

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
TRUST FUNDS FINANCIAL STATEMENTS
and
SUPPLEMENTARY RESTORATION PROJECTS INFORMATION
Fiscal Years 2005 and 2004
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789-3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITORS' REPORT

Members, *Exxon Valdez* Oil Spill Trustee Council,
Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council Trust Funds, Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the year ended June 30, 2005 and nine months ended June 30, 2004, and the Natural Resource Damage Assessment and Restoration Fund (NRDA&R) as of September 30, 2005 and 2004 as listed in the accompanying table of contents. These financial statements are the responsibility of the *Exxon Valdez* Oil Spill Trustee Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards of the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the financial presentation for the State of Alaska, *Exxon Valdez* Oil Spill Investment Fund (Investment Fund) is of the Investment Fund only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

As discussed in Note 2, the financial presentation for the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R) is of the amounts related to the *Exxon Valdez* Oil Spill Trustee Council only and is not intended to present the financial position of NRDA&R or the U.S. Department of Interior Fish and Wildlife Service and the results of their operations, in conformity with generally accepted accounting principles of the United States.

As discussed in Note 2, the financial presentation for the State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust (Settlement Trust) is of the Settlement Trust only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

As discussed in Note 2, the financial statements for NRDA&R are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles of the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of NRDA&R as of September 30, 2005 and 2004 and the results of operations for the years then ended on the basis of accounting described in Note 2 for NRDA&R and the financial position of the

Investment Fund and Settlement Trust as of June 30, 2005 and 2004, and the results of their operations for the year ended June 30, 2005 and the nine months ended June 30, 2004, in conformity with generally accepted accounting principles of the United States for the Investment Fund and Settlement Trust.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 3, 2006, on our consideration of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations and contracts.

A handwritten signature in black ink, consisting of the letters 'ERM' in a stylized, cursive font.

March 3, 2006

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
 STATE OF ALASKA - *EXXON VALDEZ* OIL SPILL INVESTMENT FUND
 (An Agency Fund of the State of Alaska)
 BALANCE SHEETS
 June 30, 2005 and 2004

	2005				2004			
	Research	Habitat	Koniag	Total	Research	Habitat	Koniag	Total
ASSETS:								
Cash and Investments	\$107,212,639	\$ 32,410,855	\$ 39,526,068	\$179,149,562	\$104,073,092	\$ 29,860,198	\$ 36,821,857	\$170,755,147
Interest Receivable	-	-	-	-	5	-	-	5
Total Assets	<u>\$107,212,639</u>	<u>\$ 32,410,855</u>	<u>\$ 39,526,068</u>	<u>\$179,149,562</u>	<u>\$104,073,097</u>	<u>\$ 29,860,198</u>	<u>\$ 36,821,857</u>	<u>\$170,755,152</u>
LIABILITIES:								
Accounts Payable	\$ 54,309	\$ 15,470	\$ 19,254	\$ 89,033	\$ 16,976	\$ 4,779	\$ 5,834	\$ 27,589
Assets Held in Custody by the State of Alaska	<u>107,158,330</u>	<u>32,395,385</u>	<u>39,506,814</u>	<u>179,060,529</u>	<u>104,056,121</u>	<u>29,855,419</u>	<u>36,816,023</u>	<u>170,727,563</u>
Total Liabilities	<u>\$107,212,639</u>	<u>\$ 32,410,855</u>	<u>\$ 39,526,068</u>	<u>\$179,149,562</u>	<u>\$104,073,097</u>	<u>\$ 29,860,198</u>	<u>\$ 36,821,857</u>	<u>\$170,755,152</u>

The accompanying notes to trust fund financial statements are an integral part of this statement.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
STATE OF ALASKA - EXXON VALDEZ OIL SPILL INVESTMENT FUND
(An Agency Fund of the State of Alaska)
STATEMENTS OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
For the Year Ended June 30, 2005 and Nine Months Ended June 30, 2004

	2005				2004			
	Research	Habitat	Koniag	Total	Research	Habitat	Koniag	Total
Additions:								
Interest and investment loss	\$ 8,521,712	\$ 2,578,071	\$ 3,128,022	\$ 14,227,805	\$ 9,868,956	\$ 2,818,861	\$ 3,430,618	\$ 16,118,435
Total Additions	8,521,712	2,578,071	3,128,022	14,227,805	9,868,956	2,818,861	3,430,618	16,118,435
Deductions:								
State of Alaska								
Exxon Valdez Oil Spill Settlement Trust	2,665,727	12,400	-	2,678,127	3,718,347	10,355	-	3,728,702
Investment management fees	87,952	25,705	31,644	145,301	66,388	18,685	22,845	107,918
United States Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund	2,665,824	-	405,587	3,071,411	2,269,655	157,152	372,100	2,798,907
Total Deductions	5,419,503	38,105	437,231	5,894,839	6,054,390	186,192	394,945	6,635,527
Net Increase in Assets	3,102,209	2,539,966	2,690,791	8,332,966	3,814,566	2,632,669	3,035,673	9,482,908
Assets Held in Custody by the State of Alaska, Beginning of Year	104,056,121	29,855,419	36,816,023	170,727,563	100,241,555	27,222,750	33,780,350	161,244,655
Assets Held in Custody by the State of Alaska, End of Year	<u>\$107,158,330</u>	<u>\$ 32,395,385</u>	<u>\$ 39,506,814</u>	<u>\$179,060,529</u>	<u>\$104,056,121</u>	<u>\$ 29,855,419</u>	<u>\$ 36,816,023</u>	<u>\$170,727,563</u>

The accompanying notes to trust fund financial statements are an integral part of this statement.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
 UNITED STATES DEPARTMENT OF THE INTERIOR,
 FISH AND WILDLIFE SERVICE
 NATURAL RESOURCES DAMAGE ASSESSMENT
 AND RESTORATION FUND
 STATEMENTS OF ASSETS, LIABILITIES AND TRUST FUND
 BALANCE ARISING FROM CASH TRANSACTIONS
 September 30, 2005 and 2004

ASSETS:	<u>2005</u>	<u>2004</u>
Cash and Investments	<u>\$ 1,898,521</u>	<u>\$ 3,089,704</u>
Total Assets	<u><u>\$ 1,898,521</u></u>	<u><u>\$ 3,089,704</u></u>
LIABILITIES AND FUND BALANCE:		
Liabilities	\$ -	\$ -
Trust Fund Balance	<u>1,898,521</u>	<u>3,089,704</u>
Total Liabilities and Trust Fund Balance	<u><u>\$ 1,898,521</u></u>	<u><u>\$ 3,089,704</u></u>

The accompanying notes to trust fund financial statements are an integral part of this statement.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
 UNITED STATES DEPARTMENT OF THE INTERIOR,
 FISH AND WILDLIFE SERVICE
 NATURAL RESOURCES DAMAGE ASSESSMENT
 AND RESTORATION FUND
 STATEMENTS OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN TRUST FUND BALANCE
 For the Fiscal Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Receipts:		
Contributions :		
<i>Exxon Valdez</i> Oil Spill Investment Fund	\$ 1,874,347	\$ 5,710,420
Unobligated Balances Returned to NRDA&R:		
U.S. Department of Interior:		
United States Geological Survey	41,442	-
Investment Income	<u>36,926</u>	<u>12,639</u>
Total Receipts	<u>1,952,715</u>	<u>5,723,059</u>
Disbursements:		
U.S. Department of Interior:		
Fish and Wildlife Service	612,289	813,469
United States Geological Survey	1,015,802	650,916
Office of the Secretary	24,500	19,600
U.S. Department of Agriculture, United States		
Forest Service	2,000	-
U.S. Department of Commerce, National Oceanic		
and Atmospheric Administration	<u>1,489,307</u>	<u>1,372,421</u>
Total Disbursements	<u>3,143,898</u>	<u>2,856,406</u>
Excess (Deficiency) of Receipts Over Disbursements	(1,191,183)	2,866,653
Trust Fund Balance, Beginning of Year	<u>3,089,704</u>	<u>223,051</u>
Trust Fund Balance, End of Year	<u><u>\$ 1,898,521</u></u>	<u><u>\$ 3,089,704</u></u>

The accompanying notes to trust fund financial statements are an integral part of this statement.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
STATE OF ALASKA - *EXXON VALDEZ* OIL SPILL SETTLEMENT TRUST
(A special Revenue Fund of the State of Alaska)

BALANCE SHEETS
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS:		
Cash and investments	\$ 4,791,096	\$ 7,169,435
Accounts receivable	330,131	15,250
Securities lending collateral	<u>40,966</u>	<u>-</u>
Total Assets	<u>\$ 5,162,193</u>	<u>\$ 7,184,685</u>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts payable	\$ 311,167	\$ 259,520
Obligations under securities lending	40,966	-
Due to State of Alaska General Fund	<u>185,650</u>	<u>125,490</u>
Total Liabilities	<u>537,783</u>	<u>385,010</u>
Fund Balances:		
Reserved for Encumbrances	835,828	3,074,383
Unreserved	<u>3,788,582</u>	<u>3,725,292</u>
Total Fund Balance	<u>4,624,410</u>	<u>6,799,675</u>
Total Liabilities and Fund Balance	<u>\$ 5,162,193</u>	<u>\$ 7,184,685</u>

The accompanying notes to trust fund financial statements are an integral part of this statement.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
STATE OF ALASKA - *EXXON VALDEZ* OIL SPILL SETTLEMENT TRUST
(A Special Revenue Fund of the State of Alaska)

STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

For the Year Ended June 30, 2005 and Nine Months Ended June 30, 2004

Revenues:	2005	2004
Contributions - State of Alaska		
<i>Exxon Valdez</i> Investment Fund	\$ 2,678,127	\$ 5,627,422
Interest and Investment Income	185,440	46,736
Federal grants in aid	822,000	-
Total Revenues	<u>3,685,567</u>	<u>5,674,158</u>
Expenditures:		
Current Operating:		
Natural Resources Damage Assessment and Restoration Projects - Alaska		
Department of Fish and Game	3,343,074	3,214,423
Department of Environmental Conservation	377,211	430,283
Department of Law	607,156	-
	<u>4,327,441</u>	<u>3,644,706</u>
Capital Outlay:		
Research Infrastructure Improvements - Alaska		
Department of Fish & Game	238,081	374,276
Department of Environmental Conservation	545,310	13,152
Department of Natural Resources	-	-
Land Acquisitions - Alaska		
Department of Natural Resources	750,000	-
	<u>1,533,391</u>	<u>387,428</u>
Total Expenditures	<u>5,860,832</u>	<u>4,032,134</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,175,265)	1,642,024
Fund Balance, Beginning of Year	6,799,675	5,157,651
Fund Balance, End of Year	<u>\$ 4,624,410</u>	<u>\$ 6,799,675</u>

The accompanying notes to trust fund financial statements are an integral part of this statement.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2005 and Nine Months Ended June 30, 2004 (State Funds)
Fiscal Years Ended September 30, 2005 and 2004 (NRDA&R)

1. EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

Formation of the Exxon Valdez Oil Spill Trustee Council

The United States of America (United States) and the State of Alaska (State) entered into a Memorandum of Agreement and Consent Decree (MOA) on August 28, 1991. The MOA was made to maximize the funds available for restoration of natural resources and to resolve the governments' claims against one another relating to the T/V *Exxon Valdez* Oil Spill (Oil Spill), which occurred on the night of March 23-24, 1989 in Prince William Sound, Alaska. Upon entering into the MOA, the United States and the State believed that the terms of the MOA were in the public interest and would best enable them to fulfill their duties as trustees to assess injuries and to restore, replace, rehabilitate, enhance, or acquire the equivalent of the natural resources injured, lost, or destroyed as a result of the Oil Spill.

Pursuant to the MOA and federal laws, the United States and State act as co-trustees in the collection and joint use of all natural resource damage recoveries for the benefit of natural resources injured, lost or destroyed as a result of the Oil Spill. To manage the co-trustee relationship, the *Exxon Valdez* Oil Spill Trustee Council (Council) was formed.

Exxon Valdez Oil Spill Trustee Council Structure

The Council consists of six trustees, three trustees represent the United States and three trustees represent the State. The United States' trustees are the Secretaries of the United States Departments of Interior and Agriculture and the Administrator of the National Oceanic and Atmospheric Administration (a bureau of the United States Department of Commerce). The State's trustees consist of the Commissioners of the State Departments of Environmental Conservation and Fish and Game, and the Attorney General of the State of Alaska. The MOA allows the President of the United States or the Governor of the State of Alaska to transfer trustee status from one official to another official of their respective governments.

All decisions of the Council must be made by the unanimous agreement of the trustees. If the trustees cannot reach unanimous consent, either the United States or the State may resort to litigation in the United States District Court for the District of Alaska (Court).

Restoration Office

The Council has established a Restoration Office, which is responsible for the coordination and supervision of the activities of the Council. The Restoration Office is managed by an Executive Director who reports directly to the Council. Since the Council exists through the MOA, it and the Restoration Office operate within the framework of the Trustee Agencies. During fiscal 2004 and 2005, most activities of the Restoration Office were conducted through the Alaska State Departments of Fish and Game.

The Restoration Office develops an annual budget, which, upon approval by the Council, sets forth the anticipated expenditures of the Restoration Office. The Council makes an annual contribution to the State agencies equal to the budget for the Restoration Office. The contributions are made using the disbursements procedures discussed in Note 6.

Termination of the Exxon Valdez Oil Spill Trustee Council

The MOA shall terminate when the United States and the State certify to the Court, or when the Court determines on application by either government, that all activities contemplated under the MOA have been completed.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State of Alaska, Exxon Valdez Oil Spill Investment Fund

As requested by the Council and ordered by the Court, the Council deposited all undisbursed balances into the State of Alaska *Exxon Valdez* Investment Fund (Investment Fund) established by the Alaska Department of Revenue, Division of Treasury. The transfer occurred October 5, 2000. The total amount deposited in the Investment Fund was \$134,696,900. As further discussed in Note 5, amounts paid by Exxon Corporation after October 5, 2000 are made directly to the United States and the State for reimbursement of certain costs incurred by them in connection with the Oil Spill. In accordance with the MOA, public law 106-113 and as ordered by the presiding Court pending disbursements to the Federal and State trust funds, money that is not directly paid to the United States and the State is placed in this interest bearing Investment Fund.

The Investment Fund is an agency fund within the State. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not measure the results of operations. The State of Alaska adopted Governmental Accounting Standards Board Statement No. 34, *basic financial statements – and Management Discussion and Analysis for State and Local Governments* (GASB 34), in fiscal 2002, effective July 1, 2000. GASB 34 establishes financial reporting standards for all state and local governments and related entities. For the Investment Fund presentation in these financial statements, GASB 34 does not apply.

Upon unanimous approval of the Trustee Council, funds are disbursed to the United States NRDA&R Fund and the State Settlement Trust to be expended by the Trustee Agencies in accordance with the Council's wishes. The accompanying financial statements for the Investment Fund reflect the intent of the disbursements as to natural resource damage assessment and restoration, or the acquisition of land or research infrastructure improvements to further protect the natural resources. The financial statements also reflect the fiscal year that the disbursements are to be expended by the Trustee Agencies.

The financial presentation for the Investment Fund is of the Investment Fund only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund

Disbursements which are made from the Investment Fund to the United States are deposited in the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R). NRDA&R was established pursuant to Public Law 102-154, and is administered by the U.S. Department of Interior, Fish and Wildlife Service. It is a trust fund which was established to hold natural resources damage assessment and restoration settlement proceeds of the United States Government. Public Law 120-229 requires that federal proceeds from the Agreement and Consent Decree (see additional discussion in Note 4) be deposited in NRDA&R, and that all interest earned on these proceeds be available to the Federal Trustees for necessary expenses for assessment and restoration of areas affected by the Oil Spill. Public Law 120-229 also calls for amounts in NRDA&R to be invested by the U.S. Secretary of the Treasury in interest bearing obligations of the United States.

Disbursements from NRDA&R are made pursuant to the directions of the Council and as notified to the Court. At the beginning of each fiscal year, the Department of Interior, Fish and Wildlife Service communicates with each of the United States Trustee Agencies to determine the timing of disbursements from NRDA&R to each Federal Trustee Agency. Investments are purchased in order to earn interest on available balances within NRDA&R, with scheduled maturity dates coincident with the scheduled date of disbursement.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund (Continued)

The financial presentation for NRDA&R is of the amounts related to the Council only and is not intended to present the financial position of NRDA&R or the Department of Interior, Fish and Wildlife Service and the results of their operations.

State of Alaska, Exxon Valdez Oil Spill Settlement Trust

Disbursements which are made from the Investment Fund to the State are deposited in the State of Alaska, Exxon Valdez Oil Spill Settlement Trust (Settlement Trust). The Settlement Trust is established pursuant to AS 37.14.400. Pursuant to State law a state agency may not expend money from the Settlement Trust unless the expenditure is in accordance with an appropriation made by law. Expenditures of funds are made upon properly approved requests for payment. The total of expenditures and encumbrances (obligations) may not exceed the appropriations to which they pertain.

The Settlement Trust is a special revenue fund of the State. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. The State of Alaska adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis for State and Local Governments* (GASB 34), in fiscal 2002, effective July 1, 2000. GASB 34 establishes financial reporting standards for all state and local governments and related entities. For the Settlement Trust presentation in these financial statements, GASB 34 does not apply.

Upon approval by the Council, State Trustee Agencies make expenditures directly against the Settlement Trust.

The financial presentation for the Settlement Trust is of the Settlement Trust only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

Basis of Accounting

Basis of accounting refers to when revenues, expenditures and the related assets and liabilities are recorded in the accounts and financial statements. Specifically, it relates to the timing of the financial measurements made, regardless of the measurement focus applied.

The basis of accounting used by the Investment Fund, NRDA&R, and Settlement Trust are as follows:

Investment Fund – Agency funds are used to report resources held by the state purely in a custodial capacity (assets equal liabilities). The financial statements of the Investment Fund are accounted for using a current financial resources measurement focus on the accrual basis.

NRDA&R - The financial statements of NRDA&R are prepared on a cash basis of accounting. As such, revenues are recognized when received, and disbursements are recognized when paid.

Settlement Trust - The financial statements of the Settlement Fund are accounted for using a current financial resources measurement focus on the modified accrual basis. The Settlement Fund recognizes revenues when the source is measurable and available, and intended for the fiscal year. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Assets are recorded when measurable and due.

Expenditures are recorded when the related liability is incurred. Encumbrance accounting, under which purchase orders and contracts for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary integration of the Settlement Trust. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Settlement Trust (Continued)

Until June 30, 1997, interest and investment income was allocated to the Settlement Trust as agreed to under a Memorandum of Understanding (MOU) by and between the State Departments of Revenue and Administration effective July 1, 1993. Under the MOU, interest was credited daily to the Settlement Trust by determining the Settlement Trust's daily cash balance and applying the current weekly 180-day Treasury Bill Rates based on the Treasury Bill auctions. Effective July 1, 1997, a new MOU, dated November 26, 1997, superseded the original MOU and modified the method of determining interest income earned by the Settlement Trust. Under the new method, interest income is allocated daily based on actual earnings of the cash management pool of which the Settlement Trust is a part.

Statement Presentation

Separate balance sheets and statements of receipts and disbursements or revenues and expenditures are presented for each of the Investment Fund, NRDA&R, and the Settlement Trust. This is due to the fact that ownership of the Trust Funds rests separately with each of the U.S. Department of Interior, Fish and Wildlife Service and the State of Alaska, and the different bases of accounting used by the Trust Funds.

Accounts Payable and Deferred Revenue - Settlement Trust

Accounts payable in the Settlement Trust financial statements include disbursements made against the Settlement Trust subsequent to June 30, 2005 and 2004, but which relate to fiscal 2005 and 2004 restoration activities.

Deferred Revenues in the Settlement Trust financial statements include amounts received or receivable at June 30, 2005 and 2004, which are to be expended by the State during the following fiscal year.

3. CASH AND INVESTMENTS

Cash and investments for the Investment Fund, and the Settlement Trust as of June 30, 2005 and for NRDA&R as of September 30, 2005 are as follows:

Settlement Trust - The Council invests Settlement Trust Funds in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Investment Fund - The State maintains the Investment Fund as part of several investment pools including the Short-term Fixed Income Pool, the Broad Market Fixed Income Pool, and the non-retirement Domestic and International Equity Pools. The Nonretirement Domestic and International Equity Pools are open-ended mutual fund-like pools, and are therefore not categorized with regard to credit risk.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Investment Fund (Continued)

By law, all deposits and investments relating to the Investment Fund are under the control of the Commissioner of the State Department of Revenue. The State's cash is invested pursuant to State laws which mandate that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Assets in the pools are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

The accrual basis of accounting is used for investment income and investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.

At June 30, 2005, the Settlement Trust's and Investment Fund's share of pool investments was as follows:

Type of Investment Pool	Investment Fund	Settlement Trust	Total
Short-Term Fixed Income Pool	\$ 8,379	\$ 2,536,397	\$ 2,544,776
Intermediate-Term Fixed Income Pool	-	2,254,699	2,254,699
Broad Market Fixed Income Pool	68,445,011	-	68,445,011
Non-retirement Domestic Equity Pool	75,864,764	-	75,864,764
SOA International Equity Pool	34,831,408	-	34,831,408
Total invested assets	<u>\$ 179,149,562</u>	<u>\$ 4,791,096</u>	<u>\$ 183,940,658</u>

Deposits and investments by type of investment for each pool are as follows (in thousands):

Investment Type	Short-Term Fixed Income Pool	Intermediate-Term Fixed Income Pool	Broad Market Fixed Income Pool	Equity Pools	Total
Overnight Sweep Account (LMCS)	\$ 4	\$ -	\$ -	\$ -	\$ 4
Commercial Paper	210	-	-	-	210
U.S. Treasury Bills	154	-	-	-	154
U.S. Treasury Notes	133	1,043	4,605	-	5,781
U.S. Treasury Bonds	-	-	5,039	-	5,039
U.S. Treasury Strips	-	22	1,028	-	1,049
U.S. Government Agency	-	-	-	-	-
Discount Notes	34	147	173	-	355
U.S. Government Agency	-	283	3,665	-	3,948
Mortgage-backed	388	444	35,325	-	36,157
Other Asset-backed	1,087	112	2,484	-	3,683
Corporate Bonds	493	337	16,585	-	17,415
Yankees:	-	-	-	-	-
Government	-	-	296	-	296
Corporate	19	1	357	-	377
Domestic Equity- Indexed	-	-	-	85,774	85,774
International Equity	-	-	-	24,788	24,788
Total Invested Assets	2,520	2,388	69,558	110,562	185,029
Pool related net assets (liabilities)	25	(134)	(1,113)	134	(1,088)
Net Invested Assets before earnings distribution to participants	<u>\$ 2,545</u>	<u>\$ 2,255</u>	<u>\$ 68,445</u>	<u>\$ 110,696</u>	<u>\$ 183,941</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Intermediate-term and Broad Market Fixed Income Pools

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to $\pm 20\%$ of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2005, was 2.31 years.

At June 30, 2005, the effective duration by investment type was as follows:

	Effective Duration (in years)	
	Intermediate Term Fixed Income Pool	Broad Market Fixed Income Pool
U.S. Treasury Notes	2.26	3.91
U.S. Treasury Bonds	-	10.39
U.S. Treasury Strips	0.86	15.97
U.S. Government Agency	3.01	7.00
Mortgage-backed	2.01	2.41
Other Asset-backed	0.84	1.31
Corporate Bonds	2.6	5.39
Yankees-Government	-	6.50
Yankees-Corporate	3.09	9.86
Pool Effective Duration	2.1	4.10

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is BBB3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA.

At June 30, 2005, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

Investment Type	Rating ¹	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool
Commercial Paper	A	8%	-	-
U.S. Government Agency				
Discount Notes	Not Rated	1%	7%	-
U.S. Government Agency	Not Rated	-	13%	6%
Mortgage-backed	AAA	15%	6%	11%
Mortgage-backed (Agency)	Not Rated	-	11%	41%
Other Asset-backed	AAA	39%	4%	3%
Other Asset-backed	A	3%	1%	-
Corporate Bonds	AAA	1%	1%	2%
Corporate Bonds	AA	11%	2%	2%
Corporate Bonds	A	9%	6%	7%
Corporate Bonds	BBB	-	6%	12%
Yankees - Corporate	A	1%	-	-
No Credit Exposure		12%	43%	16%
		<u>100%</u>	<u>100%</u>	<u>100%</u>

¹Rating modifiers are not disclosed.

At June 30, 2005, the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. At June 30, 2005, the Corporation's had more than five percent of their investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Federal Home Loan Mortgage Corporation	\$ 1,012,147	6%
Federal National Mortgage Association	\$ 1,317,984	8%

Foreign Currency Risk

The Commissioner of Revenue (for the Trustee Council) formally adopts asset allocation policies which places limitations on the amount of international securities each fund is allowed to hold. During fiscal year 2005 the policy was 17% plus or minus 5% with an actual foreign holding of 19.44%.

Securities Lending

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend securities in the Short-term and Intermediate-term Fixed Income Pools. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2005, the fair value of securities on loan allocable to the Settlement Trust totaled \$40,966.

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. Loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral securities unless the borrower defaults, they are not recorded in the financial statements. Securities under loan, cash collateral and cash collateral payable are recorded in the financial statements at fair value. The Bank, the Settlement Trust and the borrower receive a fee from earnings on invested collateral. The Bank and the Settlement Trust share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

For the year ended June 30, 2005, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

Additional investment information on the various pools and investments, as well as the Funds, may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405 or at www.revenue.state.ak.us/treasury.

NRDA&R - All cash and investments of NRDA&R are held in the name of the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund at the U.S. Department of the Treasury. At September 30, 2005, substantially all balances are held in U.S. Treasury Bills and Notes with maturities ranging from 30 to 300 days. A nominal amount of cash is also included in the balance. Market values of investment securities held by NRDA&R approximate their cost at September 30, 2005. There are no uninsured or unregistered deposits or investments.

NRDA&R investments consist of the following at September 30, 2005:

	<u>Cost</u>	<u>Market Value</u>
<u>Cash and Equivalents</u>		
Cash	\$ 1,085	\$ 1,085
<u>U.S. Treasury Bills and Notes</u>		
US Treasury Bill	<u>1,897,436</u>	<u>1,897,436</u>
	<u>\$1,898,521</u>	<u>\$1,898,521</u>

Cash and investments for the Investment Fund, and the Settlement Trust as of June 30, 2004 and for NRDA&R as of September 30, 2004 are as follows:

Investment Fund - Cash and investments of the Investment Fund represent cash on deposit in banks, and cash invested in various investments as a part of the Council's long-term investment needs. By law, all deposits and investments relating to the Investment Fund are under the control of the Commissioner of the State Department of Revenue. The State's cash is invested pursuant to State laws which mandate that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Certain types of investments are not subject to the custodial credit risk disclosure requirements in GASB Statement No. 3.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Investment Fund (Continued)

The State maintains the Investment Fund as part of several investment pools. The Short-term Fixed Income Pool, the Broad Market Fixed Income Pool, and the SOA International Equity Pool contain assets of other participants outside the control of the Commissioner of Revenue and, as such, cannot be categorized into one of the three risk categories because the amounts reported represent interests in the pool rather than ownership of specific identifiable securities. The Nonretirement Domestic Equity Pool is an open-ended mutual fund-like pool and is therefore not categorized with regard to credit risk. Investments of the State are stated at fair value in accordance with GASB Statement No. 31. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	Market/Carrying Value September 30, 2004
<u>Cash and Equivalents</u>	
Short-term Fixed	
Income Pool	\$ 21
Marketable Debt and	
Equity Securities	
Bond Market Fixed	
Income Pool	65,186,198
Non-retirement Domestic	
Equity Pool	74,616,535
State of Alaska International	
Equity Pool	<u>30,952,395</u>
	<u>\$ 170,755,152</u>

Additional investment information on the various pools and investments, as well as the Funds, may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

NRDA&R - All cash and investments of NRDA&R are held in the name of the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund at the U.S. Department of the Treasury. At September 30, 2004, substantially all balances are held in U.S. Treasury Bills and Notes with maturities ranging from 30 to 300 days. A nominal amount of cash is also included in the balance. Market values of investment securities held by NRDA&R approximate their cost at September 30, 2002. There are no uninsured or unregistered deposits or investments. This places all of NRDA&R's investments and deposits in GASB credit risk category 1 *.

	Category *			Market Value
	1	2	3	
<u>Cash and Equivalents</u>				
Cash	\$ 163	\$ -	\$ -	\$ 163
<u>U.S. Treasury Bills and Notes</u>				
U.S Treasury Bill	<u>3,089,541</u>	<u>-</u>	<u>-</u>	<u>3,089,541</u>
	<u>\$ 3,089,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,089,704</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

NRDA&R (Continued)

- * GASB Statement No. 3 requires deposits and investments to be categorized to indicate the level of risk assumed by an entity. For investments, category 1 consists of investments that are insured or registered for which the securities are held by the entity or its custodian in the entity's name, category 2 consists of uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the entity's name, and category 3 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the entity's name.

Settlement Trust - Cash and investments of the Settlement Trust represent cash on deposit in banks, and cash invested in various investments as a part of the State's short-term cash management pools. By law, all deposits and investments relating to the Settlement Trust are under the control of the Commissioner of the State Department of Revenue. The State's cash is invested pursuant to State laws which mandate that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Certain types of investments are not subject to the custodial credit risk disclosure requirements in GASB Statement No. 3.

The State maintains the Settlement Fund as part of an investment pool. The Short-term and Intermediate Fixed Income Pools contains assets of other participants outside the control of the Commissioner of Revenue and, as such, cannot be categorized into one of the three risk categories because the amounts reported represent interests in the pool rather than ownership of specific identifiable securities. Investments of the State are stated at fair value in accordance with GASB Statement No. 31. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	<u>Market/Carrying Value</u>
<u>Cash and Equivalents</u>	
Short-term and Intermediate Fixed Income Pool	\$ 7,169,435

Additional investment information on the various pools and investments, as well as the Funds, may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

4. CONTRIBUTIONS BY EXXON CORPORATION

Agreement and Consent Decree

On October 8, 1991, the United States, the State, Exxon Corporation (Exxon) and Exxon Shipping Company, and Exxon Pipeline Company entered into an Agreement and Consent Decree (Agreement). The Agreement principally stipulates that Exxon make certain payments, and that all parties release and covenant not to sue or to file any administrative claim against the other parties or specifically identified third parties.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

4. CONTRIBUTIONS BY EXXON CORPORATION (Continued)

Agreement and Consent Decree (Continued)

Pursuant to the Agreement Exxon paid the United States and the State a total of \$900 million as follows:

<u>Date Payment Due</u>	<u>Amount</u>
Ten days after the Agreement became effective	\$ 90,000,000
December 1, 1992	150,000,000
September 1, 1993	100,000,000
September 1, 1994	70,000,000
September 1, 1995	70,000,000
September 1, 1996	70,000,000
September 1, 1997	70,000,000
September 1, 1998	70,000,000
September 1, 1999	70,000,000
September 1, 2000	70,000,000
September 1, 2001	70,000,000
	<u>\$ 900,000,000</u>

In addition to the payments above, Exxon paid \$831,233 in interest.

Reopener for Unknown Injury

In addition to the payment terms discussed above, the Agreement also has a reopener provision that allows the governments to claim an additional \$100 million from Exxon between September 1, 2002, and September 1, 2006, as required for the performance of restoration projects in Prince William Sound and other areas affected by the Oil Spill to restore one or more populations, habitats, or species which, as a result of the Oil Spill, suffered substantial loss or substantial decline in the areas affected by the Oil Spill.

The cost of the restoration projects must not be grossly disproportionate to the magnitude of the benefits obtained, and the reopener is available only for any losses or declines that could not reasonably have been known or anticipated from information available at the time of the Agreement. The governments must demand payment under the reopener provision by September 1, 2006 and provide costs related to the demand 90 days prior to that date.

5. REIMBURSEMENTS TO THE UNITED STATES AND THE STATE

Under the terms of the Agreement, certain amounts paid by Exxon are to be made directly to the United States and the State. These payments are to be used solely to reimburse them for the following purposes:

1. Response and clean-up costs incurred by either of them on or before December 31, 1990 in connection with the Oil Spill;
2. Natural resource damages assessment costs incurred by either of them on or before March 12, 1991 in connection with the Oil Spill;
3. (State only) Attorneys fees, experts' fees, and other costs incurred by the State on or before March 12, 1991 in connection with litigation arising from the Oil Spill;
4. Response and clean-up costs incurred by either of them after December 31, 1990 in connection with the Oil Spill;

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

5. REIMBURSEMENTS TO THE UNITED STATES AND THE STATE (Continued)

5. To assess injury resulting from the Oil Spill and to plan, implement, and monitor the restoration, rehabilitation, or replacement of natural resources, natural resource services, or archaeological sites and artifacts injured, lost or destroyed as a result of the Oil Spill, or the acquisition of equivalent resources or services after March 12, 1991; and
6. (State only) Reasonable litigation costs incurred by the State after March 12, 1991.

The Agreement states that the amounts to be reimbursed to the United States for items one and two above are not to exceed \$67 million. The amounts to be reimbursed to the State for items one, two and three above are not to exceed \$75 million. The agreement does not place a cap on items four and five. The amounts paid to the State for item six above are not to exceed \$1 million per month.

6. DISBURSEMENTS FROM INVESTMENT FUND

Approved Payment Uses

Under the terms of the MOA, amounts paid by Exxon, excluding the reimbursements discussed in the preceding Note, are deposited into the Investment Fund. These payments are to be used solely to assess injury resulting from the Oil Spill and to plan, implement, and monitor the restoration, rehabilitation, or replacement of natural resources, natural resource services, or archaeological sites and artifacts injured, lost or destroyed as a result of the Oil Spill, or the acquisition of equivalent resources or services.

Starting in fiscal year 2004, the Trustee Council implemented the Gulf of Alaska Ecosystem Monitoring and Research Program (GEM). GEM brings an emphasis on converting monitoring data into information products that serve the needs of government regulators and the public that is new to the Restoration program. Several of the projects approved as part of the *Fiscal Year 2004 Work Plan* and *Fiscal Year 2005 Work Plan* include approval of multi-year funding.

Project Approval

The Council has developed a solicitation and review process for projects to address the purposes stated above. The outcome of the process is the development of a Work Plan, which approves the funding for all projects to be conducted during the plan period. For the Work Plan for the fiscal year ending September 30, 2004, the following project solicitation and review process was used by the Council:

1. In May 2003 and March 2004, the Council published an *Invitation to Submit Restoration Proposals for Federal Fiscal Year 2004* and *Invitation to Submit Restoration Proposals for Federal Fiscal Year 2005*, respectively. As part of the requirements, proposers developed and submitted detailed project descriptions and project budgets for review.
2. In June 2003 and June 2004, the Council's Chief Scientist and core reviewers coordinated a preliminary scientific and technical review of the proposals *Fiscal Year 2004 Proposals* and *Fiscal Year 2005 Proposals*, respectively. The Council's Executive Director also discussed proposals with Trustee agencies, Chief Scientist and representatives of the Public Advisory Group (the Public Advisory Group consists of members of the public and concerned groups and was appointed by the Secretary of Interior based on the Council's recommendations in accordance with the MOA to help provide meaningful public participation in the injury assessment and restoration process) and drafted preliminary recommendations.
3. In August 2003 and July 2004, all proposals and the results of the reviews were published in the *Draft Fiscal Year Draft Fiscal Year 2004 Work Plan* and *Draft Fiscal Year Draft Fiscal Year 2005 Work Plan*, respectively, distributed for public comment and the Public Advisory Group met to advise Trustee Council on the final work plan.
4. In August 2003 and July 2004, public hearings were held on the *Draft Fiscal Year 2004 Work Plan* and *Draft Fiscal Year 2005 Work Plan*, respectively.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

6. DISBURSEMENTS FROM INVESTMENT FUND (Continued)

Project Approval (Continued)

5. The majority of approved projects received funding from the Council in September and November 2003 and in August 2004 relating to the *Fiscal Year 2004 Work Plan* and *Fiscal Year 2005 Work Plan*, respectively.
6. The Council approved additional projects as part of the *Fiscal Year 2004 Work Plan* and *Fiscal year 2005 Work Plan* at various times throughout the fiscal years.

In addition to the process outlined above, the Council has also identified and acquired several tracts of land as permitted by the MOA. The land acquisition support costs are funded through the Work Plan. The Council separately approves land acquisitions.

Interest Income and Unobligated Balance Recovery - NRDA&R and the Settlement Trust

The governments are to report to the Council the amount of interest earned on net available balances in NRDA&R and the Settlement Trust. When appropriate, the Council then recovers the interest reported by reducing subsequent disbursements from the Investment Fund for future projects. In addition, actual project costs are frequently less than the original project budgets. When this occurs, the United States and the State retain the unspent or unobligated balances. When appropriate, the Council then recovers these balances by reducing subsequent disbursements for new projects. During fiscal years ending September 30, 2005 and 2004 disbursements to the United States were reduced by \$49,500 and \$72,485, respectively, for such interest income and unspent or unobligated balances. During fiscal years ending June 30, 2005 and 2004 disbursements to the State were reduced by \$266,105 and \$78,345, respectively, for such interest income and unspent or unobligated balances.

Disbursements from the Investment Fund

During the year ended June 30, 2005 and the nine months ended June 30, 2004, the Council disbursed \$5,833,395 and \$6,636,012, respectively for restoration projects, land acquisition and other Council Authorizations pursuant to the MOA as follows:

	Year ended June 30, 2005	Nine months ended June 30, 2004
<u>Restoration Projects Authorized By the Council</u>		
For Fiscal Year 2004 Work Plan		
To be conducted by the State	\$ -	\$ 3,728,702
To be conducted by the United States	-	2,426,807
For Fiscal Year 2005 Work Plan		
To be conducted by the State	2,678,124	-
To be conducted by the United States	2,665,824	-
Total Restoration projects	<u>5,343,948</u>	<u>6,155,509</u>
Land Acquisitions and Research Infrastructure Improvements Authorized By The Council		
To be acquired by the United States	<u>405,589</u>	<u>372,100</u>
Investment Management Fees	<u>83,858</u>	<u>108,403</u>
Disbursements from the Investment Fund	<u>\$ 5,833,395</u>	<u>\$ 6,636,012</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

7. DEFERRED REVENUE

NRDA&R received the United States' disbursement relating to the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2006 and 2005 prior to September 30, 2005 and 2004 respectively. The amount received of \$2,497,924 and \$1,706,447 for fiscal 2006 and 2005, respectively, has been recorded as Receipts – Investment Fund in the NRDA&R financial statements since NRDA&R is accounted for using the cash basis of accounting. NRDA&R also received \$405,589 in September 2004 related to the annual payment for the Koniag Easement. These funds are expected to be disbursed in fiscal 2005 and 2006.

8. REAL PROPERTY ACQUISITIONS

In order to protect the habitat of resources and services injured by the oil spill, the Council directed its staff to establish a process for the evaluation and acquisition of real property that was imminently threatened by development, or had habitat value. This process was divided into two phases; large parcels, generally those over 1,000 acres, and small parcels, generally those smaller than 1,000 acres.

Large Parcel Acquisitions

The large parcel phase of the land evaluation and acquisition process was initiated in 1992. This evaluation process lead to the consideration of numerous parcels for acquisition by Trustee Agencies. As of September 30, 2005, the Council funded the acquisition, through either the purchase of the property or the acquisition of a limited term conservation easement, for 651,084 acres, with a total purchase cost of \$408,900,863. Of the total purchase cost, excluding interest, \$352,837,567 is being provided from Joint Trusts, and \$56,063,296 from other sources.

During fiscal 2005 and fiscal 2004, no large parcel acquisitions were completed.

Small Parcel Acquisitions

The small parcel phase of the land evaluation and acquisition process was initiated in 1994. The nomination period is open ended, and the Council continues to receive and evaluate nominations. The Council's staff evaluates, scores, and ranks the parcels, taking into account the resource value of the parcel, adverse impacts from human activity, and potential benefits to management of public lands.

Through September 30, 2005, the Council has completed the acquisition on 112 parcels containing 10,330 acres with a total cost of \$22,920,950. One of the acquisitions also contained a provision in which the seller relinquished remaining selections totaling 1,207 acres under their entitlement pursuant to the Alaska Native Claims Settlement Act (ANCSA). In addition, a seller of one has accepted an offer. This parcels contain 37 acres and has a total cost of \$80,000. All of the small parcels are purchased under fee simple title, and cash is paid on these parcels at closing. Most of these acquisitions are purchased through the Alaska Department of Natural Resources or the U.S. Department of the Interior, Fish and Wildlife Service. Of the total purchase cost on the parcels acquired to date, \$22,920,950 is being provided from the *Exxon Valdez* Oil Spill Trust Funds, and \$511,500 from other sources.

Kodiak Island Borough Master Waste Management Plan

The Council has approved the expenditure of \$1,857,100 for capital improvement to various waste management systems of the remote communities of Kodiak Island. Specifically, this project will upgrade and improve landfills, disposal sites and solid waste management, and will construct and install used oil and hazardous waste storage and disposal facilities and equipment, and provide for systems maintenance and repairs for seven communities on Kodiak Island. The Alaska Department of Environmental Conservation (DEC) expended the funds and the project was completed in June 2005. A total of, \$1,058,026 was expended on the project.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

8. REAL PROPERTY ACQUISITIONS (Continued)

Archeological Repository

The Council approved the concept of a single regional archeological repository in one of eight communities in the Chugach and lower Cook Inlet regions to house and display spill-related artifacts at a cost not to exceed \$1 million, the construction of new or renovated community facilities in the remaining seven communities to display spill-related archeological resources at a total cost not to exceed \$1.6 million, and the development of traveling exhibits of spill-related archeological materials for display in community facilities in the spill area at a total cost not to exceed \$200,000. During fiscal 1999, the Trustee Council resolved to provide \$2.8 million (plus a reasonable amount of funding for project management and general administration to be approved by the Council) to the Alaska Department of Natural Resources (DNR) to administer a grant award to Chugachmiut. Through fiscal 2005, the Trustee Council also approved \$157,200 for project management and general administration making the total approved \$2,957,200. As of June 30, 2005, \$2,419,993 has been expended on the project. It is anticipated this project will be completed by December 2006.

9. SUBSEQUENT EVENTS

On September 9, 2005, the Council notified the United States District Court of Alaska of a disbursement of \$2,458,315 from the Research Investment Sub-Account, and \$439,078 and the Koniag Investment Sub-Account of the Investment Fund, and \$15,751 from the Department of the Interior's Natural Resource Damage Assessment and Restoration Fund (monies previously disbursed) for the Fiscal Year 2006 Work Plan and the October 2005 Koniag Easement payment. Of this amount, \$1,706,447 has been recorded in the NRDA&R accounts and is reflected on the income statement for the year ended September 30, 2005.

On September 28, 2005, the Council notified the United States District Court of Alaska of a disbursement of \$597,649 from the Research Investment Sub-Account of the Investment Fund for the Fiscal Year 2006 Work Plan.

On December 21, 2005, the Council notified the United States District Court of Alaska of a disbursement of \$168,514 from the Research Investment Sub-Account the of the Investment Fund and \$136,558 from the Department of the Interior's Natural Resource Damage Assessment and Restoration Fund (monies previously disbursed) for the Fiscal Year 2006 Work Plan.

On January 9, 2006, the Council notified the United States District Court of Alaska of a disbursement of \$437,081 from the Research Investment Sub-Account the of the Investment Fund for the Fiscal Year 2006 Work Plan.

In December 2005, the small parcel acquisition referred to in Note 8 closed.

SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789-3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Members, *Exxon Valdez* Oil Spill Trustee Council,
Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council Trust Funds, Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the year ended June 30, 2005 and nine months ended June 30, 2004, and the Natural Resource Damage Assessment and Restoration Fund (NRDA&R) as of September 30, 2005 and 2004 as listed in the accompanying table of contents, and have issued our report thereon dated March 3, 2006. These financial statements are the responsibility of the *Exxon Valdez* Oil Spill Trustee Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds, taken as a whole. The accompanying Schedule of Expenditures and Obligations - Budget and Actual, on pages 26 through 30, are presented for purposes of additional analysis and are not a required part of the financial statements. With the exception of the projects, on page 27 through 30 on which we express no opinion and which are marked "unaudited," the information in these schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



March 3, 2006

Exxon Valdez Oil Spill Trustee Council
Alaska Department of Fish and Game
Schedule of Expenditures and Obligations - Budget and Actual
Fiscal Year Ending September 30, 2004 and 2005

			Actual Expenditures and Obligations									
Project Number	Project Title	Total Budget	U.S. Department of Commerce, National Oceanic and Atmospheric Administration	Alaska Department of Fish and Game	Department of Interior, U.S. Geological Survey	Department of Interior, Fish and Wildlife Service	Department of Interior, Office of the Secretary	Alaska Department of Natural Resources	Alaska Department of Law	Department of Agriculture, United States Forest Service	Total	
AUDITED												
040100	Public Information and Administration	\$ 843,300										
		FY04	\$ -	\$ 607,811	\$ 140,454	\$ -	\$ 19,600	\$ -	\$ -	\$ -	\$ 767,865	
040210	Youth Area Watch	380,700										
		FY04	-	110,801	-	-	-	-	-	-	110,801	
		FY05	-	126,400	-	-	-	-	-	-	126,400	
											237,201	
040624	CPR-Based Plankton Survey	405,600										
		FY04	135,200	-	-	-	-	-	-	-	135,200	
		FY05	135,200	-	-	-	-	-	-	-	135,200	
											270,400	
040630	Scientific Management under GEM	461,600										
		FY04	-	208,149	-	-	-	103,595	-	-	311,744	
040635	Top-down and Bottom-up Processes	464,949										
		FY04	149,524	-	-	-	-	-	-	-	149,524	
		FY05	164,030	-	-	-	-	-	-	-	164,030	
											313,554	
040699	AK Marine Highway System Ferries	503,300										
		FY04	156,200	8,493	-	-	-	-	-	-	164,693	
		FY05	165,527	20,373	-	-	-	-	-	-	185,900	
											350,593	
040712	Nutrient-Based Resource Management	502,850										
		FY04	-	-	171,486	-	-	-	-	-	171,486	
		FY05	-	-	176,987	-	-	-	-	-	176,987	
											348,473	
040726	Marine Derived Nutrients	472,100										
		FY04	-	103,121	-	-	-	-	-	-	103,121	
		FY05	-	151,010	-	-	-	-	-	-	151,010	
											254,131	
040774	Oil Exposure in Nearshore Vertebrate Predators	328,500										
		FY04	-	-	64,352	108,700	-	-	-	-	173,052	
		FY05	-	-	110,612	40,404	-	-	-	-	151,016	
											324,068	
040776	Lingering Oil: Applied Research	650,000										
		FY04	-	-	-	-	-	-	219,990	-	219,990	
		FY05	-	-	-	-	-	-	269,261	-	269,261	
											489,251	
050100	EVOS-Administration	860,941										
		FY05	4,900	542,151	153,459	-	24,500	-	-	-	725,010	
(continued)												

(continued)

Actual Expenditures and Obligations											
Project Number	Project Title	Total Budget	U.S. Department of Commerce, National Oceanic and Atmospheric Administration	Alaska Department of Fish and Game	Department of Interior, U.S. Geological Survey	Department of Interior, Fish and Wildlife Service	Department of Interior, Office of the Secretary	Alaska Department of Natural Resources	Alaska Department of Law	Department of Agriculture, United States Forest Service	Total
AUDITED											
050630	EVOS-Scientific Management under GEM	387,828									
	FY05		-	194,292	2,500	-	-	103,600	-	-	300,392
050750	GEM Nearshore Monitoring Plan	331,700									
	FY05		-	-	184,959	-	-	-	-	-	184,959
050764	Shore Zone Mapping - Kodiak	403,200									
	FY05		201,321	-	-	-	-	-	-	-	201,321
UNAUDITED											
040012	Killer Whales in PWS/Kenai Fjords	19,502									
	FY04		19,502	-	-	-	-	-	-	-	19,502
040159	Marine bird abundance surveys	175,518									
	FY04		-	-	-	147,684	-	-	-	-	147,684
040250	EVOS TC-Project Management	144,750									
	FY04		1,618	57,250	22,746	-	-	9,900	-	-	91,514
040290	Hydrocarbon Database	66,600									
	FY04		22,256	-	-	-	-	-	-	-	22,256
	FY05		21,974	-	-	-	-	-	-	-	21,974
											44,230
040340	Alaska Coastal Current	227,085									
	FY04		-	52,907	-	-	-	-	-	-	52,907
	FY05		-	109,228	-	-	-	-	-	-	109,228
											162,135
040407	Harlequin Duck Population	37,100									
	FY04		-	30,552	-	-	-	-	-	-	30,552
040455	EVOS TC-Data System	156,800									
	FY04		-	131,901	-	-	-	-	-	-	131,901
040471	Status of Subsistence Uses	324,300									
	FY04		-	181,411	-	-	-	-	-	-	181,411
	FY05		-	142,889	-	-	-	-	-	-	142,889
											324,300
040550	EVOS TC-ARLIS	180,900									
	FY04		-	151,844	-	-	-	-	-	-	151,844
040556	High Resolution Mapping	15,000									
	FY04		-	14,996	-	-	-	-	-	-	14,996
040574	Assessment of Bivalve Recovery	36,200									
	FY04		36,200	-	-	-	-	-	-	-	36,200
040600	EVOS Damage Assessment & Restoration	201,700									
	FY04		-	-	-	-	-	129,504	-	-	129,504
	FY05		-	-	-	-	-	72,196	-	-	72,196
											201,700
040610	Kodiak Archipelago	189,000									
	FY04		-	43,533	-	-	-	-	-	-	43,533
	FY05		-	82,467	-	-	-	-	-	-	82,467
											126,000
040614	Monitoring Program in the NE Pacific Ocean	89,110									
	FY04		-	19,109	-	-	-	-	-	-	19,109
	FY05		-	38,546	-	-	-	-	-	-	38,546
											57,655

(continued)

Actual Expenditures and Obligations											
Project Number	Project Title	Total Budget	U.S. Department of Commerce, National Oceanic and Atmospheric Administration	Alaska Department of Fish and Game	Department of Interior, U.S. Geological Survey	Department of Interior, Fish and Wildlife Service	Department of Interior, Office of the Secretary	Alaska Department of Natural Resources	Alaska Department of Law	Department of Agriculture, United States Forest Service	Total
AUDITED											
040620-1	Lingering Oil: Population Status	150,100									
		FY04	59,989	-	-	-	-	-	-	-	59,989
		FY05	60,698	-	-	-	-	-	-	-	60,698
											120,687
040620-2	Lingering Oil and Sea Otters	167,000									
		FY04	-	-	124,306	-	-	-	-	-	124,306
		FY05	-	-	29,068	-	-	-	-	-	29,068
											153,374
040636	Fisheries Management	46,760	46,760	-	-	-	-	-	-	-	46,760
040639	Ecosystem Parameters in GOA	93,700									
		FY04	-	29,126	-	-	-	-	-	-	29,126
		FY05	-	13,853	-	-	-	-	-	-	13,853
											42,979
040647	Altering the Community Structure	81,600	81,600	-	-	-	-	-	-	-	81,600
040649	Reconstructing Sockeye Populations	135,400									
		FY04	-	43,996	-	-	-	-	-	-	43,996
		FY05	-	91,404	-	-	-	-	-	-	91,404
											135,400
040654	Surface Nutrients over the Shelf	49,500	49,500	-	-	-	-	-	-	-	49,500
040666	Natural Geography in Shore Areas	266,442									
		FY04	-	241,065	-	-	-	-	-	-	241,065
		FY05	-	17,635	-	-	-	-	-	-	17,635
											258,700
040670	Dynamics of the Alaska Coastal Current	185,700									
		FY04	-	89,773	-	-	-	-	-	-	89,773
		FY05	-	17,720	-	-	-	-	-	-	17,720
											107,493
040687	Nearshore Monitoring Decision Process	10,000									
		FY04	-	-	10,000	-	-	-	-	-	10,000
040702	Natural Variability in the Nearshore	53,800									
		FY04	-	34,792	-	-	-	-	-	-	34,792
		FY05	-	17,973	-	-	-	-	-	-	17,973
											52,765
040703	Marine-terrestrial Linkages	240,468									
		FY04	-	23,829	-	-	-	-	-	-	23,829
		FY05	-	135,522	-	-	-	-	-	-	135,522
											159,351
040703A	Marine-derived Nutrients on Sockeye Salmon	252,400									
		FY04	-	78,917	-	-	-	-	-	-	78,917
		FY05	-	86,650	-	-	-	-	-	-	86,650
											165,567
040706	Energy Allocation and Salmon Carcasses	104,700									
		FY04	48,591	-	-	-	-	-	-	-	48,591
		FY05	42,095	-	-	-	-	-	-	-	42,095
											90,686

(continued)

Actual Expenditures and Obligations											
Project Number	Project Title	Total Budget	U.S. Department of Commerce, National Oceanic and Atmospheric Administration	Alaska Department of Fish and Game	Department of Interior, U.S. Geological Survey	Department of Interior, Fish and Wildlife Service	Department of Interior, Office of the Secretary	Alaska Department of Natural Resources	Alaska Department of Law	Department of Agriculture, United States Forest Service	Total
AUDITED											
040708	Lingering Oil on Boulder-Armored Beaches	88,900									
		FY04	11,146	-	5,000	-	-	-	-	-	16,146
		FY05	200	-	41,961	-	-	-	-	-	42,161
											58,307
040710	Alaskan Groundfish Feeding Ecology	80,900	80,900	-	-	-	-	-	-	-	80,900
040716	NGOA Metadatabase	100,600	100,600	-	-	-	-	-	-	-	100,600
040721	Habitat Web Site	21,100	21,100	-	-	-	-	-	-	-	21,100
040724	Monitoring Exxon Valdez Oil & PWS	45,900	45,849	-	-	-	-	-	-	-	45,849
040725	Seafood Waste Discharge	293,315	72,680	-	-	-	-	-	-	-	72,680
		FY05	11,682	-	-	-	-	-	-	-	11,682
											84,362
040740	Lingering Oil: Contaminant Inputs	307,400	176,569	-	-	-	-	-	-	-	176,569
		FY05	125,752	-	-	-	-	-	-	-	125,752
											302,321
040772	Sediment Quality Survey	208,200	-	-	-	-	-	-	86,400	-	86,400
		FY05	7,841	-	-	-	-	-	101,257	-	109,098
											195,498
040775	Lingering Oil and Sea Otters	227,200	-	-	17,073	-	-	-	-	-	17,073
		FY05	-	-	171,750	-	-	-	-	-	171,750
											188,823
050250	Project Management	255,500	93,356	98,100	26,885	-	-	9,200	-	-	227,541
050455	EVOS-Data Management	156,940	-	137,931	-	-	-	-	-	-	137,931
050550	Alaska Resource Library & Information Service	134,366	-	118,908	-	-	-	-	-	-	118,908
050742	Killer Whales in PWS/Kenai Fjords	66,600	20,526	-	-	-	-	-	-	-	20,526
050743	Connecting with Coastwalk	61,100	-	25,241	-	-	-	-	-	-	25,241
050749	Harbor Seal Monitoring	309,800	-	97,200	-	-	-	-	-	-	97,200
050751	Marine bird abundance surveys	196,300	-	-	-	161,178	-	-	-	-	161,178
050757	Pink Salmon Survival Models	93,700	94,342	-	-	-	-	-	-	-	94,342
050758	SEA Pink Salmon Survival Model	18,900	-	10,345	-	-	-	-	-	-	10,345
050759	Harlequin Duck Populations Dynamics	39,900	-	39,900	-	-	-	-	-	-	39,900
050763	Monitoring of Anthropogenic Hydrocarbons	176,700	58,468	-	-	-	-	-	-	-	58,468

(continued)

Actual Expenditures and Obligations											
Project Number	Project Title	Total Budget	U.S. Department of Commerce, National Oceanic and Atmospheric Administration	Alaska Department of Fish and Game	Department of Interior, U.S. Geological Survey	Department of Interior, Fish and Wildlife Service	Department of Interior, Office of the Secretary	Alaska Department of Natural Resources	Alaska Department of Law	Department of Agriculture, United States Forest Service	Total
AUDITED											
050765	Salmon Smolt Monitoring	201,700									
	FY05		-	67,239	-	-	-	-	-	-	67,239
050769	Temporal Stability of Fatty Acids	182,200									
	FY05		41,093	17,074	-	-	-	-	-	-	58,167
050777	Harlequin Duck Exposure to EVO	39,000									
	FY05		-	-	39,000	-	-	-	-	-	39,000
050778	Identify and Evaluate Oil Remediation Technologies	49,100									
	FY05		49,100	-	-	-	-	-	-	-	49,100
050794	Herring Populations: An Updated Synthesis	72,485									
	FY05		55,806	-	-	-	-	-	-	-	55,806
050794	Herring Populations: An Updated Synthesis	28,756									
	FY05		-	28,756	-	-	-	-	-	-	28,756
Total		\$ 14,154,265	\$ 2,669,695	\$ 4,692,183	\$ 1,492,598	\$ 457,966	\$ 44,100	\$ 427,995	\$ 676,908	\$ -	\$ 10,461,445

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Years Ended September 30, 2005 and 2004

1. PRESENTATION

The information presented in the accompanying Schedule of Expenditures and Obligations - Budget and Actual present the budgets for each project approved by the *Exxon Valdez* Trustee Council (Council) as included in the Council's *Fiscal Year 2004 Work Plan* and *Fiscal Year 2005 Work Plan*, and any amendments approved thereto, along with expenditures and obligations incurred by the Trustee Agencies in carrying out the Fiscal 2005 and 2004 restoration projects, only. The information presented is not intended to present the results of operations of any other activities conducted by the Trustee Agencies. Expenditures incurred by the Trustee Agencies in Fiscal 2005 and 2004 relating to restoration projects of prior years and to the liquidation of prior year encumbrances, are also not presented. The procedures used to develop and implement the project budgets for Fiscal 2005 and 2004 are discussed in Note 6 to the Trust Fund Financial Statements.

2. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues, expenditures and the related assets and liabilities are recorded in the accounts and financial statements. Specifically, it relates to the timing of the financial measurements made, regardless of the measurement focus applied.

As discussed in Note 2 to the Trust Fund Financial Statements, the State of Alaska accounts for the expenditure of funds from the State of Alaska, Exxon Valdez Oil Spill Settlement Trust (Settlement Trust) on the modified accrual basis of accounting.

As discussed in Note 2 to the Trust Fund Financial Statements, the United States accounts for the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R) on the cash basis of accounting. However, the United States Trustee Agencies use modified accrual accounting to account for the expenditure of funds within each agency. Expenditures are recorded when the related liability is incurred. Encumbrance (obligation) accounting, under which purchase orders and contracts for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary integration of the United States Government. Encumbrances (obligations) outstanding at year-end are included in the Actual Expenditures & Obligations column in the accompanying Schedules of Expenditures and Obligations - Budget and Actual.

3. FINANCIAL OPERATING PROCEDURES

On September 21, 1992, the Council adopted Financial Operating Procedures (Procedures) to be used by the United States and State of Alaska Trustee Agencies in conducting restoration projects. The objective of the Procedures was to ensure public trust and accountability while maximizing the Council's ability to use settlement funds for approved restoration activities. The Trustee Council has adopted a several revision of the original Procedures that supersede the previous Procedures. The most recent revision of the original Procedures was adopted April 23, 2003. The purpose of the adopted Procedures was to provide guidance regarding the authorities and responsibilities of agencies that receive Joint Trust Funds approved by the Trustee Council.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Years Ended September 30, 2005 and 2004

3. FINANCIAL OPERATING PROCEDURES (Continued)

Adjustments

The Procedures allow Trustee Agencies to transfer funds into or out of projects up to the cumulative amount of \$25,000 or up to ten percent of the authorized level of funding for each affected project, whichever is less, provided that such transfers will not alter the underlying scope or objectives of the project. The Council must approve transfers in excess of this amount. The budget amounts presented include transfers made between projects by the agencies, which were approved by the Executive Director or were made in accordance with the Procedures.

Single Project Budget Transfers

The Procedures authorize Trustee Agencies to transfer, within a single project, budgeted funds between object classes (such as personnel, travel and contractual costs), and may change detailed items of expenditure, including specific personnel, to accommodate circumstances encountered during budget implementation, provided that such transfers will not alter the underlying scope or objectives of the project. The budget amounts presented do not include such transfers made by the agencies.

General Administration

The Procedures include a provision for general administration costs to be included in the budgets of the restoration projects. Actual recovery of general administrative costs shall be based on approved project budget amounts, not to exceed 9% of approved budget.

INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789-3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members, *Exxon Valdez* Oil Spill Trustee Council,
Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund as of and for the year ended June 30, 2005 and the nine months ended June 30, 2004, and have issued our report thereon dated March 3, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated March 3, 2006.

This report is intended solely for the information and use of the *Exxon Valdez* Oil Spill Trustee Council and management, and is not intended to be and should not be used by anyone other than these specified parties.



March 3, 2006

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
907.789-3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members, *Exxon Valdez* Oil Spill Trustee Council,
Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund as of and for the years ended September 30, 2005 and 2004, and have issued our report thereon dated March 3, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated March 3, 2006.

This report is intended solely for the information and use of the *Exxon Valdez* Oil Spill Trustee Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

ERM

March 3, 2006

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801

907.789-3178 • FAX 907.789.7128 • www.ermcpa.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members, *Exxon Valdez* Oil Spill Trustee Council,
Anchorage, Alaska:

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust as of and for the year ended June 30, 2005 and the nine months ended June 30, 2004, and have issued our report thereon dated March 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated March 3, 2006.

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March 3, 2006