

February 2008

FINANCIAL AUDIT

American Battle
Monuments
Commission's
Financial Statements
for Fiscal Years 2007
and 2006



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Highlights

Highlights of [GAO-08-326](#), 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, 2007, and 2006. The audits were done to determine whether, in all material respects, (1) the Commission's financial statements were presented fairly, 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 locations within the United States as directed by Congress. The Commission designs, operates, and maintains 24 American military cemeteries on foreign soil and 25 federal memorials, monuments, and markers, 22 of which are on foreign soil, that were financed from appropriated funds. 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 seven nonfederal memorials with funds provided by those memorials' sponsors.

To view the full product, including the scope and methodology, click on [GAO-08-326](#). 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 2007 and 2006

What GAO Found

In GAO's opinion, the financial statements of the American Battle Monuments Commission as of September 30, 2007, and 2006, 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, although certain specific internal controls were deficient, overall, the Commission maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2007. In addition, GAO found no reportable instances of Commission noncompliance in fiscal year 2007 with selected provisions of laws and regulations tested.

GAO found a significant deficiency in two areas of the Commission's information technology controls as of September 30, 2007. Specifically, (1) user documentation is lacking for the Commission's Foreign Service National (FSN) employee payroll, and (2) security program and access controls over its computer systems, while improving, were not effective at all Commission locations. The Commission is working to improve its system of internal control to meet the complex challenges of information technology, including implementing a new FSN payroll system in fiscal year 2008, which they expect will eliminate the deficiency in user documentation.

For fiscal year 2007, the Commission incurred program costs of \$59.2 million to maintain its 24 cemeteries and 25 federal memorials that were financed from appropriated funds. This included \$12.5 million to complete the Normandy Visitor Center, which tells the story of the Americans interred and memorialized at the Normandy American Cemetery as a result of the D-Day landings and area fighting to liberate Europe during World War II. Another \$2.2 million of program costs by trust funds were financed by private contributions for final construction costs and administration related to the World War II Memorial, purchase of grave site flowers, and the repair and maintenance of nonfederal memorials.

The Normandy Visitor Center, Dedicated June 6, 2007



Source: Photo by Roland Haibe, courtesy American Battle, Monuments Commission.

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Abbreviations

FMFIA	Federal Managers' Financial Integrity Act of 1982
FSN	Foreign Service National
OMB	Office of Management and Budget

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

February 29, 2008

The Honorable Daniel K. Akaka
Chairman
The Honorable Richard Burr
Ranking Member
Committee on Veterans' Affairs
United States Senate

The Honorable Bob Filner
Chairman
The Honorable Steve Buyer
Ranking 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 financial statements of the American Battle Monuments Commission (the Commission) for the fiscal years ended September 30, 2007, and 2006.

We are sending copies of this report to the Chairmen and Ranking 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. 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 or by e-mail at sebastians@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this engagement were Roger R. Stoltz, Patricia A. Summers, Eugene E. Stevens IV, Cara L. Bauer, Janice L. Friedeborn, Vivian M. Gutierrez, Tyrone D. Hutchins, and Melanie B. Swift.

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 2007 and 2006, we found

- the consolidating financial statements as of and for the fiscal year ended September 30, 2007, and comparative consolidated totals as of and for the fiscal year ended September 30, 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although certain specific internal controls should be improved, overall, the Commission maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2007; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis and other supplementary information, (3) our audit objectives, scope, and methodology, and (4) Commission comments.

Opinion on Financial Statements

The Commission's consolidating balance sheet as of September 30, 2007, consolidating statement of net cost and changes in net position, and consolidating statement of budgetary resources, with accompanying notes for the fiscal year then ended, and comparative consolidated totals as of and for the fiscal year ended September 30, 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Opinion on Internal Control

Although certain specific internal controls should be improved, overall, the Commission maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2007. 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 the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control* (Dec. 21, 2004).

Our audit identified a significant deficiency related to the Commission's internal controls over information technology systems as of September 30, 2007, that we did not consider to be a material weakness. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.¹ In addition, misstatements may occur in other financial information reported by the Commission and not be prevented or detected because of the significant internal control deficiency described in the next section. Commission management disclosed this deficiency in its fiscal year 2007 FMFIA report.

Significant Deficiency

In our prior-year audit,² we reported on weaknesses we identified in internal controls regarding the Commission's information technology systems, which we considered collectively to represent a reportable condition.³ Specifically, inadequate controls existed in the areas of (1) user

¹A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

²GAO, *Financial Audit: American Battle Monuments Commission's Financial Statements for Fiscal Years 2006 and 2005*, [GAO-07-321](#) (Washington, D.C.: Mar. 1, 2007).

³Reportable conditions involve matters coming to the auditor's attention that, in the auditor's professional judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control and could adversely affect an entity's ability to meet key control objectives. In May 2006, the American Institute of Certified Public Accountants issued Statement on Auditing Standards (SAS) No. 112, and subsequently made conforming changes to the Statements on Standards for Attestation Engagements (AT 501). AT 501 eliminated the term reportable condition and it is no longer used. AT 501 also established standards related to a new definition for the terms significant deficiency and material weakness, and the auditor's responsibilities for identifying, evaluating, and communicating matters related to an entity's internal control over financial reporting. Under these new standards, the auditor is required to communicate control deficiencies that are considered to be significant deficiencies or material weaknesses in internal controls.

documentation and (2) the Commission's security program and related access controls. During fiscal year 2007, the Commission took steps to correct weaknesses in these two areas, but did not fully resolve them by year end. Consequently, the weaknesses in these two areas collectively represent a significant deficiency as of September 30, 2007.

Inadequate User Documentation

While overall, the Commission's existing accounting system, implemented on October 1, 2001, has sufficient user documentation, it did not provide user documentation to support older legacy subsystems that were still used primarily to process Foreign Service National (FSN) employee payrolls during fiscal year 2007. This is significant as the Commission's FSN employees comprised 334 of 404 full-time equivalent positions for fiscal year 2007, or 83 percent. This condition has existed since our first audit of the Commission's financial statements in fiscal year 1997 and included the Clipper system used by the Commission's European Regional Office and the dBase IV system used by the Commission's Mediterranean Regional Office. Commission personnel have learned how to use these legacy subsystems over the years, primarily through on-the-job training, but have limited documentation to explain how subsystems' functions should be performed and to answer questions. As a result, errors or irregularities may occur and not be detected by Commission personnel in the normal course of processing transactions.

During fiscal year 2007, the Commission completed design and documentation of a new payroll system for its FSN employees for which it began parallel processing and testing in October 2007. Commission officials reported that the new system was fully operational for calendar year 2008.

Security Program and Access Controls

As information technology systems evolve, so do the challenges in keeping these systems secure from unauthorized access. While the Commission has made considerable improvement in this area, particularly as its computerized systems move to centralized worldwide management, we continued to identify control deficiencies in security over the Commission's systems during our fiscal year 2007 audit. This included administrative controls over network configuration, encryption, and access to files that were not effective at all Commission locations as of September 30, 2007. These conditions 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 as part of our annual financial statement audits. In separate Limited Official Use reports issued after our fiscal years 2002 through 2006 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 75 percent of these recommendations, further efforts are needed. We will be reporting separately to Commission management on these matters.

Compliance with Laws and Regulations

Our tests of the Commission's compliance with selected provisions of laws and regulations for fiscal year 2007 disclosed no instances of noncompliance that would be 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, U.S. generally accepted accounting principles, or 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, the objectives of which are the following:

- **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, and governmentwide policies identified by OMB audit 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 the Commission and its operations, including its internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in the Commission's Management's Discussion and Analysis in the annual financial report;
- 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,
 - Buffalo Soldiers Commemoration Act of 2005,
 - Military Quality of Life and Veterans Affairs Appropriations Act, 2006,
 - Continuing and Revised Appropriations Resolutions, 2007, as amended,
 - 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 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 selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the Commission's financial statements for the fiscal year ended September 30, 2007. 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

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



Steven J. Sebastian
Director
Financial Management and Assurance

February 7, 2008

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, 2007**

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 overseas 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 2007 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 seven 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, 2007, interred in the cemeteries are almost 125,000 U.S. war dead: about 31,000 from World War I, over 93,000 from World War II, and 750 from the Mexican American War. Additionally, over 6,000 American veterans and others are interred in our 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 discovered in 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 over 94,000 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.

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 2007 is presented in Figure 1 below.

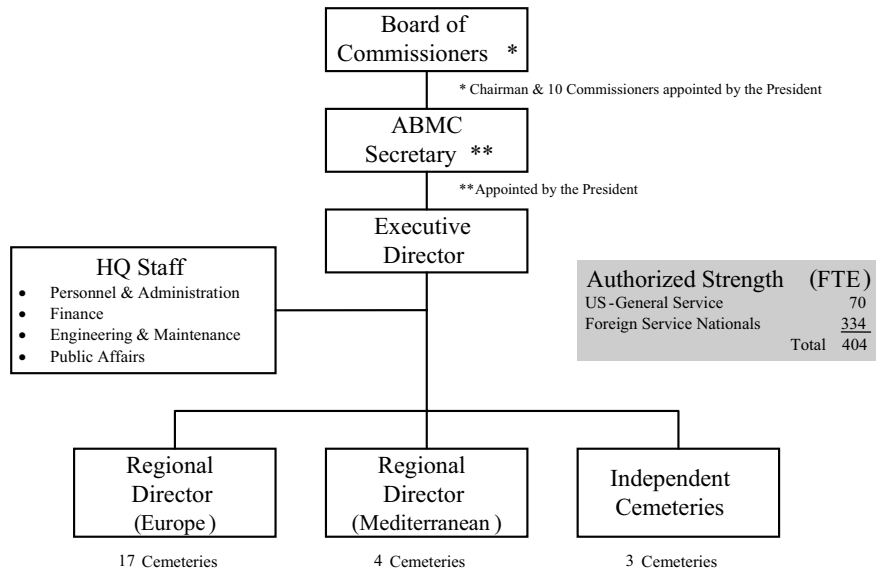


Figure 1. The Commission's Organizational Structure

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 2007, the Commission had a total of 404 full-time equivalent (FTE) positions. U.S. citizens constituted 70 members of the staff, while the remaining 334 were Foreign Service Nationals employed at our regional offices and at the cemeteries in the countries where the Commission operates.

Operations Management

The Commission's fiscal year 2007 funding focused on personnel costs, service fees, scheduled maintenance and repairs, supplies, materials, spare parts, replacement of uneconomically repairable equipment, and capital improvements. We also completed the construction of the Normandy Visitor Center which was dedicated on June 6, 2007, in conjunction with the 63rd Anniversary Commemoration of the D-Day landings.

The Commission's fiscal year 2007 appropriation of \$37.2 million was available for salaries and expenses. In fiscal year 2007, Congress also appropriated \$5 million into the Commission's Foreign Currency Fluctuation Account. This appropriation is used to offset foreign exchange losses to the U.S. Dollar primarily by the European Euro. This funding also reduces the Commission's risk that the funding appropriated for its operations in the Salaries and Expenses appropriation would be jeopardized due to vagaries in currency fluctuations.

Most of our facilities range in age from 47 to 93 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, 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. Within its fiscal year 2007 appropriation, the Commission continued the Infrastructure Modernization Program that protects the American people's investment in the cemeteries, memorials, and monuments for which we are responsible.

The shrines to America's war dead entrusted to the Commission's care require a significant 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 over 1,600 acres of land. Additionally, the Commission maintains 41 residential quarters for assigned personnel; 24 visitor buildings; 24 maintenance facilities; 67 miles of roads and 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. 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.

Because the care and maintenance of these resources is exceptionally labor intensive, personnel costs accounted for more than half of the Commission's fiscal year 2007 obligations. Figure 2 shows the obligation of funds by object class under the Commission's fiscal year 2007 obligations.

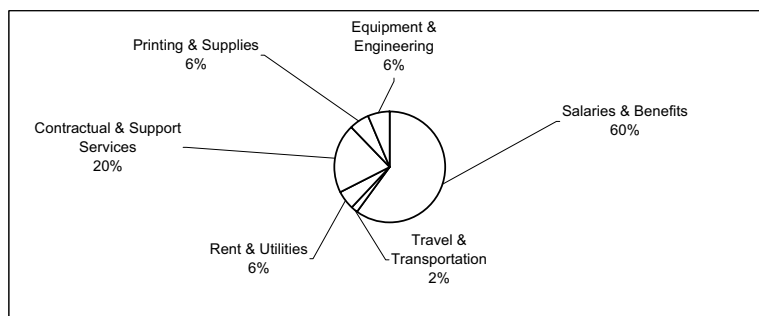


Figure 2. The Commission's Fiscal Year 2007 Obligations by Object Class

Mission

During fiscal year 2007, the Commission continued to develop its mission and goals to help ensure that our commemorative cemeteries and memorials remain fitting shrines to those who have served our nation in uniform since America's entry into World War I.

The Commission's 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.

Strategic Goals and Objectives

Summarized below are the Commission's goals and objectives and the strategies employed to guide the Commission in accomplishing its goals.

Goal: To develop, operate, maintain, and improve ABMC facilities as the world's best commemorative sites.

Objectives

- Develop, implement, and sustain best business practices for commemorative operations;
- Sustain standardized processes for cemetery management & maintenance; and
- Strengthen management of infrastructure modernization, productivity, and equipment programs.

Means for Achieving Objectives

The Commission's Infrastructure Modernization Program provides a systematic look at our aging facilities. It addresses areas that will reduce the growth of operational and routine maintenance costs and promotes more effective long-term planning, operations, and resource management.

Since fiscal year 2000, the Commission has been working on resolving deficiencies noted during in-depth technical surveys conducted by professional engineering firms who applied current industry standards, regulations, and technological advances in making their assessment. The first priority established by the Commission focused on correcting deficiencies noted in its electrical and structural systems at the memorial cemeteries and monuments. In fiscal year 2007, the Commission continued its work on resolving infrastructure deficiencies and prioritized that work based on a systematic process of review and analysis.

Resources

Throughout the Commission, 358 personnel work directly on activities that contribute to satisfying this strategic goal.

- Headquarters senior staff and directors;
- Regional and staff directors; and
- Superintendents, assistant superintendents, and cemetery workers.

Program Activities, Outcomes, and Performance Indicators

- Achieved an annualized workload to resolve infrastructure modernization deficiencies at a targeted rate of 35 percent of the balance per year.

Goal: To value and invest in each employee.

Objectives

- Recruit, develop, and retain a world-class workforce;
- Recognize and award superior performance;
- Create an environment in which employees feel that their needs are being met;
- Develop a skilled and dedicated workforce by encouraging learning throughout the organization;
- Ensure that employees have a stake in and can relate their job to the vision;
- Ensure employees are energized and "feel good" about working at ABMC; and
- Communicate ABMC programs and priorities to employees.

Means for Achieving Objectives

Training and education provides opportunities for our employees to better their service and support to the Commission. By sponsoring and offering training and professional development opportunities, the Commission creates an environment where employees become vested in the agency's well-being and are better able to contribute its operations.

Data is collected on training needs, objectives, and professional development for all employees. After reviewing and determining needs, data is compared against 5 C.F.R. 410 in order to create or outsource training and education opportunities best suited for ABMC employees.

Resources

Throughout the Commission, 5 personnel work directly on activities that contribute to satisfying this strategic goal.

- Human Resources
- Administration

Program Activities, Outcomes, and Performance Indicators

- Filled 100% of authorized Full-Time Equivalent positions;
- Sustained a turn-over rate of less than 30%;
- Achieved 50% participation in an Employee Wellness Program; and
- Achieved 100% participation in developing formalized Individual Development Plans.

Goal: To have ABMC commemorative sites recognized worldwide as inspirational and educational visitor destinations.

Objectives

- Increase public awareness and understanding of the ABMC commemorative mission;
- Increase the number of visitors to ABMC cemeteries and memorials; and
- Satisfy constituents' needs through timely distribution of information & products.

Means for Achieving Objectives

The men and women buried in ABMC cemeteries and memorialized on Tablets of the Missing come from the U.S. armed forces whose competence, courage and sacrifice helped preserve freedom throughout the world. ABMC honors that service and sacrifice by operating and maintaining uniquely splendid commemorative cemeteries and memorials. But to truly honor the memory of those buried or memorialized at our commemorative sites, we also must tell their story.

The Commission continued its efforts to increase public awareness of the ABMC commemorative mission and encourage more U.S. and foreign citizens to visit our cemeteries and memorials worldwide. To achieve these objectives, ABMC focuses its outreach program on relevant constituencies such as travel industry representatives and writers, national media publications, active duty military personnel, the U.S. diplomatic community, educators and students, and national veterans' groups. Concurrently, the Commission is expanding the amount of information provided to the public through the ABMC Web site and work to streamline delivery of products.

Resources

Throughout the Commission, 23 personnel, 14 at the Normandy Visitor Center, work directly on activities that contribute to satisfying this strategic goal.

- Public Affairs
- Normandy Visitor Center Operations

Program Activities, Outcomes, and Performance Indicators

- Increased public awareness and understanding of the ABMC commemorative mission and increased the number of visitors to ABMC cemeteries and memorials: Worked with editors of travel and veterans' publications and Web sites, national convention planners, and the National History Day program to increase visits to ABMC commemorative sites by 20 percent.
- Satisfied constituents' needs through timely distribution of information and products: Improved the quantity and quality of historical information and links provided on the Web pages of at least four ABMC cemeteries; worked to digitize ABMC headstone photo files and automated the lithograph production process to reduce delivery time to customers from 4-6 weeks to one week.

Goal: To make ABMC's business and resource management the best in government.

Objectives

- Fully resource ABMC's Mission, Vision, and Standards;
- Improve internal controls; and
- Leverage cutting-edge business technologies and practices.

Means for Achieving Objectives

Central to achieving the Commission's business and resources process improvement goal are mechanisms that aid managers at all levels of the organization in monitoring and evaluating the wide variety of systems and programs inherent in its operations.

Data Management and Support System: One deficiency noted during the Commission's strategic planning process was a lack of timely and financial information available at the decision-maker level. Managers charged with the responsibility for individual projects require timely, accurate, and appropriate access to operational information to ensure that the Commission uses its resources effectively and efficiently. The current system, while focused on enabling accounting clerks to input individual vouchers, does not provide an appropriate means for timely management routines to meet the diverse needs of the organization.

Accounting System Upgrade: The Commission continues to refine its efforts in budget development, account processing, and financial reporting to better enable workers and managers at all levels of the organization to use the financial management system. The re-engineering effort enables the Commission to modify its accounting software system to meet management and performance objectives.

The Commission must maximize the return on all resources provided on the part of the American public. Our fixed costs continue to consume a greater percentage of our total Salaries and Expenses. An integrated Financial Management System enables the Commission to better manage the resources provided, providing us with the tools to maximize return on investments on the labor saving equipment crucial to the maintenance of our cemeteries and memorials, a true national treasure.

Resources

Throughout the Commission, 18 personnel work directly on activities that contribute to satisfying this strategic goal.

- Finance
- Accounting
- Budget

Program Activities, Outcomes, and Performance Indicators

Leveraged cutting-edge business technologies and practices: Began to acquire resources to upgrade outdated accounting system so that the Commission has an integrated financial management and reporting system providing key decision makers with necessary information.

Selected Performance Results Toward Achieving Strategic Goals

During fiscal year 2007, 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 an ABMC cemetery; in-country travel information; and, upon arrival at the cemetery, escort to the appropriate

grave or memorialization site. Requesters are provided a photograph 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. We also purchase floral decorations with donor funds and the donor is given 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. We provide cemetery lithographs, photos, and other information throughout the year.
3. The Commission's 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 U.S. war dead from the Korean War and those interred or commemorated at its World War I and World War II cemeteries and memorials are accessible on the Web site.
4. The Commission's overseas commemorative sites are recognized for their beauty and inspirational qualities, yet few Americans are aware of their existence. Through a variety of methods, including using traveling displays and increasing contacts with media and representatives of the travel and tour industry, the Commission continued to work toward achieving its strategic goal of having its commemorative sites recognized for their educational and inspirational qualities.
5. Throughout the year, the Commission hosted a variety of special events and commemorations including ceremonies on Memorial 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. A significant ceremony held in fiscal year 2007 was the dedication of the Normandy American Cemetery Visitor Center, an event attended by the United States Secretary of Defense, the French Defense Minister, numerous other dignitaries and, most importantly, hundreds of World War II D-Day veterans, including Medal of Honor recipient Walter Ehlers. It was the Commission's first such center and will help us tell the story of those that participated in the D-Day invasion and ensuing operations of the Normandy campaign. Construction of this facility began in September 2005.
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 May 2007 dedicated a carillon at the Flanders Field American Cemetery in Belgium, the 18th donated over the years.
7. The Commission's fiscal year 2006 appropriation included funding for a study to determine what action is warranted to reopen to the public the World War II Pointe du Hoc Ranger Monument in France and to preserve the long-term stability of this iconic symbol. The study

was completed in May 2007 and the results called for additional studies. The findings of this further review are expected in the summer of 2008. The Commission is working with the French government on a solution to preserve the Pointe du Hoc site.

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

President's Management Agenda Initiatives

In conjunction with our strategic goals, the Commission made significant progress in the implementation of each item within the five initiatives of 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. Training and development for the Commission's workforce aid in staffing retention and contributes to the effective and efficient operations of our cemeteries. We expect to continue to implement the study recommendations through fiscal year 2008 as funding allows.

Competitive Sourcing

We have used competitive sourcing initiatives in a number of ways to improve performance and save costs. Our fiscal year 2007 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. Most of our construction and engineering projects were contracted out, since these projects are usually unique and beyond the capability of our limited staff. Core aeration, for example, has become a routine horticultural program applied throughout our cemeteries. Due to this competition, the Commission has not had to invest in the machines or FTE manpower normally needed to support this program. In addition, a major headstone renovation program will rely heavily on contractors.

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 U.S. Government Accountability Office. We recognize that improved financial performance depends on putting useful and timely information in the hands of Commission managers so they can make timely and informed decisions. The fiscal year 2007 budget not only supported our daily accounting operations and proper internal controls, but allowed us to identify, develop and employ additional management needs and reports to provide the best financial information available.

Expanded E-Government

The Commission continued to expand public access to valuable information through the use of online tools. Our Web site allows visitors to gather information on our organization, our cemeteries and memorials, and the war dead buried or honored at our commemorative sites. We added to the Web site a database of the Vietnam War missing in action who are honored at the Honolulu Memorial; a database of those interred at Corozal American Cemetery in Panama; and individual video tours of our 24 cemeteries. The Commission is committed to continuing its efforts in fiscal year 2008 to add content to the Web site that facilitates historical research and visitation of our cemeteries and memorials. Additionally, we will add an e-commerce capability to place credit card orders from the ABMC Flower Fund in much the same way that the public submits on-line enrollments in the World War II Registry that the Commission maintains on its World War II Memorial Web site at www.wwiimemorial.com.

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 year 2007, we initiated top-to-bottom cemetery reviews within our European and Mediterranean Regions. These reviews are used to match requirements to resources across engineering, logistics, and horticulture, and form the basis for future budget requirements.

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, productivity, cost effectiveness, and compliance with applicable laws. It has taken management actions 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 2007 revealed no material weaknesses. The objectives of the Commission's internal management control policies and procedures are to provide reasonable assurance that:

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

Changes in the rate of exchange for foreign currencies have a significant impact on 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. However, since the summer of 2006, the U.S. Dollar has fallen precipitously against the European Euro. The Commission has been closely monitoring this because our budget is disproportionately affected by foreign currency fluctuation since over 70% of the budget is exposed to foreign currency.

As a strategic hedge against currency fluctuation, the Commission is proposing a change to its statutory language for FCFA (36 U.S.C. 2109) to authorize an indefinite appropriation. In seeking "such sums" language, the Commission would preserve its purchasing power against a suddenly falling U.S. Dollar against the European Euro.

Overall, by maintaining close scrutiny on the Commission's obligation status, as well as monitoring and distributing the Foreign Currency Fluctuation Account balance, our overall future financial risk to operations is reduced.

Financial Statements

Consolidating Balance Sheet

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING BALANCE SHEET
As of September 30, 2007
(With Comparative Consolidated Total as of September 30, 2006)

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>WWII and Other Trust Funds</u>	<u>Total 2007</u>	<u>Total 2006</u>
<u>Assets</u>				
Intragovernmental:				
Fund balance with Treasury (note 2)	\$24,360,410	\$4,438,066	\$28,798,476	\$55,070,124
Treasury investments, net (note 3)		8,164,160	8,164,160	58,137
Total Intragovernmental	24,360,410	12,602,226	36,962,636	55,128,261
Cash and foreign accounts (note 4)	91,790	1,112	92,902	89,568
Contributions receivable, net (note 5)				110,000
General property and equipment, net (note 6)	1,806,015		1,806,015	1,921,881
Heritage property (note 6)				
Total Assets	\$26,258,215	\$12,603,338	\$38,861,553	\$57,249,710
<u>Liabilities</u>				
Intragovernmental:				
Accounts payable	\$156,329	\$203,211	\$359,540	\$1,838,816
Accrued salaries and benefits	422,330		422,330	85,511
Total Intragovernmental	578,659	203,211	781,870	1,924,327
Accounts payable	4,571,869	51,225	4,623,094	4,608,061
Other liabilities (note 7)	4,114,397	27	4,114,424	4,020,885
Total Liabilities	9,264,925	254,463	9,519,388	10,553,273
Commitments and contingencies (note 8)				
<u>Net Position</u> (note 9)				
Unexpended appropriations	18,061,682		18,061,682	33,809,576
Cumulative Results of Operations (deficit)	(1,068,392)	12,348,875	11,280,483	12,886,861
Total Net Position	16,993,290	12,348,875	29,342,165	46,696,437
Total Liabilities and Net Position	\$26,258,215	\$12,603,338	\$38,861,553	\$57,249,710

The accompanying notes are an integral part of these statements.

Financial Statements

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, 2007
 (With Comparative Consolidated Total for the Year Ended September 30, 2006)

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>WWII and Other Trust Funds</u>	<u>Total 2007</u>	<u>Total 2006</u>
<u>PROGRAM COSTS</u>				
Intragovernmental program costs:				
Operations and maintenance	\$3,614,515	\$673,778	\$4,288,293	\$2,932,680
Design and construction				1,858,309
Program costs with the public:				
Operations and maintenance	28,434,076	1,550,292	29,984,368	32,117,323
Administrative				324,278
Memorial costs				439,841
Property and equipment (note 6)	13,716,452		13,716,452	9,626,321
Foreign currency losses, net	13,453,070		13,453,070	9,334,477
Net Cost of Operations	\$59,218,113	\$2,224,070	\$61,442,183	\$56,633,229
<u>CHANGES IN NET POSITION</u>				
Cumulative Results (Deficit) - Start of Year	(\$581,346)	\$13,468,207	\$12,886,861	\$15,132,282
<u>Budgetary Financing Sources</u>				
Appropriations used	57,977,412		57,977,412	52,642,968
Total Budgetary Financing Sources	57,977,412		57,977,412	52,642,968
<u>Other Financing Sources</u>				
Contributions	29,340	784,306	813,646	843,913
Treasury investment earnings		320,432	320,432	232,209
Other revenue				7,645
Imputed financing	724,315		724,315	661,073
Total Other Financing Sources	753,655	1,104,738	1,858,393	1,744,840
Total Financing Sources	58,731,067	1,104,738	59,835,805	54,387,808
Less: Net Cost of Operations	59,218,113	2,224,070	61,442,183	56,633,229
Net Increase (Decrease) for the Year	(487,046)	(1,119,332)	(1,606,378)	(2,245,421)
Cumulative Results (Deficit) - End of Year	(1,068,392)	12,348,875	11,280,483	12,886,861
Unexpended Appropriations -Start of Year	33,809,576		33,809,576	34,749,909
<u>Budgetary Financing Sources</u>				
Appropriations received	42,169,000		42,169,000	50,985,000
Other offsetting receipts and adjustments	60,518		60,518	717,635
Appropriations used	(57,977,412)		(57,977,412)	(52,642,968)
(Decrease) in unexpended appropriations	(15,747,894)		(15,747,894)	(940,333)
Unexpended Appropriations -End of Year	18,061,682		18,061,682	33,809,576
TOTAL NET POSITION- END OF YEAR	\$16,993,290	\$12,348,875	\$29,342,165	\$46,696,437

The accompanying notes are an integral part of these statements.

Financial Statements

Consolidating Statement of Budgetary Resources

**AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2007
(With Comparative Consolidated Total for the Year Ended September 30, 2006)**

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>WWII and Other Trust Funds</u>	<u>Total 2007</u>	<u>Total 2006</u>
<u>Budgetary Resources</u>				
Budgetary Authority:				
Appropriations	\$42,169,000		\$42,169,000	\$51,500,000
Net transfer in for net foreign exchange loss	9,256,916		9,256,916	7,929,796
Other (receipts collected)	6,522	\$1,094,567	1,101,089	2,067,131
Less: Rescinded				(515,000)
Unobligated Balances:				
Start of year	19,906,015	10,028,653	29,934,668	29,839,756
Net transfer (out) for net foreign exchange (loss)	(9,256,916)		(9,256,916)	(7,929,796)
Other adjustments	176,610		176,610	(37,743)
Recoveries of prior year obligations				10,041
Total Budgetary Resources	\$62,258,147	\$11,123,220	\$73,381,367	\$82,864,185
<u>Status of Budgetary Resources</u>				
Obligations incurred - direct	\$51,260,715	(\$702,458)	\$50,558,257	\$52,930,042
Unobligated balances available	10,997,432	11,825,678	22,823,110	29,934,143
Total Status of Budgetary Resources	\$62,258,147	\$11,123,220	\$73,381,367	\$82,864,185
<u>Change in Obligated Balances</u>				
Obligations incurred for year	\$51,260,715	(\$702,458)	\$50,558,257	\$52,930,042
Plus: Obligated balances, start of year	19,994,050	5,087,080	25,081,130	26,173,412
Less: Gross outlays for year	(57,795,262)	(3,727,455)	(61,522,717)	(54,022,324)
Obligated Balances, End of Year	\$13,459,503	\$657,167	\$14,116,670	\$25,081,130
<u>Net Outlays</u>				
Gross outlays for year	\$57,795,262	\$3,727,455	\$61,522,717	\$54,022,324
Less: Offsetting collections	(6,522)		(6,522)	(591,141)
Net Outlays	\$57,788,740	\$3,727,455	\$61,516,195	\$53,431,183

The accompanying notes are an integral part of these statements.

Notes to Consolidating and Consolidated Financial Statements

AMERICAN BATTLE MONUMENTS COMMISSION

NOTES TO CONSOLIDATING AND CONSOLIDATED FINANCIAL STATEMENTS

For the Fiscal Years Ended September 30, 2007 and 2006

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, and budgetary resources 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 7 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. Remaining funds reside in a trust fund in the U.S. Treasury to be used solely to benefit the World War II Memorial for other than routine maintenance expense.

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.

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 36 U.S.C. 2113(b), 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. Amounts are recorded at a standard budget rate in U.S. dollars and a gain or loss recognized when paid in foreign currency. Appropriated monies are transferred from the Commission's Foreign Currency Fluctuation Account to fund net currency losses. Cash accounts in foreign currencies 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 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. Land was donated by host countries to the United States in perpetuity for use as cemeteries and memorials.

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. For 2007, FERS employees could contribute up to \$15,500 (\$20,500 if at least age 50) on a tax-deferred basis to TSP, which the Commission matches up to 4 percent of base pay. For 2007, CSRS employees may also contribute up to \$15,500 (\$20,500 if at least age 50) on a tax-deferred basis; however, they 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 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 and financial audit costs incurred by the U.S. Government Accountability Office (GAO) by recognizing these expenses and related imputed financing in its financial statements. A heritage asset musical carillon is also recognized each fiscal year as a donation by AMVETS and an in-kind expense.

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. Change in Presentation of a Principle Financial Statement

In the revised OMB Circular A-136, dated June 29, 2007, the Statement of Financing is not required to be presented as a principle financial statement. The Statement of Financing reconciled the net cost of operations with the obligation of budgetary resources and non-budgetary resources. In FY 2007, the statement presentation has been changed to a required disclosure, Reconciliation of Net Cost of Operations to Budget, as presented in note 10.

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:

	2007			2006
	General Fund	Trust Funds	Total	Total
Appropriated Funds	\$21,223,693		\$21,223,693	\$28,422,604
Currency Fluctuation	3,136,717		3,136,717	11,589,787
Various Trust Funds		\$ 4,438,066	4,438,066	15,057,733
	\$24,360,410	\$ 4,438,066	\$28,798,476	\$55,070,124

Note 3. Treasury Investments, Net

As of September 30, the Commission's Trust Fund 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 /(Discount)</u>	<u>Interest Receivable</u>	<u>Net Investment</u>
07	<u>\$8,085,000</u>	<u>4.375%</u>	<u>\$(9,270)</u>	<u>\$88,430</u>	<u>\$8,164,160</u>
06	<u>\$58,000</u>	<u>4.00%</u>	<u>\$(48)</u>	<u>\$185</u>	<u>\$58,137</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:

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	<u>2007</u>	<u>2006</u>
Imprest Cash Funds	\$45,019	\$42,664
Foreign Bank Accounts	46,771	46,719
Undeposited Cash--Trust	<u>1,112</u>	<u>185</u>
	<u>\$92,902</u>	<u>\$89,568</u>

Note 5. Contributions Receivable

During fiscal year 2007, the Commission collected its last pledge from the private sector to be used for the World War II Memorial, which was recorded as an accounts receivable and revenue in the fiscal year pledged and was temporarily restricted until collected. Additionally, the Commission has a pledge from a living trust valued at \$181,739 as of September 30, 2007. However, due to the uncertainty of time and amount when the pledge is collected, if at all, the contribution will be recognized at the amount when it is received.

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. In fiscal year 2007, \$13,716,452 was expensed, which included \$12,540,802 of costs related to the construction of the Normandy Visitor Center as a heritage asset. In fiscal year 2006, \$9,626,263 was expensed, which included \$6,879,901 of costs related to the construction of the Normandy Visitor Center.

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>2007</u>			<u>2006</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$923,461	\$103,814	\$819,647	\$923,461	\$73,063	\$850,398
Accounting System	1,760,065	1,760,065	0	1,760,065	1,760,065	0
Equipment	<u>2,919,282</u>	<u>1,932,914</u>	<u>986,368</u>	<u>2,746,362</u>	<u>1,674,879</u>	<u>1,071,483</u>
	<u>\$5,602,808</u>	<u>\$3,796,793</u>	<u>\$1,806,015</u>	<u>\$5,429,888</u>	<u>\$3,508,007</u>	<u>\$1,921,881</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 2007 were as follows:

	<u>Cemeteries</u>	<u>Federal Memorials</u>	<u>Nonfederal Memorials</u>
Beginning of Year 10-1-06	24	25	6
Number Acquired, Fiscal Year 2007	0	0	1
Number Withdrawn, Fiscal Year 2007	<u>0</u>	<u>0</u>	<u>0</u>
End of Year 9-30-07	<u>24</u>	<u>25</u>	<u>7</u>

During fiscal year 2007, the Commission assumed responsibility for the nonfederal 398th Bomb Group Memorial. Through September 30, 2007, 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.

Note 7. Other Liabilities

Other liabilities as of September 30 were as follows:

	<u>2007</u>	<u>2006</u>
Accrued Salaries and Benefits	\$1,239,990	\$1,315,431
Unfunded Separation Pay Liability	1,665,616	1,492,136
Unfunded Annual Leave	<u>1,208,818</u>	<u>1,213,318</u>
	<u>\$4,114,424</u>	<u>\$4,020,885</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 \$1,665,616 as of September 30, 2007, and \$1,492,136 as of September 30, 2006.

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 2007, the Commission incurred \$1,173,374 of pension and ORB costs, \$364,315 of which was imputed. For fiscal year 2006, the Commission incurred \$1,071,577 of pension and ORB costs, \$314,073 of which was imputed. Total imputed costs of \$724,315 for fiscal year 2007 and \$661,073 for fiscal year 2006 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 5-year operating lease expiring in July 2012. The Commission's Mediterranean Regional Office occupies commercial office space under a 4-year operating lease expiring in May 2011. The office also has two operating leases for living quarters which expire in December 2007 and August 2008, respectively. The Commission's European Regional Office has two operating leases for temporary living quarters which expire in August 2009 and February 2013, respectively. Rent expense for fiscal year 2007 operating leases was \$544,985. Future minimum payments due on operating leases as of September 30, 2007, are as follows:

<u>Fiscal Year</u>	
2008	\$734,445
2009	718,669
2010	711,543
2011	698,308
2012	556,608
After 5 years	<u>5,218</u>
	<u>\$3,424,791</u>

Financial Statements

Note 9. Net Position

Net position balances as of September 30, 2007, were as follows:

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total</u>
Unexpended Appropriations:			
Unobligated	\$10,997,432 ¹		\$10,997,432
Undelivered Orders	<u>7,064,250</u>	<u> </u>	<u>7,064,250</u>
	<u>\$18,061,682</u>	<u>\$ -</u>	<u>\$18,061,682</u>
Cumulative Results of Operations (deficit):			
Unrestricted	\$(1,068,392)	\$11,946,144	\$10,877,752
Undelivered Orders	<u> </u>	<u>402,731</u>	<u>402,731</u>
	<u>\$(1,068,392)</u>	<u>\$12,348,875</u>	<u>\$11,280,483</u>
 Total Net Position	 <u>\$16,993,290</u>	 <u>\$12,348,875</u>	 <u>\$29,342,165</u>

Net position balances as of September 30, 2006, were as follows:

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total</u>
Unexpended Appropriations:			
Unobligated	\$19,906,015 ²		\$19,906,015
Undelivered Orders	<u>13,903,561</u>	<u> </u>	<u>13,903,561</u>
	<u>\$33,809,576</u>	<u>\$ -</u>	<u>\$33,809,576</u>
Cumulative Results of Operations (deficit):			
Unrestricted	\$(581,346)	\$10,028,457	\$9,447,111
Undelivered Orders	-	3,329,750	3,329,750
Temporarily Restricted	<u> </u>	<u>110,000</u>	<u>110,000</u>
	<u>\$(581,346)</u>	<u>\$13,468,207</u>	<u>\$12,886,861</u>
 Total Net Position	 <u>\$33,228,230</u>	 <u>\$13,468,207</u>	 <u>\$46,696,437</u>

¹ Includes \$4,578,877 for design and construction of the Normandy Visitor Center, consisting of zero unobligated from a \$5,000,000 no-year appropriation earmark for FY 2002; \$31,446 unobligated (after a \$26,000 rescission) from a \$4,000,000 no-year appropriation for FY 2003; \$26,735 unobligated (after a \$53,100 rescission) from a \$9,000,000 no-year appropriation for FY 2004; \$1,451,696 unobligated (after a \$72,800 rescission) from a \$9,100,000 no-year appropriation for FY 2005; and \$3,069,000 unobligated (after a \$31,000 rescission) from a \$3,100,000 no-year appropriation for FY 2006.

² Includes \$7,113,322 for design and construction of the Normandy Visitor Center, consisting of \$98,145 unobligated from a \$5,000,000 no-year appropriation earmark for FY 2002; \$479,574 unobligated (after a \$26,000 rescission) from a \$4,000,000 no-year appropriation for FY 2003; \$26,735 unobligated (after a \$53,100 rescission) from a \$9,000,000 no-year appropriation for FY 2004; \$3,439,868 unobligated (after a \$72,800 rescission) from a \$9,100,000 no-year appropriation for FY 2005; and \$3,069,000 unobligated (after a \$31,000 rescission) from a \$3,100,000 no-year appropriation for FY 2006.

Financial Statements

Note 10. Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users determine how budget resources obligated for programs relates to net costs of operations. In previous years, this reconciliation was accomplished by presenting the Statement of Financing as a basic financial statement. As discussed in Note 1 M., effective for fiscal year 2007, the Office of Management and Budget, in its Circular No. A-136, *Financial Reporting Requirements*, decided that this information for federal entities would be better placed and understood in a note. Consequently, this information is presented as follows:

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>WWII and Other Trust Funds</u>	<u>Total 2007</u>	<u>Total 2006</u>
<u>Resources Used To Finance Activities</u>				
Obligations incurred - direct	\$51,260,715	(\$702,458)	\$50,558,257	\$52,930,042
Offsetting collections and recoveries	(6,522)		(6,522)	(601,182)
Imputed retirement and audit services	724,315		724,315	661,073
Other adjustments	85,615		85,615	(624,171)
Total Resources Used to Finance Activities	52,064,123	(702,458)	51,361,665	52,365,762
<u>Resources That Do Not Fund Net Cost of Operations</u>				
General property capitalized on the balance sheet	(299,258)		(299,258)	636,720
Decrease in unfunded annual leave	(4,008)	(491)	(4,499)	
Undelivered orders - start of year	13,903,561	3,329,750	17,233,311	19,654,338
Less: Undelivered orders - end of year	(7,064,250)	(402,731)	(7,466,981)	(17,233,311)
Total Resources That Do Not Fund Net Cost of Operations	6,536,045	2,926,528	9,462,573	3,057,747
<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				291,174
Increase in unfunded separation pay liability	173,480		173,480	177,353
Components Not Requiring Resources:				
Depreciation	415,125		415,125	710,543
In-kind expenses	29,340		29,340	30,650
Total Costs Not Requiring Resources in the Current Period	617,945	-	617,945	1,209,720
Net Cost of Operations	\$59,218,113	\$2,224,070	\$61,442,183	\$56,633,229

Other Information

Required Supplementary Information

**American Battle Monuments Commission
Other Information
September 30, 2007
(Unaudited)**

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:

Deferred maintenance is maintenance that was not performed when it should have or was scheduled to be and which, therefore, is put off or delayed for a future period. Maintenance and repairs performed on real property consisting of land improvements, buildings, and memorials totaled \$3.2 million in fiscal year 2007 and \$2.9 million in fiscal year 2006. 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, 2006, and 2007.

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, 2007, the Commission has identified over 550 maintenance, repair, and improvement projects, with an estimated cost of \$31.4 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 seven nonfederal memorials as of September 30, 2007.

Other Information

Schedules of Heritage Assets

American Battle Monuments Commission
 Schedule of Heritage Assets
 September 30, 2007
 (Unaudited)

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	5,325	462	90.5	WW II
Brittany American Cemetery	St. James (Manche), France	4,410	498	27.9	WW II
Brookwood American Cemetery	Brookwood, England	468	563	4.5	WW I
Cambridge American Cemetery	Cambridge, England	3,812	5,127	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	1,722	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	5,353		16.0	*
Mexico City American Cemetery	Mexico City, Mexico	1,563		1.0	Mex Am
Manila American Cemetery	Luzon, Phillipines	17,202	36,285	152.0	WW II
Subtotal for Cemeteries		131,075	60,314	1,294.5	

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

Other Information

American Battle Monuments Commission
 Schedule of Heritage Assets
 September 30, 2007
 (Unaudited)

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
Pointe 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
Sommepey Monument	Sommepey, 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		<u>131,075</u>	<u>94,135</u>	<u>1,663.4</u>	

Other Information

American Battle Monuments Commission
Schedule of Heritage Assets
September 30, 2007
(Unaudited)

7 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
398th Bomb Group Memorial	Herdfordshire, England	WW II

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