008	8,615,513	22,748,057
Delivered orders - unpaid	3,370,582	1,293,690	4,117	4,668,389	6,693,495
Less: Obligated balances, end of year:					
Undelivered orders	(19,088,053)	(518,122)	(48,163)	(19,654,338)	(8,615,513)
Delivered orders - unpaid	(3,086,109)	(3,432,950)	(15)	(6,519,074)	(4,668,389)
Total Net Outlays	\$41,779,606	\$2,150,716	\$188,160	\$44,118,482	\$90,009,377

The accompanying notes are an integral part of these statements.

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Consolidating Statement of Financing

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2005
(With Comparative Consolidated Total for the Year Ended September 30, 2004)

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u>	<u>Other Trust Funds</u>	<u>Total 2005</u>
				<u>Total 2004</u>
<u>Resources Used To Finance Activities</u>				
Obligations incurred - direct	\$53,537,275	\$3,288,504	\$182,213	\$57,007,992
Imputed retirement and audit services	567,291			567,291
Other adjustments with Treasury	(255,478)	8,421		(247,057)
Total Resources Used to Finance Activities	53,849,088	3,296,925	182,213	57,328,226
				74,460,143
<u>Resources That Do Not Fund Net Cost of Operations</u>				
General property capitalized on the balance sheet	86,428			86,428
Decrease in unfunded annual leave		(12,704)		(12,704)
Undelivered orders - start of year	7,045,911	1,519,594	50,008	8,615,513
Less: Undelivered orders - end of year	(19,088,053)	(518,122)	(48,163)	(19,654,338)
Total Resources That Do Not Fund Net Cost of Operations	(11,955,714)	988,768	1,845	(10,965,101)
				12,760,368
<u>Components of Net Cost of Operations Not Requiring Resources in the Current Period</u>				
Components Requiring Resources in Future Periods:				
Increase in unfunded annual leave	980			980
Increase in unfunded separation pay liability	67,068			67,068
Increase in accounts receivable	31,425			31,425
Components Not Requiring Resources:				
Depreciation	627,282			627,282
In-kind expenses	30,860			30,860
Total Costs Not Requiring Resources in the Current Period	757,615	-	-	757,615
				900,521
Net Cost of Operations	\$42,650,989	\$4,285,693	\$184,058	\$47,120,740
				\$88,121,032

The accompanying notes are an integral part of these statements.

Notes to the Consolidating and Consolidated Financial Statements

AMERICAN BATTLE MONUMENTS COMMISSION
NOTES TO THE CONSOLIDATING AND CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Years Ended September 30, 2005 and 2004

Note 1. Significant Accounting Policies

A. Basis of Presentation

The accompanying consolidating and consolidated financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the American Battle Monuments Commission (the Commission) in conformity with U.S. generally accepted accounting principles as used by the federal government. There are no intra-entity transactions to be eliminated.

B. Reporting Entity and Funding Sources

The Commission is an independent agency within the executive branch of the federal government and was created by an Act of March 4, 1923, the current provisions of which are now codified in 36 U.S.C. Chapter 21. The Commission's mission is to commemorate the sacrifices and achievements of U.S. Armed Forces where they have served overseas since April 6, 1917, the date of the United States entry into World War I, and at locations within the United States when directed by the Congress. The Commission designs, administers, constructs, operates, and maintains 24 American military cemeteries and 25 federal memorials, monuments, and markers (herein collectively referred to as memorials). Three of the memorials are located in the United States while all of the cemeteries and the remaining memorials are located on foreign soil in 14 foreign countries, the Marianas, and Gibraltar. The Commission is also responsible for maintaining 6 nonfederal memorials with funds received from the memorials' sponsors. The Commission is headquartered in Arlington, Virginia. Field operations are conducted through regional offices located near Paris, France; and in Rome, Italy; and cemeteries in Manila, the Philippines; Mexico City, Mexico; and Panama City, Panama.

The Commission also had responsibility for designing and constructing the National World War II Memorial located on the Mall in Washington, D.C. In accordance with 40 U.S.C. 8906 (b), the Commission provided \$6.6 million for deposit in a separate Treasury account to offset the memorial's costs of perpetual maintenance. On November 1, 2004, the Commission signed an agreement with the National Park Service to formally transfer the National World War II Memorial to the Service for its future care and maintenance. Any remaining funds will reside in a trust fund in the U.S. Treasury to be used solely to benefit the World War II Memorial.

Commission programs are funded primarily through appropriations available without fiscal year limitation (no-year). The Commission also administers several trust funds established to: (1) build memorials authorized by the Congress, but which are funded primarily by private contributions, commemorative coin sales proceeds, and investment earnings; (2) decorate grave sites; and (3) maintain and repair certain nonfederal war memorials.

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C. Basis of Accounting

The Commission's proprietary accounts (assets, liabilities, equity, revenue, and expenses) are maintained on the accrual basis, where appropriated funds are accounted for by appropriation year; operating expenses are recorded as incurred; and depreciation is taken on property, plant, and equipment not otherwise classified as heritage assets. Commission budgetary accounts are maintained on a budgetary basis, which facilitates compliance with legal constraints and statutory funds control requirements. The functional budget classification is Veterans' Benefits and Services.

D. Fund Balances with Treasury

The Commission's cash receipts and disbursements are processed by the U.S. Treasury. Fund balances with Treasury are comprised of appropriated general funds and trust funds.

E. Investments

In accordance with Public Law 103-32, the Commission is authorized to invest World War II Memorial Trust Fund receipts in U.S. Treasury securities. The Commission is also authorized under a modification to its original legislation to invest receipts from certain nonfederal war memorial organizations in U.S. Treasury securities. Treasury investments are recorded at par value plus unamortized premium or less unamortized discount. Premiums and discounts are amortized using the interest method.

F. Foreign Currency

The Commission's overseas offices maintain accounts of foreign currencies to be used in making payments in foreign countries. These accounts are reported at the U.S. dollar equivalent using the Treasury exchange rate in effect on the last day of the fiscal year.

G. Contributions and Revenue Recognition

The Commission recognizes unrestricted contributions or unconditional promises to give as revenue in the period of the initial pledge when sufficient verifiable evidence of the pledge exists. Conditional promises to give are recorded as revenue when the condition has been met. Unconditional promises to give may be temporarily restricted or permanently restricted. Temporarily restricted promises to give are released from restriction when the conditions have been met. Permanently restricted promises to give are recorded as revenue in the period donated, however, donors generally allow only the earned income to be used for general or specific purposes. In-kind contributions of goods and services are recognized at fair value by the Commission at the time the goods are received or the services are performed. Multiyear contributions due over a period of time are discounted to their present value based upon the short term Treasury interest rate.

H. Operating Materials and Supplies Inventories

The Commission has determined that operating materials and supplies located at its cemeteries are not significant amounts and that it is more cost beneficial to record them on the purchase method of accounting whereby items are expensed as purchased rather than when consumed. Consequently, the Commission reports no operating materials or supplies inventories.

I. Property and Equipment

Purchases of general property and equipment of \$25,000 or less are expensed in the year of acquisition. Purchases of personal property exceeding \$25,000 are capitalized and depreciated on a straight-line basis over 5 years. Expenditures relating to real property exceeding \$25,000 are capitalized and depreciated on a straight-line basis over 30 years. Heritage assets are assets possessing significant cultural, architectural, or aesthetic characteristics. The Commission considers its cemeteries, and federal memorials, monuments, and markers acquired through purchase or donation to be noncollection heritage assets. Heritage assets are acquired through purchase or donation, are accounted for in the Commission's property records, and are not presented in the balance sheet. Withdrawals of heritage assets are recorded upon formal agreement with recipients. Additional disclosure on individual heritage asset cemeteries and memorials are found in the Schedules of Heritage Assets presented as unaudited other information. Cemetery land is owned by the foreign countries in which cemeteries are located and is provided to the United States in perpetuity.

J. Employee Benefits

The Commission's civilian U.S. nationals hired after December 31, 1983 are covered by the Federal Employees' Retirement System (FERS), which was implemented on January 1, 1984. The Commission's civilian U.S. nationals hired on or before December 31, 1983, could elect to transfer to FERS or remain with the Civil Service Retirement System (CSRS). For FERS employees, the Commission withholds .80 percent of base pay and as employer contributes 10.7 percent of base pay to this retirement system. For Federal Insurance Contribution Act (FICA) tax and Medicare, the Commission withholds 7.65 percent from FERS employees' earnings, matches this amount on a dollar-for-dollar basis, and remits the total amount to the Social Security Administration. The Commission withholds 7.00 percent of base pay plus 1.45 percent for Medicare from CSRS employees' earnings and as employer contributes 7.00 percent of base pay plus 1.45 percent for Medicare. These deductions are then remitted to the Office of Personnel Management (OPM) and the Social Security Administration. OPM is responsible for governmentwide reporting of FERS and CSRS assets, accumulated plan benefits, and unfunded liabilities.

On April 1, 1987, the federal government instituted the Thrift Saving Plan (TSP), a retirement savings and investment plan for employees covered by FERS and CSRS. The Commission contributes a minimum of 1 percent of FERS employees' base pay to TSP. FERS employees have the option of contributing up to 15 percent of their base pay on a tax-deferred basis to TSP, which the Commission matches up to 4 percent of base pay. CSRS employees may contribute up to 10 percent of their base pay to TSP on a tax-deferred basis and receive no matching contribution from the Commission.

Retirement and other benefits for the Commission's foreign national employees are paid by the Commission in accordance with the provisions of 10 host nation agreements negotiated by the U.S. Department of State.

Annual leave is accrued as earned, and the resulting unfunded liability is reduced as leave is taken. Separation pay is provided in certain countries according to host nation agreements. Separation pay is accrued as earned, and the resulting unfunded liability is reduced when paid to the foreign national leaving the employ of the Commission. Each year balances in the accrued separation pay and

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annual leave accounts are adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave and separation pay, funding will be obtained from future financing resources. Sick leave and other types of unvested leave are expensed when incurred.

K. Imputed Financing

The Commission imputes financing for retirement and other benefits paid by OPM, financial audit costs incurred by the Government Accountability Office (GAO), and a heritage asset musical carillon donated each fiscal year. The Commission recognized these expenses and related imputed financing in its financial statements.

L. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses reported during the reporting period. Actual results could differ from those estimates.

M. Adoption of New Accounting Standard

The Commission early-adopted FASAB Statement No. 29, *Heritage Assets and Stewardship Land*, for fiscal year 2005. The adoption resulted in additional disclosure with no effect on financial statement amounts or restatement of prior year's presentation.

N. Reformatting of Prior Year's Presentation

Certain prior year accounts on the Statement of Net Cost and Changes in Net Position were reformatted to conform to the current year presentation in accordance with Office of Management and Budget's Circular No. A-136, *Financial Reporting Requirements*.

Note 2. Fund Balances with Treasury

All undisbursed account balances with the U.S. Treasury, as reflected in the Commission's records, as of September 30 are available and were as follows:

	<u>2005</u>			<u>2004</u>
	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total</u>	<u>Total</u>
Appropriated Funds	\$34,095,973		\$34,095,973	\$26,135,129
Currency Fluctuation	3,740,045		3,740,045	785,376
WW II Memorial Fund		\$10,194,604	10,194,604	13,773,377
Other Trust Funds		<u>325,664</u>	<u>325,664</u>	<u>310,940</u>
	<u>\$37,836,018</u>	<u>\$10,520,268</u>	<u>\$48,356,286</u>	<u>\$41,004,822</u>

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Note 3. Treasury Investments, Net

As of September 30, the Commission's investments in U.S. Treasury notes, which are marketable securities due within 2 years were as follows:

<u>FY</u>	<u>Cost</u>	<u>Interest Rates</u>	<u>Net Premium</u>	<u>Interest Receivable</u>	<u>Net Investment</u>
05	<u>\$7,658,000</u>	<u>4.00% to 7.00%</u>	<u>\$190,755</u>	<u>\$111,493</u>	<u>\$7,960,248</u>
04	<u>\$5,008,000</u>	<u>2.00% to 7.50%</u>	<u>\$61,626</u>	<u>\$41,523</u>	<u>\$5,111,149</u>

Amortization is on the interest method, and amortized cost approximated market as of September 30.

Note 4. Cash and Foreign Accounts

Outside the United States the Commission makes payments in U.S. and foreign currencies through imprest cash funds and Treasury designated depository commercial bank accounts, which as of September 30 were as follows:

	<u>2005</u>	<u>2004</u>
Imprest Cash Funds	\$41,158	\$39,042
Foreign Bank Accounts	46,023	72,400
Undeposited Cash	<u>309</u>	<u>576</u>
	<u>\$87,490</u>	<u>\$112,018</u>

Note 5. Contributions Receivable

The Commission has pledges from the private sector to be used for the World War II Memorial, with substantial pledges by major corporations and foundations. These pledges are recorded as contributions receivable and revenue in the fiscal year pledged, and \$207,040 is temporarily restricted until collected. Amounts due in future years are as follows:

Fiscal Year Due

2006	\$110,000
2007	100,000
After 2007	<u>175,407</u>
Total amount due	385,407
Less: Present value discount at 1% Treasury rate	<u>(178,367)</u>
Net Receivable	<u>\$207,040</u>

The Commission believes that all contributions receivable are fully collectible, and therefore no allowance for uncollectible accounts has been established.

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Note 6. General and Heritage Property and Equipment

General property and equipment with an aggregate cost basis of \$25,000 or less and all heritage assets were expensed by the Commission and totaled \$2,232,441 in fiscal year 2005 and \$3,592,586 in fiscal year 2004. WWII Memorial equipment totaling \$2,000 in fiscal year 2005 and \$2,404 in fiscal year 2004 was also expensed.

Since the 1960s, the Commission's European regional office near Paris, France, has occupied a residential structure owned by the United States government. The Commission is responsible for all utilities, maintenance, and repairs. While the structure has the characteristics of a heritage asset, it has been used as general property. However, it is now fully depreciated, and no value is contained in the Commission's financial statements.

General property and equipment as of September 30 was as follows:

<u>Category</u>	<u>2005</u>			<u>2004</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$923,461	\$42,311	\$881,150	\$1,015,247	\$9,142	\$1,006,105
Accounting System	1,760,065	1,408,052	352,013	\$1,760,065	1,056,039	704,026
Equipment	<u>2,167,228</u>	<u>1,404,687</u>	<u>762,541</u>	<u>1,989,014</u>	<u>1,218,128</u>	<u>770,886</u>
	<u>\$4,850,754</u>	<u>\$2,855,050</u>	<u>\$1,995,704</u>	<u>\$4,764,326</u>	<u>\$2,283,309</u>	<u>\$2,481,017</u>

Heritage assets are significant to the mission of the Commission to design, construct, and maintain historical cemeteries and memorials. The Commission presents its heritage assets in three categories; cemeteries, federal memorials, and nonfederal memorials. Changes in heritage assets for fiscal year 2005 were as follows:

	<u>Cemeteries</u>	<u>Federal Memorials</u>	<u>Nonfederal Memorials</u>
Beginning of Year 10-1-04	24	25	4
Number Acquired, Fiscal Year 2005	0	0	2
Number Withdrawn, Fiscal Year 2005	<u>0</u>	<u>0</u>	<u>0</u>
End of Year 9-30-05	<u>24</u>	<u>25</u>	<u>6</u>

During fiscal year 2005, the Commission assumed responsibility for private memorials related to the 147th Engineer Battalion and the 507th Parachute Infantry Regiment. Through September 30, 2005, Commission cemeteries contain over 131,000 interments. Over 94,000 Honored War Dead, whose remains were not recovered, are memorialized in the cemeteries and federal memorials that encompass over 1,600 acres. This land is provided to the Commission through host agreements with foreign countries for permanent use as cemeteries and memorials.

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Note 7. Other Liabilities

Other liabilities as of September 30 were as follows:

	<u>2005</u>	<u>2004</u>
Accrued Salaries and Benefits	\$867,937	\$846,112
Unfunded Separation Pay Liability	1,314,784	1,247,716
Unfunded Annual Leave	<u>922,144</u>	<u>933,868</u>
	<u>\$3,104,865</u>	<u>\$3,027,696</u>

Under a host nation agreement, the Commission's Italian employees earn separation pay for each year of service with the Commission. The Commission recognized an unfunded liability for separation pay for these employees of \$1,314,784 as of September 30, 2005, and \$1,247,716 as of September 30, 2004.

A portion of pension and other retirement benefits (ORB) expense is funded by an imputed financing source to recognize the amount of pension and ORB unfunded liabilities assumed by OPM. These costs are computed in accordance with cost factors provided by OPM. For fiscal year 2005, the Commission incurred \$1,047,468 of pension and ORB costs, \$287,291 of which was imputed. For fiscal year 2004, the Commission incurred \$1,016,195 of pension and ORB costs, \$303,416 of which was imputed. Total imputed costs of \$567,291 for fiscal year 2005 and \$608,416 for fiscal year 2004 included audit services provided by GAO.

Note 8. Lease Agreements

The Commission has no capital leases. The Commission's Arlington, Virginia, headquarters, including office space for the WWII Memorial Project, are rented under a 10-year operating lease expiring in July 2007. The Commission's Mediterranean Regional Office occupies commercial office space under a 6-year operating lease expiring in May 2007. The Mediterranean Regional Office Director's living quarters are rented under a 6-year operating lease expiring in December 2007. Two operating leases for cemetery superintendent's temporary living quarters expire in March and June 2006, respectively. Rent expense for fiscal year 2005 operating leases was \$518,929. Future minimum payments due on operating leases as of September 30, 2005, are as follows:

<u>Fiscal Year</u>	
2006	\$518,232
2007	407,902
2008	<u>10,353</u>
	<u>\$936,487</u>

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Note 9. Net Position

Net position balances as of September 30, 2005, were as follows:

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total</u>
		WWII	Other
Unexpended Appropriations:			
Unobligated	\$15,661,856 ¹		\$15,661,856
Undelivered Orders	<u>19,088,053</u>		<u>19,088,053</u>
	<u>\$34,749,909</u>	<u>\$ -</u>	<u>\$34,749,909</u>
Cumulative Results of Operations (deficit):			
Unrestricted	\$(122,568)	\$14,145,644	\$335,881
Undelivered Orders		518,122	48,163
Temporarily Restricted		207,040	
Permanently Restricted	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$(122,568)</u>	<u>\$14,870,806</u>	<u>\$384,044</u>
Total Net Position	<u>\$34,627,341</u>	<u>\$14,870,806</u>	<u>\$384,044</u>

Net position balances as of September 30, 2004, were as follows:

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total</u>
		WWII	Other
Unexpended Appropriations:			
Unobligated	\$16,935,677 ²		\$16,935,677
Undelivered Orders	<u>7,045,911</u>		<u>7,045,911</u>
	<u>\$23,981,588</u>	<u>\$ -</u>	<u>\$23,981,588</u>
Cumulative Results of Operations (deficit):			
Unrestricted	\$(8,034)	\$16,050,207	\$265,671
Undelivered Orders		1,519,594	50,008
Temporarily Restricted		733,769	
Permanently Restricted	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$(8,034)</u>	<u>\$18,303,570</u>	<u>\$315,679</u>
Total Net Position	<u>\$23,973,554</u>	<u>\$18,303,570</u>	<u>\$42,592,803</u>

¹ Includes \$10,003,138 for design and construction of the Normandy Interpretive Center, consisting of \$194,029 unobligated from a \$5,000,000 no-year appropriation earmark for FY 2002, \$503,577 unobligated (after a \$26,000 rescission) from a \$4,000,000 no-year appropriation for FY 2003, \$285,832 unobligated (after a \$53,100 rescission) from a \$9,000,000 no-year appropriation for FY 2004, and \$9,019,700 unobligated (after a \$72,800 rescission) from a \$9,100,000 no-year appropriation for FY 2005.

² Includes \$13,433,494 for design and construction of the Normandy Interpretive Center, consisting of \$512,594 unobligated from a \$5,000,000 no-year appropriation earmark for FY 2002, \$3,974,000 unobligated (after a \$26,000 rescission) from a \$4,000,000 no-year appropriation for FY 2003, and \$8,946,900 unobligated (after a \$53,100 rescission) from a \$9,000,000 no-year appropriation for FY 2004.

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Note 10. Trust Fund – World War II Memorial Fund Program

Financial progress since the inception of the fund in fiscal year 1993 through fiscal year 2005 is as follows:

<u>Costs</u>	<u>2005</u>	<u>Total</u> <u>1993-2005*</u>
Fundraising	\$46,644	\$36,613,902
Administration	685,496	10,244,209
Memorial project costs	52,738	1,972,355
Property and equipment	2,000	266,686
Education	-	426,834
Subtotal	786,878	49,523,986
Design and Construction	3,498,815	133,528,804
Net Cost of Operations	<u>4,285,693</u>	<u>183,052,790</u>

Financing Sources

Coin surcharge proceeds		4,797,329
Department of Defense		5,000,000
Sale of titanium		6,000,000
General support	<u>756,661</u>	<u>166,593,217</u>
Contributions	756,661	182,390,546
Investment earnings	<u>96,268</u>	<u>15,533,050</u>
Total Financing Sources	<u>852,929</u>	<u>197,923,596</u>
Net Results of Operations	<u>\$(3,432,764)</u>	<u>\$14,870,806</u>

*The amounts for prior fiscal years 1993 through 2003 were audited by GAO and presented in its reports GAO/AIMD-95-9 for fiscal year 1993; GAO/AIMD-96-24 for fiscal year 1994; GAO/AIMD-97-68R for fiscal years 1995 and 1996; GAO/AIMD-98-129R for fiscal year 1997; GAO/AIMD-99-74 for fiscal year 1998; GAO/AIMD-00-85 for fiscal year 1999; GAO-01-375 for fiscal year 2000; GAO-02-390 for fiscal year 2001, GAO-03-444 for fiscal year 2002, GAO-04-404 for fiscal year 2003, and GAO-05-298 for fiscal year 2004.

Other Information

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Required Supplementary Information

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Maintenance, Repairs, and Improvements

The following unaudited information is required supplementary information on deferred maintenance and the condition of real property at Commission cemeteries and memorials:

Maintenance and repairs performed on real property consisting of land improvements, buildings, and memorials totaled \$4.9 million in fiscal year 2005 and \$4.7 million in fiscal year 2004. For fiscal years 1998 through 2002, the Commission received \$11.3 million of additional appropriations from the Congress that enabled it to entirely eliminate its deferred maintenance backlog as of September 30, 2002. No deferred maintenance backlogs existed as of September 30, 2004, and 2005.

Condition assessment surveys, using a five-point scale of one (excellent) to five (very poor), identify needed future maintenance and repair projects at cemeteries and memorials in order to maintain real property in an acceptable condition of three (fair) or better. These surveys are reviewed and updated at least annually by the Commission's engineering staff. In addition, engineering projects identified improvements in cemetery irrigation, drainage, roads, parking areas, and buildings. As of September 30, 2005, the Commission has identified a total of 333 maintenance, repair, and improvement projects, with an estimated cost of \$15.8 million, to be performed in future years, subject to available funding.

Schedules of Heritage Assets

The following three pages present unaudited other information not required by U.S. generally accepted accounting principles on the Commission's 24 cemeteries; 25 federal memorials, monuments, and markers; and six nonfederal memorials as of September 30, 2005.

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Schedules of Heritage Assets

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Schedule of Heritage Assets
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24 CEMETERIES

<u>Name</u>	<u>Location</u>	<u>Interred</u>	<u>Memorialized</u>	<u>Acres</u>	<u>War</u>
<u>European Region</u>					
Aisne Marne American Cemetery	Belleau (Aisne), France	2,289	1,060	42.5	WW I
Ardennes American Cemetery	Neupre, Belgium	5,329	462	90.5	WW II
Brittany American Cemetery	St. James (Manche), France	4,410	498	7.5	WW II
Brookwood American Cemetery	Brookwood, England	468	563	4.5	WW I
Cambridge American Cemetery	Cambridge, England	3,812	5,126	30.5	WW II
Epinal American Cemetery	Epinal (Vosges), France	5,255	424	48.6	WW II
Flanders Field American Cemetery	Waregem, Belgium	368	43	6.2	WW I
Henri-Chapelle American Cemetery	Henri-Chapelle, Belgium	7,992	450	57.0	WW II
Lorraine American Cemetery	St. Avold (Moselle), France	10,489	444	113.5	WW II
Luxembourg American Cemetery	Luxembourg City, Luxembourg	5,076	371	50.5	WW II
Meuse-Argonne American Cemetery	Romagne (Meuse), France	14,246	954	130.5	WW I
Netherlands American Cemetery	Margraten, Holland	8,301	1,723	65.5	WW II
Normandy American Cemetery	Colleville-sur-Mer, France	9,387	1,557	172.5	WW II
Oise-Aisne American Cemetery	Fere-en-Tardenois, France	6,012	241	36.5	WW I
Somme American Cemetery	Bony (Aisne), France	1,844	333	14.3	WW I
St. Mihiel American Cemetery	Thiaucourt, Meurthe, France	4,153	284	40.5	WW I
Suresnes American Cemetery	Seine, France	1,565	974	7.5	WW I/II
<u>Mediterranean Region</u>					
Florence American Cemetery	Florence, Italy	4,402	1,409	70.0	WW II
North Africa American Cemetery	Carthage, Tunisia	2,841	3,724	27.0	WW II
Rhone American Cemetery	Draguignan, Var, France	861	294	12.5	WW II
Sicily-Rome American Cemetery	Nettuno, Italy	7,861	3,095	77.0	WW II
<u>Other</u>					
Corozal American Cemetery	Panama City, Panama	5,320		16.0	*
Mexico City American Cemetery	Mexico City, Mexico	1,563		1.0	Mex Am
Manila American Cemetery	Luzon, Phillipines	17,206	36,285	152.0	WW II
Subtotal for Cemeteries		131,050	60,314	1,274.1	

*Acquired by Executive Order from the former Panama Canal Zone.

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25 FEDERAL MEMORIALS, MONUMENTS, AND MARKERS

<u>Name</u>	<u>Location</u>	<u>Interred</u>	<u>Memorialized</u>	<u>Acres</u>	<u>War</u>
East Coast Memorial	New York City, NY		4,609	0.8	WW II
Honolulu Memorial	Honolulu, HI		28,800	1.0	WW II/Korea/Vietnam
West Coast Memorial	San Francisco, CA		412	1.3	WW II
Audenarde Monument	Audenarde, Belgium			0.4	WW I
Bellicourt Monument	St. Quentin, France			1.8	WW I
Brest Naval Monument	Brest, France			1.0	WW I
Cabanatuan Memorial	Luzon, Phillipines				WW II
Cantigny Monument	Cantigny, France			0.4	WW I
Chateau-Thierry Monument	Chateau-Thierry, France			58.9	WW I
Chaumont Marker	Chaumont, France				WW I
Gibraltar Naval Monument	Gibraltar			0.1	WW I
Guadalcanal Memorial	Guadalcanal			0.5	WW II
Kemmel Monument	Ypres, Belgium			0.2	WW I
Marine Monument Belleau Wood	Aisne, France			199.6	WW I
Montfaucon Monument	Montfaucon, France			9.6	WW I
Montsec Monument	Thiaucourt, France			47.5	WW I
Papua Marker	Port Moresby, New Guinea				WW II
Point du Hoc Ranger Monument	St. Laurent-sur-Mer, France			29.8	WW II
Saipan Monument	Saipan, Northern Mariana Islands				WW II
Santiago Surrender Tree	Santiago, Cuba				Sp American War
Sommepy Monument	Sommepy, France			15.0	WW I
Souilly Marker	Souilly, France				WW I
Tours Monument	Tours, France			0.5	WW I
Utah Beach Monument	Sainte Marie-du-Mont, France			0.5	WW II
Western Naval Task Force Memorial	Casablanca, Morocco				WW II
Subtotal for Memorials		0	33,821	368.9	
Grand Total		131,050	94,135	1,643.0	

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6 NONFEDERAL MEMORIALS

<u>Name</u>	<u>Location</u>	<u>War</u>
29th Infantry Division Memorial	Vierville-sur-Mer, France	WW II
30th Infantry Division Memorial	Mortain, France	WW II
6th Engineering Special Brigade Memorial	Vierville-sur-Mer, France	WW II
351st Bomb Group Memorial	Oundle, England	WW II
147th Engineer Battalion Monument	Englesqueville-la-Percee, France	WW II
507th Parachute Infantry Regiment Memorial	Amfreville, France	WW II

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