# *EXXON VALDEZ* OIL SPILL TRUSTEE COUNCIL

# TRUST FUNDS FINANCIAL STATEMENTS

and

# SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Fiscal Years 2009 and 2008

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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## INDEPENDENT AUDITORS' REPORT

*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 Trust as of and for the years ended June 30, 2009 and 2008, and the Natural Resources Damage Assessment and Restoration Fund (NRDA&R) as of and for the years ended September 30, 2009 and 2008, as listed in the 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 audit 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 statements of the State of Alaska, *Exxon Valdez* Oil Spill Investment Fund (Investment Fund) present only the Investment Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska or any of its component units as of June 30, 2009 and 2008, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the financial statements of the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R) *Exxon Valdez* Civil Settlement Restoration present only the amounts related to the *Exxon Valdez* Oil Spill Trustee Council and do not purport to, and do not, present fairly the financial position of NRDA&R or the U.S. Department of Interior, Fish and Wildlife Service as of September 30, 2009 and 2008, and the results of their operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 accounting principles generally accepted of the United States of America.

As discussed in Note 2, the financial statements of the State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust (Settlement Trust) present only the Settlement Trust and do not purport to, and do not, present fairly the financial position of the State of Alaska or any of its component units as of June 30, 2009 and

2008, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R) *Exxon Valdez* Civil Settlement Restoration present fairly, in all material respects, the cash balances of NRDA&R as of September 30, 2009 and 2008 and the changes in the trust fund balance for the years then ended in conformity with the basis of accounting described in Note 2 for NRDA&R.

In our opinion the financial statements of the State of Alaska, *Exxon Valdez* Oil Spill Investment Fund and Settlement Trust present fairly, in all material respects, the financial positions of the Investment Fund and Settlement Trust as of June 30, 2009 and 2008, and the changes in fiduciary net assets and liabilities and the changes in trust fund balances, respectively, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our reports dated August 9, 2010, on our consideration of the *Exxon Valdez* Oil Spill Trustee Council's 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.

ERM

August 9, 2010

*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, 2009 and 2008

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Research | Habitat | Koniag | Total | Research | Habitat | Koniag | Total |
| ASSETS: | | | | | | | | |
| Cash and Investments | $ 86,503,906 | $ 26,139,873 | $ 37,482,456 | $ 150,126,235 | $ 110,185,801 | $ 37,802,889 | $ 45,092,012 | $ 193,080,702 |
| Total Assets | $ 86,503,906 | $ 26,139,873 | $ 37,482,456 | $ 150,126,235 | $ 110,185,801 | $ 37,802,889 | $ 45,092,012 | $ 193,080,702 |
| LIABILITIES: | | | | | | | | |
| Accounts Payable | $ 91,607 | $ 27,679 | $ 39,699 | $ 158,985 | $ 51,258 | $ 16,792 | $ 20,327 | $ 88,377 |
| Assets Held in Custody by the State of Alaska | 86,412,299 | 26,112,194 | 37,442,757 | 149,967,250 | 110,134,543 | 37,786,097 | 45,071,685 | 192,992,325 |
| Total Liabilities | $ 86,503,906 | $ 26,139,873 | $ 37,482,456 | $ 150,126,235 | $ 110,185,801 | $ 37,802,889 | $ 45,092,012 | $ 193,080,702 |

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, 2009 and 2008

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Research | Habitat | Koniag | Total | Research | Habitat | Koniag | Total |
| ASSETS | | | | | | | | |
| Investments, Beginning of Year | $ 110,185,801 | $ 37,802,889 | $ 45,092,012 | $ 193,080,702 | $ 121,838,846 | $ 40,507,977 | $ 48,439,482 | $ 210,786,305 |
| Additions: | | | | | | | | |
| Interest and investment income (loss) | (16,541,276) | (5,859,224) | (7,049,684) | (29,450,184) | (6,460,652) | (2,310,708) | (2,807,906) | (11,579,266) |
| Total Additions (Losses) | (16,541,276) | (5,859,224) | (7,049,684) | (29,450,184) | (6,460,652) | (2,310,708) | (2,807,906) | (11,579,266) |
| Deductions: | | | | | | | | |
| State of Alaska, | | | | | | | | |
| *Exxon Valdez* Oil Spill Settlement Trust | 2,660,514 | 5,787,000 | - | 8,447,514 | 1,111,885 | 366,700 | - | 1,478,585 |
| Investment management fees | 51,259 | 16,792 | 20,327 | 88,378 | 84,497 | 27,680 | 33,508 | 145,685 |
| United States Department of the Interior, Natural Resources Damage Assessment and Restoration Fund | 4,428,846 | - | 539,545 | 4,968,391 | 3,996,011 | - | 506,056 | 4,502,067 |
| Total Deductions | 7,140,619 | 5,803,792 | 559,872 | 13,504,283 | 5,192,393 | 394,380 | 539,564 | 6,126,337 |
| Assets - Investments, End of Year | $ 86,503,906 | $ 26,139,873 | $ 37,482,456 | $ 150,126,235 | $ 110,185,801 | $ 37,802,889 | $ 45,092,012 | $ 193,080,702 |
| LIABILITIES | | | | | | | | |
| Accounts Payable, Beginning of Year | $ 51,258 | $ 16,792 | $ 20,327 | $ 88,377 | $ 32,574 | $ 10,671 | $ 12,917 | $ 56,162 |
| Additions | 91,607 | 27,679 | 39,699 | 158,985 | 51,258 | 16,792 | 20,327 | 88,377 |
| Deductions | 51,258 | 16,792 | 20,327 | 88,377 | 32,574 | 10,671 | 12,917 | 56,162 |
| Accounts Payable, End of Year | 91,607 | 27,679 | 39,699 | 158,985 | 51,258 | 16,792 | 20,327 | 88,377 |
| Assets Held in Custody by the State of Alaska, Beginning of Year | 110,134,543 | 37,786,097 | 45,071,685 | 192,992,325 | 121,806,272 | 40,497,306 | 48,426,565 | 210,730,143 |
| Additions | 86,412,299 | 26,112,194 | 37,442,757 | 149,967,250 | 110,134,543 | 37,786,097 | 45,071,685 | 192,992,325 |
| Deductions | 110,134,543 | 37,786,097 | 45,071,685 | 192,992,325 | 121,806,272 | 40,497,306 | 48,426,565 | 210,730,143 |
| Assets Held in Custody by the State of Alaska, End of Year | 86,412,299 | 26,112,194 | 37,442,757 | 149,967,250 | 110,134,543 | 37,786,097 | 45,071,685 | 192,992,325 |
| | $ 86,503,906 | $ 26,139,873 | $ 37,482,456 | $ 150,126,235 | $ 110,185,801 | $ 37,802,889 | $ 45,092,012 | $ 193,080,702 |

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 - CASH BASIS

September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| ASSETS: | | |
| Cash and investments | $ 786,320 | $ 681,639 |
| Total Assets | $ 786,320 | $ 681,639 |
| LIABILITIES AND FUND BALANCE: | | |
| Trust Fund Balance | $ 786,320 | $ 681,639 |
| Total Liabilities and Trust Fund Balance | $ 786,320 | $ 681,639 |

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 - CASH BASIS

For the Years Ended September 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Receipts: | | |
| Contributions: | | |
| *Exxon Valdez* Oil Spill Investment Fund | $ 4,843,372 | $ 2,549,109 |
| *Exxon Valdez* Oil Spill Settlement Trust | - | 104,494 |
| Unobligated Balances Returned to NRDA&R: | | |
| U.S. Geological Survey | 20,913 | - |
| Investment Income | 2,278 | 56,378 |
| Total Receipts | 4,866,563 | 2,709,981 |
| Disbursements: | | |
| U.S. Department of Interior: | | |
| Fish and Wildlife Service | 320,285 | 591,744 |
| U.S. Geological Survey | 865,853 | 1,082,609 |
| National Park Service | 341,737 | 32,700 |
| Office of the Secretary | 924,745 | 346,802 |
| U.S. Department of Agriculture, Forest Service | 36,650 | - |
| U.S. Department of Commerce, National Oceanic and Atmospheric Administration | 2,272,612 | 2,518,242 |
| Total Disbursements | 4,761,882 | 4,572,097 |
| Excess (Deficiency) of Receipts Over Disbursements | 104,681 | (1,862,116) |
| Trust Fund Balance, Beginning of Year | 681,639 | 2,543,755 |
| Trust Fund Balance, End of Year | $ 786,320 | $ 681,639 |

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, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| ASSETS: | | |
| Cash and investments | $ 7,877,541 | $ 2,484,960 |
| Accounts receivable | - | 35,375 |
| Total Assets | $ 7,877,541 | $ 2,520,335 |
| LIABILITIES AND FUND BALANCES: | | |
| Liabilities: | | |
| Accounts payable | $ 5,416,299 | $ 362,339 |
| Due to State of Alaska General Fund | 49,449 | 81,293 |
| Total Liabilities | 5,465,748 | 443,632 |
| Fund Balances: | | |
| Reserved for encumbrances | 203,889 | 158,418 |
| Unreserved | | |
| Designated for continuing appropriations | 6,118,962 | 11,765,476 |
| Undesignated | (3,911,058) | (9,847,191) |
| Total Trust Fund Balance | 2,411,793 | 2,076,703 |
| Total Liabilities and Trust Fund Balance | $ 7,877,541 | $ 2,520,335 |

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, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Revenues: | | |
| Contributions - State of Alaska | | |
| *Exxon Valdez* Oil Spill Investment Fund | $ 8,447,514 | $ 1,478,585 |
| Interest and investment income | 169,872 | 195,557 |
| Federal grants in aid | 40,907 | 71,675 |
| Total Revenues | 8,658,293 | 1,745,817 |
| Expenditures: | | |
| Current Operating: | | |
| Natural Resources Damage Assessment | | |
| and Restoration Projects - Alaska | | |
| Department of Fish and Game | 2,522,350 | 2,363,887 |
| Department of Natural Resources | 152,002 | 175,096 |
| Department of Finance | - | 14,323 |
| Total Current Operating Expenditures | 2,674,352 | 2,553,306 |
| Capital Expenditures: | | |
| Research Infrastructure Improvements - Alaska | | |
| Department of Natural Resources | - | 12,523 |
| Land Acquisitions - Alaska | | |
| Department of Natural Resources | 5,648,851 | - |
| Total Capital Expenditures | 5,648,851 | 12,523 |
| Total Expenditures | 8,323,203 | 2,565,829 |
| Excess (Deficiency) of Revenues Over Expenditures | 335,090 | (820,012) |
| Other financing sources - transfers from other funds | - | 78,028 |
| Net change in fund balances | 335,090 | (741,984) |
| Trust Fund Balance, Beginning of Year | 2,076,703 | 2,818,687 |
| Trust Fund Balance, End of Year | $ 2,411,793 | $ 2,076,703 |

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

## 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 the 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 2009 and 2008, 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 disbursement procedures discussed in Note 6.

## 1. *EXXON VALDEZ* OIL SPILL TRUSTEE COUNCIL (Continued)

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.

## 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) *Exxon Valdez* Civil Settlement Restoration. NRDA&R was established pursuant to Public Law 102-154, and is administered by the U.S. Department of the 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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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 coinciding with the scheduled dates 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 the Interior 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 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)
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 of accounting.

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 monies 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 the fund balance since they do not constitute expenditures or liabilities.

Effective July 1, 1997, interest and investment income is allocated to the Settlement Trust as agreed to under a Memorandum of Understanding (MOU) by and between the State Departments of Revenue and Administration dated November 26, 1997. Under the MOU, 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 the Investment Fund, NRDA&R, and the Settlement Trust. This is due to the fact that ownership of the Trust Funds rests separately with the U.S. Department of the Interior, U.S. 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, 2009 and 2008, but which relate to fiscal years 2009 and 2008 restoration activities.

## 3. CASH AND INVESTMENTS

Cash and investments for the Investment Fund, and the Settlement Trust as of June 30, 2009 and 2008 and for NRDA&R as of September 30, 2009 and 2008 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.

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. Fixed income and international equity securities are valued each business day using prices obtained from a pricing service. The domestic equity account is valued each business day by the Trustee Committee in good faith and pursuant to procedures established by the Trustee. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates.

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 the state legislature. Income in the other fixed income pools and the International Equity Pool is allocated to pool participants daily on a pro rata basis. Domestic equity income is distributed quarterly.

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

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| Type of Investment Pool | Investment Fund | Settlement Trust | Total | Investment Fund | Settlement Trust | Total |
| Short-term Fixed Income Pool | $ 658 | $ 3,121 | $ 3,779 | $ 6,620 | $ 1,098 | $ 7,718 |
| Intermediate-term Fixed Income Pool | - | 4,757 | 4,757 | - | 1,387 | 1,387 |
| Broad Market Fixed Income Pool | 51,571 | - | 51,571 | 64,873 | - | 64,873 |
| Non-retirement Domestic Equity Pool | 72,909 | - | 72,909 | 87,221 | - | 87,221 |
| SOA International Equity Pool | 24,988 | - | 24,988 | 34,367 | - | 34,367 |
| Total Invested Assets | $ 150,126 | $ 7,878 | $ 158,004 | $ 193,081 | $ 2,485 | $ 195,566 |

## 3. CASH AND INVESTMENTS (Continued)

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

June 30, 2009

| Investment Type | Short-term Fixed Income Pool | Intermediate-term Fixed Income Pool | Broad Market Fixed Income Pool | Other | Total |
|---|---|---|---|---|---|
| Deposit | $ 18 | $ - | $ - | $ - | $ 18 |
| Short-term Investment Fund | 660 | - | - | - | 660 |
| Commercial Paper | 370 | - | - | - | 370 |
| U.S. Treasury Notes | 746 | 2,132 | 8,342 | - | 11,220 |
| U.S. Treasury Bonds | 1,342 | - | 955 | - | 2,297 |
| U.S. Government Agency | 162 | 1,390 | 1,823 | - | 3,375 |
| Mortgage-backed | 233 | 441 | 25,454 | - | 26,128 |
| Other Asset-backed | 737 | 29 | 636 | - | 1,402 |
| Corporate Bonds | 1,993 | 513 | 10,180 | - | 12,686 |
| Yankees: | | | | | |
| Government | - | 37 | 143 | - | 180 |
| Corporate | 429 | 202 | 2,053 | - | 2,684 |
| Domestic Equity | - | - | - | 72,805 | 72,805 |
| International Equity | - | - | - | 24,953 | 24,953 |
| Total Invested Assets | 6,690 | 4,744 | 49,586 | 97,758 | 158,778 |
| Pool related net assets (liabilities) | 11 | 13 | (937) | 139 | (774) |
| Other Pool Ownership | (2,922) | - | 2,922 | - | - |
| Net Invested Assets | $ 3,779 | $ 4,757 | $ 51,571 | $ 97,897 | $ 158,004 |

June 30, 2008

| Investment Type | Short-term Fixed Income Pool | Intermediate-term Fixed Income Pool | Broad Market Fixed Income Pool | 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 | 7,713 | 1,379 | 69,370 | 121,141 | 199,603 |
| Pool related net assets (liabilities) | 5 | 8 | (4,497) | 447 | (4,037) |
| Net Invested Assets | $ 7,718 | $ 1,387 | $ 64,873 | $ 121,588 | $ 195,566 |

**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 upon purchase. Floating rate securities are limited to three years in maturity or three years expected average life upon purchase. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2009, the expected average life of individual fixed rate securities ranged from one day to six and one-half years and the expected average life of floating rate securities ranged from one day to eight years. At June 30, 2008, the expected average life of individual fixed rate securities ranged from eight days to less than three months.

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.

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 the Intermediate-term Fixed Income Pool and Broad Market Fixed Income Pools to the following:

Intermediate-term Fixed Income Pool - ± 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, 2009 and 2008, was 2.54 and 2.29 years, respectively.

Broad Market Fixed Income Pool - ± 20% of the Barclays Capital U.S. Aggregate Bond Index. The effective duration for the Barclays Capital U.S. Aggregate Bond Index at June 30, 2009 and 2008, was 4.30 and 4.68 years, respectively.

## 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) | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Intermediate-term Fixed Income Pool | Broad Market Fixed Income Pool | Intermediate-term Fixed Income Pool | Broad Market Fixed Income Pool |
| U.S. Treasury Notes | 3.07 | 6.01 | 2.71 | 7.24 |
| U.S. Treasury Bonds | - | 12.81 | - | 13.48 |
| U.S. Government Agency | 2.02 | 6.92 | 2.46 | 4.85 |
| Municipal Bonds | - | - | - | 10.96 |
| Mortgage-backed | 2.42 | 3.3 | 2.18 | 4.37 |
| Other Asset-backed | 0.71 | 1.89 | 0.65 | 2.58 |
| Corporate Bonds | 2.1 | 4.78 | 2.38 | 4.91 |
| Yankees-Government | 2.73 | 11.37 | 3.56 | 11.93 |
| Yankees-Corporate | 2.81 | 4.8 | 2.52 | 5.48 |
| Pool Effective Duration | 2.52 | 4.19 | 2.32 | 4.57 |

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:

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 must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. If only rated by one of these agencies, asset-backed and non-agency mortgage securities may be purchased if the rating is AAA.

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 must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. If only rated by one of these agencies, asset-backed and non-agency mortgage securities may be purchased if the rating is AAA.

## 3. CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

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:

| | | 2009 | | |
|---|---|---|---|---|
| Investment Type | Rating[1] | Short-term Fixed Income Pool | Intermediate-term Fixed Income Pool | Broad Market Fixed Income Pool |
| Commercial Paper | A-1 | 1.10% | - | - |
| Commercial Paper | Not Rated | 5.05% | - | - |
| U. S. Treasury Notes | AAA | - | 44.01% | 16.18% |
| U. S. Treasury Bills | AAA | 34.70% | - | - |
| U. S. Treasury Bonds | AAA | - | - | 1.85% |
| U.S. Government Agency | AAA | 2.69% | 27.68% | 2.36% |
| U.S. Government Agency | Not Rated | - | 1.00% | 1.18% |
| Mortgage-backed | AAA | 3.46% | 7.42% | 45.46% |
| Mortgage-backed | A | 0.11% | - | - |
| Mortgage-backed | BBB | 0.18% | - | - |
| Mortgage-backed | Not Rated | 0.30% | 1.67% | 3.89% |
| Other Asset-backed | AAA | 10.87% | 0.39% | 0.82% |
| Other Asset-backed | AA | 0.85% | 0.05% | 0.09% |
| Other Asset-backed | A | 0.35% | 0.15% | 0.26% |
| Other Asset-backed | BBB | - | - | 0.06% |
| Corporate Bonds | AAA | 19.33% | 4.49% | 1.85% |
| Corporate Bonds | AA | 6.16% | 1.36% | 2.63% |
| Corporate Bonds | A | 7.64% | 2.92% | 9.11% |
| Corporate Bonds | BBB | - | 1.81% | 5.96% |
| Corporate Bonds | Not Rated | - | - | 0.19% |
| Yankees: | | | | |
| Government | AA | - | 0.76% | - |
| Government | BBB | - | - | 0.17% |
| Government | Not Rated | - | - | 0.10% |
| Corporate | AAA | 1.61% | 2.56% | 0.81% |
| Corporate | AA | 4.29% | 0.91% | 0.29% |
| Corporate | A | 1.24% | 0.48% | 1.94% |
| Corporate | BBB | - | 0.17% | 0.94% |
| Corporate | Not Rated | - | 0.05% | - |
| No Credit Exposure | | 0.07% | 2.12% | 3.86% |
| | | 100.00% | 100.00% | 100.00% |

[1]Rating modifiers are not disclosed.

## 3. CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

| | | 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 | AAA | - | - | 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% | - |
| 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% |

[1]Rating modifiers are not disclosed.

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. Federal National Mortgage Association securities are not classified as corporate bonds.

## 3. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

At June 30, the Investment Fund had more than five percent of its investments in the Federal Home Loan Mortgage Corporation as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Fair Value | Percent of Total Investments | Fair Value | Percent of Total Investments |
| Federal Home Loan Mortgage Corporation | $ 16,869,632 | 11% | $ 8,197,640 | 7% |

Foreign Currency Risk

The Commissioner of Revenue formally adopts asset allocation policies for the Investment 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 2009 and 2008 and invested assets included the following holdings at June 30, 2009 and 2008, for the Investment Fund's investment in the International Equity Pool:

| | | Actual | |
|---|---|---|---|
| | Policy | 2009 | 2008 |
| EVOS Research Investment Fund | 17% ± 5% | 17.33% | 17.49% |
| EVOS Habitat Investment Fund | 17% ± 5% | 18.30% | 18.49% |
| EVOS Koniag Investment Fund | 17% ± 5% | 18.51% | 18.68% |

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

| | Fair Value | |
|---|---|---|
| Currency | 2009 | 2008 |
| Deposits: | | |
| Euro Currency | $ (110) | $ 13,889 |
| Japanese Yen | 4,745 | 35,879 |
| Pound Sterling | (4,635) | - |
| | - | 49,768 |
| Investments - International Equity: | | |
| Canadian Dollar | 347,277 | 640,593 |
| Danish Krone | 258,911 | - |
| Euro Currency | 8,849,163 | 9,483,022 |
| Hong Kong Dollar | 211,860 | - |
| Japanese Yen | 4,516,369 | 4,108,722 |
| Norwegian Krone | - | 277,053 |
| Pound Sterling | 5,887,507 | 6,121,683 |
| Singapore Dollar | 518,052 | 842,803 |
| Swedish Krona | 326,320 | 240,847 |
| Swiss Franc | 2,525,936 | 3,452,638 |
| | 23,441,395 | 25,167,361 |
| Total | $ 23,441,395 | $ 25,217,129 |

## 3. CASH AND INVESTMENTS (Continued)

Cash amounts in the schedule above include receivables, payables, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value.

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, 2009 and 2008, substantially all balances were held in U.S. Treasury Bills with maturities ranging from 30 to 300 days. A nominal amount of cash was also included in the balance. Market values of investment securities held by NRDA&R approximate their cost at September 30, 2009 and 2008. There are no uninsured or unregistered deposits or investments.

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| U.S. Treasury Bills | $ 786,320 | $ 786,320 | $ 681,639 | $ 681,639 |

## 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 |
| | $ 900,000,000 |

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

## 4. CONTRIBUTIONS BY EXXON CORPORATION (Continued)

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.

## 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, 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, 2008 and 2009 Work Plans* include multi-year projects 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 ended September 30, 2009 and 2008 disbursements to the United States were reduced by $0 and $330,000, respectively, for such interest income and unspent or unobligated balances. During fiscal years ended June 30, 2009 and 2008 disbursements to the State were reduced by $359,515 and $1,595,187, respectively, for such interest income and unspent or unobligated balances.

## 6. DISBURSEMENTS FROM THE INVESTMENT FUND (Continued)

Disbursements from the Investment Fund

During the years ended June 30, 2009 and 2008, the Council disbursed $13,504,283 and $6,126,337, respectively, for restoration projects, land acquisition and other Council Authorizations pursuant to the MOA as follows:

| | Year Ended June 30, 2009 | Year Ended June 30, 2008 |
|---|---|---|
| Restoration Projects Authorized by the Council | | |
| To be conducted by the State | $ 8,447,514 | $ 1,478,585 |
| To be conducted by the United States | 4,428,846 | 3,996,011 |
| Total Restoration Projects | 12,876,360 | 5,474,596 |
| Land Acquisitions and Research Infrastructure Improvements Authorized by the Council to be acquired by the United States | 539,545 | 506,056 |
| Investment Management Fees | 88,378 | 145,685 |
| Total Disbursements from the Investment Fund | $ 13,504,283 | $ 6,126,337 |

Reconciliation between deductions from the Investment Fund per the Statements of Changes in Fiduciary Assets and Liabilities for the periods ended June 30, 2009 and 2008 and contributions into NRDA&R fund Statement of Receipts, Disbursements and Changes in Trust Fund Balance for the periods ended September 30, 2009 and 2008 is as follows:

| | Year Ended 2009 | Year Ended 2008 |
|---|---|---|
| Transfers to NRDA&R per Investment Fund Statement of Changes in Fiduciary Assets and Liabilities | $ 4,968,391 | $ 4,502,067 |
| Less Transfers 7/1/2007-9/30/2007 | - | (2,674,238) |
| Plus Transfers 7/1/2008-9/30/2008 | - | 721,280 |
| Less Transfers 7/1/2008-9/30/2008 | (698,053) | - |
| Plus Transfers 7/1/2009-9/30/2009 | 573,034 | - |
| Contributions from *Exxon Valdez* Oil Spill Investment Fund | $ 4,843,372 | $ 2,549,109 |

## 7. DEFERRED REVENUE

NRDA&R at times receives the United States' disbursements related to the initial funding for restoration projects to be conducted by the Trustee Agencies in the following fiscal year prior to September 30 year end. These amounts are recorded as Receipts – Investment Fund in the NRDA&R financial statements because NRDA&R is accounted for using the cash basis of accounting. There were no disbursements related to the subsequent fiscal year projects made before September 30, 2009. NRDA&R received $196,735 for research projects to be conducted during fiscal year 2009 before 2008 fiscal year end. NRDA&R also received $573,034 and $539,545 in September 2009 and 2008, respectively, related to the annual payment for the Koniag Easement. These funds were expected to be used for property purchases in fiscal 2010 and 2009, respectively.

## 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 imminently threatened by development, or with 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, 2009, 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 $409,027,567. Of the total purchase cost, excluding interest, $352,837,567 was provided from Joint Trusts, and $56,190,000 from other sources.

During fiscal 2009 and 2008, 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.

Through September 30, 2009, the Trustee Council has completed the acquisition on 119 parcels containing 15,364 acres with a total cost of $27,729,950. 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 or a 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, $28,218,450 was provided from the *Exxon Valdez* Oil Spill Trust Funds, and $511,500 from other sources.

Pending Parcel Acquisitions

Four small parcel acquisition offers for 20, 57, 160 and 160 acres have been accepted and are expected to close during fiscal 2010.

Kodiak Island Borough Master Waste Management Plan

The Council has approved the expenditure of $1,857,100 for capital improvements to the various waste management systems of the remote communities on 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.

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

## 8. REAL PROPERTY ACQUISITIONS (Continued)

Archeological Repository (Continued)

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 was expended on the project. All display facilities were completed in December 2007. DNR has secured a commitment from the Alaska 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

Joint Notices of Expenditures from the Investment Fund

On September 9, 2009, the Council notified the United States District Court of Alaska of a disbursement of $573,034 from the Koniag Sub-Account of the Investment Fund, for the seventh of multiple payments to Koniag, Inc., for a non-development easement on lands it owns, including lands along the Karluk River. The entirety of this amount was recorded in the NRDA&R accounts and is reflected on the income statement for the year ended September 30, 2009.

On October 6, 2009, the Council notified the United States District Court of Alaska of a disbursement of $5,601,328 from the Research Sub-Account of the Investment fund for the Fiscal Year 2010 work plan and annual program development and implementation budget.

On December 11, 2009, the Council notified the United States District Court of Alaska of a disbursement of $111,750 from the Research Sub-Account of the Investment Fund in order to fund a Lingering Oil Status Report, amend the administrative budget and fund support of public outreach regarding Trustee Council deliberations and a concurrent National Environmental Policy Act update.

On March 15, 2010, the Council notified the United States District Court of Alaska of a disbursement of $36,624 from lapsed and interest money in NRDA&R and $3,000 in previously disbursed fund from the State of Alaska Settlement Trust. The disbursement will be used to fund amendments for Fiscal Year 2010 work plan projects and the administrative budget.

Market Conditions

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.

**9. SUBSEQUENT EVENTS (Continued)**

*Exxon Valdez* Oil Spill Trustee Council Sunset Proposal

The Council, recognizing that the restoration funds remaining from the *Exxon Valdez* settlement continue to diminish, seeks to narrow and refine the scope of the Council's restoration efforts in order to make strategic and efficient use of the remaining funds. In addition, this narrowing will enable a more discrete and efficient funding mechanism by which to direct these remaining funds. Specifically, the Council proposes to focus their restoration efforts to five defined restoration categories: herring; lingering oil; long-term monitoring of marine conditions; harbor protection and marine restoration; and habitat acquisition and protection.

With the exception of habitat, each of these five focus areas would be managed through a multi-year project that is administrated by a proposer which has been approved by the Council through the upcoming fiscal 2012 Invitation process. The approved proposer would also be responsible for many of the administrative duties of each of their respective focus area (including the processes for annual invitations, scientific and peer review and management of individual projects). The Council would continue to provide oversight through an annual meeting to approve funding and review the past year's work.

Under the Council's current proposal, these multi-year projects will conclude, and thus sunset the Council, around the year 2033. The Council is currently in the deliberation phase and conducting a concurrent National Environmental Policy Act review; the Council will consider their current proposal for approval in October 2010.

Subsequent Events Evaluation

Management has evaluated subsequent events through August 9, 2010, the date when the financial statements were available to be issued.

**ELGEE REHFELD MERTZ, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

*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 Trust as of and for the year ended June 30, 2009 and 2008, and the Natural Resource Damage Assessment and Restoration Fund, *Exxon Valdez* Civil Settlement Restoration (NRDA&R) as of September 30, 2009 and 2008, as listed in the accompanying table of contents, and have issued our report thereon dated August 9, 2010. 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 audit 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.

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 27, 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 27, 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.

ERM

August 9, 2010

*Exxon Valdez* Oil Spill Trustee Council
Schedule of Cumulative Expenditures and Obligations - Budget and Actual
For The Fiscal Year Ended September 30, 2009

| | | | Actual Cumulative 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 Natural Resources | Department of Interior, U.S. Geological Survey | Department of Interior, Office of secretary | Department of Interior, Fish and Wildlife Service | Department of Agriculture, United States Forest Service | Department of Interior, Office of Environmental Policy | U.S. Environmental Agency | Total |
| **Audited** | | | | | | | | | | | | |
| 090811 | Herring Forage Contingency | 249,700 | $ 249,700 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 249,700 |
| 090804 | Significance of Whale Predation | 551,500 | 366,500 | - | - | - | - | - | - | - | - | 366,500 |
| 090100 | EVOS Administration | 2,526,322 | 114,627 | 1,052,542 | 96,755 | 245,333 | 22,781 | 35,063 | 33,928 | 8,175 | - | 1,609,204 |
| 070836-A | Bioremediation Technologies | 437,500 | 437,497 | - | - | - | - | - | - | - | - | 437,497 |
| 070836 | Factors Limiting the Degradation Rate of EVOS Oil | 1,253,900 | 1,252,628 | - | - | - | - | - | - | - | - | 1,252,628 |
| 070810 | Ecosystem Model of PWS Herring | 752,400 | 752,400 | - | - | - | - | - | - | - | - | 752,400 |
| **Unaudited** | | | | | | | | | | | | |
| 090841 | CYP1A1 Gene Expression Verification Study | 116,959 | - | - | - | - | - | - | - | - | - | - |
| 090839 | Evaluating Injury to Harlequin Ducks | 229,600 | - | 65,715 | - | - | - | - | - | - | - | 65,715 |
| 090822 | Herring Data and Information Portal | 77,800 | - | 77,800 | - | - | - | - | - | - | - | 77,800 |
| 090821 | Culture Technology to Support Restoration of Herring | 43,200 | - | 43,200 | - | - | - | - | - | - | - | 43,200 |
| 090817 | Early Life History Stages of Pacific Herring | 55,100 | 55,100 | - | - | - | - | - | - | - | - | 55,100 |
| 090814 | Seabird Predation on Juvenile Herring | 211,000 | - | - | - | - | - | 147,733 | - | - | - | 147,733 |
| 090808 | Nearshore Synthesis: Sea Otters and Sea Ducks | 105,700 | - | - | - | 105,700 | - | - | - | - | - | 105,700 |
| 090806 | Are Herring Energetics a Limiting Factor | 206,400 | 175,097 | - | - | 45,025 | - | - | - | - | - | 220,122 |
| 090759 | Harlequin Duck Population Dynamics | 198,500 | - | 194,675 | - | - | - | - | - | - | - | 194,675 |
| 090742 | Monitoring, Tagging, Feeding Studies, and Restoration of Killer Whales | 198,500 | 126,629 | - | - | - | - | - | - | - | - | 126,629 |
| 090290 | The Exxon Valdez Trustee Council Hydrocarbon Database | 8,938 | 8,900 | - | - | - | - | - | - | - | - | 8,900 |
| 080840 | Biodegradability of Lingering Oil | 535,973 | - | - | - | - | - | - | - | - | 163,664 | 163,664 |
| 080759-A | Amendment to Harlequin Duck Population Dynamics | 217,300 | - | 16,200 | - | - | - | - | - | - | - | 16,200 |
| 070853 | Pigeon Guillemot Restoration | 649,700 | - | - | - | - | - | 569,655 | - | - | - | 569,655 |
| 070830 | Trends in Adult and Juvenile Herring Distribution and Abundance in PWS | 433,600 | 433,600 | - | - | - | - | - | - | - | - | 433,600 |
| 070819 | PWS Herring Disease Program | 1,035,000 | - | 15,092 | - | 574,673 | - | - | - | - | - | 589,765 |
| 070808-A | Nearshore Synthesis: Sea Otters and Sea Ducks | 764,300 | - | - | - | 439,148 | - | - | - | - | - | 439,148 |
| 070782 | Herring Restoration: Identifying Natal and Nursery Habitats | 335,000 | - | 212,252 | - | - | - | - | - | - | - | 212,252 |
| 070340 | Alaska Coastal Current Monitoring | 389,000 | - | 132,345 | - | - | - | - | - | - | - | 132,345 |
| | | $ 11,582,892 | $ 3,972,678 | $ 1,809,821 | $ 96,755 | $ 1,409,879 | $ 22,781 | $ 752,451 | $ 33,928 | $ 8,175 | $ 163,664 | $ 8,270,132 |

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2009

## 1. PRESENTATION

The information presented in the accompanying Schedule of Cumulative Expenditures and Obligations - Budget and Actual includes the budgets for each project approved by the *Exxon Valdez* Oil Spill Trustee Council (Council) in its *Fiscal Year 2009 Work Plan*, and any amendments thereto, along with cumulative expenditures and obligations incurred by the Trustee Agencies in carrying out these projects. 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 2009 and cumulative prior year expenditures for multi-year projects included in the *Fiscal Year 2009 Work Plan* are presented 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 monies 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 Cumulative 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 manual that supersede the previous Procedures. The most recent revision of the original Procedures was adopted January 16, 2009. The purpose of the adopted Procedures is to provide guidance regarding the authority 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 $10,000 or up to ten percent of the authorized level of funding for each affected project,

## 3. FINANCIAL OPERATING PROCEDURES (Continued)

Adjustments (Continued)

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 nine percent of the approved budget.

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

**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*

*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, 2009 and 2008, and have issued our report thereon dated August 9, 2010. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, contracts, and grant agreements, 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 August 9, 2010.

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

ERM

August 9, 2010

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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*

*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, *Exxon Valdez* Civil Settlement Restoration, (NRDA&R) as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated August 9, 2010. 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 NDA&R'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 the *Exxon Valdez* Oil Spill Trustee Council NDA&R's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, NDA&R financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 August 9, 2010.

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

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*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 years ended June 30, 2009 and 2008, and have issued our report thereon dated August 9, 2010. 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 the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, contracts, and grant agreements, 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 August 9, 2010.

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

ERM

August 9, 2010