VALLES CALDERA TRUST

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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TABLE OF CONTENTS

VALLES CALDERA TRUST

Message from the Executive Director....1

Management's Discussion and Analysis....2

Annual Performance Report (Unaudited)....13

FINANCIAL SECTION

Chief Financial Officer Letter....28

Independent Auditors' Report....29

Consolidated Balance Sheets....39

Consolidated Statements of Net Cost....40

Consolidated Statements of Changes in Net Position....41

Combined Statements of Budgetary Resources....42

Notes to Consolidated and Combined Financial Statements....44

Schedule of Findings....64

Status of Prior Year Findings....110

REQUIRED SUPPLEMENTARY INFORMATION

Intra-Governmental Assets and Liabilities....112

Deferred Maintenance....113

Stewardship Land....113

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Stewardship Investments....115

VALLES CALDERA TRUST
MESSAGE FROM THE EXECUTIVE DIRECTOR
September 30, 2007 and 2006

MESSAGE FROM THE EXECUTIVE DIRECTOR

The Valles Caldera Trust (Trust) is authorized by Public law 106-248 to provide management and administrative services for the Valles Caldera National Preserve. The Trust does not regard the law merely as an authorization, but as a fiduciary duty and obligation to the owners of the Preserve.

In 2007, the Board of Trustees realized that annual financial audits required by law were not routinely performed during the 2003-2007 time period. The firm of Moss-Adams was engaged to conduct an audit for these years and the Board established the practice of requiring an audit to be performed for future years on an annual basis in compliance with the Valles Caldera Preservation Act.

After a year and a half of intensive review and investigation the audit is complete through 2007, with 2008 soon to be delivered. The findings of deficiencies and weaknesses in financial controls during the early years of the Trust are many.

Staff has been working closely with Moss-Adams to develop new policies and procedures to address these deficiencies and weaknesses. As a result, our financial systems and controls have improved to the point that we are confident in our ability to comply with policy and law for future audits. We will continue to strengthen our controls and procedures and assure the public that the audit requirement will be fully complied with in the future.

Gary Bratcher
Executive Director

OVERVIEW

The Valles Caldera Preservation Act of 2000 (Public Law 106-248) authorized the federal government's purchase of about 88,900 acres of privately owned land in north central New Mexico, known as the Baca Ranch, for approximately $97 million. The Act designated the acquired lands as the Valles Caldera National Preserve (VCNP) ("Preserve") as a unit of the National Forest System, and created the Valles Caldera Trust (VCT) ("Trust"), a wholly-owned government corporation, to manage the 88,900-acre tract.

The Preserve was established to protect and preserve the scientific, scenic, geologic, watershed, fish, wildlife, historic, heritage, and recreational values of the Preserve, and to provide for multiple use and sustained yield of renewable resources within the Preserve. In addition, the Act required the tract continue to be managed as a working ranch. The Trust is to seek to become financially self-sustaining and manage the Preserve for multiple purposes while sustaining the land's valuable natural and cultural resources.

The Trust is directed by the Valles Caldera Preservation Act of 2000 to operate in accordance with the Government Corporation Control Act. Under the Control Act, the Trust must obtain independent annual financial audits and report annually to Congress. The Trust is also subject to the Government Performance and Results Act. Under the Results Act, the Trust must prepare a strategic plan and an annual performance plan with measurable goals and objectives, and submit annual performance reports to Congress and the President.

Trust operations are currently financed through direct appropriations, fees from recreational and resource use, and private donations. The Trust was under interim management of the U.S. Forest Service from January 2001 through August 2, 2002, when management control was transferred to the Trust's Board of Trustees. The Forest Service administered the finances of the Trust through Fiscal Year 2003. The Trust assumed full financial control of their accounts and related accounting functions at the beginning of Fiscal Year 2004.

MISSION, ORGANIZATIONAL STRUCTURE AND GOALS

Mission

The Trust formally adopted its mission statement in the Valles Caldera Trust (VCT) Strategic Planning Document which was issued in November of 2006:

Mission Statement

The mission of the Valles Caldera Trust is to operate the Preserve as a working ranch; to become financially self-sustaining; to meet the varied needs of visitors; to utilize and steward the multiple resources of the Preserve; and to work collaboratively with our neighbors.

To achieve its mission, the Trust has established an overarching goal which is to operate as a Working Ranch in the broadest definition. The Trust defines a Working Ranch as an operation that emphasizes stewardship of resources as the foundation for ecological and economic sustainability; uses natural resources for revenue-generating activities (e.g., grazing, hunting, fishing, hiking, bird-watching, scientific research, and other low-impact recreational activities); applies adaptive management on a day-to-day basis to ensure resource protection; and monitors the impact of its activities.

The Trust established several near-term goals related to the actions supporting attainment of the overarching goal. These near-term goals include (1) communicate with and educate the VCT's constituencies about the mission of the Trust; (2) implement viable natural resource programs; (3) 0perate with fiscal responsibility; (4) practice science-based, adaptive management; (5) operate as a dynamic, efficient and effective organization; and (6) evaluate existing infrastructure and identify additional needs.

Organizational Structure

The Trust was established as a wholly-owned government corporation of the Federal government. Authority is vested in a nine-member Board of Trustees. The President of the United States appoints seven members of the Board. Five of the seven must be residents of New Mexico. Members are selected for their expertise in defined areas and serve a four-year term. In addition, the Supervisor of the Santa Fe National Forest and the Superintendent of Bandelier National Monument serve as ex-officio voting members on the Board. Board members may serve up to eight consecutive years. The staff is directed by an Executive Director and is organized into three divisions: Preserve Management; Research, Inventory, and Monitoring; and Financial and Administrative Management. The Preserve Manager, Preserve Scientist and Administrative Officer report to the Executive Director.

Board of Trustees

There was significant turnover among the Board of Trustees in 2007. In January, the terms of three of the nine board members expired. New board members were announced in May 2007; they were Edward Tinsley, Stephen Henry and James Range. The six month lag between trustees rotating off the Board and the appointment of new members affects the potential to have a quorum to take management actions at public meetings. During 2007, Daniel Jiron was appointed Santa Fe National Forest Supervisor and Vito Spinale was named as the Acting Superintendent at Bandelier National Monument.

In September 2007, the Board elected the following officers: William B. Keleher, Chairman; Edward Tinsley, Vice-Chairman; and Stephen Henry, Secretary. In 2007, the Board comprised:

James Gosz
Board Position: Forest Management
Term Expires: January 2009

Stephen Henry
Board Position: Secretary, Wildlife and Fish Management
Term Expires: January 2011

Tracy Hephner
Board Position: Livestock Management
Term Expires: January 2009

Daniel Jiron
Board Position: Forest Supervisor, Santa Fe National Forest
Term Expires: ex officio

William B. Keleher
Board Position: Chairman, Cultural and Natural History
Term Expires: January 2009

Raymond Loretto
Board Position: State and Local Government
Term Expires: January 2009

James Range
Board Position: Nonprofit Conservation Organization
Term Expires: January 2011

Vito Spinale
Board Position: Acting Superintendent, Bandelier National Monument
Term Expires: ex officio

Edward Tinsley
Board Position: Vice-Chairman, Financial Management
Term Expires: January 2011

The Trustees participated in nine working meetings and four public meetings. Members volunteer a significant amount of their time to serve on the Board. Except for the chairman, no Board member is compensated.

Staffing

In 2007, Trust staff comprised nine full-time permanent positions, down from 10 full-time positions in 2006 and 15 full-time positions in 2005. To control costs, the Trust employs five term employees and approximately 15 seasonal hires when the Preserve is open to the public and uses contractors to augment operations and implement short-term management decisions.

Significant personnel changes in 2007 included filling the vacant accountant position with a procurement officer as part of the transition of budget and finance operations from the National Business Center to the Albuquerque Service Center of the U.S. Forest Service (USFS) to be completed in FY2008.

Performance Goals, Objectives and Results

During 2007, the Trust worked diligently to meet the following legislative mandates:

- Manage the Preserve as a working ranch;
- Protect and preserve for future generations the scientific, scenic, historic and natural values of the Baca ranch, including rivers and ecosystems and archaeological, geological and cultural resources;
- Provide opportunities for public recreation;
- Continue to make progress to become financially self-sustaining by 20151; and
- Provide for sustained yield management of Baca ranch for domestic livestock grazing and timber production insofar as is consistent with the other stated purposes.

The Trust received $3.0 million in new appropriations in fiscal year 2007 and spent about $3.8 million. These funds were used to achieve the legislative mandates above, including the following near-term goals established in the *Valles Caldera Trust (VCT) Strategic Planning Document*:

Goal 1: Communicate with and educate the VCT's constituencies about the mission of the Trust.

The desired outcome of this goal is for VCT staff, neighbors, elected officials, and the public to understand and be able to articulate the concept of the Preserve operating as a working ranch. Achieving this outcome requires focusing on four specific objectives:

1. Evaluate the current definition of a working ranch and explore ways to rephrase or expand the definition to achieve a clearer understanding by the Trust's constituencies
2. Bring the improved definition before the public at every opportunity
3. Develop a communications strategy and plan that includes education and outreach and integrates the Trust's mission and the Interpretive Master Plan
4. Develop a plan to fully integrate the Trust's website with the communications plan

Results:

In 2006 and 2007, the Trust hosted 43 groups and over 1,200 people in educational activities on the Preserve. About 40% were students from local schools, colleges and universities. The Trust has also benefited local communities by hiring local residents and buying goods and services locally.

The TRUST website provided a means of communicating important information to the public. In addition, the public was able to make reservations for activities, enter lotteries for hunting and fishing, and book events through the website. Of the total revenues collected for public programs, 81% came through the website in 2007 and 88% in 2006.

Goal 2: Implement viable natural resource programs.

The desired outcome of this goal is the establishment of a comprehensive and affordable natural resource program. Achieving this outcome requires focusing on the following four specific objectives:

1. Complete the assessment work for forage management and identify additional efforts necessary for the development of a comprehensive forage management plan for the Preserve
2. Complete the assessment work for public use and access and identify additional efforts necessary for the development of a comprehensive public use and access plan for the Preserve
3. Compile data and draft the State of the Preserve report, which should serve as an essential component of a variety of future planning efforts
4. Establish plans for law enforcement and emergency services on the Preserve

Results:

The Trust issued its first State of the Preserve report in December 2007. This report is a key component of the comprehensive management of the Valles Caldera National Preserve. It reviewed, among other things, actions of the Valles Caldera Trust, operations of the Preserve and the knowledge that staff acquired about the Preserve since federal acquisition in 2000.

In addition, the Trust held four public meetings in July and August 2007 to gather information from the public about access and use of the Preserve for recreation, education and other personal and cultural activities. People said they valued the vastness, solitude, quiet and beauty, and made suggestions on activities they want the Trust to offer; 120 people attended the meetings.

Goal 3: Operate with fiscal responsibility.

The desired outcome of this goal is to define a path to achieve financial self-sustainability. Achieving this outcome requires focusing on the following five specific objectives:

1. Establish an auditable financial system
2. Implement TRUST staff responsibility and accountability through program-based accounting procedures
3. Optimize revenues while providing fair access opportunities for the programs on the Preserve
4. Identify an aggressive fund-raising strategy
5. Obtain liability insurance covering visitors and volunteers

Results:

In 2007, recreation programs brought in 12,405 visitors and generated $554,289 in revenues. Visitation in 2007 was up 25% compared to 2006 and revenues were up 10%. The increase in visitation in 2007 was due largely to 1) an increase in winter visitors, 2) the addition of new, low cost programs for the casual visitor (no reservations required) and 3) efforts by the Trust to entice the driving public on NM Highway 4 to enter the Preserve and participate in the spontaneous activities where they would learn about other programs.

The Trust obtained insurance in FY2007 to cover liability, vehicles and volunteers costing approximately $40,000. The insurance was paid for using appropriated funds. As the number of visitors and public programs increase, the cost of insurance will likely rise, consuming a larger part of the Trust's budget.

Goal 4: Practice science-based, adaptive management.

The desired outcome of this goal is the ability to modify or adapt the natural and cultural resource programs on the Preserve based on scientific information from program monitoring activities. Achieving this outcome requires focusing on six specific objectives:

1. Design and implement practical, affordable monitoring programs for each resource activity, as specified in the Trust's National Environmental Policy Act (NEPA) procedures
2. Develop protocols for identifying specific parameters to be monitored

3. Evaluate established protocols from other national programs for possible adoption
4. Establish monitoring as an integral part of activities under every program, including operational designs and estimated costs
5. Investigate partnerships with other agencies and organizations as a potential way to reduce monitoring costs and improve efficiencies
6. Present monitoring data and information to the Board of Trustees on an annual basis and make these data and information easily available to other agencies and the public.

Results:

The Trust obtained data about Preserve resources through inventory, monitoring and research programs. Inventories included surveys for economically important insects and forest stand exams. The trust continued to monitor the condition of forage and watersheds. Research continues on hydrology, climate change and carbon cycles. In 2007, the Trust expended about $500,000 in appropriated funds on the inventory, monitoring and research program and received the equivalent of about $1.8 million in extramurally funded inventory, monitoring and research projects.

Goal 5: Operate as a dynamic, efficient and effective organization.

The desired outcome of this goal is a cost-effective, flexible organization that plans and implements innovative programs. Achieving this outcome requires focusing on the following four specific objectives:

1. Identify, fill and retain key management positions
2. Establish a revenue-based staffing plan and organizational chart
3. Prioritize projects and programs
4. Establish and maintain employee accountability

Results:

During FY 2007, the Trust spent several months preparing for and executing a conversion of accounting operations from NBC to the National Finance Center (NFC) of USDA. The Trust entered into an agreement with the Forest Service to receive accounting services through the Albuquerque Service Center (ASC) and use the Foundation Financial Information System (FFIS) accounting system at the National Finance Center beginning in FY2008.

Goal 6: Evaluate existing infrastructure and identify additional needs.

The desired outcome of this goal is identification of essential infrastructure to contribute to operational efficiencies, to address safety concerns, and to support achievement of financial self-sustainability. Achieving this outcome requires focusing on eight specific objectives including:

1. Improve the entrance to the Preserve and the visitor service center
2. Repair the potable water collection and distribution system to meet the required water quality standards
3. Design permanent sanitary facilities in keeping with a rural working ranch theme to replace the current portable facilities
4. Identify components of needed infrastructure and separate facilities essential for the operation of the Preserve from those that might be better located off the Preserve.
5. Maintain, improve, or remove existing infrastructure and facilities
6. Obtain insurance on essential existing buildings
7. Continue to update the Interpretive Master Plan
8. Identify the transportation and infrastructure components of other planning efforts

Results:

The Trust completed an assessment of 18 structures on the Preserve, 10 of which are historic or contribute to the historic character of the ranch. The Trust did not receive federal highways money in 2007, but completed upgrading the VC02 road in the History Grove. Upgrade of the main entrance to the Preserve began in summer 2007 and most of the work was completed before winter. The project will be completed in 2008.

Also in 2007, the Trust surveyed 1,200 acres for cultural resources and found 67 new sites. The area surveyed since federal acquisition is now 7.5%; just over 430 historic and prehistoric sites have been documented. The inventory revealed a diversity of prehistoric site types that were unknown or poorly known, including pottery types from the prehistoric-historic interface.

Goals for FY2008

The Trust goals for FY 2008 are: 1) complete a business plan, 2) complete an independent financial audit for fiscal years 2004 through 2007, 3) complete an environmental assessment for forage management, 4) finalize the programmatic agreement between the Trust and the New Mexico State Historic Preservation Office, 5) begin long-term planning for public access and use, 6) develop a procurement policy and 7) implement several new recreation programs.

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The accompanying financial statements summarize the Trust's financial position, show the net cost of operations and changes in net position, provide information on budgetary resources and financing, and present the sources of revenues and expenditures during Fiscal Years 2007 and 2006. Highlights of the financial information presented in the financial statements are shown below.

Net Cost of Operations

The net operating cost of $3,097,799 and $3,290,391 for Fiscal Years 2007 and 2006, respectively, is shown on the Statement of Net Cost. Total gross costs were reduced by $754,428 and $656,973 of earned revenues to arrive at net cost of operations for Fiscal Years 2007 and 2006, respectively.

Financial Position

The Trust's total assets were $4,595,807 and $5,402,070 in 2007 and 2006, respectively. Of this, $3,670,320 and $3,311,241 consisted of Fund Balance with Treasury at fiscal year ends 2007 and 2006, respectively. In addition, the Trust had $1,110,241 in intergovernmental receivables at FY2006 year end. There was also $201,131 and $300,893 in liabilities at the end of Fiscal Years 2007 and 2006, respectively. The Trust's net position was $4,394,674 and $5,101,175 at the end of Fiscal Years 2007 and 2006, respectively.

Budgetary Resources

The Trust's budgetary resources for the years ended September 30, 2007 and 2006, were $6,096,609 and $6,348,320 respectively, which consisted of $4,254,429 and $5,731,204 in appropriations, respectively. Unobligated balances at the end of Fiscal Years 2007 and 2006 were $852,630 and $1,225,064, respectively. This unobligated balance was due primarily to Trust revenues from services provided. These revenues are earmarked funds which the Trust is retaining for future use.

Financing Sources Other Than Earned Revenues

Financing sources, other than earned revenues, that funded the Trust's net cost of operations included appropriations used and transfers of assets from other Government entities. The Trust did not have financing imputed with respect to any cost subsidies. For FY2007 and FY2006, the Trust reported $3,007,633 and $4,748,552 of other financing sources on the Statement of Changes in Net Position, respectively.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Management Assurances

Federal Managers' Financial Integrity Act (FMFIA) Assertions

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires internal accounting and administrative controls to be established to provide reasonable assurances that –

i) Obligations and costs are in compliance with applicable law;

ii) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

iii) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The Government Corporation Control Act requires the head of a federally owned corporation's management to provide a statement on internal accounting and administrative control systems consistent with the requirements for agency statements on internal accounting and administrative control systems under the amendments made by FMFIA. Per FMFIA requirements, the statement must be prepared on the basis of an evaluation conducted in accordance with the OMB guidelines. OMB Circular A-123, Management's Responsibility for Internal Control provides these guidelines, including a framework to be used by management to conduct the assessment internal control over financial reporting.

Management of the Valles Caldera Trust acknowledges the importance of internal accounting and administrative controls in meeting the mandates set by Congress and our responsibility for such controls. However, the Trust did not have processes in place during FY2007 to ensure the objectives of FMFIA were met and no assessments were performed. Prior to issuing these financial statements, personnel in key management positions, including the Executive Director and Chief Administrative Officer, have changed. Thus, knowledge regarding the Trust's controls during FY2007 is not available. Based on this, current management can give no assurance regarding the effectiveness of internal control during FY2007.

Annual Assurance Statement on Internal Control over Financial Reporting

The Valles Caldera Trust's management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The Trust did not conduct its assessment of the effectiveness of the Trust's internal control over financial reporting in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. The Trust can provide no assurance that internal control over financial reporting as of June 30, 2007 was operating effectively.

Federal Financial Management Improvement Act (FFMIA)

The FFMIA is designed to improve financial and program managers' accountability, provide better information for decision-making and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. Federal agencies must implement and maintain financial management systems that substantially comply with the following:

1. Federal financial management system requirements;
2. Applicable Federal Accounting Standards; and
3. The U.S. Standard General Ledger (SGL) at the transaction level.

Trust's financial management systems have not been evaluated by management to determine if they comply substantially with the objectives of FFMIA.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The Trust has prepared its financial statements to report its financial position and results of operation. These financial statements have been prepared from the Trust's general ledger and subsidiary reports in accordance with the formats prescribed by the Office of Management and Budget. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that the Trust is a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be incurred without authorizing legislation.

The accuracy of the information contained in the principal financial statements and the quality of internal control rests with management.

The Annual Performance Report is a requirement of the Government Performance and Results Act (GPRA) – a law that guides how agencies prepare strategic plans, performance budgets, and performance reports that set goals and report on achieving them.

In November 2006, the Trust issued the *Valles Caldera Trust (VCT) Strategic Planning Document*, which was derived from the October 2005 planning session. This document defined the Trust's overarching goal as:

To operate as a Working Ranch in the broadest definition

The Trust identified six actions necessary to achieve the Overarching Goal and set the following near-term goals related to these actions:

Goal 1: Communicate with and educate the VCT's constituencies about the mission of the Trust.

The desired outcome of this goal is for VCT staff, neighbors, elected officials, and the public to understand and be able to articulate the concept of the Preserve operating as a working ranch. Achieving this outcome requires focusing on four specific objectives:

1. Evaluate the current definition of a working ranch and explore ways to rephrase or expand the definition to achieve a clearer understanding by the VCT's constituencies
2. Bring the improved definition before the public at every opportunity
3. Develop a communications strategy and plan that includes education and outreach and integrates the VCT's mission and the Interpretive Master Plan
4. Develop a plan to fully integrate the VCT website with the communications plan

To accomplish these objectives, the VCT will review and update the position description for a Communications Director; Hire a Communications Director; Refine the definition of a working ranch, and use the definition, or a select portion thereof, on all communications from the Trust; and establish a timeline for the Communications Director to Develop a communications plan, based on strategic guidance by the Board of Trustees and the Executive Director. Progress towards this goal in FY2007 will be measured by:

- Hiring a senior communications-oriented employee during FY2007:
- Implementation of a workable, efficient, and effective VCT website for public programs during FY2007;
- Regularly posting appropriate scientific and management data on the VCT website during FY2007 and beyond;
- Development and maintenance of effective communications avenues other than the VCT website during FY2007 and beyond

VCT Website

The VCT website provides a means of communicating important information to the public including fire restrictions, public meetings, activities, scientific and management data, requests for proposals, etc. The public can make reservations for activities, enter lotteries for hunting and fishing, and book events through a Web site maintained by the Trust (www.vallescaldera.gov). Access fees consist of a base fee of $10.00 that is adjusted for added value (e.g., guided interpretive hikes) and age (i.e., reduced for children and seniors). Of the total revenues collected for public programs, 84% came through the Web site in 2005, 88% in 2006 and 81% in 2007.

Public visitation to Valles Caldera National Preserve increased in each of the past three years. The number of visitors participating in Preserve programs increased steadily between 2003 and 2007. The following table presents the recent history of visitor participation in Trust programs.

FY 2003*	FY 2003*	FY 2004	FY2005	FY 2006	FY 2007
Special Events	351	1,674	3,401	5,196	3,984
Fishing	1,735	2,010	1,919	1,585	1,814
Hunting‡	840	497	1,162	1,332	1,798
Sleigh/Wagon Rides	598	1,520	891	702	516
Hiking†	1,276	1,620	565	446	1,020
Skiing/Snowshoeing°	64	142	705	0	1,393
Tours	353	502	379	573	1,607
Equestrian	NA	213	198	104	273
Total Visitors	**5,217**	**8,178**	**9,220**	**9,938**	**12,405**

*Data for all programs except elk hunting are for fiscal years (Oct. 1 through Sept. 30); data for elk hunting are calendar years because elk hunt access permits are sold in one fiscal year and the hunting occurs in the next fiscal year.

‡Data for 2004 through 2006 are for elk hunting; data for 2007 are for elk and turkey hunting combined.

†Includes estimates of hikers on free trails accessible from NM Highway 4 in 2003 (378) and 2004 (600); not included in subsequent years.

°There were no winter recreation programs in 2006 because of the lack of snow.

Public Outreach and Education

In 2006 and 2007, 43 groups and 1,226 people participated in educational activities on the Preserve. Six groups and 281 K-12 students and teachers participated. Sixteen groups and 198 university students and teachers participated. Seven community groups and 235 people and three non-governmental organizations and 41 people participated. Agencies, museums, universities, non-government organizations and private sector groups increasingly use the Preserve for workshops and seminars. Five agencies and 137 people and six professional societies and 334 people participated in workshops and seminars.

- The Parajito Environmental Education Center (PEEC) brought public school students on field trips to the Preserve to learn about the environment in collaboration with the Trust and Los Alamos National Laboratory (LANL). A summer field camp entitled "Nature Odyssey" operated by PEEC provided environmental education to public school students, teaching them about plants, invertebrates, wildlife, riparian environments and water quality. Two LANL science camps provided instruction to students from the Pueblos of Jemez, Santa Clara, San Ildefonso and Cochiti.
- Trust archaeologists hosted school trips from Santa Fe Indian School (120 students) and an Albuquerque grade school (20 students) that came to learn about cultural resources on the Preserve.
- GIS students from Central New Mexico Community College volunteered to relocate 52 archaeological sites. Locations throughout the Preserve were remapped using GPS and site markers were replaced to diminish hazards for horses on the Preserve.
- Trust staff presented invited lectures and field trips on the cultural resources of the Preserve for the School of Advanced Research, Crow Canyon Cultural Explorations, UNM-Los Alamos, Santa Fe National Forest Site Stewards, University of New Mexico and University of California-Berkeley archaeology field schools and San Juan Basin Archaeological Society.
- Trust staff in collaboration with the University of New Mexico initiated the "Jemez Mountains Obsidian Database project" to compile all known occurrences of obsidian artifacts found in archaeological assemblages across North America that have been proven through geochemical analyses to be made of obsidian collected in and around the caldera. Results were presented in a symposium at the Society for American Archaeology. When completed, the database will be available to professional archaeologists as a spatially enabled, Web-based user interface to enhance national obsidian sourcing and trade research.
- The Preserve hosted 185 geologists during the New Mexico Geological Society 58th Annual Field Conference. Trust staff co-authored an overview article of Preserve natural and cultural history for the resulting edited volume.
- The Trust provided a free flint-knapping event in the Valle Grande as part of NM Heritage Preservation Month. Several local knappers demonstrated obsidian tool making and participated with public attendees in throwing of spears using atlatls.

Benefits To Local Communities

- Trust employs 12-15 local residents, including members of local pueblos, on a seasonal basis in public recreation programs and maintenance programs for the working ranch.
- The Trust collaborated with 28 local and regional groups on scientific studies. Extramural funding totaled about $1.8 million in scientific projects. Since the Trust was formed, outside grants and scientific activities have contributed millions of dollars to the economy of New Mexico.
- Jack Hagelstein of Dexter, New Mexico was awarded a contract to manage a livestock program on the Preserve during summer 2007. The Quivira Coalition was a partner in the contract contributing their expertise in ecology, monitoring and the application of planned grazing to achieve ecological benefits. About 530 head of cattle were grazed during the 4-month season.
- The Trust is working with Jemez Pueblo on forest thinning projects and with Santa Clara Pueblo on watershed restoration and reintroduction of beavers. Jemez Pueblo manages a wood yard and sawmill called the Walatowa Woodlands Initiative (WWI), which has implemented small thinning projects on the Preserve. Recently, they partnered with a small wood product industry to expand their market and product line. This growth could lead to more opportunities for the Trust to remove and use small wood products.
- The Trust granted free access to the Preserve to members of the Pueblo of Jemez for cultural practices, including a traditional run from Jemez Pueblo to Redondo Peak.
- In May, 142 students, teachers and chaperones from the Santa Fe Indian School participated in teaching activities related to cultural resources, geology, wildlife, history of the Preserve and navigation using GPS on the Preserve.
- The Trust and Los Alamos National Laboratory hosted middle and high school students from Santa Clara and San Ildefonso pueblos for a 2007 Accord Pueblo Summer Environmental Science Workshop on the Preserve. The students participated in activities focusing on riparian habitats, insects, coyote telemetry and the water cycle. This is the fourth year for this collaborative science camp.
- The Trust worked cooperatively with the National Park Service and the U.S. Forest Service on monitoring rangelands to determine forage use. The program on the Preserve was expanded to Bandelier National Monument and the Santa Fe National Forest. As a result, compatible forage use data is being collected throughout the Jemez Mountains incorporating the winter elk range and winter livestock grazing allotments.

Goal 2: Implement viable natural resource programs.

The desired outcome of this goal is the establishment of a comprehensive and affordable natural resource program. Achieving this outcome requires focusing on the following four objectives:

1. Complete the assessment work for forage management and identify additional efforts necessary for the development of a comprehensive forage management plan for the Preserve
2. Complete the assessment work for public use and access and identify additional efforts necessary for the development of a comprehensive public use and access plan for the Preserve
3. Compile data and draft the State of the Preserve report, which should serve as an essential component of a variety of future planning efforts
4. Establish plans for law enforcement and emergency services on the Preserve

To accomplish these objectives, the VCT will identify the components, costs and tasks for the development of the comprehensive forage management and comprehensive pubic use and access plans; request assistance from experts to identify the purpose an uses of the State of the Preserve report; and investigate alternatives and strategies for law enforcement and emergency services programs, based on, in part, discussions with neighboring agencies and pueblos. Progress towards this goal in FY2007 will be measured by the following:

- Completion of the State of the Preserve report by August 2007
- Preparation and implementation of a plan for law enforcement and emergency services by year end FY2007

State of the Preserve report

The *State of the Preserve* report is a key component of the comprehensive management of the Valles Caldera National Preserve. This report reviews, among other things, actions of the Valles Caldera Trust, operations of the Preserve and the knowledge that the staff has acquired about this unique landscape since federal acquisition in 2000. The Trust issued its' first State of the Preserve report in December 2007, which is available on the Trust's website.

Begin Long-term Planning for Public Access and Use

The Trust currently manages an interim program for public access and use of the Preserve. The interim program was developed in response to the Valles Caldera Preservation Act (Public Law 106-248), which mandates that reasonable access to the Preserve for recreation would be provided within two years of federal acquisition. The Trust provides a variety of outdoor activities such as fishing, hiking, hunting, wildlife and scenic tours, wagon rides, horseback riding and winter recreation activities, such as cross-country skiing, snowshoeing and sleigh rides. The Trust also offers opportunities for the public to enjoy and learn about the Preserve through special events, including night sky adventures, youth and adult outdoor education seminars, photography workshops, mountain biking and running events and more recently, overnight opportunities such as weddings and workshops, which use the existing facilities on the Preserve. Universities, K-12 schools, and various educational and research entities have also had access to the Preserve on a case-by-case basis. Infrastructure development has been limited to road maintenance and

improvements necessary to provide safe access while protecting and preserving natural and cultural resources. Temporary facilities, such as portable buildings and toilets, facilitate public use and access to the Preserve.

Under the interim public recreation programs, visitation has increased from about 200-300 people per year prior to federal acquisition to over 12,000 visitors in 2007. Existing programs use temporary facilities that are inadequate for some activities (e.g., winter recreation) and limit the ability of the Trust to generate significant revenues (e.g., overnight facilities). The Trust completed the first phase, which consisted of collecting data and information in a series of four public meetings in the summer of 2007. The second phase, which consists of developing a long-term plan for public access and use of the Preserve, will begin in 2008. The long-term plan will address visitor capacity; visitor programs and activities; and the facilities and infrastructure to support increased levels of visitation that are necessary to generate revenues for the Trust to become finically self-sufficient. The long-term plan will engage and respond to the public through the NEPA process.

Phase One: The Trust held four public meetings in July and August 2007 to gather information about access and use of the Preserve for recreation, education and other personal and cultural activities. The meetings were held in Jemez Springs, Los Alamos, Pojoaque and Rio Rancho. The Trust asked the public about visitor capacity; recreation and education programs; and the types of facilities and infrastructure (e.g., roads, trails, utilities, etc.) needed to support public visitation and visitor programs. Each meeting consisted of orientation to the Preserve and Trust, an open house with Trust staff and two professionally facilitated workshops. In the workshops, people identified what they value about the Preserve, what activities they want the Trust to offer and participated in an exercise to balance activities with the goals of the Trust.

One hundred and twenty people attended the four meetings. Six state and federal agencies and one tribe were represented. Six individuals were associated with a university or educational institution. Twenty-eight people representing 18 groups and organization attended. Two businesses were represented by individuals seeking to do business with the Trust. Fifty-nine members of the public participated as interested individuals.

When asked what they valued about the Preserve, their comments were similar to the comments in public meetings in 2001 and 2004 – they valued the vastness, solitude, quiet and beauty most commonly. When asked what they would like to do on the Preserve, their comments offered more specific recommendations than in previous meetings. People described activities such as hiking, fishing and horseback riding, and they wanted these activities available all the time, for spontaneous access, to an unlimited number of people with little support from staff and little need for infrastructure.

The Trust asked people to identify potential conflicts among various uses; they readily identified conflicts between grazing livestock and fishing, hunting and hiking and grazing

and resource protection. They generally did not think that recreation activities conflict with resource protection, perceiving human activities as benign. A number of people that identified educational activities as important valued the Preserve as a place of learning. The conflict between "...solitude, quiet and beauty..." and "...activities available all the time, for spontaneous access, to an unlimited number of people..." is obvious and typifies the challenge facing the Trust.

This was the first step in a multi-phase process to develop a comprehensive program for public access and use of the Preserve for recreational activities as well as education, research, commercial and other public purposes.

Goal 3: Operate with fiscal responsibility.

The desired outcome of this goal is to define a path to achieve financial self-sustainability. Achieving this outcome requires focusing on the following five specific objectives:

1. Establish an auditable financial system
2. Implement VCT staff responsibility and accountability through program-based accounting procedures
3. Optimize revenues while providing fair access opportunities for the programs on the Preserve
4. Identify an aggressive fund-raising strategy
5. Obtain liability insurance covering visitors and volunteers

To accomplish these objectives, the VCT will continue the investigation into options for optimizing income from all programs to the Preserve; begin the selection process for engaging an auditing firm and prepare financial records for audit; develop prospective financials for FY2007 and retrospective program financials for FY2006; contact commercial insurance agents to investigate the availability of general liability coverage for a wholly-owned federal corporation. Progress towards this goal in FY2007 will be measured by

- Preparation of quarterly auditable financial statements by FY2007 year-end
- Expanding revenues derived from existing and new programs on the Preserve by 15% per year
- Completion of a fiscal audit for FY2007 and beyond
- Acquisition of appropriate general liability insurance

Financial Statements and Fiscal Audit

The Trust sought proposals to audit the Trusts financial records for 2004 through 2007. One accounting firm was selected and a contract to audit the Trust's financial records was awarded in September 2007. The audit began in December 2007, with the goal of completion of all four years in February 2008. However, the scope of the audit was expanded to include additional testing of FY2001 through FY2003 transactions and additional time and effort was required to reconcile and roll forward balances. The audit took longer than originally anticipated and was not completed until FY2009.

For FY2004 to FY2007, the auditor assisted in the preparation of the financial statements, which was determined to be a material weakness of the Trust. For FY2008, the Trust has sought help from Forest Service ASC and will prepare its own financial statements.

Expanding Revenues

Revenues collected by the Trust for public programs have increased in each of the past three years as shown in the following table. In 2007, recreation programs brought in 12,405 visitors and generated $554,289 in revenues. Visitation in 2007 was up 25% compared to 2006 and revenues were up 10%. The increase in visitation in 2007 was due largely to 1) an increase in winter visitors, 2) the addition of new, low cost programs for the casual visitor (no reservations required) and 3) efforts by the Trust to entice the driving public on NM Highway 4 to enter the Preserve and participate in the spontaneous activities where they would learn about other programs.

Recreation revenue per visitor ($45) was down 12% in 2007 compared to 2006 ($51), largely due to the Trust's efforts to attract casual visitors to participate in low cost activities. In the past four years, recreation revenue per visitor ranged from $45 in 2007 to $52 in 2005.

Liability Insurance

The Trust is does not have access to the permanent judgment appropriation provided under section 1304 of title 31, U.S.C. (The Judgment Fund), for a claim, judgment or settlement. As a result, the Trust must carry liability insurance. In FY 2007, the Trust purchased insurance to cover liability ($25,296), vehicles ($14,582) and volunteers ($1,000) for a total cost of $40,878.

As the number of visitors and public programs increase, the cost of insurance will consume a larger part of the Trust's budget. Until the Trust becomes financially self-sufficient, judgments against the Trust will be paid to some extent out of appropriated funds. To date, there have been no financial claims filed against the Trust.

Goal 4: Practice science-based, adaptive management.

The desired outcome of this goal is the ability to modify or adapt the natural and cultural resource programs on the Preserve based on scientific information from program monitoring activities. Achieving this outcome requires focusing on six specific objectives:

1. Design and implement practical, affordable monitoring programs for each resource activity, as specified in the VCT's National Environmental Policy Act (NEPA) procedures
2. Develop protocols for identifying specific parameters to be monitored
3. Evaluate established protocols from other national programs for possible adoption
4. Establish monitoring as an integral part of activities under every program, including operational designs and estimated costs
5. Investigate partnerships with other agencies and organizations as a potential way to reduce monitoring costs and improve efficiencies
6. Present monitoring data and information to the Board of Trustees on an annual basis and make these data an information easily available to other agencies and the public.

To accomplish these objectives, the VCT will identify the diagnostic monitoring parameters for each resource use, preceding and accompanying the development of the program; analyze and synthesize the existing data for trends and demonstrate an understanding of the corresponding system dynamics; evaluate current monitoring procedures for effectiveness and affordability; develop appropriate monitoring parameters before the start of resource use to gain pretreatment data and establish existing conditions; utilize a full range of monitoring, such as social sciences, physical attributes, and economic indicators, appropriate for the monitoring component of each activity; and develop efficient and effective systems for the timely delivery of monitoring data and information to the Board of Trustees and the VCT's constituencies. Progress towards achieving this goal in FY2007 will be measured by the following:

- Establishment and implementation of rigorous procedures for selecting research programs to be conducted on the Preserve based on their contribution to science-based, adaptive management during FY2007

Research Program Selection Procedures

The Trust did not complete establishment and implementation of these procedures for FY2007. The Trust intends to hire a consultant in 2008 to create a business plan. The business plan will analyze the education and research enterprise.

Inventory, Monitoring and Research Programs

The success of adaptive management depends on the availability of high quality data to address management questions. The Trust obtains data about Preserve resources through inventory, monitoring and research programs. Inventories are basic assessments of natural and cultural resources (presence and distribution). Monitoring studies measure temporal changes and impacts to these resources as a result of Trust operations (e.g., recreation, hunting, fishing, fire management, forest thinning). Research projects are conducted largely by outside scientists with external funding. In 2007, the Trust expended about $500,000 in appropriated funds on the inventory, monitoring and research program. The total extramural funding committed to the Trust for inventory, monitoring and research was over $1.8 million.

Inventory

- Fieldwork for a high-resolution Preserve soils map was completed in the summer of 2007; data analyses and GIS layers will be finished in 2008.
- The USDA Systematic Entomology Laboratory and the Smithsonian Institution began a survey for economically important insects (pests and pollinators) in 2007. Target groups include forest pest beetles and moths, rangeland grasshoppers, aphids and leafhoppers, and beneficial predators (parasitoid wasps) and pollinators (flies, butterflies and moths).
- The ground-truth fieldwork for the forest stand assessments began in 2007 and will be completed in 2008. The forest stand map (GIS layer) was completed in 2007. Once the stand data are collected and analyzed, the Trust will develop a forest and fire management plan.
- The Trust realized economic efficiencies by quantifying resources Preserve-wide. For example, USFS Common Stand Exam protocols recommend a minimum of 20 plots per stand for a statistically valid inventory. By stratifying Preserve forests with stand data, the Trust can produce a statistically valid inventory by sampling 10% of the forests. Rather than 20 plots per stand,7 the Preserve will install 20-30 plots per stratum. The vegetation map, stand delineation and the field data support comprehensive planning and management at a cost of about $250,000 plus staff support. The Trust's resource data are unparalleled on multiple use public lands, and were obtained at a fraction of the cost typically incurred when data are collected on a project-by-project basis.

Monitoring

- The condition of Preserve watersheds continues to improve, with lowering of stream water temperatures and increases in riparian vegetation. However, stream water quality is still impaired (based on New Mexico Environment Department standards).

- The winter of 2006-2007 was average in terms of snowpack, and produced good soil moisture in the spring that led to excellent spring forage production in the valles. May and June, usually a dry period, were characterized by steady rainfall and transitioned directly into the summer monsoon season. The Preserve produced a record amount of summer forage in 2007 (highest since 2002, when measurements began).
- Forage utilization by livestock and elk during 2007 averaged 22%, well below the maximum target of 40% utilization. This was due to the record high amount of plant production from the extensive rains.
- Fish populations in San Antonio Creek and the East Ford of the Jemez River remain stable. The current fishing program on the Preserve, the second largest revenue generating recreation program, is sustainable. Elk population estimates for 2007 were comparable to previous years. The calf:cow ratio measure of reproductive success increased during 2007 to 41:100 over relatively low levels in 2005 (18:100) and 2006 (24:100).

Research

- The University of Arizona and Los Alamos National Laboratory continued research on hydrology, climate change and carbon cycles using instrument towers in grasslands, Ponderosa pine and spruce forests. They measure water budgets (inputs from rain and snow; losses from evaporation, sublimation, plant transpiration, runoff and soil infiltration) and carbon/energy budgets. Researchers also installed stream gauges on seven Preserve watersheds to determine water production. The results suggest that thinning treatments could be developed to maximize snow-water retention and spring runoff production in the Jemez River basin.
- Studies of wildlife infectious diseases on the Preserve confirmed hypotheses that high elevation forests are "refugia" for Hantavirus and plague. Mountain habitats are refugia for pathogens and rodents that can survive under a wide range of environmental conditions (e.g., droughts). Under favorable conditions (e.g., wet El Niño periods), rodent and pathogen populations increase and expand to lower elevations, eventually spreading into areas occupied by humans, which leads to increased risk of disease transmission. This work funded by the National Science Foundation will lead to more accurate disease forecasting models.
- Studies on Chronic Wasting Disease in elk by the New Mexico Department of Game and Fish found no incidence of the disease on the Preserve.
- A team from U.S. Geological Survey, University of Arizona and Trust staff finished the first field season of a project to work out the fire history in the grasslands of the Preserve. Fire scar data from trees, including stumps from trees cut during logging operations in the 20th century, are being analyzed at the University of Arizona.
- Several new projects were funded from grants in 2007:
  - A radio-telemetry study on the ecology of wild turkeys began in response to the Trust's decision to begin turkey hunts. The project will provide management information on turkey movements, habitat selection, survivorship, nesting, roosting and winter migrations to lower elevations.

- Additional funding was obtained to study the impacts of coyotes on elk calves on the Preserve. The funds will allow an increase in the number of coyotes fitted with GPS tracking radio collars.
- The Earth Data Analysis Center at the University of New Mexico is developing remote sensing capabilities to estimate forage production for livestock and elk.

Goal 5: Operate as a dynamic, efficient and effective organization.

The desired outcome of this goal is a cost-effective, flexible organization that plans and implements innovative programs. Achieving this outcome requires focusing on the following four specific objectives:

1. Identify, fill and retain key management positions
2. Establish a revenue-based staffing plan and organizational chart
3. Prioritize projects and programs
4. Establish and maintain employee accountability

To accomplish these objectives, the Trust will retain or hire four key management positions including an Executive Director, Preserve Manager, Chief Financial and Administrative Officer, and Preserve Scientist; hire a Communications Director as a permanent, non-management position; develop an organizational structure consistent with realistic future revenue projections; institute program-based accounting that accurately reflects true costs and revenues generated; develop annual work plans for all full-time employees based on strategic priorities to be included in their performance appraisal plans that support rigorous employee accountability; implement training programs, as necessary, to achieve employee accountability. Progress towards achieving this goal in FY 2007 will be measured by the following:

- Achievement of program-based cost and revenue accounting by FY2007 year-end
- Development of specific work plans including accountability measures for all full-time employees for FY2007 and beyond
- Demonstrated employee accountability during FY2007 and beyond

Program-based Cost and Revenue Accounting

During FY 2007, the Trust spent several months preparing for and executing a conversion of accounting operations from NBC to the National Finance Center (NFC) of USDA. The Trust entered into an agreement with the Forest Service to receive accounting services through the Albuquerque Service Center (ASC) and use the Foundation Financial Information System (FFIS) accounting system at the National Finance Center.

Beginning October 1, 2007, Trust transitioned to a new accounting system, FFIS, through Forest Service. Trust entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services.

Trust is now following ASC established accounting policies and procedures including the tracking of costs and revenues at a program level. Transactions are first audited by Trust staff and then forwarded to Forest Service for processing, where they are reviewed by Forest Service staff for completeness.

Employee Accountability

Goal 6: Evaluate existing infrastructure and identify additional needs.

The desired outcome of this goal is identification of essential infrastructure to contribute to operational efficiencies, to address safety concerns, and to support achievement of financial self-sustainability. Achieving this outcome requires focusing on eight specific objectives including:

1. Improve the entrance to the Preserve and the visitor service center
2. Repair the potable water collection and distribution system to meet the required water quality standards
3. Design permanent sanitary facilities in keeping with a rural working ranch theme to replace the current portable facilities
4. Identify components of needed infrastructure and separate facilities essential for the operation of the Preserve from those that might be better located off the Preserve.
5. Maintain, improve, or remove existing infrastructure and facilities
6. Obtain insurance on essential existing buildings
7. Continue to update the Interpretive Master Plan
8. Identify the transportation and infrastructure components of other planning efforts

To accomplish these objectives, the Trust will engage a contractor for the design and construction of an improved entrance to the Preserve; engage a contractor to complete the repair of the water collection and distribution system; work with the State Historic Preservation Office (SHPO) to prepare a Programmatic Agreement between SHPO and the Trust; engage a contractor to design and build permanent sanitary facilities on the Preserve; engage a contractor to perform a historic structures assessment, documenting historic status of candidate structures and developing guidelines for maintaining such structures; initiate comprehensive transportation planning consistent with other major planning efforts; and contact commercial insurance agents to investigate the availability of loss coverage for essential infrastructure located on the Preserve. Progress toward this goal in FY2007 will be measured by achieving the following:

- Completion of the design and construction of a new entrance to the Preserve during FY2007
- Completion of Programmatic Agreement with SHPO during FY2007
- Completion of a historical structures assessment of the existing facilities and buildings during FY2007
- Preparation of annual updates to the Interpretive Master Plan

- Acquisition of insurance coverage for essential infrastructure on the Preserve during FY2007

New Main Entrance to Preserve

New Mexico Highway 4 bisects the southern part of the Preserve along the tree line on the south side of Valle Grande and serves about 1,200 vehicles per day. It is the primary route used to access the Preserve. When it was a private ranch, less than 200 vehicles per year used the entrance; currently, about 10,000 people visit the Preserve each year. The Preserve has designated parking for about 200 vehicles and some events use all those spaces.

Road conditions at the entrance do not meet Mexico Department of Transportation (NMDOT) standards. Using Federal Highways Administration funds, the Trust awarded a $1.26 million contract to design and construct a safe and ascetically pleasing entrance to the Preserve. The Trust worked with the USFS, New Mexico Department of Transportation and private contractors to design the new entrance. The project footprint is just under 12-acres; eight acres are on the Preserve and four acres are in the NM Highway 4 easement under the jurisdiction of NMDOT. The primary improvements are: 1) widening NM Highway 4 to add turning and bypass lanes, 2) earthwork to improve sight distances and increase safety and 3) redesigning and relocating the main gate. Construction began in summer 2007 and most of the work was completed before winter. The remaining work, which includes asphalt mill and overlay, road striping and relocating the main gate, will be completed in 2008.

Finalize Programmatic Agreement with New Mexico State Historic Preservation Office and Advisory Council on Historic Preservation

The Trust hopes to complete a Programmatic Agreement (PA) that establishes the guidelines and procedures for the preservation of cultural resources on the Preserve. As a federal land management agency, the Trust is responsible under the National Historic Preservation Act for protecting the historic, archaeological, architectural and ethnographic resources, and landscapes; building knowledge about this historic heritage; and consulting with Indian tribes and pueblos that attach religious and cultural significance to the resources and landscapes of the Preserve. A draft of the PA is currently under review by the State Historic Preservation Office (SHPO). When the SHPO review is complete, the Trust will send the PA to the tribes and pueblos and invite them to become signatories, and will provide to the public for their comments.

Historical Assessment

Documentation of the historic structures in the Ranch Headquarters and throughout the Preserve is complete. A team of historical architects, historians and architectural preservation specialists from SWCA, Inc. evaluated 18 structures on the Preserve. The four-volume study includes an assessment of the historical significance of individual structures and provides detailed recommendations and specifications to insure that necessary repairs can occur while maintaining the historic character of the early 20th century cabins and allowing greater use of the structures for administrative, ranching and public functions.

The deferred maintenance on the 18 structures was estimated at over $830,000 in FY 2006 (Valles Caldera Trust, Report to Congress for FY 2006). Ten of these structures are considered historic, or contribute to the historic character of the Ranch Headquarters, and their deferred maintenance is estimated at $630,000 (based on FY 2006 estimates). Of the 10 structures, the Casa de Baca Lodge is the only structure that the Trust regularly uses for overnight public activities. The Trust has limited ability to generate additional income from these facilities until the capital investment is made to address deferred maintenance problems.

VALLES CALDERA TRUST
CHIEF FINANCIAL OFFICER LETTER
September 30, 2007 and 2006

Chief Financial Officer Letter

In August 2002 the Trust assumed management of the Valles Caldera National Preserve. At that time, the Trust maintained its financial accounts on the U.S. Forest Service financial system. Beginning in FY 2004 and continuing through FY 2007, the Trust transferred its financial accounts to the Oracle Federal Financial System maintained by the Department of the Interior, National Business Center. The audits of the aforementioned years were not completed until May of 2009.

Beginning in FY 2008 the Trust returned to the U.S. Forest Service financial system and now operates within a single integrated financial management system. This transition has provided the Trust timely, reliable and consistent information. During the financial review of 2007 specific audit weaknesses were uncovered and begun to be addressed and corrected. The findings in this report are procedural and do not represent erroneous transactions, malfeasance or ethical misconduct. The Trust continues to document and assess its internal controls and is working with the Forest Service in this task.

These financial statements do not constitute a complete Performance and Accountability Report in accordance with OMB Circular A-136. The Trust has expressed its strategic plans and performance measures in its "management discussion & analysis" and "annual performance report" section of this report.

Dennis Rino
Administrative Officer

Independent Auditors' Report

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To the Board of Directors of
The Valles Caldera Trust

We have audited the accompanying consolidated balance sheets of the Valles Caldera Trust (the "Trust") as of September 30, 2007 and 2006 and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the years then ended (hereinafter referred to as the "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the Trust's internal control over financial reporting, Required Supplementary Information, Required Stewardship Information and performance measures and tested the Trust's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

In our audit of Valles Caldera Trust for fiscal years 2007 and 2006, we found:

- Evidence about Accounts Receivable and Cost of Operations in the financial statements related to the Federal Highway Fund was not available for fiscal year 2006 because of limitations on the scope of our work. In addition, the Trust departed from generally accepted accounting principles by not properly matching expenses to revenue. Otherwise, we found the financial statements are presented fairly in conformity with generally accepted accounting principles,
- Material weaknesses in internal control that resulted in ineffective controls over operations, financial reporting and compliance with applicable laws and regulations,
- The Valles Caldera Trust's financial management systems did not substantially comply with the requirements of Federal Financial Management Improvement Act (FFMIA),
- Reportable noncompliance with laws and regulations we tested.

Described below are significant matters considered in performing our audit and forming our conclusions. In addition, 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 scope of our audit.

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Board of Directors of
The Valles Caldera Trust

Significant Matters

Financial Statements

The Trust could not locate supporting journal entries relating to transfers of expenses from the Trust's fund X1106 to X8083 for highway construction expenses. Funding for these expenses was provided from Federal Highway Administration monies. As a result, the Trust was unable to support which year these expenses and revenue should be recorded. During fiscal year 2006 the Trust recognized $286,833 in highway construction expenses and offsetting recipient funding.

Internal Control

Our consideration of internal control over financial reporting, Required Supplementary Information, Required Supplementary Stewardship Information and performance measures resulted in the following conditions being identified as material weaknesses:

- Trust has not obtained an audit of its financial statements since its inception in 2000 (Finding 07-14).
- The Trust had no documented policies and procedures in place (Finding 07-08).
- The Trust does not have a single integrated financial management system which processes and records financial transactions effectively and efficiently (Finding 07-05).
- The Trust was not performing necessary monitoring and reconciliation of transactions to ensure completeness and accuracy of the transactions (Finding 07-06) and did not have a process in place to ensure timely reconciliation of Fund Balance with Treasury (Finding 07-18).
- Supporting documentation for journal adjustments and disbursements could not be provided by the Trust (Finding 07-22).
- Evidence of proper review and authorization of procurements was not available (Finding 07-10). In addition, Trust personnel in charge of processing and approving payments were not ensuring all were allowable, either due to oversight or lack of training (Finding 07-13).

To the Board of Directors of
The Valles Caldera Trust

- When the Trust transferred financial accounting from NFC to NBC, it failed to correctly post prior period balances to the general ledger including assets, liabilities and beginning net position amounts (Finding 06-17).
- Adequate controls were not in place to ensure consistent recording of expenditures/disbursements to the correct budgetary and proprietary accounting periods by the applicable Budget Object Classification, Program/Project and Activity Codes. In addition, Trust personnel were not obligating funds in Oracle when the control/purchase order was awarded (Finding 07-11).
- Trust did not post property, plant and equipment (PP&E) resulting from purchase of the Preserve to the general ledger as assets. In addition, purchases not meeting the PP&E capitalization requirements were booked as assets (Finding 07-16).
- The Trust's technology systems were not substantially in compliance with FISMA (Finding 07-21).
- The Trust has not established procedures for tracking and reporting Federal Highway Fund expenditures according to the requirements of the Federal Highway Administration (Funding 07-25).

These deficiencies in internal control may adversely affect any decision by management that is based, in whole or in part, on information that is inaccurate because of the deficiencies. Unaudited financial information reported by the Trust, including budget information, also may contain misstatements resulting from these deficiencies

In addition to the material weaknesses identified above, we identified the following additional significant deficiencies considered to be significant matters that should be communicated to the entity head, OMB and the Congress:

- Cash and check payments were not processed timely and according to the requirements of Title 31 § 3302 (Finding 07-01).
- Cash, checks or credit cards were accepted without obtaining legal evidence of receipts of products or services by the customer and without a mechanism to ensure all sales are recorded (Finding 07-02).
- The Trust did not have established procedures requiring timely collection of receipts from the Visitor's Center for deposit with Treasury (Finding 07-03).

To the Board of Directors of
The Valles Caldera Trust

- There is no established procedure for billing individuals for facility rentals, grazing or contracts. Trust is not currently using an accounts receivable subsidiary ledger and is not using the Federal Bill for Collections documents to track customer receivables (Finding 07-04).
- Trust requirement for bids on procurements over $10,000 was not followed consistently by employees (Finding 07-09).
- The Trust did not provide ethics training to Board members or request conflict of interest statements from Board members or executive management (Finding 07-19).
- Procedures and key controls were not put into place to provide proper monitoring and record keeping controls over the tracking and reporting of RSI and RSSI (Finding 07-23).
- The Trust has not developed a strategic plan and performance goals that comply with the Government Performance and Results Act (Finding 07-24).

Management did not perform an evaluation of internal controls in FY2007 and provided no assurance on compliance with the Federal Manager's Financial Integrity Act (FMFIA) objectives. Therefore, the above significant deficiencies, including material weaknesses, were not identified and reported by management in the summary of FMFIA reports.

Financial Management System's Substantial Compliance with FFMIA Requirements

Our tests of compliance with the Federal Financial Management Improvement Act resulted in the following instances of financial management system non-compliance with federal financial management systems requirements, federal accounting standards, or the Standard General Ledger (SGL) at the transaction level. (Note: Instances involving significant control deficiencies were also included in the internal control section above.)

- The Trust is lacking a formal, written disaster recovery plan and it does not appear that regular restoration testing is performed or that backup tapes are rotated offsite (Finding 07-21).
- There are no policies and procedures for information technology systems and supporting processes (Finding 07-21).
- Technology administration duties are not segregated amongst the current IT staff (Finding 07-20).

To the Board of Directors of
The Valles Caldera Trust

- An independent information security consultant has not reviewed the Trust's external network connections in the past year (Finding 07-21).
- The screening process for prospective technology employees does not include credit and criminal background checks (Finding 07-21).
- IT staff are not provided training to use, support and maintain the technology systems (Finding 07-21).
- The Trust does not have a single integrated financial management system which processes and records financial events effectively and efficiently (Finding 07-05).
- Items purchased for resale were expensed to the Operating Expenses/Program Costs account rather than being maintained as inventory and included as cost of goods sold upon sale or upon use in the provision of a service (Finding 07-15).
- Trust did not post PP&E resulting from purchase of the Preserve to the general ledger as assets. In addition, purchases not meeting the PP&E capitalization requirements were booked as assets (Finding 07-16).
- When Trust transferred financial accounting from NFC to NBC, it failed to correctly post prior period balances to the general ledger including assets, liabilities and beginning net position amounts (Finding 07-17).
- The Trust did not have procedures and key controls in place to provide proper monitoring and record keeping over the compilation and tracking of RSI and RSSI (Finding 07-23).
- Adequate controls were not in place to ensure consistent recording of expenditures/disbursements to the correct budgetary and proprietary accounting periods by the applicable Budget Object Classification, Program/Project and Activity Codes. In addition, Trust personnel were not obligating funds in Oracle when the control/purchase order was awarded (Finding 07-11).

To the Board of Directors of
The Valles Caldera Trust

Compliance with Laws and Regulations

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- Management did not test and certify compliance with Federal Manager's Financial Integrity Act of 1982 (FMFIA) (Finding 07-20).
- The Trust did not consistently obligate transactions as required by Appropriations Law (Finding 07-11).
- The Trust did not have controls in place to ensure transactions were recorded to the correct fund/appropriation (Finding 07-11).
- The Trust has not developed a strategic plan and performance goals that comply with the Government Performance and Results Act as required by the Valles Caldera Preservation Act of 2000 (Finding 07-24).
- The Trust personnel in charge of processing payments were not processing payments according to Prompt Payment Act requirements (Finding 07-12).

Management did not perform an evaluation of its systems and provided no assurance of compliance with objectives of FMFIA. Therefore, the above instances of non-compliance were not identified and reported by management in the summary of FMFIA reports.

Opinion on Financial Statements

Because of the limitation on the scope of our work described in the Financial Statements section above, we cannot determine if the financial statements' presentation of highway construction expenses and offsetting recipient funding and the related transfers of expenses between funds X1106 to X8083 in fiscal year 2006 is free of material misstatement. Otherwise, except for the departure from U.S. generally accepted accounting principles described above, the financial statements including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, Valles Caldera Trust's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations as of September 20, 2007 and 2006 and for the years then ended.

To the Board of Directors of
The Valles Caldera Trust

Consideration on Internal Control

In planning and performing our audit, we considered the Trust's internal control over financial reporting and compliance. We do not express an opinion on internal control over financial reporting and compliance because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. However our work identified the need to improve certain internal controls as described above. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Trust'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 Trust's financial statements that is more than inconsequential will not be prevented or detected by the Trust's internal control over financial reporting. Of these weaknesses we found 12 that we consider material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Trust's internal control. Our internal control work would not necessarily disclose all material weaknesses.

Systems' Compliance with FFMIA Requirements

Our work disclosed instances, as described above, in which the Trust's financial management systems did not substantially comply with federal financial management systems requirements, federal accounting standards and the U.S. Government Standard General Ledger at the transaction level.

Compliance with Laws and Regulations

Except as noted above, our tests for compliance with selected provisions of laws and regulations disclosed no other 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.

To the Board of Directors of
The Valles Caldera Trust

Consistency of Other Information

Management's Discussion and Analysis, required supplementary information (including stewardship information), and other accompanying information 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 the Trust's officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

Objectives, Scope, and Methodology

Management is responsible for (1) preparing the financial statements in conformity with generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of Federal Manager's Financial Integrity Act are met, (3) ensuring the Trust's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether the Trust's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Accountability Report.

To the Board of Directors of
The Valles Caldera Trust

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of 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 Management's Discussion and Analysis of the Accountability Report, (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act, (7) tested whether the Trust's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of the following laws and regulations:

- Valles Caldera Preservation Act of 2000
- Antideficiency Act – 31 U.S.C. 1341, 1342, 1514, 1517
- Prompt Payment Act, 31 U.S.C 3901 et seq.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, 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. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Trust. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2007 and 2006. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

To the Board of Directors of
The Valles Caldera Trust

Our work on FFMIA would not necessarily disclose all instances of lack of substantial compliance with FFMIA requirements.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. We considered the limitation on the scope of our work in forming our conclusions.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Trust concurred with the facts and conclusions in our report.

Moss Adams LLP

Albuquerque, New Mexico
April 19, 2009

VALLES CALDERA TRUST
CONSOLIDATED BALANCE SHEETS
as of
September 30, 2007 and 2006
(in dollars)

	2007	2006
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 3,670,320	3,311,241
Accounts receivable (Note 3)	-	1,110,241
Total intragovernmental	3,670,320	4,421,482
General property, plant and equipment, net (Note 4)	925,487	980,588
Total assets	$ 4,595,807	5,402,070
Liabilities (Note 6):		
Intragovernmental:		
Accounts payable	$ -	-
Other (Note 6)	12,164	12,151
Total intragovernmental	12,164	12,151
Accounts payable	6,703	125,883
Other	182,266	162,861
Total liabilities	$ 201,133	300,895
Commitments and contingencies (Note 16)		
Net position:		
Unexpended appropriations – earmarked funds	$ -	-
Unexpended appropriations – other funds	1,956,216	1,463,849
Cumulative results of operations – earmarked funds	2,273,629	2,755,046
Cumulative results of operations – other funds	164,829	882,280
Total net position	4,394,674	5,101,175
Total liabilities and net position	$ 4,595,807	5,402,070

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2007 and 2006
(in dollars)

	2007	2006
Program costs:		
Total Gross costs (Note 13)	$ 3,852,227	3,947,364
Less: Earned revenues not attributed to programs	754,428	656,973
Net Cost of operations	$ 3,097,799	3,290,391

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended
September 30, 2007 and 2006
(In dollars)

	FY2007			FY2006		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning balances	$ 2,755,046	$ 882,280	$ 3,637,326	$ 1,214,611	$ 964,554	$ 2,179,165
Adjustments:						
Changes in Accounting Principles (Note: 1P)	(1,108,702)	-	(1,108,702)	-	-	-
Beginning balance, as adjusted	1,646,344	882,280	2,528,624	1,214,611	964,554	2,179,165
Budgetary Financing Sources:						
Other adjustments	-	-	-	-	-	-
Appropriations used	-	3,007,633	3,007,633	-	3,680,813	3,680,813
Transfers in/out without reimbursement	-	-	-	1,067,739	-	1,067,739
Other	-	-	-	-	-	-
Other Financing Sources (Non-Exchange):						
Donations and forfeitures of property	-	-	-	-	-	-
Imputed financing	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total financing sources	-	3,007,633	3,007,633	1,067,739	3,680,813	4,748,552
Less: Net cost of operations	627,285	(3,725,084)	(3,097,799)	472,696	(3,763,087)	(3,290,391)
Net change	627,285	(717,451)	(90,166)	1,540,435	(82,274)	1,458,161
Cumulative Results of Operations	**2,273,629**	**164,829**	**2,438,458**	**2,755,046**	**882,280**	**3,637,326**
Unexpended Appropriations:						
Beginning balance	-	1,463,849	1,463,849	-	70,432	70,432
Adjustments:						
Corrections of errors	-	-	-	-	-	-
Beginning Balance, as adjusted	-	1,463,849	1,463,849	-	70,432	70,432
Budgetary Financing Sources:						
Appropriations received	-	4,177,419	4,177,419	-	5,074,231	5,074,231
Appropriations transferred in	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Appropriations used	-	(3,685,052)	(3,685,052)	-	(3,680,814)	(3,680,814)
				-	-	
Total budgetary financing sources	-	492,367	492,367	-	1,393,417	1,393,417
Total unexpended appropriations	-	1,956,216	1,956,216	-	1,463,849	1,463,849
Net position	$ **2,273,629**	$ **2,121,045**	$ **4,394,674**	$ 2,755,046	$ 2,346,129	$ **5,101,175**

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
COMBINED STATEMENTS OF BUDGETARY RESOURCES (page 1 of 2)
For the Years Ended
September 30, 2007 and 2006
(in dollars)

		2007	2006
Unobligated balance, brought forward, October 1:	$	1,842,180	617,116
Recoveries of prior year unpaid obligations		-	-
Budget authority		-	-
Appropriation		4,254,429	5,731,204
Total budgetary resources	$	6,096,609	6,348,320
Obligations incurred:			
Direct	$	3,401,799	4,506,140
Reimbursable		-	-
Subtotal		3,401,799	4,506,140
Unobligated (overobligated) balance:			
Apportioned		852,630	1,225,064
Exempt from apportionment		-	-
Subtotal		852,630	1,225,064
Unobligated balance not available		1,842,180	617,116
Total status of budgetary resources	$	6,096,609	6,348,320

See Notes to the Consolidated and Combined Financial Statements.

VALLES CALDERA TRUST
COMBINED STATEMENTS OF BUDGETARY RESOURCES (page 2 of 2)
For the Years Ended
September 30, 2007 and 2006
(in dollars)

	2007	2006
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 1,469,063	423,019
Uncollected customer payments from Federal sources, brought forward, October 1	-	-
Total unpaid obligated balance, net	1,469,063	423,019
Obligations incurred, net	3,401,799	4,506,140
Gross outlays	(3,895,350)	(3,460,096)
Obligated balance transferred, net		
Actual transfers, unpaid obligations	-	-
Actual transfers, uncollected customer payments from Federal sources	-	-
Total Unpaid obligated balance transferred, net	-	-
Recoveries of prior year unpaid	-	-
Change in uncollected customer payments	-	-
Obligated balance, net, end of period		
Unpaid obligations	975,512	1,469,063
Uncollected customer payments from Federal sources	-	-
Total, unpaid obligated balance, net, end of period	$ 975,512	1,469,063
Net Outlays:		
Gross outlays	$ 3,895,350	3,460,096
Offsetting collections	-	-
Distributed offsetting receipts	(754,429)	(656,973)
Net outlays	$ 3,140,921	2,803,123

See Notes to the Consolidated and Combined Financial Statements.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity. The Valles Caldera Trust (the Trust), an executive agency, is a wholly-owned government corporation established by Congress in 2000 through enactment of the Valles Caldera Preservation Act of 2000 (P.L. 106-248). The Trust's mission is to:

- Protect and preserve for future generations the scientific, scenic, historic, and natural values of the Baca ranch, including rivers and ecosystems and archaeological, geological, and cultural resources; and recreational values of the Valles Caldera National Preserve (Preserve).
- Manage public use, access to and the occupancy of the Preserve.
- Establish a demonstration area for an experimental management regime adapted to this unique property which incorporates elements of public and private administration in order to promote long term financial sustainability.
- Provide for multiple use and sustained yield of renewable resources within the Preserve.
- Strive to achieve a financially self-sustaining operation within 15 full fiscal years of the date of acquisition.
- Meet public safety standards applicable to units of the National Forest System and the State of New Mexico.

From 2000 to August 2002, the financial activity of the Trust and the Preserve's 88,900 acres of land and related buildings were managed by the U.S. Department of Agriculture's Forest Service until the Trust could be organized. The Valles Caldera Preservation Act of 2000 (Public Law 106-248) which created the Trust provided significant operational latitude in staffing, contracting, leasing and the retention of revenues. The Trust manages Preserve operations and leasing functions through a combination of direct staffing and contracting. From its inception through fiscal year 2003, the Trust maintained its financial accounts on the Forest Service's financial system. However, in 2003, the Board decided to obtain an independent financial system for the Trust. The Trust contracted for financial services on the Oracle Federal Financial System managed by the Interior's national Business Center – an option the Trust considered to be more cost-effective than developing a system in-house. Beginning with fiscal year 2004, the Trust maintains its financial information on that system.

The Trust was established as a wholly-owned government corporation of the federal government. Authority is vested in a nine-member Board of Directors. The President of the United States appoints seven members of the Board. Five of the seven must be residents of New Mexico. Members are selected for their expertise in defined areas and serve a four-year term. In addition, the Supervisor of the Santa Fe National Forest and

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the Superintendent of Bandelier National Monument serve as voting members on the board.

Board members may serve up to eight consecutive years. The Trust shall become a financially self-sustaining operation within 15 full fiscal years of the date of the Baca ranch acquisition and shall terminate after 20 full fiscal years after the acquisition, if an extension is not approved and granted.

B. Basis of Presentation. The financial statements have been prepared to report the financial position, net cost of operations, changes in net position and status and availability of budgetary resources of the Trust. The statements were prepared from, and are fully supported by, the books and records of the Trust in accordance with the hierarchy of accounting principles generally accepted in the United States of America (GAAP), and the form and content specified by the Office of Management and Budget (OMB) in OMB Circular A-136 *Financial Reporting Requirements.* GAAP for federal entities is the standard proscribed by the Federal Accounting Standards Advisory Board (FASAB), designated by the American Institute of Certified Public Accountants (AICPA) as the official accounting standards setting body of the Federal government.

The financial statements include the Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources, and were prepared to report the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity of the trust. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise dollar amounts are presented in dollars.

C. Basis of Accounting. The Trust accounts for its assets, liabilities, net position, revenues, expenses, and other financing sources in accordance with the requirements of the U.S. Government Standard General Ledger (SGL). Use of sub-accounts allows transactions to be recorded at a more detailed level and provides relevant management information.

While the statements are on an accrual basis, transactions are recorded using both the accrual and a budgetary basis of accounting. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to the payment of cash. Under the budgetary method, expenses are recognized when cash is outlayed. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over the use of federal funds.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Balance Sheet. The consolidated balance sheets present amounts of future economic benefits owned or managed by the Trust (assets), amounts owed (liabilities), and amounts which comprise the difference (net position). The major components are described below.

Assets include assets that the Trust manages and has the authority to use in its operations.

Liabilities represent amounts owed by the Trust as the result of transactions that have occurred. Liabilities funded by available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation or borrowing authority. Liabilities not covered by budgetary resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. The Trust recognizes such liabilities for employee annual leave earned but not yet taken.

Net Position is composed of unexpended appropriations and cumulative results of operations and contains the following components:

Unexpended Appropriations are funds appropriated by Congress to the Trust that are still available for expenditure at the end of the fiscal year and include the portion of the Trust's appropriations for undelivered orders and unobligated balances.

Cumulative Results of Operations represent the net results of operations of financing sources and expenses since the inception of the program.

Statement of Net Cost. The Consolidated Statement of Net Cost shows the components of the net cost of the Trust's operations for the periods.

Program/Activity Costs represent the gross costs or expenses incurred by the Trust for all activities.

Earned Revenues or exchange revenues arise when a Government entity provides goods and services to the public or to another Government entity for a fee.

Net Cost of Operations is the difference between the program's gross costs and its related exchange revenues.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Changes in Net Position. The Consolidated Statement of Changes in Net Position shows the net cost of operations less financing sources other than exchange revenues, and the net position at the end of each period. Major components are described below.

Financing Sources (Other than Exchange Revenues) arise primarily from exercise of the Government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties). These include appropriations used, transfers of assets from other Government entities, donations, and imputed financing.

Appropriations used for financial statement purposes are recognized as a financing source as expenses are incurred.

Statement of Budgetary Resources. The Combined Statement of Budgetary Resources provides information about the availability of budgetary resources as well as their status at the end of the year. Major components are described below.

Budget Authority represents the funds available through appropriations, direct spending authority, obligation limitations, unobligated balances at the beginning of the period or transferred in during the period, spending authority from offsetting collections, and any adjustments to budgetary authority.

Obligations Incurred consists of expended authority, recoveries of prior year obligations and the change in undelivered orders.

D. Use of Estimates in Preparing Financial Statements. Preparation of financial statements in accordance with federal accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, financing sources and expenses during the reporting period. Actual results may differ from such estimates.

E. Accounts Receivable. Intragovernmental accounts receivable represent amounts due under agreements with Federal entities for services provided by the Trust. An allowance for receivables deemed uncollectible is not established for these amounts because monies due from other Federal entities are considered fully collectable.

Non-intragovernmental accounts receivable owed to the Trust include rental or unpaid fees due the Trust that were not collected as of the end of the fiscal year. An allowance for uncollectible accounts receivable from the public is established when management determines that collection is unlikely to occur considering the debtor's ability to pay and

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

failure of collection efforts, or an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

F. Property and Equipment, Net. The Trust, as part of the National Forest System, follows the United States Department of Interior accounting policies for property and equipment. These policies require that all land and interest in that land acquired for or in connection with other general PP&E be capitalized, regardless of the value, cost or purchase price and that internal use software costing $100,000 or more be capitalized. In addition, all other real or personal property and equipment with original cost of $25,000 or more and an estimated useful life of two or more years should be capitalized.

G. Advances and Prepaid Charges. Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expense when the related goods and services are received.

H. Accounts Payable and Other Liabilities. The Trust records as liabilities all amounts to others as a direct result of transactions or events that have occurred. Accounts payable and other liabilities represent amounts due to both Federal and non-federal entities for goods and services received by the Trust, but not paid at the end of the fiscal year.

I. Accrued Annual Leave. Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current year pay rates and leave balances. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Sick leave and other types of non-vested leave are expensed when used and, in accordance with Federal requirements, no accruals are recorded for unused sick leave.

J. Retirement Benefits. The Trust's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by Public Law 99-335. Pursuant to this law, most employees hired after December 31, 1983 are covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to elect whether they desired to participate in FERS (with Social Security coverage) or remain in CSRS.

For employees covered by CSRS, the Trust contributes seven percent of their gross pay towards their retirement benefits. For those employees covered by FERS the Trust contributes 10.7 percent of their gross pay towards retirement. Employees are also allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FERS, the Trust contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional four percent of pay, for a maximum Trust contribution amounting to five percent of pay. Employees under CSRS may participate in the TSP, but will not receive automatic or matching contributions.

During fiscal year 2007 and 2006, the Trust made retirement contributions of $6,824 and $6,685 to CSRS; $90,439 and $80,239 to FERS; and $35,964 and $26,378 to TSP, respectively.

The Trust recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the Trust for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The Trust recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

The Trust does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

K. Revenues and Other Financing Sources. Congress enacts annual, multi-year and no-year appropriations to be used, within statutory limits, for operating and capital expenditures. Appropriations are recognized as a financing source when expended. Appropriations expensed for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

Non-appropriated revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

L. Actuarial FECA Liability. The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease.

Claims incurred for benefits for Trust employees under FECA are administered by the Department of Labor (DOL) and later billed to the Trust. The Trust's actuarial liability for workers' compensation includes any incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Trust incurred no FECA liabilities during fiscal years 2007 and 2006.

M. Imputed Costs/Financing Sources. Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The Trust did not recognize imputed costs and financing sources in fiscal years 2007 and 2006 as they were not formally assessed to them and were not anticipated to be significant if assessed in the future.

N. Contingencies. The Trust can be party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Trust. In the opinion of the Trust's management and legal counsel, there are no proceedings, actions or claims outstanding or threatened, which would materially impact the Trust's financial statements.

O. Intra-governmental Relationships and Transactions. In the course of its operations, the Trust has relationships and financial transactions with numerous federal agencies.

Department of the Interior (DOI) – National Business Center. An interagency agreement exists between the Trust and the DOI where the Trust contracted for financial services on the Oracle Federal Financial System managed by the Department of the Interior's National Business Center – an option the Trust considered to be more cost-effective than developing a system in-house. Beginning with fiscal year 2004, the Trust maintains its financial information on that system. The Trust disbursed $225,504 and $249,644 to DOI in 2006 and 2007, respectively.

Department of the Treasury – Fund Balance with Treasury. The Trust does not maintain cash in commercial bank accounts. Rather, the Trust's funds are maintained in Treasury accounts. The Department of the Treasury processes all cash receipts and disbursements for the Trust. The Fund Balances with Treasury represent no-year funds, which are maintained in appropriated funds that are available to pay current and future commitments.

Federal Highway Administration. The Federal Highway Administration provides appropriations to the Trust to assist in the up keep and maintenance of unrestricted public access roads within the Trust boundaries.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USDA Forest Service. The USDA Forest Service provides appropriations to assist the Trust in maintaining general Trust operations and provides personnel as needed through interagency agreements to assist in the management of trust lands. The Trust disbursed $196,303 and $425,725 to USDA Forest Service in 2007 and 2006, respectively.

GSA Fleet. The Trust also disbursed $142,396 and $143,292 to GSA Fleet in 2007 and 2006, respectively for vehicle leases.

Los Amigos de Valles Caldera. Los Amigos de Valles Caldera (Los Amigos) is a non-profit 501(c)(3) group formed by the board of trustees in FY2006 which supports the Preserve through outreach, education, restoration, and collaboration. Los Amigos board of directors is comprised of ex-trustees and members of local non-government organizations.

P. Parent/Child Reporting Requirements. The Trust is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocations transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charges to this allocation account as they execute the delegated activity on behalf of the parent entity. Effective October 1, 2006, in accordance with OMB Circular A-136, all financial activity related to these allocations transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Trust received one transfer allocation in FY2006, as the child in a parent-child relationship, from the appropriation of the Federal Highway Administration.

Parent Agency	Treasury Symbol Name
FHA	Federal-Aid Highways (Liquidation of Contract Authorization), Federal Highway Administration

Previous to October 1, 2006, only the budgetary activity related to allocation transfers was required to be reported in the parent entity's financial statements. As a result of the accounting change, the beginning balances of cumulative results of operations as of October 1, 2006 were reduced on a net basis by $1,108,702 on the Consolidated Statement of Changes in Net Position. There was no effect to unexpended appropriations.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Earmarked Funds. The Valles Caldera Trust reports the earmarked funds for which it has program management responsibility, using the following three criteria:

- A statute committing the Federal government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Federal government's general revenues.

NOTE 2. FUND BALANCE WITH TREASURY

The U.S. Treasury accounts for all U.S. Government funds on an overall consolidated basis. The Fund Balance with Treasury line items on the Balance Sheet for fiscal years 2007 and 2006 consisted of amounts presented in the following table:

	FY2007	FY2006
Fund Balances		
Appropriated Funds	$ 1,396,691	$ 1,664,897
Special Funds	2,273,629	1,646,344
Total:	$ 3,670,320	$ 3,311,241
Status of Fund Balance with Treasury		
Un-obligated balance		
Available	$ 2,694,808	$ 1,842,178
Unavailable	-	-
Obligated balances not yet disbursed	975,512	1,469,063
Total:	$ 3,670,320	$ 3,311,241

NOTE 3. ACCOUNTS RECEIVABLE, NET

As of September 30, 2006 the trust had $1,110,241 in intragovernmental accounts receivable. This receivable resulted from transfer of Highway Fund authority from the Federal Highway Administration (FWHA) of the U.S. Department of Transportation. While the authority to spend these funds was granted via appropriation act, the funds are not actually transferred to the Trust until they are actually needed for disbursement. Obligated amounts which have not been disbursed at year-end remain as an intragovernmental accounts receivable.

Due to a change in accounting principles (Note: 1P), there were no intragovernmental receivables reflected on the financial statements as of September 30, 2007.

The Trust had no non-intergovernmental advances or accounts receivables as of September 30, 2007 and 2006, respectively.

NOTE 4. GENERAL PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment (PPE) includes fixed assets owned by the Trust as the result of purchases by the Trust and/or transfers from other governmental entities, primarily USDA. In general, the Trust capitalizes fixed assets valued in excess of $25,000 and with a useful life of 2 or more years. These assets are depreciated over their useful lives in accordance with Trust guidelines.

As of September 30, 2007

	Estimated Useful Life in Years	Cost	Accumulated Depreciation	Book Value
PPE being depreciated				
Buildings and improvements	5 to 40	$ 1,092,871	(279,411)	813,460
Water system	10 to 15	186,715	(74,688)	112,027
Total		1,279,586	(354,099)	925,487
Total PPE		$ 1,279,586	(354,099)	925,487

NOTE 4. GENERAL PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of September 30, 2006

	Estimated Useful Life in Years	Cost	Accumulated Depreciation	Book Value
PPE being depreciated				
Buildings and improvements	5 to 40	$ 1,092,871	(242,982)	849,889
Water system	10 to 15	186,715	(56,016)	130,699
Total		1,279,586	(298,998)	980,588
Total PPE		$ 1,279,586	(298,998)	980,588

Specific Trust capitalization and depreciation guidelines are as follows:

1. Buildings, Improvements and Related Renovations and Rehabilitations useful life of 40 years or less for improvements and renovations depending on remaining building life.

2. Assets Under Capital Lease are amortized based on the Trust's depreciation policy. Other Property, Plant and Equipment's estimated useful life is also based on the Trust's capitalization and depreciation policy.

Additionally, the Trust capitalizes expenditures for improvements to infrastructure and buildings based upon the following criteria:

- costs exceed $25,000 at inception;
- are not considered to be repairs and maintenance;
- extend the useful life of the building for at least 2 years.

Construction-in-Progress may include not only direct costs, but also an assigned indirect cost component, including architectural fees and legal expenses.

Land is considered to be general PPE and, in accordance with SFFAS number 6, is to be recorded at cost. The land comprising the Trust was acquired under the Valles Caldera Preservation Act of 2000 and stewardship management responsibility was transferred to the Trust in 2002. As such, no cost can be affixed to the land and land rights.

The Trust determines depreciation and amortization using straight-line methodology. For financial statement purposes, a pro-rated share of depreciation expense for the asset is recorded in the year of acquisition or project completion depending on the month of acquisition.

NOTE 5. STEWARDSHIP LANDS

The Trust was entrusted with certain resources and certain stewardship responsibilities. These resources and responsibilities are required to be referenced in the Trust Balance Sheets and are described below in accordance with SFFAS Number 29, Heritage Assets and Stewardship Land, which was effective in fiscal year 2007 and 2006.

Stewardship Property, Plant and Equipment (SPPE) - SPPE are assets, the physical properties of which resemble those of the general PPE that is traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. SPPE includes heritage assets and stewardship land.

The mission of the Trust is to: provide management and administrative services for the Preserve; establish and implement management policies which will best achieve the purpose and requirements of the Act; to receive and collect funds from private and public sources and to make dispositions in support of the management and administration of the Preserve; and cooperate with Federal, State and local governmental units, and with Indian tribes and Pueblos, to further the purposes for which the Preserve was established.

To achieve its mission, the Trust has established an annual plan that encompasses Preserve goals. These goals include: protect and preserve for future generations the scientific, scenic, historic, and natural values of the Baca ranch, including rivers and ecosystems and archaeological, geological, and cultural resources and recreational values of the Preserve; manage public use, access to and the occupancy of the Preserve; establish a demonstration area for an experimental management regime adapted to this unique property which incorporates elements of public and private administration in order to promote long term financial sustainability; provide multiple use and sustained yield of renewable resources within the Preserve; achieve a financially self-sustaining operation within 15 full fiscal years of the date of acquisition; and meet public safety standards applicable to units of the National Forest System and the State of New Mexico.

The Trust has assets consisting of the Baca Ranch which is required to be maintained as a working ranch under the Valles Caldera Preservation Act of 2000.

NOTE 6. LIABILITIES

The accrued liabilities of the Trust are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to quarter-end but were not paid as of year-end. Similarly, payroll accruals represent payroll expenses that were incurred prior to quarter-end but were not paid as of year-end.

NOTE 6. LIABILITIES (CONTINUED)

Schedule of Liabilities as of September 30:

	2007	2006
Payroll Taxes Payable	$ 12,164	12,151
Total Intra-governmental	12,164	12,151
Accounts Payable	6,703	125,883
Payroll Accrual	61,380	57,408
Unfunded Leave	120,886	105,453
Total Liabilities	$ 201,133	300,895

NOTE 7. FEDERAL EMPLOYEE BENEFITS

Federal Employees' Compensation Act Liabilities: Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of workers' compensation benefits that have accrued to employees but have not yet been paid by the Valles Caldera Trust.

Workers' compensation benefits include the current and expected future liability for death, disability, medical and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the U.S. Department of Agriculture as a whole, including the Valles Caldera Trust. The Trust is billed annually as its claims are paid to the DOL. Payments to the DOL are deferred for two years so that the bills may be funded though the budget. Payments to the DOL are also recognized as an expense when billed and recorded in the Statements of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable for intra-governmental Federal employee benefits and Federal employee benefits as of September 30, 2007 and 2006 was less than $1,000 and deemed not significant enough for accrual.

NOTE 8. RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES ON THE BALANCE SHEET AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS.

The change in liabilities not covered by budgetary resources should be the same as the change in components requiring or generating resources in future periods, except for other components requiring or generating resources in future periods that are reported separately. The components requiring or generating resources in future periods as reported in Note 14 differ from the components requiring or generating resources in future periods reflected below for the portion of liabilities not covered by budgetary resources.

	2007	2006
Current year liabilities not covered by budgetary resources	$ 120,886	105,453
Less: Prior year liabilities	105,453	75,995
Net increase (decrease) in liabilities not covered by budgetary resources	(15,433)	29,458
Add back FY 2007 net decreases in Annual Leave Liability	15,433	-
Gross increase in liabilities not covered by budgetary resources	-	29,458
Less: increase in exchange revenue receivable from the public	-	-
Components requiring or generating resources in future Periods, as reported on Note 14	$ -	29,458

NOTE 9. OBLIGATION UNDER OPERATING LEASE

The Trust occupies office space under a lease agreement that is accounted for as an operating lease. The lease term began on May 1, 2006 and expires on May 1, 2008, with the renewal rights for month to month. Monthly lease payments are $6,000. As of September 30, 2007 there were seven months remaining on this lease. Guaranteed future minimum lease payments as of September 30, 2007 were $42,000.

NOTE 10. SECURITY DEPOSITS

The Trust collects security deposits from the residential tenants and also collects security deposits from certain non-residential leases managed by the Trust.

NOTE 11. EARMARKED FUNDS

In accordance with SFFAS 27, Identifying and Reporting Earmarked Funds, the Trust administers certain earmarked funds. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These funds are used for the administration, preservation, and related expenses incurred with respect to the Preserve. Donations are handled on a cash basis and all other collections are accounted for on an accrual basis. The Trust has program management responsibility for the following fund which is authorized by specific legislative acts as a permanent indefinite appropriation.

Treasury Account Symbol and Title
5363 Valles Caldera Fund

Financial information for the significant earmarked fund, identified by total asset value, is shown below:

Earmarked Fund
As of and for the year ended September 30:
(in millions)

	2007	2006
Assets		
Fund Balance with Treasury	$ 2,273,629	2,755,046
Total Assets	2,273,629	2,755,046
Total Liabilities		
Total Net Position	2,273,629	2,755,046
Total Liabilities and Net Position	2,273,629	2,755,046
Change in Net Position		
Beginning Balances	2,755,046	1,995,517
Change in Accounting Principles (Note 1P)	(1,108,702)	-
Beginning Balance, as adjusted	1,646,344	1,995,517
Revenue	719,188	759,529
Expenses	(91,903)	-
Net Cost of Operations	627,285	759,529
Ending Balances	$2,273,629	2,755,046

NOTE 12. UNEXPENDED APPROPRIATIONS

Net position represents unexpended appropriations consisting of undelivered orders, as well as unobligated funds and cumulative results of operations:

	September 30, 2007	2006
Cumulative Results of Operations	$ 2,438,458	3,637,324
Total Unexpended Appropriations	1,956,216	1,463,851
	$ 4,394,674	5,101,175

There are no additional undelivered orders related to budgetary resources other than appropriated funds.

NOTE 13. PROGRAM COSTS BY OBJECT CLASS

The following illustrates program costs by responsibility segment for the years ended September 30, 2007 and 2006:

	September 30, 2007	2006
Personnel compensation	$1,477,771	$1,242,480
Personnel benefits	314,878	277,586
Benefits for former personnel	-	3,398
Travel and transportation of persons	36,292	74,456
Transportation of things	8,495	2,467
Rental, communication, and utilities	191,234	190,475
Printing and reproduction	1,123	17,007
Other Services	1,564,042	1,867,060
Supplies and materials	156,716	200,650
Equipment	87,603	62,961
Land and Structures	581	5,610
Other	13,492	3,214
Total Program Costs	$ 3,852,227	$ 3,947,364

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The Office of Management and Budget usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories by a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as Category B.

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED (CONTINUED)

The funds on quarterly apportionment are National Forest System (12X1106), Valles Caldera Fund (12X5363) and Federal Highways (12X8083). Presented below is the amount of direct and reimbursable obligations incurred by apportionment category for fiscal years 2007 and 2006.

For the year ended September 30, 2007

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred – Direct	$3,401,799	-	3,401,799
Obligations Incurred – Reimbursable	-	-	-
Total Obligations Incurred	$3,401,799	-	3,401,799

For the year ended September 30, 2006

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred – Direct	$4,506,140	-	4,506,140
Obligations Incurred – Reimbursable	-	-	-
Total Obligations Incurred	$4,506,140	-	4,506,140

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

This note is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. The purpose is to explain how budgetary resources obligated during the period on the Statement of Budgetary Resources relate to the net cost of operations on the Statement of Net Cost. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING) (CONTINUED)

Obligations incurred are amounts of new orders places, contracts awarded, services received and other similar transactions during the period that will require payments during the same or a future period. A deduction is needed for spending authority from offsetting collections and recoveries of prior period obligations to determine total resources used to finance activities.

Non-budgetary resources represent the net amount of resources received by the entity that are not included in the budgetary resources. These items could include donations of assets, transfers of assets from (to) other federal entities, and financing imputed from cost subsidies.

Resources that do not fund net cost of operations are primarily (a) the change in amount of goods, services, and benefits ordered but not yet received or provided, (b) amounts provided in the current reporting period that fund costs incurred in prior years, and (c) amounts incurred for goods or services that have been capitalized on the balance sheet.

Costs that do not require resources are most commonly the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations).

Financing sources yet to be provided are the financing amounts needed in a future period to cover cost incurred in the current period.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING) (CONTINUED)

Resources used to finance activities:		
Budgetary resources obligated		
Obligations incurred	$ 3,417,232	4,506,140
Less: spending authority from offsetting collections and recoveries	-	-
Obligations net of offsetting collections and recoveries	3,417,232	4,506,140
Less: offsetting receipts	754,428	656,973
Net obligations	2,662,804	3,849,168
Other resources		
Transfers in without reimbursement	-	1,067,739
Total resources used to finance activities	2,662,804	4,916,906
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	379,894	(1,711,074)
Total resources used to finance items not part of the net cost of operations	379,894	(1,711,074)
Total resources used to finance the net cost of operations	3,042,698	3,205,832
Components of the net cost of operations that will not Require or generate resources in the current period:		
Components requiring or generating resources in future periods:		
Increase in annual leave liability	-	29,458
Total components of net cost of operations that will require or generate resources in future periods	-	29,458
Components not Requiring or Generating Resources:		
Depreciation and amortization	55,101	55,101
Total components of Net Cost of Operations that Will not require or generate resources	55,101	55,101
Total components of Net Cost of Operations that Will not require or generate resources in the current period	55,101	84,559
Net Cost of Operations	$ 3,097,799	3,290,391

NOTE 16. COMMITMENTS AND CONTINGENCIES

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Trust recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. The Trust discloses contingent liabilities in the note to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made for the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the Trust for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

VALLES CALDERA TRUST
SCHEDULE OF FINDINGS
Year Ended September 30, 2007 and 2006

Finding: 07-01 Timing of Receipts and Deposits, and Classification

CONDITION

Cash and check payments are not provided timely to Trust for deposit into Treasury. Instead, the cash and check payments are deposited into the Public Lands Interpretive Association's (PLIA) account and PLIA periodically issues a check to VCT for funds received on their behalf. The PLIA check is deposited by VCT staff and, normally applied to hunting program Budget Object Classification (BOC), program and activity codes since a detailed breakdown is not available from PLIA.

CAUSE

The VCT contract with PLIA allows PLIA to collect funds for the Trust. However, it does not provide a specific time period or means of forwarding the funds to VCT or Treasury. It also does not provide proper supporting documentation to the receipts. In addition, PLIA enters the receipt information directly into the VCT Website, without review by VCT staff.

CRITERIA

According to Section 106(h) (1) of the Valles Caldera Preservation Act of 2000, Section 3302 of Title 31 is applicable to the Trust. Section 3302(a) requires an official or agent having custody or possession of public money to keep the money safe without lending the money, using the money, depositing the money in a bank; and exchanging the money for other amounts. Section 3302(b) requires an official or agent receiving money for the Government to deposit the money in the Treasury as soon as practicable without deduction for any charge or claim. In addition, money deposited pursuant to this subsection shall be deposited not later than the third day after the custodian receives the money.

EFFECT

Funds are not deposited into Treasury in a timely manner and receipts are not properly posted at the BOC, program, project and activity levels as required by the Office of Management and Budget (OMB).

Finding: 07-01 Timing of Receipts and Deposits, and Classification (Continued)

RECOMMENDATION

We recommend that the PLIA contract be modified to allow for timely deposit of funds into Treasury and that necessary documentation be provided when funds are forwarded from PLIA to VCT to allow for proper posting into the general ledger by VCT staff. In addition, we recommend that VCT reconcile receipts entered into the VCT website to the Pay.gov and Treasury systems to ensure all receipts are accounted for. Discrepancies should be promptly researched and corrected.

MANAGEMENT'S RESPONSE

In September 2008, a modification to the participating agreement with PLIA was executed. This modification states that PLIA will only accept credit card payments on behalf of VCT. Those credit card payments are entered into the VCT website and collected through Pay.gov.

Beginning October 1, 2007, VCT transitioned to a new accounting system through the Forest Service. Since that time, VCT has been reconciling VCT website receipts to Pay.gov and Treasury systems. Funds are being deposited into Treasury in a timely manner and receipts are properly posted at the BOC, program, project and activity levels as required by the Office of Management and Budget (OMB).

Finding: 07-02 Cash Receipts Supporting Documentation

CONDITION

The recreation assistant at the Preserve accepts cash, checks or credit cards for purchases at the Visitor's Center without issuing a receipt of products or services to the customer and without a mechanism to ensure all sales are recorded. Cash, check and credit card receipts are hand-written on an Inventory and Activity Sales sheet with the date, recreation assistant name or initials, the activity or inventory item sold, number of items sold or number of participants, whether the participant is an adult, senior or child. The Inventory and Activity Sales sheet is not numbered and does not provide enough information to identify individual items sold (e.g., inventory numbers, item description, etc.) In addition, at the end of each day, the recreation assistant retains $60 starting cash in the cash box for the next day, attaches the remaining cash, checks and credit card slips to the sales sheet and puts them in the safe. There is no supervisory review or reconciliation between the items sold and the amount received to ensure all sales have been accounted for.

CAUSE

Procedures and key controls have not been put into place to provide proper segregation of duties, monitoring, and safeguarding of assets at the Visitor's Center.

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 requires internal accounting and administrative controls of each executive agency be established to provide reasonable assurances that funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.

EFFECT

If not addressed, the control deficiencies could potentially lead to loss and irregularities that may not be detected.

RECOMMENDATION

We recommend that VCT begin issuing numbered receipts for each sale which include information specific to the sale including for merchandise, the item description and number (if available) and for services, the date the service is provided (i.e., the date access will be provided to the Preserve). These receipts should be reviewed by the recreation supervisor on a daily basis and compared to the cash, checks and credit cards received. Discrepancies should be researched and reconciled in a timely manner.

Finding: 07-02 Cash Receipts Supporting Documentation (Continued)

MANAGEMENT'S RESPONSE

In August of 2008, VCT began issuing numbered receipts for each sale which include specific information to the sale. Collections are being reviewed on a weekly basis and discrepancies have been researched and reconciled in a timely manner.

VCT purchased a cash register for the Jemez Springs Visitor Center in 2008. In FY09, VCT is purchasing cash registers for the Valle Grande Visitor Center and inventory software to streamline the process.

Finding: 07-03 Cash Receipts Deposit Procedures

CONDITION

The recreation supervisor does not remove the sales sheets and payments from the safe on a daily basis and deliver them to the Administration Building for processing.

CAUSE

VCT does not have established procedures requiring timely collection of receipts from the Visitor's Center by the Recreation Supervisor.

CRITERIA

Per Treasury requirements, deposits over $5,000 must be made daily. If receipts are less than $5,000, deposits can be held until they reach $5,000. However, regardless of deposit size, deposits must be made by Thursday of each week.

EFFECT

VCT is not in compliance with Treasury requirements for deposits. In addition, the payments made at the Visitor's Center consist of cash, checks and credit cards. If checks and credit cards are not processed in a timely manner, there is an increased risk that collection of funds will not be possible.

RECOMMENDATION

We recommend receipts collected at the Visitor's Center be counted by the recreation supervisor each day the Visitor's Center is open and delivered to the Administrative Office in time to meet Treasury requirements for deposit.

MANAGEMENT'S RESPONSE

Valles Caldera Board of Trustees approved a Collection Officer Policy on June 13, 2008. The policy was implemented in August 2008. Procedures have been established and training conducted for Collection Officers and supervisors. VCT is now in compliance with Treasury requirements for deposits.

Finding: 07-04 Invoices Being Prepared

CONDITION

There is no established procedure for billing individuals for facility rentals, grazing or contracts. In the past, there have been instances where manual invoices were generated and mailed to the customer after the allotted time period per the Treasury Financial Manual. These invoices were in the form of a letter and were not numbered, making tracking difficult.

CAUSE

VCT is not currently using an accounts receivable subsidiary ledger and is not using the Federal Bill for Collections documents to track customer receivables.

CRITERIA

Per the Treasury Financial Manual, agencies responsible for the preparation of invoices to individuals and organizations outside the U.S. Government will ensure that an invoice, for either an actual or estimated amount, is prepared and mailed within 5 business days after the day goods have been shipped or released, services have been rendered, or payment is otherwise due. Invoices should include a payment due date no more than 30 days from the date of the invoice, unless otherwise provided by law.

EFFECT

In addition to non-compliance with the Treasury Financial Manual requirements, collections on goods or services delivered to VCT customers may not occur in a timely manner, if they occur at all. Also, VCT accounts receivable account may not be correctly stated in the general ledger or on the trial balance.

RECOMMENDATION

VCT establish and document procedures for accounts receivable functions including billing customers, collections and valuation.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established procedures for billings and collections.

Finding: 07-05 Financial Management System and Reporting Process (Material Weakness)

CONDITION

The Valles Caldera Trust does not have a single integrated financial management system which processes and records financial events effectively and efficiently to provide complete, timely, reliable and consistent information for decision makers and the public. Significant adjustments and reconciliation efforts were required during the audits to comply with internal and external reporting requirements.

CAUSE

The Trust has not reviewed its financial management systems for compliance. In addition, policies and procedures have not been established and implemented to ensure that financial management systems meet OMB Circular A-127 requirements for integration.

CRITERIA

Per the requirements of OMB Circular A-127, "financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public". "Systems shall provide complete, reliable, consistent, timely and useful financial management information on Federal government operations to enable...agencies...to carry out their fiduciary responsibilities; deter fraud, waste, and abuse of Federal government resources, and facilitate efficient and effective delivery of programs through relating financial consequences to program performance."

As defined by the circular, "financial systems support the financial functions required to track financial events, provide financial information significant to the financial management of the agency, and/or required for the preparation of financial statements. A financial system encompasses automated and manual processes, procedures, controls, data, hardware, software and support personnel dedicated to the operation and maintenance of system functions."

EFFECT

The Valles Caldera Trust is not in compliance with the requirements of OMB Circular A-127 to have a single, integrated financial management system. This deficiency, if not addressed, could result in an increased risk that information reported by the Trust in their financial statements and other reports will not be complete, reliable, consistent and useful.

Finding: 07-05 Financial Management System and Reporting Process (Material Weakness) (Continued)

RECOMMENDATION

We recommend that the Trust review financial management systems and implement all requirements of OMB Circular A-127.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures. These procedures meet all requirements of OMB Circular A-127.

Finding: 07-06 Reconciliations (Material Weakness)

CONDITION

The Trust was not performing necessary monitoring and reconciliation of transactions wholly or partially processed by third parties to ensure completeness and accuracy of the transactions including:

- Reconciliation of website credit card purchases posted from the website to Pay.gov and then from Pay.gov to Treasury CA$HLINK reports. National Business Center (NBC) used the CA$HLINK reports from Treasury to post receipts to the Oracle system. Reconciliations of CA$HLINK reports to Oracle were also not performed.
- Reconciliation of receipts posted to Oracle by VCT staff to Treasury CA$HLINK reports.
- Reconciliation of FPPS payroll requests to Oracle disbursements or reconciliation of Oracle disbursements to Treasury CA$HLINK reports.
- Reconciliation of Oracle procurement disbursements to the applicable Treasury reports.
- Review of payroll accruals performed by NBC for the Trust for accuracy.
- Reconciliation of W-2 amounts to supporting records.

In addition, VCT was not properly monitoring the Oracle clearing accounts to ensure timely posting of transactions. The FY2007 Trial Balance provided by NBC has a balance remaining in these accounts which should have been researched and posted to the correct United States Standard General Ledger (USSGL) accounts.

CAUSE

VCT has had a high turnover of accounting staff. In addition, some accounting staff members have not been adequately trained in general accounting principles or federal accounting requirements. Since policy and procedure manuals have not been written or approved, accounting staff did not realize monitoring and reconciliation were necessary.

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 (FMFIA), requires internal controls be established to provide reasonable assurances that revenues and expenditures applicable to the agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Finding: 07-06 Reconciliations (Material Weakness) (Continued)

EFFECT

If not addressed, the control deficiencies could result in inaccurate and incomplete accounting data not being detected by VCT, as we noted there were no payroll registers or other reports that were able to be located. Further, it was noted individuals did not have the amount of vehicle usage for personal rather than Trust use included on their W-2's as income.

RECOMMENDATION

We recommend VCT design and implement procedures for adequate monitoring and timely reconciliation of accounts by VCT accounting staff.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures. ASC is preparing and submitting VCT 224 reports.

Finding: 07-07 Not Issued

Finding: 07-08 Lack of Documented Policies (Material Weakness)

CONDITION

The Valles Caldera Trust currently has no documented policies in place including, but not limited to:

- Conducting revenue functions including processing cash receipts and accounts receivable;
- Procuring goods and services including payroll functions;
- Conducting regular inventory or for monitoring cost of goods sold;
- Identifying and properly recording property, plant and equipment;
- Conducting financial close and reporting functions such as account reconciliation, posting accruals, etc.

CAUSE

Development of strong policies requires time and knowledge of an organization. The Trust has had a high turnover of staff and board members since management was turned over to the Board of Trustees in 2002. There have been many documented attempts to develop the necessary policies. However, they were never completed and approved.

CRITERIA

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government issued in 1999 states that, in implementing the standards for internal control "Management is responsible for developing the detailed policies and procedures and practices to fit their agency's operations and to ensure that they are built into and an integral part of the operations."

EFFECT

Lack of established policies may result in inadequate controls over the Trust's programs. These control deficiencies, if not addressed, could lead to potential loss, fraud and irregularities that may not be promptly detected.

Finding: 07-08 Lack of Documented Policies (Material Weakness) (Continued)

RECOMMENDATION

We recommend that management of the Trust make it a top priority to develop and finalize a set of accounting policies. Formal executed policies supports the activities of Trust personnel by ensuring consistent treatment of transactions and a smooth transition of special activities and responsibilities in the event of employee turnover or job changes.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting policies and procedures.

Finding: 07-09 Bids on Procurements

CONDITION

During our control test work, we noted there were partial billings for work completed on a purchase order, contract or agreement over $10,000 and there was no evidence of a bid process being followed in the files.

CAUSE

Trust employees failed to understand and follow the Procurement policy established by the VCT Board of Trustees. This may be due to lack of established procedures and inadequate training of employees. Also, quality reviews, as required by the policy, were not conducted by the Executive Director.

CRITERIA

The Valles Caldera Preservation Act of 2000 made it the responsibility of the Board of Trustees to establish and adopt procedures applicable to the Trust's procurement of goods and services, including the award of contracts on the basis of contractor qualifications, price, commercially reasonable buying practices, and reasonable competition.

Per the VCT Procurement Policy, "officials of the Trust who have been delegated contracting authority must establish, before making awards, that the proposed price is fair and reasonable. Comparison of offered prices received through competition may normally serve as the basis for establishing price reasonableness. Other price or cost analysis techniques may need to be used to demonstrate if the proposed cost estimate or proposed price is reasonable, especially if competition is lacking. The Trust's policy is to seek reasonable competition for its procurements.... Competition reduces the risk of having to rely on only one source for critical goods or services. The degree of competition sought will be influenced by knowledge of the marketplace and successful past performance records, with competition in most cases limited to a reasonable number of capable sources. Single source procurements over $10,000 shall be justified in a memorandum."

"The Executive Director shall conduct internal procurement quality reviews. Actions subject to review, prior to execution, include solicitations, contracts, modifications, decisions on claims, and proposed terminations."

EFFECT

The Trust was not in full compliance with Federal appropriation law and its' responsibilities for optimizing the generation of income, as defined in the Valles Caldera Preservation Act.

Finding: 07-09 Bids on Procurements (Continued)

RECOMMENDATION

We recommend the Trust design and approve procedures for their procurement processes and ensure that Trust employees with purchasing authority are fully trained in the procedures and Federal appropriation law.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

In addition, VCT has entered into an agreement with USDA, FS, Southwestern Region Acquisition Management to provide procurement counsel when requested. They have qualified experienced staff to assist us.

VCT has established procurement processes and procedures. Training on the processes was provided to employees in February 2008. In FY09, VCT will document the procurement procedures.

Finding: 07-10 Proper Authorization of Procurements (Material Weakness)

CONDITION

During our control testing we noted the following:

- documentation provided did not include a purchase order, contract or vendor file and Moss Adams was unable to identify evidence of reconciliation;
- did not have an authorizing signature on the invoice;
- The total amount paid was entered from a Statement of Differences without support documentation and the total amount paid exceeded the contract amount.

CAUSE

VCT personnel did not follow the requirements of the VCT Procurement Policy and/or the guidelines for voucher review provided by the United States Treasury.

CRITERIA

Per the VCT Procurement Policy, officials of the Trust who have been delegated contracting authority are responsible for entering into, administering, and terminating contracts, and for making related determinations and decisions with respect to procurement matters. Only procurement officials acting within the limits of their authority may make contractual commitments and changes to contracts. The only exceptions are: 1) small dollar purchases that fall within the monetary limitations established for purchase cards and blanket purchase agreements; and 2) other delegations as determined by the Executive Director.

The Treasury Financial Manual further states that effective control over disbursements requires the pre-audit and approval of vouchers before they are certified for payment. Pre-audit of vouchers should ensure:

- The required administrative authorizations for the procurement and approvals for the payment were obtained.
- The payment is permitted by law and is in accordance with the terms of the applicable agreement.
- The amount of the payment and the name of the payee are correct.
- A proper Tax payer Identification Number (TIN), or Payee ID Number, is provided for each payee.
- The payment will not be a duplication.

Finding: 07-10 Proper Authorization of Procurements (Material Weakness) (Continued)

- The goods received or the services performed were in accordance with the agreement.
- The quantities, prices, and amounts are accurate.
- Only cost effective discounts have been taken.
- All applicable deductions were made and credited to the proper account in the correct amount.
- The appropriation or fund from which the payment will be made is available for that purpose.
- Proper forms of documentation were used.
- Special certificates, if required, were furnished.

EFFECT

These control deficiencies, if not addressed, could result in a failure by the Trust to meet control objectives which ensure that disbursements are legal, proper, and correct and that disbursements are accurately recorded, reported, and reconciled in a timely and efficient manner.

RECOMMENDATION

We recommend VCT train all personnel with delegated purchasing authority in the requirements of the VCT Procurement Policy and the importance of the review and approval process for vouchers.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting policies and procedures. Payments are pre-audited by VCT procurement staff and then audited and approved by ASC accounting staff.

Finding: 07-11 Budget Reporting Requirements (Material Weakness)

CONDITION

During our control testing we noted the following:

- The funds were obligated in the wrong budget fiscal year per the invoice or other contract documents;
- All or parts of the services on the invoice were performed in a different year from the posting in the general ledger.
- Budget Object Class did not appear reasonable considering the items or services purchased.
- The Program description did not appear reasonable considering the items or services purchased.
- The Activity description did not appear reasonable considering the items or services purchased.

CAUSE

Adequate controls were not in place to ensure consistent recording of expenditures/disbursements to the correct budgetary and proprietary accounting periods by the applicable Budget Object Classification, Program/Project and Activity codes. In addition, Trust personnel were not obligating funds in Oracle when the contract/purchase order was awarded. This may be partly due to the high turnover of key employees at the Trust and lack of Federal accounting knowledge by staff.

CRITERIA

Section 1301 of Title 31 requires appropriations to be applied only to the objects for which the appropriations were made. OMB Circular A-11 Part 2, Section III defines Budget

Object Classes used to track spending by object and provides guidance for establishing program and activity codes to further ensure funds are spent in accordance with the purpose of the appropriation.

In addition, the Anti-deficiency Act requires the head of each agency to establish, by regulation, a system of administrative control of funds that:

- Restricts *both* obligation and expenditure (outlays or disbursements) from each account to the *lower of* the amount apportioned by OMB or the amount available for obligation and/or expenditure.

Finding: 07-11 Budget Reporting Requirements (Material Weakness) (Continued)

- Enables the head of the agency to identify the person(s) responsible for violating the Act.

EFFECT

VCT is not in full compliance with Federal laws governing the tracking of appropriations. There is also an increased risk that appropriations will be overspent, resulting in violation of the Anti-deficiency Act, which is subject to both administrative and penal actions.

RECOMMENDATION

We recommend VCT provide training for personnel having purchasing authority in the Federal reporting requirements for expenditures from appropriated funds and establish procedures for processing of payments including proper review by knowledgeable staff. In addition, we recommend that VCT implement appropriate document retention policies.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting policies and procedures. Obligations and payments are being processed timely. Payments are pre-audited by VCT procurement staff and then audited and approved by ASC accounting staff. VCT is following the Forest Service retention policies of financial records.

Finding: 07-12 Prompt Payment Act

CONDITION

During our internal control testing we noted the following:

- The invoice was paid more than seven days prior to the due date on the invoice and/or 30 days from the invoice receipt date (if no due date was given on the invoice);
- The invoice was paid after the due date and there was no record of interest being paid to the supplier.

CAUSE

VCT personnel in charge of processing payments were not processing invoices in a timely manner.

CRITERIA

The Prompt Payment Act requires invoices to be paid on the date the payment is due under the contract for an item or service or 30 days after a proper invoice for the amount is received, if a specific payment date is not established in the contract. If an invoice is not paid by the required payment date, the agency must pay an interest penalty to the supplier on the amount of payment due at the rate of interest established by the Secretary of the Treasury and published in the Federal Register (41 USC 611).

EFFECT

VCT is not in compliance with the requirements of the Prompt Payment Act for issuing payments in a timely manner.

RECOMMENDATION

VCT implement policies and procedures over the payment process which emphasizes the importance of making payments in a timely manner.

MANAGEMENT'S RESPONSE

Since November 2006, VCT has been processing payments in accordance with the requirements of the Prompt Payment Act.

Finding: 07-13 Use of Appropriations (Material Weakness)

CONDITION

VCT personnel in charge of processing and approving payments were not properly ensuring all were allowable, either due to oversight, or lack of training.

CAUSE

During our procurement sample review and subsequent cutoff test work, there were several instances where possible misuse of appropriated funds were identified including purchase of clothing, food and entertainment, dental and vision insurance for employees and personal use of government vehicles. In addition, there were several instances where sales tax was paid by the Trust even though the Trust is tax-exempt.

Per Section 9 of the U.S. Constitution "No money shall be drawn from the Treasury, but in consequence of Appropriations made by Law". 31 USC Section 1301(a) further states that "Appropriations shall be applied only to the object for which the appropriations were made except as otherwise provided by law". The Supreme Court, as cited in the January 2004 GAO "Principles of Federal Appropriations Law" (commonly called the Redbook), has expressed it's interpretation as follows: "The established rule is that the expenditure of public funds is proper only when authorized by Congress, not that public funds may be expended unless prohibited by Congress."

Purchase of clothing: The principle is that "every employee of the Government is required to present himself for duty properly attired according to the requirements of his position...most items of wearing apparel are considered to be the employee's personal responsibility, and not the governments (63 Comp. Gen 245, 246 (1984))".

Purchase of food/entertainment: Per the January 2004 GAO Redbook, "entertainment is essentially a personal expense even where it occurs in some business-related context. Except where specifically appropriated for, entertainment cannot normally be said to be necessary to carry out the purposes of an appropriation" (p. 4-100). In addition, "It may be stated as a general rule that appropriated funds are not available to pay subsistence or to provide free food to government employees at their official duty stations...unless specifically authorized by statute (p. 4-103)".

Use of government vehicles: CFR 41, Section 102-34.225 states that you may not use a Government motor vehicle for transportation between your residence and place of employment unless your agency authorized such use after making the necessary determination.

Finding: 07-13 Use of Appropriations (Material Weakness) (Continued)

EFFECT

These control deficiencies, if not addressed, could result in a failure by the Trust to meet control objectives which ensure that disbursements are legal, proper, and correct and that disbursements are accurately recorded, reported, and reconciled in a timely and efficient manner.

RECOMMENDATION

We recommend VCT train all personnel with delegated micro-purchasing authority in appropriation law and the requirements of the VCT Procurement Policy and the importance of retaining proper documentation for purchases.

MANAGEMENT'S RESPONSE

VCT has provided the following procurement training to the Board of Trustees and employees with requisitioning and procurement authority: Contracting Basics for COTRS, Principles of Federal Appropriation Law, Simplified Acquisition Procedures, Micro-purchaser Training, Contract Administration and VCT Procurement Policy training.

VCT has established procurement processes and procedures. Training on the processes was provided to employees in February 2008. In FY09, VCT will document the procurement procedures.

Finding: 07-14 Annual Audit and Performance Reporting (Material Weakness)

CONDITION

VCT has not had an audit performed of their financial statements since its inception in 2000 and has not included, in their annual report to Congress, the audited statements and a statement on internal account and administrative control systems to ensure compliance with *Government Management Reform Act of 1994*.

CAUSE

Due to high turnover in key management positions during FY2006, the Trust was unable to generate reliable information for audit. In addition, the key controls had not been put into place and documented as necessary for review and reporting on internal controls.

CRITERIA

Section 9105 of Title 31 requires the financial statements of Government corporations to be "audited by the Inspector General of the corporation appointed under the Inspector General Act of 1978 or under other Federal law, or by an independent external auditor, as determined by the Inspector General, or, if there is no Inspector General, by the head of the corporation". In addition, Section 9106 requires a government corporation to "submit an annual management report to the Congress not later than 180 days after the end of the Government Corporation's fiscal year". A management report under this subsection shall include a statement of financial position; a statement of operations; a statement of cash flows; a reconciliation to the budget report of the Government corporation, if applicable, and a statement on internal accounting and administrative control systems.

The *Government Management Reform Act of 1994* also requires agencies to report annually and identifies management's responsibilities, including: preparing the financial statements in conformity with accounting principles generally accepted in the United States of America; preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information; establishing and maintaining internal controls over financial reporting; and complying with laws, regulations, contracts, and grant agreements, including FFMIA.

EFFECT

The Trust is not in compliance with Title 31, Section 91 as required by the Valles Caldera Preservation Act of 2000. In addition, the risk that significant misstatements will occur is increased by management's failure to develop a strong internal control system and to provide audited statements.

Finding: 07-14 Annual Audit and Performance Reporting (Material Weakness) (Continued)

RECOMMENDATION

We recommend that VCT develop and document a strong system of internal controls and provide for an annual review of this system to be reported to Congress, according to the requirements of OMB Circular A-123. In addition, we recommend that VCT obtain an annual audit of their financial statements and submit the audited financial statements according to the requirements of OMB Circular A-136.

MANAGEMENT'S RESPONSE

VCT has contracted for financial audits of fiscal years ending September 30, 2004, 2005, 2006, 2007 and 2008.

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is adhering to the internal controls documented by ASC. The agreement requires VCT to have an audit conducted by an external, independent auditing firm for each fiscal year. VCT also agreed to be subject to periodic reviews by the ASC, B&F Internal Quality Assurance staff.

Finding: 07-15 Inventory/Cost of Goods Sold

CONDITION

Items purchased for resale were expensed to the Operating Expenses/Program Costs account rather than being maintained as inventory and included as a cost of goods sold upon sale or upon use in the provision of a service.

CAUSE

VCT does not have documented procedures for maintaining inventory for resale.

CRITERIA

Per SFFAS 3, inventory should be recognized when title passes to the purchasing entity or when the goods are delivered to the purchasing entity. Upon sale (when the title passes or the goods are delivered) or upon use in the provision of a service, the related expense shall be recognized and the cost of those goods shall be removed from inventory. In addition, inventory should be valued at either historical cost or latest acquisition cost. The inventory should be revalued periodically but at least at the end of each fiscal year.

EFFECT

Expenses are not properly matched to revenue.

RECOMMENDATION

We recommend that VCT develop and implement procedures for inventory management including monitoring.

MANAGEMENT'S RESPONSE

VCT is currently developing and implementing procedures for inventory management including monitoring. Those procedures will be documented in FY09.

Finding: 07-16 Non-Recording of Fixed Assets Acquisitions (Material Weakness)

CONDITION

VCT did not post PP&E resulting from purchase of the Preserve to the general ledger as assets. In addition, purchases not meeting the PP&E capitalization requirements were booked as assets.

CAUSE

For FY2005 and FY2006, VCT did not review purchases to determine if they met the USDA capitalization threshold. In addition, the Trust did not perform an inventory.

CRITERIA

SFFAS 6 Accounting for Property Plant and Equipment defines general property plant and equipment as "any property, plant, and equipment used in providing goods or services". The standard states that "all general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use." In addition, "depreciation expense shall be recognized on all general PP&E, except land and land rights of unlimited duration."

Further, Code of Federal Regulations § 102-84 defines requirements for an annual real property inventory. Per this sections, "agencies must report…all land, buildings, and other structures and facilities owned by the United States (including wholly-owned Federal Government corporations) throughout the world and all real property leased by the United States from private individuals, organizations, and municipal, county, State, and foreign government."

EFFECT

If asset purchases are not posted to the general ledger as required, VCT's assets for FY2005 and FY2006 could be understated. When asset purchases are instead, directly expensed, the years expenses could be overstated.

RECOMMENDATION

We recommend capitalization thresholds be developed and approved by the Trust or, at a minimum, the Trust formally adopt the capitalization thresholds set forth by the United States Department of Agriculture for its agencies. We also recommend the Trust develop and document procedures for reviewing purchases to determine if they meet capitalization thresholds, posting those assets to the general ledger and depreciating/amortizing as required. In addition, inventories of property should be conducted at least once a year.

Finding: 07-16 Non-Recording of Fixed Assets Acquisitions (Material Weakness) (Continued)

We recommend that an individual be appointed who will be responsible for tracking fixed assets and serve as a point of contact for real property inventories.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT has adopted the capitalization thresholds of USDA. VCT is working with ASC to get our fixed assets into FFIS. VCT will follow the ASC established processes and procedures for properly recording assets in FFIS. VCT Administrative Officer will be appointed as the employee responsible for tracking fixed assets and will serve as the point of contact for real property inventories.

Finding: 07-17 Roll-Forward of Beginning Net Position Balances (Material Weakness)

CONDITION

When VCT transferred financial accounting from the National Finance Center to the National Business Center, it failed to correctly post prior period balances to the general ledger including assets, liabilities and beginning net position amounts.

CAUSE

Prior to FY2004, Forest Service was processing transactions for the Trust through the National Finance Center. When the Trust began processing their own transactions through the National Business Center at the beginning of FY2004, the only amounts transferred to the new system were FY2003 ending cash balances, which NBC posted as current year transactions.

CRITERIA

According to the Federal Accounting Standards Advisory Board Concept 1, the four objectives of Federal Financial Reporting are Budgetary Integrity, Operating Performance, Stewardship and Systems and Control.

The stewardship objective states that Federal financial reporting should provide "information that helps the reader to determine whether the government's financial position improved or deteriorated over the period. Examples of information relevant to this objective include:

- The amount of assets, liabilities, and net assets (or net position);
- An analysis of government debt, its growth, and debt service requirements;
- Changes in the amount and service potential of capital assets; and
- The amount of contingent liabilities and unrecognized obligations (such as the probable cost of deposit insurance)."

FASAB Concept 1 further states that "financial reporting is the means of communicating with those who use financial information. For this communication to be effective, information in financial reports must have the basic characteristics of understandability, reliability, relevance, timeliness consistency and comparability." "To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions, or should anything be included that would likely cause the information to be misleading to the intended report user."

Finding: 07-17 Roll-Forward of Beginning Net Position Balances (Material Weakness) (Continued)

EFFECT

Beginning asset, liability and net position amounts necessary in determining the Trust's financial position at the end of FY2004 and FY2005 are missing from the Trust's current financial records. The absence of this information creates a risk that the Trust's financial statements will not correctly state the Trust's financial position and that the statements will not be reliable.

RECOMMENDATION

We recommend the Valles Caldera Trust obtain FY2003 prior period balances from Forest Service and, after validating the amounts, include them as beginning balances in the FY2004 trial balance.

MANAGEMENT'S RESPONSE

VCT has obtained the FY2003 prior period balances from Forest Service and validated the amounts. These amounts will be included as beginning balances on the FY2004 trial balance and rolled forward in FY2006 and FY2007.

Finding: 07-18 Reconciliation of Fund Balance with Treasury and Cash Transaction Differences (Material Weakness)

CONDITION

VCT did not have a process in place to ensure timely reconciliation of Fund Balance with Treasury. In our cash test work, we identified the following differences between Treasury and Oracle transaction totals:

FY2006:

	Total per Treasury	Total Per Oracle	Difference
Collections	$ 643,898.71	656,972.52	(13,073.81)
Disbursements	2,324,066.14	2,317,322.94	6,743.20
FY2006 Totals:	$ (1,680,167.43)	(1,660,350.42)	(19,817.01)

FY2007:

	Total per Treasury	Total Per Oracle	Difference
Collections	$ 620,139.84	754,428.55	(134,288.71)
Disbursements	2,322,614.48	2,380,410.12	(57,795.64)
FY2007 Totals:	$ (1,702,474.64)	(1,625,981.57)	(76,493.07)

CAUSE

The Valles Caldera Trust did not reconcile fund balance with Treasury or did not perform reconciliation of differences identified in the FMS 6652 Statement of Differences in FY2006 and FY2007.

CRITERIA

Per Chapter 3300 of the Treasury Financial Manual, "the validity of the classified receipt and disbursements data reported in the central accounts and published in the financial reports of the U.S. Government depends on the accuracy of the monthly statements of transactions submitted by all departments and agencies. The timeliness of the U.S. Government's financial reports depends on strict compliance by agencies with the FMS assigned reporting deadlines. All departments and agencies must prepare their monthly FMS 224 submissions on a priority basis to meet the reporting deadlines".

"Section II of the FMS 224 is used to distinguish disbursement transactions from collections. FMS compares the data reported by each agency's ALC with the control totals reported by the RFC's and IPAC for each ALC level and displays the results in the FMS 6652 Statement of Differences. In the month following the reporting month, agencies should correct any disclosed differences."

Finding: 07-18 Reconciliation of Fund Balance with Treasury and Cash Transaction Differences (Material Weakness) (Continued)

EFFECT

Cash and fund balances reported to Treasury and those listed in the Trust's financial statements could be misstated.

RECOMMENDATION

We recommend the Valles Caldera Trust reconcile and correct all differences identified by Treasury on a priority basis and perform timely reconciliation of fund balances held at Treasury.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. ASC is preparing and submitting VCT 224 reports. They are also reconciling and correcting all differences timely.

Finding: 07-19 Lack of Conflict of Interest Statements

CONDITION

Management, including members of the Board of Trustees, was not required to sign a conflict of interest statement. In addition, members of the Board of Trustees did not attend Federal ethics training.

CAUSE

The Valles Caldera Trust did not provide ethics training to Board members or request conflict of interest statements from Board members or executive management.

CRITERIA

Per the Valles Caldera Preservation Act, appointed trustees shall not be considered Federal employees by virtue of their membership on the Board, expect for purposes of the Federal Tort Claims Act, the Ethics in Government Act, and the provisions of chapter 11 of the title 18, United States Code.

These laws make acts such as bribery, graft and conflicts of interest illegal and require designated individuals, including those in executive level positions and those appointed to positions by the President, to file public financial disclosure reports on an annual basis.

EFFECT

Management of the Trust did not have an understanding of the Federal laws regarding ethics and conflicts of interest. This resulted in an increased risk that Federal laws would not be followed in Trust operations.

RECOMMENDATION

We recommend all management, including members of the Board of Trustees, be required to attend annual ethics training and that public financial disclosure reports are filed on an annual basis according to Office of Government Ethics (OGE) requirements.

MANAGEMENT'S RESPONSE

VCT will implement the auditor's recommendation in FY2009.

Finding: 07-20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA)

CONDITION

Based on a review of the Internal Control Components over the Trust's information technology, the following items that may impact the financial statement audit were noted:

1. Valles Caldera Trust is currently outsourcing financial processing and payroll to the National Business Center (NBC.gov) and Pay.gov, respectively. Both of these organizations are federal organizations. NBC is operated under the Dept. of Interior. NBC provides financial and business management services to agencies within the federal government. Pay.gov is a similar federal service provided by the Dept. of the Treasury. While the use of outsourced providers may be cost effective for functions outside the focus of Valles Caldera Trust, it is important that management provide oversight to the services being performed to ensure their quality, protection of proprietary information, and compliance with budget and schedule. Management did not test and certify compliance with Federal Managers' Financial Integrity Act of 1982 (FMFIA).

2. Sales orders are made using the Internet. While this can simplify the transaction process, it can also expose the organization to potential abuse and fraud, both internal and from external culprits.

3. It was noted that Technology administration duties are not segregated among the current IT staff. Currently the Chief Administrative Officer has approval and review authority of both IT and Finance. The concept of segregation of duties lies in the fact that no one person has full administrative access to a particular system. In the case of the financial system, segregation of duties suggests that no single technology staff should have exclusive administrative authority to assign access to the system. The theory is that no single person can completely compromise the system. Valles Caldera Trust should look for areas where two person controls can be implemented so that each employee can audit the work of the other.

CAUSE

The Trust's IT department is small consisting of an IT Manager and one technician. In addition, the high turnover of staff in both IT and accounting has made it difficult to establish procedures over the processing of financial information, including proper segregation of duties.

Finding: 07-20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA) (Continued)

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 (FMFIA), requires internal controls be established to provide reasonable assurances that revenues and expenditures applicable to the agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

OMB Circular A-123 Management Accountability and Control (revised 1995), further states that "management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation" and that "key duties and responsibilities in authorizing, processing, recording and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.'

EFFECT

VCT is unable to provide reliable, consistent documentation of transactions processed by third parties. In addition, the Trust is exposing themselves to greater risk of loss due to error or fraud.

RECOMMENDATION

1. For outsourced financial processing and payroll, we recommend that NBC and Pay.gov provide Valles Caldera Trust with documentation relevant to the information systems that they support including but not limited to reports of transferred data, system security and monitoring, as well as programming and maintenance related documentation such as backup and recovery of data. Management should periodically review and test system controls and annually certify compliance with Federal Managers' Financial Integrity Act of 1982 (FMFIA).

   If not already in place, written service agreements should be utilized to govern the work conducted by outside agencies. The agreements should clearly define the scope of work to be completed, the anticipated schedule, estimated budget, and any provisions for non performance. Additionally, to ensure that the work is completed as intended, the organization should conduct an annual performance review to assess that work is done within scope, on budget and schedule, conforms to the service agreement, and that the agency remains a viable business partner.

Finding: 07-20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA) (Continued)

2. To minimize any exposure from sales orders using the internet, the organization should ensure that the web sites are secured using SSL (secured socket layer) technology, tightly control who has access, and monitor transactions to identify any irregularities.

3. To provide proper segregation of duties, Valles Caldera Trust should look for areas where two person controls can be implemented so that each employee can audit the work of the other.

MANAGEMENT'S RESPONSE

1. Both the NBC and Pay.gov provide the required information. The Federal Personnel/Payroll System (FPPS) is hosted on the NBC's mainframe computer in its Data Center. The FPPS meets or exceeds all mandatory and regulatory requirements established by the President's Council on Management Improvement for Federal Automated Systems, the Paperwork Reduction Act, and the Joint Financial Management Improvement Program. Pay.gov resides within the Treasury Web Applications Infrastructure (TWAI) - a highly secure environment provided by the Federal Reserve Information Technology (FRIT) to support several enterprise-wide Treasury applications. During our FISMA audit the Trust will compile and maintain any mandated information regarding contracted systems.

2. SSL is used for our online transactions as well as those using FPPS and pay.gov.

3. The Valles Caldera Trust has provided segregation of responsibilities in financial management since October of 2007.

Finding: 07-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness)

CONDITION

Since inception, management has relied on the system controls of its service providers and has not substantially complied with FISMA. Based on a review of the Internal Control Components over the Trust's information technology and compliance with FISMA, the following differences were identified:

1. There are no policies and procedures for information technology systems and supporting processes. Policies and procedures such as user account maintenance, change management, network monitoring, and backup and data recovery provide consistent management, clear direction, protection from turnover, and standard, agreed-upon methods to address the operating platform, workstations, cabling, hardware, software, security, purchasing, data management, vendor management, and other related areas.

2. An independent information security consultant has not reviewed the Valles Caldera Trust's external network connections in the past year. Additionally, it does not appear that the firewall has undergone formal penetration and vulnerability testing in the past year. The Trust does not have a process for reviewing SAS70 reports of their service provider.

3. Valles Caldera Trust is lacking a formal, written disaster recovery plan.

4. The organization appears to take adequate steps to backup data, and store archive tapes offsite and in secure facilities. But it does not appear that regular restoration testing is performed or that backup tapes are rotated offsite. It was noted that data recovery is performed on an ad hoc basis on request.

5. It was stated that the screening process for prospective technology employees does not include credit and criminal background checks.

6. Security logs are not presently being maintained and reviewed. This practice can allow security breaches and data corruption to go undetected.

7. It was noted that IT staff are not provided training to use, support and maintain the technology systems.

Finding: 07-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

CAUSE

The Trust has not provided time or funding in its budget or made it a top priority to implement strong controls over the information technology functions. The IT staff is small, consisting of two or three individuals and they are currently responsible for all computers and the website.

CRITERIA

Section 3544 of the Federal Information Security Management Act (FISMA 44 USC) requires each agency to "develop, document and implement an agency wide information security program…to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source". Specifically, the program should include:

- Periodic assessments of the risk and magnitude of the harm;
- Policies and procedures that are based on the risk assessment;
- Subordinate plans for providing adequate information security for networks, facilities, and systems or groups of information systems, as appropriate;
- Security awareness training;
- Periodic testing and evaluation of the effectiveness of information security policies, procedures, and practices to be performed no less than annually;
- A process for planning, implementing, evaluating and documenting remedial action to address and deficiencies in the information security policies, procedures, and practices of the agency;
- Procedures for detecting, reporting and responding to security incidents;
- Plans and procedures to ensure continuity of operations for information systems that support the operations and assets of the agency.

Finding: 07-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

EFFECT

The Trust is being exposed to increased risk, specifically:

- Network access points present vulnerabilities and associated risks that could compromise critical systems on the network.
- Without a written disaster recovery plan to provide guidance, the organization may be unable to effectively manage the recovery effort.
- Valles Caldera Trust may be held liable for negligent hiring should there be business losses due to employee theft and fraud. Background screening may uncover notices of bankruptcy, liens, and judgments as well as any felony or misdemeanor filings.

RECOMMENDATION

We recommend the following:

1. Procedures such as a change management should provide for consistent documentation of the approval, development, testing, and deployment process and help ensure the expected performance of the system. Written policies and procedures for information technology systems and supporting processes should be developed and kept current to help ensure consistency and accuracy, and to protect against the unavailability of knowledgeable staff.

2. While the organization may have security expertise in-house, an independent information security consultant would provide an objective and unbiased security assessment that gives an accurate picture of Valles Caldera Trust's overall security posture. In addition to the external connections to the network, the information security consultant can test access controls, conduct penetration tests, perform vulnerability scanning, and evaluate physical security. It is recommended that a security assessment be conducted annually, and penetration testing be added to quarterly maintenance routines and that the Trust obtain and review their service providers SAS70 report.

Finding: 07-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

3. A written disaster recovery plan should be developed and be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations. It would be prudent for the organization to test the disaster recovery plan on an annual basis to ensure the viability of the plan and the timeliness of its execution. Valles Caldera Trust has an obligation to its stakeholders and the people it serves to ensure that it has a plan for continued business operations. Additionally, the disaster recovery plan should be reviewed and approved by appropriate non-technology managers. This will help ensure that the disaster recovery plan is in line with business continuity requirements. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with the organization's overall business continuity planning. Doing so will prepare Valles Caldera Trust for continuing operations in the event of an unforeseen disaster.

4. Regular restoration tests should be performed to confirm that data can be retrieved when needed. Such tests are simple to complete and can be used to identify when backup hardware and tapes have failed, if software is not configured properly, and when employees are struggling to perform appropriate backup procedures. Complete regular restoration tests, preferably at least once a month is recommended.

   In addition to secure onsite storage, backups should be rotated off-site to a heat, fire and theft resistant facility so that information is available for use in disaster recovery. Backup tapes stored onsite might melt during a fire, rendering them unusable. Backup tapes should also be replaced periodically.

5. Including credit and criminal background checks in the screening process for prospective technology employees may prevent problems that can result from prospective employees misrepresenting their backgrounds and credentials.

6. Valles Caldera Trust and its technology service providers should be reviewing security logs on a regular basis to identify potential data corruption or fraudulent activities.

Finding: 07-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

7. To ensure that technology operations are aligned with the strategic business goals of the organization and that technology investments are being maximized, it is critical that users and IT staff be given appropriate training. Staff productivity, data integrity, system performance and overall business operations are dependent on staff being able to maximize use of the systems that have been put in place by the organization. If not already being done, Valles Caldera Trust should address the training needs of the organization.

MANAGEMENT'S RESPONSE

1. The Trust is investing in Compliance Management software which will provide templates for various regulations and policies in the area of compliance, including FISMA and PCI DSS. The reporting tool accompanying the software provides NIST Security Content Automation Protocol (SCAP) validation in accordance with the OMB Federal Desktop Core Configuration (FDCC) security mandate for all Federal agencies. There are also some existing procedures for client setup and user maintenance that will be expanded upon in order to meet FISMA criteria.

2. The trust will look into having external audits, where required.

3. There is an informal contingency plan in place for the Valles Caldera Trust's main site. In order to meet FISMA requirements we will need to integrate this plan, along with a plan for the offsite server, into a formal disaster recovery plan. It will be hard to fully implement a system recovery test procedure because the Trust only maintains one main server. If the test procedure fails at that point you would have introduced the disaster you were trying to prevent. The Trust can however maintain the condition of its backup disks and whether they are functional as well as do a formal documented restore test weekly.

4. Regular restoration tests are currently performed by the IT staff. The IT Department of the Trust will begin to provide a log showing when and for what the restoration test was performed. The tape backups are stored within a transferable fireproof safe within a fireproof safe. The trust will look into appropriate measures to transport and store data offsite.

5. When appropriate background information is not available from the previous employer the Valles Caldera Trust will perform a MBI for the employee.

Finding: 07-21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness) (Continued)

6. All logs are frequently reviewed on the main server and on the off-site server as well. The trust is considering purchasing a log auditing tool in addition to the compliance management software if the log analysis is not found to be sufficient for FISMA.

7. The Valles Caldera Trust does address the training needs of the organization in many areas. One area the Trust is aware that it needs to address training for individuals in the area of communications, disaster planning, and general information officer regulations and procedures.

The Valles Caldera Trust is working with the Office of the Chief Information Officer, U. S. Forest Service to ensure that IT Staff has the appropriate training and knowledge to comply with FISMA.

Finding: 07-22 Lack of Supporting Documentation for Journal Adjustments and Disbursements (Material Weakness)

CONDITION

The trust could not locate supporting documentation for adjusting and accrual journal entries that were recorded to the financial system. Additionally, several disbursements from fiscal year 2001 to 2005 requested for testing cut-off and proper recording of assets and expenses could not be located.

CAUSE

Procedures and key controls have not been put into place to provide proper segregation of duties, monitoring, and record keeping controls over the journal and disbursement processes.

CRITERIA

The Federal Managers' Financial Integrity Act of 1982 requires internal accounting and administrative controls of each executive agency be established to provide reasonable assurances that funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.

EFFECT

If not addressed, the control deficiencies could potentially lead to loss and irregularities that may not be detected.

RECOMMENDATION

We recommend that VCT begin establishing record keeping procedures to ensure proper documentation is maintained to support each journal entry and disbursement. The journal entries should also be reviewed by a supervisor other than the preparer on a daily basis and compared to the supporting documentation to the adjustment or accrual. Discrepancies should be researched and reconciled in a timely manner.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures. VCT employees have "read only" access to FFIS. All transactions entered in FFIS are entered and approved by ASC who is retaining the documentation to support such entries. FFIS does not allow for the same individual to input and approve entries in FFIS.

Finding: 07-23 Compilation of Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI)

CONDITION

The Trust does not have adequately designed controls to ensure the consistency of information compiled and reported in its RSI and RSSI sections of the financial statements.

CAUSE

Procedures and key controls have not been put into place to provide proper monitoring, and record keeping controls over the tracking and reporting of RSI and RSSI.

CRITERIA

OMB Circular No. A-123, Management Accountability and Control, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

EFFECT

If not addressed, the control deficiencies could potentially lead to incomplete or misleading information reporting in the RSI and RSSI.

RECOMMENDATION

We recommend that the Trust incorporate controls sufficient to maintain and process appropriate data required to properly complete RSI and RSSI reporting.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures.

Finding: 07-24 Develop Performance Goals that Comply with the Government Performance and Results Act (GPRA)

CONDITION

VCT has not developed performance goals and objectives that comply with the requirements of GPRA. The information in Management's Discussion and Analysis are not sufficient to meet GPRA requirements and the data used was not always reconciled to supporting systems or original source data.

CAUSE

Due to high turnover in key management positions during FY2006, the Trust was unable to generate reliable information for audit and for performance goal monitoring and reporting. In addition, the key controls had not been put into place and documented as necessary for review and reporting on internal controls.

CRITERIA

The *Government Performance and Results Act* requires the Trust to prepare an annual performance plan covering each program activity set forth in the budget which shall include:

- Establish performance goals to define the level of performance to be achieved by a program activity;
- Express such goals in an objective, quantifiable and measurable form unless authorized to be in an alternative form;
- Briefly describe the operational processes, skills and technology and human capital information or other resources required to meet the performance goals;
- Provide a basis for comparing actual program results with the established performance goals; and
- Describe the means to be used to verify and validate measured values.

EFFECT

The Trust is not in compliance with GPRA. In addition, there is the risk that Management's Discussion and Analysis may be incomplete or misleading.

Finding: 07-24 Develop Performance Goals that Comply with the Government Performance and Results Act (GPRA) (Continued)

RECOMMENDATION

We recommend that VCT develop and document a strong system of internal controls over the process of capturing, monitoring and reporting of information under the requirements of GPRA.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures.

Finding: 07-25 Highway Fund Reporting Requirements (Material Weakness)

CONDITION

VCT has not established procedures for tracking and reporting Highway Fund expenditures according to the requirements of the Highway Administration. Specifically, we noted the following:

- The established posting logic provided by the Highway Administration was not followed;
- The Trust's highway fund spending was not reported by the Trust according to Highway Administration requirements;
- End of year closing entries were not performed by the Trust to return unspent/unobligated amounts to the Highway Fund Administration.

CAUSE

VCT personnel responsible for processing transactions were not properly trained regarding the requirements for Federal Highway funds.

CRITERIA

Per the Federal Highway Administration *Accounting Handbook for Recipient (Child) Accounts*,

- "The recipient is responsible to track the commitments and obligations of this authority in accordance with US Government Standard General Ledger (SGL) guidelines using both budgetary and proprietary accounts as appropriate".
- "At the end of each processing month…the recipient will submit a separate cumulative from the beginning of the fiscal year trial for each specific program.
- "The recipient is responsible to verify that the trial balance is in balance, displays the appropriate accounts and reflects the activity of the annual period to date."
- "The recipient is responsible to validate the authority provided is used but not exceeded."
- "The recipient will submit a properly prepared SF133 (Report on Budget Execution and Budgetary Resources).
- "Recipients are also responsible to estimate, request, control, and reconcile fund authority to cover disbursements."
- No later than the 5th workday of each month…the recipient will project the cash disbursement needs of the subsequent quarter."
- "At the end of each fiscal year, FHWA in coordination with the recipient will withdraw all unobligated authority and undisbursed cash."

Finding: 07-25 Highway Fund Reporting Requirements (Material Weakness) (Continued)

EFFECT

If controls are not in place to capture, monitor and report Highway Fund spending, the risk of material misstatements to the financial statements is increased.

RECOMMENDATION

We recommend that VCT develop and document a strong system of internal controls over the process of capturing, monitoring and reporting of spending under the requirements of the Highway Fund Administration.

MANAGEMENT'S RESPONSE

Beginning October 1, 2007, VCT transitioned to a new accounting system, Foundation Financial Information System (FFIS) in the National Finance Center through the Forest Service. VCT entered into an Interagency Agreement with USDA, FS, Albuquerque Service Center (ASC), Budget and Finance for budget and finance services. VCT is now following ASC established accounting procedures.

VALLES CALDERA TRUST
STATUS OF PRIOR YEAR FINDINGS
Year Ended September 30, 2007 and 2006

The Trust was established in 2000 through the enactment of the Valles Cladera Preservation Act of 2000 and did not obtain audits for fiscal years 2000 through 2003. The Trust first audit of fiscal years 2004, 2005 and 2006 were performed simultaneously and as such all findings identified in the 2004 audit were repeated in the 2005, 2006 and 2007 audits. The following findings remain open in fiscal year 2007:

01 Timing of Receipts and Deposits, and Classification
02 Cash Receipts Supporting Documentation
03 Cash Receipts Deposit Procedures
04 Invoices Being Prepared
05 Financial Management System and Reporting Process (Material Weakness)
06 Reconciliations (Material Weakness)
08 Lack of Documented Policies (Material Weakness)
09 Bids on Procurements
10 Proper Authorization of Procurements (Material Weakness)
11 Budget Reporting Requirements (Material Weakness)
12 Prompt Payment Act
13 Use of Appropriations
14 Annual Audit and Performance Reporting (Material Weakness)
15 Inventory/Cost of Goods Sold
16 Non-Recording of Fixed Assets Acquisitions (Material Weakness)
17 Roll-Forward of Beginning Net Position Balances (Material Weakness)
18 Reconciliation of Fund Balance with Treasury and Cash Transaction Differences (Material Weakness)
19 Lack of Conflict of Interest Statements
20 Technology System Control Compliance with Federal Managers' Financial Integrity Act (FMFIA)
21 Information Technology System Controls Not Substantially in Compliance with the Federal Information Security Management Act (FISMA) (Material Weakness)
22 Lack of Supporting Documentation for Journal Adjustments and Disbursements (Material Weakness)
23 Compilation of Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI)
24 Develop Performance Goals that Comply with the Government Performance and Results Act (GPRA)
25 Highway Fund Reporting Requirements (Material Weakness)

REQUIRED SUPPLEMENTAL INFORMATION

VALLES CALDERA TRUST
SUPPLEMENTARY INFORMATION (UNAUDITED)
Year Ended September 31, 2007 and 2006

Scheduled Intra-Governmental Assets and Liabilities as of September 30, 2007

Assets

Agency	*Accounts Receivable*	*Fund Balance with Treasury*
Department of the Treasury	$ -	$ 3,670,320
Total	$ -	$ 3,670,320

Liabilities – There were no Intra-Governmental Liabilities as of September 30, 2007

Scheduled Intra-Governmental Assets and Liabilities as of September 30, 2006

Assets

Agency	*Accounts Receivable*	*Fund Balance with Treasury*
Department of the Treasury	$ -	$ 3,311,241
Highway Funds Administration	1,110,241	-
Total	$ 1,110,241	$ 3,311,241

Liabilities – There were no Intra-Governmental Liabilities as of September 30, 2006

DEFERRED MAINTENANCE

The Trust determined that the USDAFS had deferred maintenance to many of the buildings that were transferred to the Trust. Using an Inventory Condition Assessment Program document from the USDAFS upon receipt of the property and an assessment survey by Trust personnel, the Trust determined that there is $1.2 million of deferred maintenance to buildings at the Preserve. There is no deferred maintenance for any other major class of asset.

STEWARDSHIP LAND

The Trust has stewardship responsibility to manage the approximately 95,000 acres of land purchase under the Valles Caldera Preservation Act of 2000. The Trust did not acquire any additional stewardship land in fiscal years 2007 or 2006.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

VALLES CALDERA TRUST
SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)
Year Ended September 31, 2007 and 2006

STEWARDSHIP INVESTMENTS

Research and Development

The Trust has made considerable progress in developing the preserve science program, which is organized into three broad categories: inventory, monitoring and research. In general, inventory is the assessment of the natural resources in terms of species presence and distributions, vegetation, soils, and geologic formations. Monitoring addresses temporal changes in these resources, as a result of trust operations (e.g., recreation, hunting, fishing, fire management, forest thinning, livestock grazing). Monitoring includes experimental and applied research projects undertaken by scientists associated with or permitted by the trust using outside funding sources for supporting the research work. This categorical distinction attempts to separate those research projects funded internally for specific management goals from those research projects funded externally for other purposes. The trust recognizes, however, that many of theses externally-funded projects will provide important and useful information for understanding and managing the preserve's resources.

The Trust's investment in research and development for fiscal years 2007 and 2006 was not quantifiable due to the Trust's lack of an established integrated financial management and performance system. However, the Trust's accomplishments using external funding and appropriations included the following:

- Continued efforts for developing inventory maps for geology, soils, vegetation and fauna and flora.
- Continued monitoring of livestock and wildlife (elk) grazing activities, fishing program, forest thinning program, prescribed fire program, climate and species populations.
- Continued scientific research in anthropology, archaeology, biology, ecology, wildlife science, fisheries science, range science, soil science, hydrology, climatology and geology.