



**REPORT OF
THE
STATE AUDITOR**

**STATE OF COLORADO
DEPARTMENT OF TREASURY
STATEMENT OF FEDERAL LAND
PAYMENTS**

For the Year Ended September 30, 2006

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2007 MEMBERS**

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STATE OF COLORADO

SALLY SYMANSKI, CPA
State Auditor

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Denver, Colorado 80203-2211

January 8, 2007

Members of the Legislative Audit Committee:

This report contains the results of our audit of the Statement of Federal Land Payments. This audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of state agencies and programs.

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Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Federal Land Payments of the State of Colorado for the federal fiscal year ended September 30, 2006. This Statement is the responsibility of the Colorado Governor's Office. The preparation of the report has been formally delegated to the Colorado Department of Treasury. Our responsibility is to express an opinion on this Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Federal Land Payments is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Federal Land Payments. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe our audit provides a reasonable basis for our opinion.

The Statement was prepared on the basis of cash disbursements made by the State of Colorado to qualified local governmental subdivisions thereof (i.e., counties) during the period October 1, 2005, through September 30, 2006, under 31 U.S.C. 6901 et seq. This basis of reporting federal land payments is prescribed by the U.S. Department of the Interior Rules and Regulations (43 C.F.R. 1881.0-5), and is in accordance with the provisions of the October 16, 1978, Comptroller General of the United States Decision (B-167553), and as such, the statement is not intended to be presented in conformity with generally accepted accounting principles.

In our opinion, the Statement of Federal Land Payments referred to above presents fairly, in all material respects, the federal land payments for the State of Colorado, for the federal fiscal year ended September 30, 2006, on the basis of accounting described above.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2007, on our consideration of the Colorado Governor's Office internal control over compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for filing with governmental agencies and should not be used for any other purpose.

STATEMENT OF FEDERAL LAND PAYMENTS
DURING THE PERIOD OCTOBER 1, 2005 THROUGH SEPTEMBER 30, 2006

FEDERAL AGENCY MAKING PAYMENT AND TYPE OF PAYMENT

COLORADO COUNTIES	FS/MMS TIMBER & SEC SCHLS TITLE I	USFS SECURE SCHOOLS TITLE III	FS BANKHEAD JONES	MMS/BLM MINERAL LEASING *	BLM SEC 3 TAYLOR GRAZING *	BLM SEC 15 TAYLOR GRAZING *	BLM BANKHD JONES	BLM SALE OF MATLS *	FERC PWR SALES *	FW REF REVENUE SHARING *	TOTAL	RECMDED ADJUSMNTS	RECOMDED FOR ACCEPTNCE
ADAMS COUNTY	0	0		220				0			220		220
ALAMOSA COUNTY	7,834	0		0				28			7,862		7,862
ARAPAHOE COUNTY	0	0		175				0			175		175
ARCHULETA COUNTY	93,909	16,572		49,722				1			160,204		160,204
BACA COUNTY	0	0		5,287				0			5,287		5,287
BENT COUNTY	0	0		6,064				0			6,064		6,064
BOULDER COUNTY	26,755	0		6				0			26,761		26,761
BROOMFIELD COUNTY	0	0		0				0			0		0
CHAFFEE COUNTY	12,272	0		52				230			12,554		12,554
CHEYENNE COUNTY	0	0		6,234				0			6,234		6,234
CLEAR CREEK COUNTY	182,304	34,182		0				0			216,486		216,486
CONEJOS COUNTY	86,777	0		0				7			86,784		86,784
COSTILLA COUNTY	54	0		0				0			54		54
CROWLEY COUNTY	0	0		0				0			0		0
CUSTER COUNTY	27,765	0		0				314			28,079		28,079
DELTA COUNTY	58,598	0		486,695				107			545,400		545,400
DENVER COUNTY	0	0		0				0			0		0
DOLORES COUNTY	85,659	0		537,338				27			623,024		623,024
DOUGLAS COUNTY	12,603	0		0				0			12,603		12,603
EAGLE COUNTY	431,378	87,763		4,071				353			523,565		523,565
EL PASO COUNTY	14,751	0		0				0			14,751		14,751

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ELBERT COUNTY	0	0		0				0			0		0
FREMONT COUNTY	17,090	0		0				3,525			20,615		20,615
GARFIELD COUNTY	367,957	71,323		543,750				(68)			982,962		982,962
GILPIN COUNTY	19,562	0		0				0			19,562		19,562
GRAND COUNTY	408,624	120,183		131				107			529,045		529,045
GUNNISON COUNTY	257,436	48,269		581,675				504			887,884		887,884
HINSDALE COUNTY	120,194	22,536		0				15			142,745		142,745
HUERFANO COUNTY	23,907	0		102,981				73			126,961		126,961
JACKSON COUNTY	176,050	33,009		111,110				1,577			321,746		321,746
JEFFERSON COUNTY	11,919	0		0				0			11,919		11,919
KIOWA COUNTY	0	0		10,420				0			10,420		10,420
KIT CARSON COUNTY	0	0		359				0			359		359
LA PLATA COUNTY	86,955	16,304		0				15,378			118,637		118,637
LAKE COUNTY	27,672	0		50				121			27,843		27,843
LARIMER COUNTY	104,088	19,517		1,834				30			125,469		125,469
LAS ANIMAS COUNTY	3,764	0		314,670				0			318,434		318,434
LINCOLN COUNTY	0	0		0				0			0		0
LOGAN COUNTY	0	0		3,170				0			3,170		3,170
MESA COUNTY	187,273	35,114		828,889				1,021			1,052,297		1,052,297
MINERAL COUNTY	124,393	23,323		0				229			147,945		147,945
MOFFAT COUNTY	26,654	0		543,750				1,180			571,584		571,584
MONTEZUMA COUNTY	65,821	0		543,750				45			609,616		609,616

STATEMENT OF FEDERAL LAND PAYMENTS
DURING THE PERIOD OCTOBER 1, 2005 THROUGH SEPTEMBER 30, 2006

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MONTROSE COUNTY	70,806	0		133,565				266			204,637		204,637
MORGAN COUNTY	0	0		2,286				0			2,286		2,286
OTERO COUNTY	0	0		0				0			0		0
OURAY COUNTY	28,485	0		3,724				3			32,212		32,212
PARK COUNTY	86,954	16,304		56,757				0			160,015		160,015
PHILLIPS COUNTY	0	0		945				0			945		945
PITKIN COUNTY	358,955	67,304		12,031				1			438,291		438,291
PROWERS COUNTY	0	0		850				0			850		850
PUEBLO COUNTY	5,595	0		0				0			5,595		5,595
RIO BLANCO COUNTY	190,535	44,832		543,750				1,197			780,314		780,314
RIO GRANDE COUNTY	80,878	0		4,873				5			85,756		85,756
ROUTT COUNTY	310,610	57,698		207,554				6			575,868		575,868
SAGUACHE COUNTY	211,946	39,740		644				346			252,676		252,676
SAN JUAN COUNTY	45,169	0		114				4			45,287		45,287
SAN MIGUEL COUNTY	38,583	0		588,880				517			627,980		627,980
SEDGWICK COUNTY	0	0		1,353				0			1,353		1,353
SUMMIT COUNTY	362,467	67,963		0				1			430,431		430,431
TELLER COUNTY	15,420	0		0				1			15,421		15,421
WASHINGTON COUNTY	0	0		8,571				0			8,571		8,571
WELD COUNTY	0	0		235,151				0			235,151		235,151
YUMA COUNTY	0	0		145,269				0			145,269		145,269
TOTAL	4,876,421	821,936	0	6,628,720	0	0	0	27,151	0	0	12,354,228	0	12,354,228

Department of Treasury
Notes to the Statement of Federal Land Payments
For the Federal Fiscal Year Ended September 30, 2006

- A. Although 100 percent of the Forest Service Timber receipts are distributed to counties, Section 30-29-101, Colorado Revised Statutes (C.R.S.), requires the counties to distribute at least 5 percent of amounts received to public schools in the county (See Exhibit III for statute.) In accordance with the 1978 Comptroller General's Decision (B-167553), these amounts are not considered received by the counties and, therefore, are not included in the Statement.

A total of \$6,362,941 in Timber Payments was distributed to the counties during the federal fiscal year ended September 30, 2006. Of this amount, \$664,585 was subsequently distributed by the counties to public schools. The Statement reflects the total amount received by the counties less the amounts paid to the public schools, or \$4,876,421 listed as Title I plus \$821,936 listed as Title III, per *P.L.106-393, The Secure Rural Schools and Community Self-Determination Act of 2000*.

Under P.L. 106-393 a county could elect to receive a "full" or "partial" payment. The "full" payment amount is based on the average of the three highest timber payments made between federal Fiscal Years 1986 through 1999. By electing the "full" payment, the county must set aside at minimum 15 percent, but no more than 20 percent to fund projects under Title II or Title III of the Act. The "partial" payment amount is based on the current federal fiscal year's timber sales, in which the county receives 25 percent of the generated revenue.

- Archuleta County elected the "full" payment method and Title III projects. However, the county set aside 14 percent of its "full" payment; thereby under-funding Title III projects by \$872 on the basis of amounts received during federal fiscal year ended September 30, 2006.

Under Section 30-29-101, C.R.S., the counties must distribute, at minimum 5 percent of their National Forest Service Timber receipts to the local school districts.

- Routt County has under funded its local school districts in the current and prior four federal fiscal years (2002 through 2006) by \$13,980. The following breakdown shows the under-funded amounts per federal fiscal year:

2002	\$2,741
2003	\$2,751
2004	\$2,784
2005	\$2,820
2006	\$2,884

Department of Treasury
Notes to the Statement of Federal Land Payments
For the Federal Fiscal Year Ended September 30, 2006

B. The State of Colorado did not distribute any money to counties for the following:

FS Bankhead-Jones (distribution direct to counties by U.S.F.S.)
BLM Bankhead-Jones
FERC Power Sales (general purpose funds not distributed to counties)
Fish and Wildlife Refuge Revenue Sharing

C. Section 35-45-109, C.R.S., requires the counties to deposit money received under provisions of the Taylor Grazing Act "...in a special fund to be known as the Range Improvement Fund of district no. ____." Therefore, distributions from the Taylor Grazing Act are not considered received by the counties and are not included in this Statement. (See Exhibit II for statute.)

D. The county portion of the Mineral Lease monies, totaling \$914,631, received from July through September 2005, was distributed to the counties in October 2005. This amount is included in this Statement as part of the \$6,628,720 shown as MMS/BLM Mineral Leasing payments during federal Fiscal Year 2006.

The county portion of the Mineral Lease monies, totaling \$708,391, received from July through September 2006, was distributed to the counties in October 2006. This amount will be included in the federal Fiscal Year 2007 Statement.

E. The Department of Treasury does not produce a warrant for payments under \$5.00.

Audit Findings and Recommended Adjustments

There are no audit findings or recommended adjustments related to our audit of the Statement of Federal Land Payments for the federal Fiscal Year ended September 30, 2006.

In January 2006 the Office of the State Auditor notified the Routt County Board of Commissioners that under Section 30-29-101, C.R.S., the school districts were underfunded from federal fiscal years 2002 through 2005 by a total of \$11,096. In February 2007 the Office of the State Auditor notified the Routt County Board of Commissioners that the school districts were underfunded for federal Fiscal Year 2006 in the amount of \$2,884, for a five-year total of \$13,980.

In February 2007 the office of the State Auditor notified Archuleta County Board of Commissioners that under Public Law 106-393, *The Secure Rural Schools and Community Self-Determination Act of 2000*, Title III projects were underfunded for federal Fiscal Year 2006 in the amount of \$872.

Exhibit I

Colorado Revised Statutes Title 34, Article 63 Royalties Under Federal Leasing

Section 34-63-101, C.R.S. **State treasurer to receive and distribute mineral leasing payments.** In accordance with the provisions of section 35 of the federal "Mineral Lands Leasing Act" of February 25, 1920, as amended, the state treasurer is directed to deposit and distribute any moneys now held or to be received by the state of Colorado from the United States as the state's share of sales, bonuses, royalties, and rentals of public lands within this state, for the benefit of the public schools and political subdivisions of this state and for other purposes in accordance with the provisions of sections 34-63-102 and 34-63-103.

Section 34-63-102, C.R.S. **Creation of mineral leasing fund - distribution - advisory committee.** (1)(a) On or after January 1, 1977, all moneys, including any interest earned therefrom, now held or to be received by the state treasurer pursuant to the provisions of the federal "Mineral Lands Leasing Act" of February 25, 1920, as amended, except those moneys described in section 34-63-104, shall be deposited by the state treasurer into a special fund to be known as the mineral leasing fund, which is hereby created, for use by state agencies, public schools, and political subdivisions of the state as described in this section for planning, construction, and maintenance of public facilities and for public services.

(b) In the appropriation and use of such moneys, priority shall be given to those public schools and political subdivisions socially or economically impacted by the development, processing, or energy conversion of fuels and minerals leased under said federal mineral lands leasing act.

(2) (a) Except as otherwise provided in paragraph (b) twenty-five percent of all moneys described in paragraph (a) of subsection (1) of this section together with any funds for public schools derived from the application of paragraph (b) of subsection (3) of this section shall, upon receipt, be paid into the state public school fund to be used for the support of the public schools of this state.

(b) For the purpose of repaying an additional expenditure of moneys from the state educational fund created in section 17 (4) (a) of article IX of the state constitution for the state's share of total program pursuant to article 54 of title 22, C.R.S., made for the 2001-02 fiscal year due to a projected shortfall in the amount of moneys described in paragraph (a) of subsection (1) of this section received by the state treasurer in said fiscal year, notwithstanding any provision of law to the contrary, upon receipt by the state treasurer of any moneys described in paragraph (a) of subsection (1) of this section during the 2002-03 fiscal year, of the portion of said moneys that

would otherwise be paid to the state public school fund pursuant to paragraph (a) of this subsection (2), the state treasurer shall first transfer an amount of said moneys equal to six million dollars to the state education fund created pursuant to section 17 (4) of article IX of the state constitution prior to paying said portion of moneys to the state public school fund in accordance with paragraph (a) of this subsection (2).

(3) (a) Fifty percent of all moneys described in paragraph (a) of subsection (1) of this section shall be distributed ten working days after receipt of the last monthly payment in each quarter among those respective counties of this state from which the federal leasing money is derived in proportion to the amount of said federal leasing money derived from each of the respective counties for use by said counties for the purposes described in subsection (1) of this section and for use by municipalities and school districts within said counties as provided in paragraph (c) of this subsection (3); except that no distribution under this paragraph (a) to any single county, including the amounts distributed under paragraph (c) of this subsection (3) to municipalities and school districts located therein, shall exceed one million two hundred thousand dollars in any calendar year. Unless the balance paid to the state public school fund pursuant to subparagraph (I) of paragraph (b) of this subsection (3) exceeds ten million seven hundred thousand dollars in a calendar year, distribution above two hundred thousand dollars to any single county pursuant to this paragraph (a) shall not take effect during that calendar year.

(b) (I) Any balance of said fifty percent remaining after payment to the several counties as provided in paragraph (a) of this subsection (3) shall be paid by the state treasurer, on or before the last day of December of each year, into the state public school fund and used for the support of the public schools.

(II) Commencing January 1, 1983, one-half of any balance of said fifty percent in excess of ten million one hundred thousand dollars shall be paid by the state treasurer, on or before the last day of December of each year, into the local government mineral impact fund and used in accordance with the purposes described in subsection (1) of this section.

(III) An amount equal to twenty-five percent of the balance paid to the local government mineral impact fund pursuant to subparagraph (II) of this paragraph (b) shall be distributed annually to each county, in whose unincorporated area employees of a mine or related facility from which such money is derived reside, in the same proportion that the number of such employees bears to the total number of employees of such mines and related facilities who reside in the state and to each municipality, in which employees of such facilities reside, in the same proportion that the number thereof bears to the total number of employees of such mines and related facilities who reside in the state.

(IV) Repealed.

(c) (I) Except as provided in subparagraph (II) of this paragraph (c), in each calendar year, each county shall notify the state treasurer to have at least twenty-five percent of the moneys described in paragraph (a) of this subsection (3) distributed to any school district within the county

specified by the board of county commissioners for use in accordance with the purposes described in subsection (1) of this section. Except as provided in subparagraph (II) of this paragraph (c), in each calendar year, each county shall also notify the state treasurer to have at least thirty-seven and one-half percent of that part of the moneys described in paragraph (a) of this subsection (3) that exceeds two hundred fifty thousand dollars distributed among the municipalities within the county according to the percentage that the population within each municipality bears to the total population of all municipalities located within the county. The state treasurer shall not disburse funds to a county under this subsection (3) until such notification is received. For the purposes of this paragraph (c), "population" means the most recent population estimate at the time of the distribution of the mineral leasing fund as prepared by the demographic section of the division of local government.

(II) (A) Any county may elect to have its distributions from the mineral leasing fund made pursuant to this subparagraph (II) by notifying the state treasurer, in writing, of such election. Any election for distribution pursuant to this subparagraph (II) shall be effective until withdrawn by the county but shall be for a minimum of two full calendar years following receipt by the state treasurer of the notice of election from the county. After two full calendar years, a county may withdraw the election for distribution pursuant to this subparagraph (II) and return to distribution pursuant to subparagraph (I) of this paragraph (c) by giving the state treasurer written notice of such withdrawal in addition to any notice required to be given under subparagraph (I) of this paragraph (c). However, during the first calendar year after receiving such notice of withdrawal, the state treasurer shall distribute twenty-five percent of the moneys the county would otherwise receive to the cities within the county, twenty-five percent to the school districts within the county, and transfer the remaining fifty percent to the local government mineral impact fund.

(B) For the first full calendar year following receipt by the state treasurer of notification of the county's election pursuant to sub-subparagraph (A) of this subparagraph (II), the state treasurer shall transfer the moneys each county would otherwise receive pursuant to subparagraph (I) of this paragraph (c) to the local government mineral impact fund created in subsection (5) of this section.

(C) For the second full calendar year following receipt by the state treasurer of notification of the county's election pursuant to sub-subparagraph (A) of this subparagraph (II) and for each calendar year thereafter, unless a county has withdrawn its election for distribution pursuant to this subparagraph (II), the state treasurer shall distribute to each county making such election the moneys attributable to such county as described in paragraph (a) of this subsection (3) as follows: Fifty percent to school districts within the county and fifty percent to municipalities within the county. Where more than one school district exists within a county, the distribution to each school district shall be the percentage that the most recent funded pupil count, as determined pursuant to the "Public School Finance Act of 1994", article 54 of title 22, C.R.S., for pupils enrolled in the county attributable to that school district bears to the most recent total funded pupil count for all pupils attributable to the county. Where more than one municipality exists within a county, the distribution to each municipality shall be based on population as set forth in subparagraph (I) of this paragraph (c).

(4) Ten percent of all moneys described in paragraph (a) of subsection (1) of this section shall, upon receipt, be paid into the Colorado water conservation board construction fund created by section 37-60-121, C.R.S., for appropriation by the general assembly pursuant to the provisions of section 37-60-122, C.R.S., and for use in accordance with the purposes and priorities described in subsection (1) of this section.

(5)(a)(I) The remaining fifteen percent of all moneys described in paragraph (a) of subsection (1) of this section, any moneys received pursuant to subparagraph (II) of paragraph (b) of subsection (3) of this section, and any moneys received pursuant to subparagraph (II) of paragraph (c) of subsection (3) of this section shall, upon receipt, be paid into the local government mineral impact fund, which is hereby created. The executive director of the department of local affairs shall distribute moneys from such fund pursuant to subsection (3) of this section; except that the remainder provided for in this paragraph (a) shall be distributed in accordance with the purposes and priorities described in subsection (1) of this section. Notwithstanding any other provision of this paragraph (a) to the contrary, the executive director shall distribute moneys from such fund to the uranium mill tailings remedial action program fund in accordance with the provisions of section 39-29-116(3), C.R.S.

(II) On or after July 1, 2001, all income derived from the deposit and investment of the moneys in the local government mineral impact fund shall be credited to the fund.

(b)(I) There is hereby created within the department of local affairs an energy impact assistance advisory committee. The committee shall be composed of the executive director of the department of local affairs, the executive director of the department of natural resources, the commissioner of education, the executive director of the department of transportation, and five residents of areas impacted by energy conversion or mineral resource development. The five residents shall be appointed by the governor for terms not exceeding four years to serve at the pleasure of the governor. The executive director of the department of local affairs shall act as chairman of the committee. Members of the committee shall serve without additional compensation; except that the five members from energy impact areas shall be entitled to reimbursement for actual and necessary expenses. Any member of the committee who is a state official may designate representatives of his agency to serve on the committee in his absence. The chairman shall convene the advisory committee from time to time as he deems necessary. Such advisory committee shall continuously review the existing and potential impact of the development, processing, or energy conversion of mineral and fuel resources on various areas of the state, including those areas indirectly affected, and shall make continuing recommendations to the department of local affairs, including, but not limited to, those actions deemed reasonably necessary and practicable to assist impacted areas with the problems occasioned by such development, processing, or energy conversion, the immediate and projected problems which the local governments are experiencing in providing governmental services, the extent of local tax resources available to each unit of local government, the extent of local tax effort in solving energy impacted problems, and other problems which the areas have experienced, such as housing and environmental considerations, which have developed as a direct result of energy impact.

(II) Repealed.

(c) The executive director of the department of local affairs shall file with the general assembly annually before February 1 a detailed accounting of the distribution of funds for the previous year.

(6) Repealed.

(7) No state agency or office shall expend any moneys received from the local government mineral impact fund unless such expenditure is authorized by legislative appropriation separate from the provisions of this section; except that, if the executive director of the department of local affairs with the concurrence of the governor determines that a local government emergency exists, the state agency or office may expend any moneys received from the local government mineral impact fund without further appropriation. In the event moneys are expended based on a determination that a local government emergency exists, the department of local affairs shall notify the legislative council of the expenditure.

Exhibit II

Colorado Revised Statutes Title 35, Article 45 Public Domain Range

Section 35-45-108, C.R.S. **Distribution of receipts.** (1) All moneys received by the state treasurer as the state's share of the amounts collected by the federal government under the provisions of sections 3 and 15 of the "Taylor Grazing Act", and any act amendatory thereof, and under the provisions of Public Law 136, 82nd congress, approved August 31, 1951, shall be credited to a clearing account.

(2) Moneys received under the provisions of section 3 of the "Taylor Grazing Act" which are derived from each grazing district in the state shall be paid over to the counties in which such grazing districts are located, in the proportion that the acreage of each county lying within a particular grazing district bears to the total acreage of such grazing district, as such acreages are certified by the federal agency administering such provisions.

(3) Moneys received under the provisions of section 15 of the "Taylor Grazing Act" and under the provisions of Public Law 136, 82nd congress, shall be paid over to the several counties of the state from which such moneys were derived, as certified in reports furnished by the federal agency administering said provisions.

(4) All such payments shall be calculated by the state treasurer and shall be made to the respective county treasurers during the month of September of each year.

Section 35-45-109, C.R.S. **Range improvement fund - board of district advisers.** (1) All moneys paid to the counties shall be deposited with the county treasurer in a special fund to be known as the range improvement fund of district no. _____. The county treasurer of any county in which a district is located shall be the ex officio district treasurer and custodian of moneys received and shall be liable upon his official bond for all moneys deposited in said range improvement fund. The county treasurer, as ex officio district treasurer, shall pay out such money in said range improvement fund upon the warrant of the chairman or vice-chairman of the district grazing advisory board or a board of district advisers established pursuant to subsection (2) of this section and after consultation with the district manager of the grazing district in which county the moneys were deposited. Said district grazing advisory boards are established pursuant to Public Law 94-579 (43 U.S.C. 1753) or its successor, as may be established by the secretary of the interior pursuant to the "Federal Advisory Committee Act", Public Law 92-463 (86 Stat. 770; Title 5, App.).

(2)(a) In the event that the grazing advisory boards cease to exist, the commissioner of agriculture shall establish and maintain a board of district advisers for each grazing district upon the

petition of a simple majority of the livestock lessees and permittees within the jurisdiction of the district. The function of the board of district advisers shall be to determine the use of the range improvement fund in accordance with section 35-45-110.

(b) The number of advisers on each board and the number of years an adviser may serve shall be determined by the commissioner. Each board shall consist of livestock representatives who shall be lessees or permittees in the district under the board's jurisdiction and shall be chosen by the lessees and permittees in the district through an election prescribed by the commissioner. Each board of district advisers shall meet at least once annually.

Exhibit III

Colorado Revised Statutes Title 30, Article 29 Apportionment of Federal Moneys from Public Lands

Section 30-29-101, C.R.S. **Receipts from national forests.** (1) All moneys received by the state treasurer from federal government under provisions of the act of congress of May 23, 1908, as amended, relating to receipts from national forests, shall be credited to a clearing account.

(2) During the month of September of each year, the state treasurer shall pay over the moneys specified in subsection (1) of this section to the treasurers of the several counties of the state in which national forests are located, on the basis of the acreage of national forest land located in each county and in accordance with information provided by the appropriate agency of the federal government as to source and amount.

(3) The boards of county commissioners of the counties receiving the payments specified in subsection (2) of this section shall allocate the amount thereof between the county road and bridge fund and the public schools in the county, but not less than five percent of the amount received annually shall ever be allocated for either purpose. If there is more than one school district in the county, the amount allocated to each district shall be in the proportion which its pupil enrollment during the preceding school year bears to the aggregate pupil enrollment in all districts in the county during said preceding school year.



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January 8, 2007

Independent Auditor's Report on Compliance and Other Matters on Internal Control Over Financial Reporting Based on an Audit of the Statement of Federal Land Payments Performed in Accordance With *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the Statement of Federal Land Payments of the State of Colorado, as of and for the federal fiscal year ended September 30, 2006, and have issued our report thereon dated January 8, 2007. This Statement is the responsibility of the Colorado Governor's Office. The preparation of the report has been formally delegated to the Colorado Department of Treasury. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Colorado's Statement of Federal Land Payments is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Colorado Governor's Office and the Colorado Department of Treasury's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Federal Land Payments and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Statement of Federal Land Payments being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



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January 8, 2007

Independent Auditor's Report on Compliance with Requirements Applicable to Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133

Members of the Legislative Audit Committee:

Compliance

We have audited the compliance of the State of Colorado with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to the major federal programs related to the Statement of Federal Land Payments for the federal fiscal year ended September 30, 2006. The State of Colorado's major federal programs are identified in the summary of auditor's results section of the *State of Colorado Statewide Single Audit* for the year ended June 30, 2006. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal programs related to the Statement is the responsibility of the Colorado Governor's Office. The preparation of the report has been formally delegated to the Colorado Department of Treasury. Our responsibility is to express an opinion on the State of Colorado's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Colorado's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Colorado's compliance with those requirements.

In our opinion, the State of Colorado complied, in all material respects, with the requirements referred to above that are applicable to the major federal programs related to the Statement of Federal Land Payments for the federal fiscal year ended September 30, 2006.

Internal Control Over Compliance

The management of the Colorado Governor's Office and the Colorado Department of Treasury are responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs related to the Statement of Federal Land Payments. In planning and performing our audit, we considered the Colorado Governor's Office and the Colorado Department of Treasury's internal controls over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB *Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting this report.

Report Control Number 1845