

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
TRUST FUNDS FINANCIAL STATEMENTS
and
SUPPLEMENTARY RESTORATION PROJECTS INFORMATION
Fiscal Years 2008 and 2007
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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and
SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Fiscal Years 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the *Exxon Valdez* Oil Spill Trustee Council Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the years ended June 30, 2008 and 2007, and the Natural Resources Damage Assessment and Restoration Fund (NRDA&R) as of and for the years ended September 30, 2008 and 2007 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 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. 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 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.

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.

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, 2008 and 2007 and the changes in the trust fund balance 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, 2008 and 2007, and the changes in fiduciary net assets and liabilities and the changes

in trust funds balance, respectively, for the years ended June 30, 2008 and 2007, 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 October 1, 2009, 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, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

A handwritten signature in black ink, consisting of the letters 'E', 'R', and 'M' in a stylized, cursive-like font.

October 1, 2009

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 FIDUCIARY ASSETS AND LIABILITIES
June 30, 2008 and 2007

	2008				2007			
	Research	Habitat	Koniag	Total	Research	Habitat	Koniag	Total
ASSETS:								
Cash and investments	\$ 110,185,801	\$ 37,802,889	\$ 45,092,012	\$ 193,080,702	\$ 121,838,846	\$ 40,507,977	\$ 48,439,482	\$ 210,786,305
Total Assets	<u>\$ 110,185,801</u>	<u>\$ 37,802,889</u>	<u>\$ 45,092,012</u>	<u>\$ 193,080,702</u>	<u>\$ 121,838,846</u>	<u>\$ 40,507,977</u>	<u>\$ 48,439,482</u>	<u>\$ 210,786,305</u>
LIABILITIES:								
Accounts Payable	\$ 51,258	\$ 16,792	\$ 20,327	\$ 88,377	\$ 32,574	\$ 10,671	\$ 12,917	\$ 56,162
Assets Held in Custody by the State of Alaska	<u>110,134,543</u>	<u>37,786,097</u>	<u>45,071,685</u>	<u>192,992,325</u>	<u>121,806,272</u>	<u>40,497,306</u>	<u>48,426,565</u>	<u>210,730,143</u>
Total Liabilities	<u>\$ 110,185,801</u>	<u>\$ 37,802,889</u>	<u>\$ 45,092,012</u>	<u>\$ 193,080,702</u>	<u>\$ 121,838,846</u>	<u>\$ 40,507,977</u>	<u>\$ 48,439,482</u>	<u>\$ 210,786,305</u>

The accompanying notes to trust funds 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 Years Ended June 30, 2008 and June 30, 2007

	2008				2007			
	Research	Habitat	Koniag	Total	Research	Habitat	Koniag	Total
ASSETS								
Investments, Beginning of Year	\$ 121,838,846	\$ 40,507,977	\$ 48,439,482	\$ 210,786,305	\$ 111,481,145	\$ 35,146,346	\$ 42,407,083	\$ 189,034,574
Additions:								
Interest and investment income (loss)	(6,460,652)	(2,310,708)	(2,807,906)	(11,579,266)	16,679,720	5,456,475	6,566,183	28,702,378
Return of previously disbursed funds	-	-	-	-	2,200,000	-	-	2,200,000
Total Additions	(6,460,652)	(2,310,708)	(2,807,906)	(11,579,266)	18,879,720	5,456,475	6,566,183	30,902,378
Deductions:								
State of Alaska								
Exxon Valdez Oil Spill Settlement Trust	1,111,885	366,700	-	1,478,585	2,977,534	63,677	24,175	3,065,386
Investment management fees	84,497	27,680	33,508	145,685	95,825	31,167	37,042	164,034
United States Department of the Interior, Natural Resources Damage Assessment and Restoration Fund	3,996,011	-	506,056	4,502,067	5,448,660	-	472,567	5,921,227
Total Deductions	5,192,393	394,380	539,564	6,126,337	8,522,019	94,844	533,784	9,150,647
Assets - Investments, End of Year	<u>\$ 110,185,801</u>	<u>\$ 37,802,889</u>	<u>\$ 45,092,012</u>	<u>\$ 193,080,702</u>	<u>\$ 121,838,846</u>	<u>\$ 40,507,977</u>	<u>\$ 48,439,482</u>	<u>\$ 210,786,305</u>
LIABILITIES								
Accounts Payable, Beginning of Year	\$ 32,574	\$ 10,671	\$ 12,917	\$ 56,162	\$ 101,159	\$ 30,348	\$ 37,092	\$ 168,599
Additions	51,258	16,792	20,327	88,377	32,574	10,671	12,917	56,162
Deductions	32,574	10,671	12,917	56,162	101,159	30,348	37,092	168,599
Accounts Payable, End of Year	<u>51,258</u>	<u>16,792</u>	<u>20,327</u>	<u>88,377</u>	<u>32,574</u>	<u>10,671</u>	<u>12,917</u>	<u>56,162</u>
Assets Held in Custody								
by the State of Alaska, Beginning of Year	121,806,272	40,497,306	48,426,565	210,730,143	111,379,986	35,115,998	42,369,991	188,865,975
Additions	110,134,543	37,786,097	45,071,685	192,992,325	121,806,272	40,497,306	48,426,565	210,730,143
Deductions	121,806,272	40,497,306	48,426,565	210,730,143	111,379,986	35,115,998	42,369,991	188,865,975
Assets Held in Custody								
by the State of Alaska, End of Year	<u>110,134,543</u>	<u>37,786,097</u>	<u>45,071,685</u>	<u>192,992,325</u>	<u>121,806,272</u>	<u>40,497,306</u>	<u>48,426,565</u>	<u>210,730,143</u>
	<u>\$ 110,185,801</u>	<u>\$ 37,802,889</u>	<u>\$ 45,092,012</u>	<u>\$ 193,080,702</u>	<u>\$ 121,838,846</u>	<u>\$ 40,507,977</u>	<u>\$ 48,439,482</u>	<u>\$ 210,786,305</u>

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
 UNITED STATES DEPARTMENT OF THE INTERIOR,
 NATURAL RESOURCES DAMAGE ASSESSMENT
 AND RESTORATION FUND
 STATEMENTS OF ASSETS, LIABILITIES AND TRUST FUND
 BALANCE ARISING FROM CASH TRANSACTIONS
 September 30, 2008 and 2007

ASSETS:	<u>2008</u>	<u>2007</u>
Cash and investments	\$ 681,639	\$ 2,543,755
Total Assets	<u>\$ 681,639</u>	<u>\$ 2,543,755</u>
LIABILITIES AND FUND BALANCE:		
Trust Fund Balance	<u>\$ 681,639</u>	<u>\$ 2,543,755</u>
Total Liabilities and Trust Fund Balance	<u>\$ 681,639</u>	<u>\$ 2,543,755</u>

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
UNITED STATES DEPARTMENT OF THE INTERIOR,
NATURAL RESOURCES DAMAGE ASSESSMENT
AND RESTORATION FUND

STATEMENTS OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN TRUST FUND BALANCE

For the Fiscal Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Receipts:		
Contributions:		
<i>Exxon Valdez</i> Oil Spill Investment Fund	\$ 2,549,109	\$ 8,122,898
<i>Exxon Valdez</i> Oil Spill Settlement Fund	104,494	274,016
Unobligated Balances Returned to NRDA&R:		
U.S. Department of Commerce		
National Oceanic and Atmospheric Administration	-	162,057
U.S. Department of the Interior		
Fish and Wildlife Service	-	5,410
Office of the Secretary	-	1,263
Investment Income	<u>56,378</u>	<u>103,836</u>
Total Receipts	<u>2,709,981</u>	<u>8,669,480</u>
Disbursements:		
U.S. Department of Interior:		
Fish and Wildlife Service	591,744	806,928
United States Geological Survey	1,082,609	973,474
National Park Service	32,700	-
Office of the Secretary	346,802	666,627
U.S. Department of Agriculture, United States		
Forest Service	-	51,285
U.S. Department of Commerce, National Oceanic		
and Atmospheric Administration	<u>2,518,242</u>	<u>3,788,282</u>
Total Disbursements	<u>4,572,097</u>	<u>6,286,596</u>
Excess (Deficiency) of Receipts Over Disbursements	(1,862,116)	2,382,884
Trust Fund Balance, Beginning of Year	<u>2,543,755</u>	<u>160,871</u>
Trust Fund Balance, End of Year	<u><u>\$ 681,639</u></u>	<u><u>\$ 2,543,755</u></u>

The accompanying notes to trust funds 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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS:		
Cash and investments	\$ 2,484,960	\$ 3,249,948
Accounts receivable	35,375	7,182
Securities lending collateral	<u>-</u>	<u>647,196</u>
Total Assets	<u>\$ 2,520,335</u>	<u>\$ 3,904,326</u>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts payable	\$ 362,339	\$ 363,016
Obligations under securities lending	-	647,196
Due to State of Alaska General Fund	<u>81,293</u>	<u>75,427</u>
Total Liabilities	<u>443,632</u>	<u>1,085,639</u>
Fund Balances:		
Reserved for Encumbrances	158,418	440,624
Unreserved		
Designated for continuing appropriations	11,765,476	55,286
Undesignated	<u>(9,847,191)</u>	<u>2,322,777</u>
Total Trust Fund Balance	<u>2,076,703</u>	<u>2,818,687</u>
Total Liabilities and Trust Fund Balance	<u>\$ 2,520,335</u>	<u>\$ 3,904,326</u>

The accompanying notes to trust funds 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 TRUST FUND BALANCE

For the Years Ended June 30, 2008 and June 30, 2007

Revenues:	2008	2007
Contributions - State of Alaska		
<i>Exxon Valdez</i> Investment Fund	\$ 1,478,585	\$ 662,249
Interest and investment income	195,557	317,978
Federal grants in aid	71,675	133,148
Total Revenues	<u>1,745,817</u>	<u>1,113,375</u>
Expenditures:		
Current Operating:		
Natural Resources Damage Assessment		
and Restoration Projects - Alaska		
Department of Fish and Game	2,363,887	2,532,785
Department of Natural Resources	175,096	233,889
Department of Environmental Conservation	-	57,206
Department of Finance	14,323	22,571
Total Current Operating Expenditures	<u>2,553,306</u>	<u>2,846,451</u>
Capital Expenditures:		
Research Infrastructure Improvements - Alaska		
Department of Natural Resources	12,523	73,373
Total Capital Expenditures	<u>12,523</u>	<u>73,373</u>
Total Expenditures	<u>2,565,829</u>	<u>2,919,824</u>
Deficiency of Revenues Over Expenditures	(820,012)	(1,806,449)
Other financing sources - transfers from other funds	78,028	-
Net change in fund balances	(741,984)	(1,806,449)
Trust Fund Balance, Beginning of Year	2,818,687	4,625,136
Trust Fund Balance, End of Year	<u>\$ 2,076,703</u>	<u>\$ 2,818,687</u>

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Years Ended June 30, 2008 and 2007 (State Funds)
Fiscal Years Ended September 30, 2008 and 2007 (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 2008 and 2007, most administrative functions of the Restoration Office were conducted through the Alaska State Department 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 year 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. Accordingly, Management Discussion and Analysis and Required Supplemental Information are not presented for this fund.

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, 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. 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 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.

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 and the results of their operations.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 year 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. Accordingly, Management Discussion and Analysis and Required Supplemental Information are not presented for this fund.

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 is 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 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 Trust are accounted for using a current financial resources measurement focus on the modified accrual basis. The Settlement Trust 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 statements of fiduciary assets and liabilities, statements of assets, liabilities, and trust fund balances arising from cash transactions, balance sheets, statements of changes in fiduciary assets and liabilities, statements of receipts, disbursements, and changes in trust fund balance, and statements of revenues, expenditures, and changes in trust fund balance 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, 2008 and 2007, but which relate to fiscal years 2008 and 2007 restoration activities.

Reclassification

Certain balances from prior year have been reclassified to conform to current year presentation.

3. CASH AND INVESTMENTS

Cash and investments for the Investment Fund, and the Settlement Trust as of June 30, 2008 and 2007 and for NRDA&R as of September 30, 2008 and 2007 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, available from the Department of Revenue.

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 Non-retirement 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. 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. GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature. Income in the fixed income pools, Domestic Equity, and the International Equity Pool is allocated to pool participants daily on a pro rata basis.

The Settlement Trust's and Investment Fund's share of pool investments was as follows at June 30 (in thousands):

Type of Investment Pool	2008			2007		
	Investment Fund	Settlement Trust	Total	Investment Fund	Settlement Trust	Total
Short-Term Fixed Income Pool	\$ 6,620	\$ 1,098	\$ 7,718	\$ 10,692	\$ 1,557	\$ 12,249
Intermediate-Term Fixed Income Pool	-	1,387	1,387	-	1,700	1,700
Broad Market Fixed Income Pool	64,873	-	64,873	60,727	-	60,727
Non-retirement Domestic Equity Pool	87,221	-	87,221	100,936	-	100,936
SOA International Equity Pool	34,367	-	34,367	38,431	-	38,431
Money market	-	-	-	-	647	647
Total invested assets	<u>\$ 193,081</u>	<u>\$ 2,485</u>	<u>\$ 195,566</u>	<u>\$ 210,786</u>	<u>\$ 3,904</u>	<u>\$214,690</u>

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

Investment Type	June 30, 2008				
	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income	Other	Total
Overnight Sweep Account (LMCS)	\$ 18	\$ -	\$ -	\$ -	\$ 18
Commercial Paper	508	-	-	-	508
Municipal Bonds	-	-	8	-	8
U.S. Treasury Notes	-	777	5,352	-	6,129
U.S. Treasury Bonds	-	-	2,168	-	2,168
U.S. Government Agency	3,392	188	1,117	-	4,697
Mortgage-backed	272	194	39,903	-	40,369
Other Asset-backed	1,580	51	3,635	-	5,266
Corporate Bonds	1,495	115	15,144	-	16,754
Yankees:					
Government	-	14	168	-	182
Corporate	448	40	1,875	-	2,363
Domestic Equity	-	-	-	86,900	86,900
International Equity	-	-	-	34,241	34,241
Total Invested Assets	<u>7,713</u>	<u>1,379</u>	<u>69,370</u>	<u>121,141</u>	<u>199,603</u>
Pool related net assets (liabilities)	<u>5</u>	<u>8</u>	<u>(4,497)</u>	<u>447</u>	<u>(4,037)</u>
Net Invested Assets	<u>\$ 7,718</u>	<u>\$ 1,387</u>	<u>\$ 64,873</u>	<u>\$ 121,588</u>	<u>\$ 195,566</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Investment Fund (Continued)

Investment Type	June 30, 2007				
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool	Other	Total
Overnight Sweep Account (LMCS)	\$ 82	\$ -	\$ -	\$ -	\$ 82
Money Market	-	-	-	647	647
Short-term Investment Fund	490	202	4,227	-	4,919
Commercial Paper	1,084	-	64	-	1,148
U.S. Treasury Notes	-	608	6,007	-	6,615
U.S. Treasury Bonds	-	-	3,561	-	3,561
U.S. Government Agency	-	531	1,579	-	2,110
Mortgage-backed	838	277	39,733	-	40,848
Other Asset-backed	6,020	75	3,756	-	9,851
Corporate Bonds	3,121	180	13,801	-	17,102
Yankees:					
Government	-	23	295	-	318
Corporate	658	61	1,596	-	2,315
Domestic Equity	-	-	-	101,261	101,261
International Equity	-	-	-	38,555	38,555
Total Invested Assets	12,293	1,957	74,619	140,463	229,332
Pool related net assets (liabilities)	(44)	(258)	(13,892)	(448)	(14,642)
Net Invested Assets	<u>\$ 12,249</u>	<u>\$ 1,699</u>	<u>\$ 60,727</u>	<u>\$ 140,015</u>	<u>\$ 214,690</u>

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, 2008 and 2007, the expected average life of individual fixed rate securities ranged from eight days to less than three months.

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 other fixed income pool portfolios to the following:

Intermediate-term Fixed Income Pool - \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, 2008 and 2007, was 2.29 and 2.24 years, respectively.

Broad Market Fixed Income Pool - \pm 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2008 and 2007, was 4.68 and 4.70 years, respectively.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Intermediate-term and Broad Market Fixed Income Pools (Continued)

The effective duration by investment type was as follows at June 30:

	Effective Duration (in years)			
	2008		2007	
	Intermediate Term Fixed Income Pool	Broad Market Fixed Income Pool	Intermediate Term Fixed Income Pool	Broad Market Fixed Income Pool
U.S. Treasury Notes	2.71	7.24	2.41	3.92
U.S. Treasury Bonds	-	13.48	-	11.26
U.S. Government Agency Municipal Bonds	2.46	4.85	1.76	5.79
Mortgage-backed	-	10.96	-	-
Other Asset-backed	2.18	4.37	3.1	4.22
Corporate Bonds	0.65	2.58	1.56	5.53
Yankees-Government	2.38	4.91	2.73	5.26
Yankees-Corporate	3.56	11.93	4.29	10.87
	2.52	5.48	3.58	5.84
Pool Effective Duration	2.32	4.57	1.93	4.06

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.

Treasury has no policy with regard to interest rate risk for the money market balance held in the International Equity Pool.

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 P-1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by either Standard & Poor's or Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's or Fitch. 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 Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. Asset-backed and non-agency mortgage securities that are not rated by either Standard & Poor's or Moody's may be purchased if they have an AAA rating by two of the following: Standard & Poor's, Moody's, or Fitch.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

Treasury has no policy with regard to credit risk for the money market balance held in the International Equity Pool.

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) at June 30:

2008				
Investment Type	Rating ¹	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool
Commercial Paper	Not Rated	6.80%	-	-
U. S. Treasury Notes	AAA	-	52.06%	7.57%
U. S. Treasury Bonds		-	-	3.07%
U.S. Government Agency	AAA	44.00%	12.55%	1.33%
U.S. Government Agency	Not Rated	-	0.03%	0.25%
Municipal Bonds	AA	-	-	0.01%
Mortgage-backed	AAA	2.99%	9.41%	45.66%
Mortgage-backed	AA	0.20%	-	-
Mortgage-backed	A	0.12%	-	-
Mortgage-backed	BBB	-	0.02%	-
Mortgage-backed	Not Rated	0.24%	3.53%	10.76%
Other Asset-backed	AAA	16.17%	2.03%	2.88%
Other Asset-backed	AA	0.63%	0.08%	0.32%
Other Asset-backed	A	2.53%	1.12%	1.12%
Other Asset-backed	BBB	0.24%	0.09%	0.34%
Other Asset-backed	BB	0.92%	0.11%	0.48%
Corporate Bonds	AAA	2.01%	1.09%	1.88%
Corporate Bonds	AA	12.20%	2.58%	4.97%
Corporate Bonds	A	4.10%	1.86%	8.83%
Corporate Bonds	BBB	-	1.39%	4.70%
Corporate Bonds	Not Rated	1.09%	0.79%	1.03%
Yankees:				
Government	AA	-	0.93%	-
Government	BBB	-	-	0.15%
Government	Not Rated	-	-	0.09%
Corporate	AAA	-	0.94%	0.00%
Corporate	AA	3.81%	1.06%	0.61%
Corporate	A	1.26%	0.09%	1.04%
Corporate	BBB	-	0.39%	0.78%
Corporate	Not Rated	0.74%	0.20%	0.22%
No Credit Exposure		-0.05%	7.65%	1.91%
		100.00%	100.00%	100.00%

¹Rating modifiers are not disclosed.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

2007				
Investment Type	Rating ¹	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool
Overnight Sweep Account	Not Rated	0.61%	-	-
Short-term Investment				
Account	Not Rated	3.99%	0.05%	-
Commercial Paper	AA	1.88%	-	-
Commercial Paper	A	3.09%	-	-
Commercial Paper	Not Rated	3.86%	-	0.11%
U. S. Government Agency				
Discount Notes	Not Rated	-	11.83%	6.96%
U. S. Government Agency	AAA	-	31.21%	1.82%
U. S. Government Agency	BBB	-	-	0.16%
U. S. Government Agency	Not Rated	-	0.05%	0.62%
Mortgage-backed	AAA	6.50%	14.75%	55.03%
Mortgage-backed	A	0.32%	-	-
Mortgage-backed (Agency)	Not Rated	-	1.57%	10.39%
Other Asset-backed	AAA	40.98%	2.46%	4.73%
Other Asset-backed	AA	0.91%	-	-
Other Asset-backed	A	6.34%	0.88%	0.09%
Other Asset-backed	BBB	-	0.29%	1.37%
Other Asset-backed	Not Rated	0.78%	0.76%	-
Corporate Bonds	AAA	1.97%	0.93%	2.14%
Corporate Bonds	AA	15.13%	4.01%	4.25%
Corporate Bonds	A	8.31%	2.98%	7.47%
Corporate Bonds	BBB	-	2.51%	7.57%
Corporate Bonds	Not Rated	-	0.14%	1.29%
Yankees -Government	AAA - BBB	-	1.36%	0.49%
Yankees - Corporate	AAA	-	1.84%	0.26%
Yankees - Corporate	AA	3.09%	1.21%	-
Yankees - Corporate	A	1.75%	0.29%	1.45%
Yankees - Corporate	BBB	-	0.25%	0.92%
Yankees - Corporate	Not Rated	0.52%	-	-
No credit exposure		-0.03%	20.63%	-7.12%
		100.00%	100.00%	100.00%

¹Rating modifiers are not disclosed.

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, the Investment Fund had more than five percent of its investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

	2008		2007	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation	\$ 8,197,640	7%	\$ -	-
Federal National Mortgage Association	-	-	17,973,074	8%

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for the fund at the beginning of each fiscal year which places policy limitations on the amount of international securities the fund is allowed to hold.

The following policy was in place during fiscal years 2008 and 2007 and invested assets included the following holdings at June 30, 2008 and 2007, for the fund's investment in the International Equity Pool:

	Policy	Actual	
		2008	2007
EVOS Research Investment Fund	17% ± 5%	17.49%	17.38%
EVOS Habitat Investment Fund	17% ± 5%	18.49%	18.94%
EVOS Koniag Investment Fund	17% ± 5%	18.68%	19.11%

At June 30, 2008 the fund had exposure to foreign currency risk as follows:

	Currency	Fair Value
Deposits:		
	Euro Currency	\$ 13,889
	Japanese Yen	35,879
		49,768
Investments - International Equity		
	Canadian Dollar	640,593
	Euro Currency	9,483,022
	Japanese Yen	4,108,722
	Norwegian Krone	277,053
	Pound Sterling	6,121,683
	Singapore Dollar	842,803
	Swedish Krona	240,847
	Swiss Franc	3,452,638
		25,167,362
Total		\$ 25,217,130

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

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. In February 2008, the Commissioner suspended the securities lending agreement with State Street Corporation (the Bank) which lent equity and domestic fixed income securities. Prior to suspension, the Bank, acting as the Commissioner's agent under the agreement, transferred securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agreed to return the collateral for the same securities in the future.

At June 30, 2008 and 2007, the fair value of securities on loan allocable to the Investment Fund totaled \$- and \$7,857,994, respectively.

At June 30, 2008 and 2007, the fair value of securities on loan allocable to the Settlement Trust totaled \$- and \$647,196, respectively.

While the securities lending agreement was active there was no limit to the amount that can be loaned and the Commissioner was able to sell securities on loan. International equity security loans were collateralized at not less than 105 percent of their fair value. All other security loans were collateralized at not less than 102 percent of their fair value. Loaned securities and collateral were marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral was invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements were terminable at will. Collateral securities could have been pledged or sold upon borrower default. Since the Commissioner did not have the ability to pledge or sell the collateral securities unless the borrower defaulted, they were not recorded on the combined schedules in prior years. Securities under loan, cash collateral and cash collateral payable were recorded on the combined schedules at fair value. The Bank and participating funds received a fee from earnings on invested collateral. The Bank and participating funds shared a fee paid by the borrower for loans not collateralized with cash.

There was limited credit risk associated with the lending transactions since the Commissioner was 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 indemnified the Commissioner against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications were subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the years ended June 30, 2008 and 2007, 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, Natural Resources Damage Assessment and Restoration Fund at the U.S. Department of the Treasury. At September 30, 2008 and 2007, 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, 2008 and 2007. There are no uninsured or unregistered deposits or investments.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

NRDA&R (Continued)

NRDA&R investments consist of the following at September 30, 2008 and 2007:

	September 30, 2008		September 30, 2007	
	Cost	Market Value	Cost	Market Value
<u>Cash and Equivalents</u>				
Cash	\$ -	\$ -	\$ 132	\$ 132
<u>U.S. Treasury Bills and Notes</u>				
US Treasury Bill	681,639	681,639	2,543,623	2,543,623
	<u>\$ 681,639</u>	<u>\$ 681,639</u>	<u>\$2,543,755</u>	<u>\$2,543,755</u>

4. CONTRIBUTIONS BY EXXON CORPORATION

Agreement and Consent Decree

On October 8, 1991, the United States, the State of Alaska, Exxon Corporation (Exxon), 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.

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

Date Payment Due	Amount
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; under which the governments have submitted a claim for \$92 million 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 status of this claim has not yet been resolved.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

5. REIMBURSEMENTS TO THE UNITED STATES AND THE STATE

Under the terms of the Agreement, certain amounts paid by Exxon were to be made directly to the United States and the State. These payments were to be used solely to reimburse them for response and clean up costs, natural resource damages assessment costs, to assess injury resulting from the Oil Spill and to plan, implement, and monitor the restoration, rehabilitation, or replacement of natural resources, natural resource serves, or archaeological sites and artifacts injured, lost or destroyed as a result of the Oil Spill, or the acquisition of equivalent resources or services. In addition, certain payments to the State were to be used solely to reimburse them for attorney fees, experts' fees and other costs, and reasonable litigation costs incurred by the State. Reimbursement payments for the items above were for costs incurred prior to dates stipulated in the Agreement. Some of the costs subject to reimbursement were capped by the Agreement.

6. DISBURSEMENTS FROM THE 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.

Several of the projects approved as part of the *Fiscal Year 2007 Work Plan* and *Fiscal Year 2008 Work Plan* include approval of multi-year funding.

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, 2008 and 2007 disbursements to the United States were reduced by \$330,000 and \$73,739, respectively, for such interest income and unspent or unobligated balances. During fiscal years ending June 30, 2008 and 2007 disbursements to the State were reduced by \$1,595,187 and \$98,074, respectively, for such interest income and unspent or unobligated balances.

Disbursements from the Investment Fund

During the years ended June 30, 2008 and 2007, the Council disbursed \$6,355,287 and \$9,038,210, respectively, for restoration projects, land acquisition and other Council Authorizations pursuant to the MOA as follows:

	Year Ended	
	2008	2007
Restoration Projects Authorized by the Council		
To be conducted by the State	\$ 1,478,585	\$ 3,065,386
To be conducted by the United States	<u>3,996,011</u>	<u>5,448,660</u>
Total Restoration projects	<u>5,474,596</u>	<u>8,514,046</u>
Land Acquisitions and Research Infrastructure		
Improvements Authorized by the council		
to be acquired by the United States	506,056	472,567
Investment Management Fees	<u>145,685</u>	<u>164,034</u>
Total Disbursements from the Investment Fund	<u>\$ 6,126,337</u>	<u>\$ 9,150,647</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

6. DISBURSEMENTS FROM THE INVESTMENT FUND (Continued)

Reconciliation between deductions of the Investment Fund per the Statements of Changes in Fiduciary Assets and Liabilities for period ending June 30, 2008 and 2007 and contributions into NRDA&R fund Statement of Receipts, Disbursements and Changes in Trust Fund Balance for period ending September 30, 2008 and 2007 is as follows:

	Year Ended	
	2008	2007
Transfers to NRDA&R per Investment Fund		
Statement of Activities	\$ 4,502,067	\$ 5,921,227
Less Transfers 7/1/2006-9/30/2006	-	(472,567)
Plus Transfers 7/1/2007-9/30/2007	-	2,674,238
Less Transfers 7/1/2007-9/30/2007	(2,674,238)	-
Plus Transfers 7/1/2008-9/30/2008	721,280	-
Contributions from <i>Exxon Valdez</i> Oil Spill Investment Fund	<u>\$ 2,549,109</u>	<u>\$ 8,122,898</u>

7. DEFERRED REVENUE

NRDA&R received the United States' disbursement related to the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2009 prior to September 30, 2008. The amount received of \$196,735 for fiscal 2009 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 received \$2,168,182 for fiscal 2008 in fiscal 2007. NRDA&R also received \$539,545 and \$506,056 in September 2008 and 2007, respectively, related to the annual payment for the Koniag Easement. These funds are expected to be disbursed in fiscal 2009 and 2008.

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, 2008, 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 2008 and fiscal 2007, no large parcel acquisitions were completed. The most recently completed large parcel acquisition was in fiscal year 2003.

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. Parcels are evaluated based resource value of the parcel, adverse impacts from human activity, and potential benefits to management of public lands.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

8. REAL PROPERTY ACQUISITIONS (Continued)

Through September 30, 2008, the Trustee Council has completed the acquisition on 113 parcels containing 10,330 acres with a total cost of \$23,000,950. 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 for management by a State agency of local government, or the U.S. Department of the Interior, Fish and Wildlife Service. Of the total purchase cost on the parcels acquired to date, \$22,489,450 is being provided from the *Exxon Valdez* Oil Spill Trust Funds, and \$511,500 from other sources.

Pending Parcel Acquisitions

A small parcel acquisition offer for 3 acres is expected to close March 23, 2009.

Four small parcel acquisition offers for 20, 57, 160 and 160 acres have been accepted and are expected to close during fiscal 2009.

Several acquisition offers in Afognak have been accepted and are expected to close in fiscal year 2009. This includes timber rights on 1,385 acres, and two parcel purchases of 1,749 and 1,997 acres.

Kodiak Island Borough Master Waste Management Plan

The Council 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 upgraded and improved landfills, disposal sites and solid waste management, and constructed and installed used oil and hazardous waste storage and disposal facilities and equipment, and provided 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.

Archeological Repository

The Trustee Council has 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, 2007, \$2,698,312 has been expended on the project. All display facilities were completed in December 2007. DNR has secured a commitment from the State Museum to assist the local communities in developing the capacity to create exhibits for the local display facilities established through this project, promoting community ownership of local artifacts. The development of this local capacity and resulting exhibits will complete the remaining work envisioned under this project. It is anticipated that this project will be completed by June 2011.

9. SUBSEQUENT EVENTS

On July 18, 2008, the Council notified the United States District Court of Alaska of a disbursement of \$196,735 from the Research Investment Sub-Account of the Investment Fund, for the Fiscal Year 2009 Work Plan. \$181,735 of this amount has been recorded in the NRDA&R accounts and is reflected on the income statement for the year ended September 30, 2008.

On August 29, 2008, the Council notified the United States District Court of Alaska of a disbursement of \$539,545 from the Koniag Investment Sub-Account of the Investment Fund for a non-development easement on lands it owns. This amount has been recorded in the NRDA&R accounts and is reflected on the income statement for the year ended September 30, 2008.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

9. SUBSEQUENT EVENTS (Continued)

On September 17, 2008, the Council notified the United States District Court of Alaska of a disbursement of \$629,000 from the Habitat Investment Sub-Account of the Investment Fund and \$124,000 from the State of Alaska Settlement Fund (monies previously disbursed and interest earnings) for the Fiscal Year 2009 Work Plan and to fund the acquisition of lands along the Kenai River.

On November 25, 2008, the Council notified the United States District Court of Alaska of a disbursement of \$5,907,674 from the Research Investment Sub-Account of the Investment fund and \$220,000 from the State of Alaska Settlement Fund (monies previously disbursed and interest earnings) for the Fiscal Year 2009 work plan.

On March 23, 2009 a small parcel acquisition for 3 acres closed.

On May 22, 2009, the Council notified the United States District Court of Alaska of a disbursement of \$437,497 from the Research Investment Sub-Account of the Investment Fund and \$15,515 from the State of Alaska Settlement Fund (monies previously disbursed and interest earnings) for the Fiscal Year 2009 Work Plan.

Recent market conditions have resulted in an unusually high degree of volatility and decreased short-term liquidity of many investments held by the State of Alaska. There has been a significant negative return on investment assets since the balance sheet date. This could adversely impact the funding status of the State Investment fund, the overall investment earnings of the Trust Funds.

SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

ELGEE REHFELD MERTZ, LLC

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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 Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the year ended June 30, 2008 and 2007, and the Natural Resource Damage Assessment and Restoration Fund (NRDA&R) as of September 30, 2008 and 2007, as listed in the accompanying table of contents, and have issued our report thereon dated October 1, 2009. 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 page 26, is presented for purposes of additional analysis and is not a required part of the financial statements. With the exception of the projects, on page 26, which are marked "unaudited" on which we express no opinion, the information in this schedule 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.



October 1, 2009

Exxon Valdez Oil Spill Trustee Council
Schedule of Cumulative Expenditures and Obligations - Budget and Actual
For The Fiscal Year Ending September 30, 2008

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	Alaska Department of Environmental Conservation	Department of Interior, U.S. Geological Survey	Department of Interior, Office of Secretary	Department of Interior, Fish and Wildlife Service	Alaska Department of Natural Resources	Department of Agriculture, United States Forest Service	Department of Interior, Office of Environmental Policy	Total
Audited												
080100	Administration	\$ 2,355,269	\$ 95,761	\$ 1,229,665	\$ 8,674	\$ 240,575	\$ 52,943	\$ 22,773	\$ 95,831	\$ 28,064	\$ 7,630	\$ 1,781,916
070801	Assessment of Lingering Oil in Prince Williams Sound	1,594,100	1,549,872	-	-	35,551	-	-	-	-	-	1,585,423
070836	Factors Responsible for Limiting the Degradation Rate	1,253,900	986,028	-	-	-	-	-	-	-	-	986,028
070819	PWS Herring Disease Program	1,035,000	-	7,439	-	364,570	-	-	-	-	-	372,009
070810	Ecosystem Model of PWS Herring	752,400	501,632	-	-	-	-	-	-	-	-	501,632
070853	Pigeon Guillemot Restoration	649,700	-	-	-	-	-	495,663	-	-	-	495,663
Unaudited												
070805	ShoreZone Mapping for PWS	560,200	341,171	-	-	-	-	-	-	-	-	341,171
080840	Biodegradability of Lingering Oil	535,973	-	-	-	-	-	-	-	-	-	-
070808-A	Nearshore Synthesis: Sea Otters & Sea Ducks	485,300	-	-	-	223,186	-	-	-	-	-	223,186
070830	Trends in Adult and Juvenile Herring Distribution & Abundance in PWS	433,600	206,800	-	-	-	-	-	-	-	-	206,800
070340	Alaska Coastal Current Monitoring	389,000	-	135,188	-	-	-	-	-	-	-	135,188
080811	PWS Herring Forage Contingency	353,700	353,701	-	-	-	-	-	-	-	-	353,701
070782	Herring Restoration: Identifying Natal & Nursery Habitats	335,000	-	138,304	-	-	-	-	-	-	-	138,304
080804	Significance of Whale Predation	327,800	197,263	132,871	-	-	-	-	-	-	-	330,134
070808	Sea Otter Recovery and Nearshore Synthesis	251,700	-	-	-	237,732	-	-	-	-	-	237,732
080814	Seabird Predation on Juvenile Herring in PWS	204,300	-	-	-	-	-	163,472	-	-	-	163,472
080822	Herring Data and Information Portal	204,000	-	197,460	-	-	-	-	-	-	-	197,460
070816	Evaluating Harlequin Duck Population Recovery	201,700	-	-	-	199,400	-	-	-	-	-	199,400
080806	Are Herring Energetics a Limiting Factor	187,300	210,451	-	-	-	-	-	-	-	-	210,451
080839	Evaluating Injury to Harlequin Ducks	148,600	-	144,100	-	-	-	-	-	-	-	144,100
080742	Killer Whales in PWS/Kenai Fjords	129,600	129,557	-	-	-	-	-	-	-	-	129,557
080759	Harlequin Duck Population Dynamics in PWS	117,400	-	154,002	-	-	-	-	-	-	-	154,002
080630-A	Administration-NOS Grant Funding	89,040	-	-	-	-	-	-	-	-	-	-
080821	Culture Technology to Support Restoration of Herring in PWS	87,900	-	87,900	-	-	-	-	-	-	-	87,900
080817	Factors Affecting Productivity in Juvenile Pacific Herring Nursery Habitats	70,100	70,103	-	-	-	-	-	-	-	-	70,103
080759-A	Amendment to Harlequin Duck Pop. Dynamics	40,600	-	-	-	-	-	-	-	-	-	-
080751	PWS Marine Bird Surveys, Synthesis & Restoration	36,000	-	-	-	-	-	35,679	-	-	-	35,679
080834	Identification of Essential Habitat for Pacific Herring	23,500	-	1,900	-	-	-	-	-	-	-	1,900
080290	Hydrocarbon Database	11,100	11,070	-	-	-	-	-	-	-	-	11,070
		<u>\$ 12,863,782</u>	<u>\$ 4,653,409</u>	<u>\$ 2,228,829</u>	<u>\$ 8,674</u>	<u>\$ 1,301,014</u>	<u>\$ 52,943</u>	<u>\$ 717,587</u>	<u>\$ 95,831</u>	<u>\$ 28,064</u>	<u>\$ 7,630</u>	<u>\$ 9,093,981</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2008

1. PRESENTATION

The information presented in the accompanying Schedule of Cumulative 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 2008 Work*, and any amendments approved thereto, along with cumulative expenditures and obligations incurred by the Trustee Agencies in carrying out the *Fiscal Year 2008 Workplan* and 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 year 2008 and cumulative prior year expenditures for multi-year projects included in the *Fiscal Year 2008 Workplan* are included in the schedule.

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 Funds 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 Funds Financial Statements, the United States accounts for the U.S. Department of the Interior, 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 and Obligations column in the accompanying Schedule 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 several revisions of the original Procedures that supersede the previous Procedures. The most recent revision of the original Procedures was adopted June 27, 2007. 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.

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.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2008

3. FINANCIAL OPERATING PROCEDURES (Continued)

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.

REPORTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

ELGEE REHFELD MERTZ, LLC

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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 years ended June 30, 2008 and 2007, and have issued our report thereon dated October 1, 2009. 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 Investment Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund's financial statements that is more than inconsequential will not be prevented or detected by the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Investment 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 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 October 1, 2009.

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.

A handwritten signature in black ink, consisting of the letters 'E', 'R', and 'M' in a stylized, cursive-like font.

October 1, 2009

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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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 Resources Damage Assessment and Restoration Fund as of and for the years ended September 30, 2008 and 2007, and have issued our report thereon dated October 1, 2009. 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 Resources Damage Assessment and Restoration Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund's financial statements that is more than inconsequential will not be prevented or detected by the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Resources 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 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 October 1, 2009.

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.

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

October 1, 2009

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2008 and 2007, and have issued our report thereon dated October 1, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's financial statements that is more than inconsequential will not be prevented or detected by the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 October 1, 2009.

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.

A handwritten signature in black ink, consisting of the letters 'E', 'R', and 'M' in a stylized, cursive-like font.

October 1, 2009