

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES
AND
TRUST FUNDS FINANCIAL STATEMENTS
Fiscal Years 2011 and 2010

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Years 2011 and 2010

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TRUST FUNDS FINANCIAL STATEMENTS

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Exxon Valdez Oil Spill Trustee Council
Anchorage, Alaska

We have performed the procedures enumerated below, which were agreed to by the management of *Exxon Valdez* Oil Spill Trustee Council (EVOSTC) solely to assist you in evaluating the sufficiency of policies and procedures established by the Trustee Council over the flow of funds into and out of Exxon Valdez Oil Spill Trustee Council's NRDA&R account, State of Alaska Investment Fund and Settlement Trust as well as the process and controls of each of the federal agencies over unspent project funds for proper and timely return to *Exxon Valdez* Oil Spill Trustee Council's NRDA&R account. The management of EVOSTC and the Federal and State of Alaska agencies are responsible for the proper use of funds in accordance with EVOSTC's mission. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings with respect to Natural Resources Damage and Restoration Fund, State of Alaska EVOS Oil Spill Settlement Account and EVOS Restoration Office are as follow:

Natural Resources Damage and Restoration Fund (NRDA&R)

Procedure and Finding #1:

We obtained the necessary information and performed procedures to verify the flow of funds into and out of EVOSTC's NRDA&R account and evaluate U.S. Department of Interior's process in place related to monitoring return of the unspent project funds from the federal agencies.

In order to perform this procedure we obtained the annual cash flow plan for federal fiscal years 2011 and 2010 from the Department of Interior (DOI). We verified, without exception, that disbursements to the Federal agencies were made in accordance with EVOSTC's Workplan, court notices and cash flows plans submitted by the agencies for federal fiscal years 2011 and 2010. We reconciled amounts disbursed from NRDA&R account to amounts reported by agencies taking into account the timing and the different reporting mechanisms employed by each of the agencies. We inquired of the DOI officer as to the established procedures in place of over monitoring of the return of the unspent project funds from the federal agencies.

The DOI Office of the Secretary (DOI-OS) does not have access to the accounting records of the Federal Trustee agencies of the United States Geological Survey, National Oceanic and Atmospheric Administration, United States Forest Service and the United State Fish and Wildlife Service, therefore, DOI-OS has to place significant reliance on expenditure reports provided by these agencies. DOI-OS's ability to monitor the return of unspent funds is limited to what agencies outside of DOI-OS report as available. Once DOI-OS is notified of such funds, an

effort is made to check in occasionally on the progress of the returning the funds. In light of this reporting mechanism, timeliness, regularity and accuracy of federal agency reporting on project expenditures is crucial for ensuring that EVOSTC funds previously disbursed are accounted for. Based on our understanding of the current procedures in place, DOI-OS's monitoring of the return of funds is inhibited by the fact that accountability for the previously disbursed funds varies greatly from agency to agency. This is partly due to the lack of formalized and enforced and regular monitoring procedures from DOI-OS and TC management.

Recommendation:

We recommend the EVOSTC Restoration Office and DOI Office of the Secretary provide direction to the federal agencies to evaluate unspent projects funds balances on a regular basis (at least annually) and independent of the AUP engagement procedures. As a monitoring tool, the RO and DOI-OS offices could request the each agency provide a detailed listing of projects with cumulative incurred and lapsed obligations at each year end as further discussed below.

Procedure and Finding # 2:

We evaluated the process and controls of each of the federal agencies to ensure that unspent project funds are properly and timely returned to *Exxon Valdez* Oil Spill Trustee Council's NRDA&R account.

In order to perform this procedure we contacted each of the federal agencies to determine when unspent project funds were last returned and for which projects. We requested that each of the agencies prepare a schedule of unspent project funds by project/year. Results of our procedures as summarized for each agency below:

United States Geological Survey (USGS)

The agency last returned lapsed funds in FFY10 (for projects years FFY09). USGS had additionally identified de-obligated funds in the approximate amount of \$51,000 for return for project years 2011 and 2010. However, due to the USGS conversion to a new financial reporting system, USGS has had difficulties in remitting these de-obligated funds timely, but anticipates the return to NRDA&R account in mid 2012. We recommend Trustee Office follows up with USGS and ensures that such transfer takes place in the near future.

National Oceanic and Atmospheric Administration (NOAA)

The agency returned funds in both FFY10 and FFY11. Based on our review of project data provided by the agency we identified that approximately \$26,000 of lapsed project funds should have been de-obligated and returned to NRDA&R account during FFY10 but were not. The transfer of these funds was completed in June of 2012. We recommend that NOAA management establish a centralized procedure to allow access to actual cumulative project expenditures for open projects versus cumulative obligations at year end, and transfer any such differences to the NRDA&R account in a timely manner. We also recommend that the agency submits its cash flows plan directly to the Trustee's Restoration office in order to facilitate RO's monitoring of the anticipated de-obligated funds from NOAA.

United States Forest Service (USFS)

We were able to confirm that no additional return of funds was considered necessary for this agency due to the nature of funding provided which relate to payroll costs of TC liaison. The agency only requests funding that it anticipates spending in the current fiscal year; therefore, return of funds from this agency has been rare.

United State Fish and Wildlife Service (USFWS)

We were unable to determine whether additional return of funds is necessary from this agency. Due to the turnover in the position responsible for monitoring EVOSTC funding, it appears institutional knowledge as well as historical data supporting previously reported funds has been lost. The agency was able to recreate support for the \$87,000 returned during FFY10 but was still in process of determining whether such return is necessary for FFY11. We recommend that the Restoration Office works closely with USFWS to determine whether additional return of funds is necessary for project years FFY11.

Recommendation:

We recommend that the EVOSTC Restoration Office periodically remind federal agency personnel of the need to monitor and return any de-obligated EVOS funding, especially in light of the fact that some of the EVOS liaison positions which had been filled by long term employees are starting to experience turn over.

We recommend that the Restoration Office work closely with principal investigators and peer reviewers to ensure that projects close to completion are peer reviewed timely as lack of timely peer-reviews appear to be contributing to the delays in closing out projects and return of lapsed funds by the agencies.

State of Alaska EVOS Oil Spill Settlement Account

Procedures and Findings:

1. We evaluated procedures in place at the State of Alaska, Department of Fish and Game (ADFG) for monitoring unspent portions of projects to ensure that unspent project funds are identified and reported to the Trustee Council and used to offset future Trustee Council funding.
2. We evaluated the Restoration Office's process in place to monitor timely return of unspent funds.
3. We reviewed the Restoration Office's process for determining available unencumbered and unspent EVOS project funds that are available to reduce future Court Notices.

In order to perform this procedure we contacted the Alaska Department of Fish and Game and the Restoration Office and made inquiries as to the nature of the process in place over monitoring of the return of unspent funds. The TC office has draft, internal instructions regarding checking on unencumbered, unspent funds in the ADFG TC account. These instructions include identifying the balance before requesting additional fund disbursements. This is done before the autumn, annual budget (APDI) review meeting, which results in larger fund disbursements and comes toward the close of the federal and state fiscal years to allow for additional certainty. The Restoration Office works closely with the Department of Fish and Game during the budgeting process. Upon the request from the restoration office, ADFG prepares an estimate of the available fund balance based on cash balance in treasury and current and prior year operating appropriations as well as capital appropriation in place across all state of Alaska EVOS agencies. Based on the available balance estimate provided by ADFG, determination is made whether to use the fund balance or request a transfer from the investment fund.

Recommendation:

Current procedures appear to be adequate for determining fund balance available for future appropriations.

EVOS Restoration Office

Procedures and Findings:

1. We evaluated controls over expenditures by the Restoration Office to ensure that costs incurred are reasonable and within the mission of the EVOS Trustee Council.
2. We obtained and reviewed a listing of expenditures for EVOSTC internal admin allocation – project 10100.

We reviewed administrative management expenditures for FFY10 and FFY11 noting that procedures in place are adequate to ensure compliance with Annual Project Development and Implementation budget and that incurred expenses were reasonable and within EVOSTC mission.

Recommendation:

We have no further recommendations.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on established policies and procedures over the use of EVOSTC funding. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the EVOSTC and the Federal and State of Alaska liaison agencies, and is not intended to be and should not be used by anyone other than these specified parties.

ERM

July 7, 2012

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Exxon Valdez Oil Spill Trustee Council
Anchorage, Alaska

We have compiled 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, 2011 and 2010, and the accompanying financial statements of Natural Resources Damage Assessment and Restoration Fund – cash basis as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements of the *Exxon Valdez* Oil Spill Trustee Council Oil Spill Investment Fund and Oil Spill Settlement Trust are in accordance with accounting principles generally accepted in the United States of America or whether financial statements of the Natural Resources Damage Assessment and Restoration Fund are in accordance with the cash basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

The accompanying 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, 2011 and 2010, 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.

The accompanying 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, 2011 and 2010, and the results of

their operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying 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, 2011 and 2010, 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.

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July 7, 2012

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, 2011 and 2010

| | 2011 | | | | 2010 | | | |
|--|----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| | Research | Habitat | Koniag | Total | Research | Habitat | Koniag | Total |
| ASSETS: | | | | | | | | |
| Cash and Investments | \$ 99,091,935 | \$ 35,492,397 | \$ 50,409,789 | \$ 184,994,121 | \$ 91,596,997 | \$ 29,418,134 | \$ 41,468,044 | \$ 162,483,175 |
| Total Assets | <u>\$ 99,091,935</u> | <u>\$ 35,492,397</u> | <u>\$ 50,409,789</u> | <u>\$ 184,994,121</u> | <u>\$ 91,596,997</u> | <u>\$ 29,418,134</u> | <u>\$ 41,468,044</u> | <u>\$ 162,483,175</u> |
| LIABILITIES: | | | | | | | | |
| Accounts Payable | \$ 46,674 | \$ 14,994 | \$ 21,130 | \$ 82,798 | \$ 35,473 | \$ 11,402 | \$ 16,469 | \$ 63,344 |
| Assets Held in Custody by the State of Alaska | <u>99,045,261</u> | <u>35,477,403</u> | <u>50,388,659</u> | <u>184,911,323</u> | <u>91,561,524</u> | <u>29,406,732</u> | <u>41,451,575</u> | <u>162,419,831</u> |
| Total Liabilities | <u>\$ 99,091,935</u> | <u>\$ 35,492,397</u> | <u>\$ 50,409,789</u> | <u>\$ 184,994,121</u> | <u>\$ 91,596,997</u> | <u>\$ 29,418,134</u> | <u>\$ 41,468,044</u> | <u>\$ 162,483,175</u> |

See accountants' report.

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, 2011 and 2010

| | 2011 | | | | 2010 | | | |
|--|---------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|
| | Research | Habitat | Koniag | Total | Research | Habitat | Koniag | Total |
| ASSETS | | | | | | | | |
| Investments, Beginning of Year | \$ 91,596,997 | \$ 29,418,134 | \$ 41,468,044 | \$ 162,483,175 | \$ 86,503,906 | \$ 26,139,873 | \$ 37,482,456 | \$ 150,126,235 |
| Additions: | | | | | | | | |
| Interest and investment income | 20,286,696 | 6,767,183 | 9,568,085 | 36,621,964 | 10,968,627 | 3,305,940 | 4,598,321 | 18,872,888 |
| Deductions: | | | | | | | | |
| State of Alaska, | | | | | | | | |
| Exxon Valdez Oil Spill Settlement Trust | 7,596,365 | 679,200 | - | 8,275,565 | 2,317,813 | - | - | 2,317,813 |
| Investment management fees | 42,686 | 13,720 | 19,817 | 76,223 | 91,608 | 27,679 | 39,699 | 158,986 |
| United States Department of the Interior, Natural Resources Damage Assessment and Restoration Fund | 5,152,707 | - | 606,523 | 5,759,230 | 3,466,115 | - | 573,034 | 4,039,149 |
| Total Deductions | 12,791,758 | 692,920 | 626,340 | 14,111,018 | 5,875,536 | 27,679 | 612,733 | 6,515,948 |
| Assets - Investments, End of Year | \$ 99,091,935 | \$ 35,492,397 | \$ 50,409,789 | \$ 184,994,121 | \$ 91,596,997 | \$ 29,418,134 | \$ 41,468,044 | \$ 162,483,175 |
| LIABILITIES | | | | | | | | |
| Accounts Payable, Beginning of Year | \$ 35,473 | \$ 11,402 | \$ 16,469 | \$ 63,344 | \$ 91,607 | \$ 27,679 | \$ 39,699 | \$ 158,985 |
| Additions | 46,674 | 14,994 | 21,130 | 82,798 | 35,473 | 11,402 | 16,469 | 63,344 |
| Deductions | 35,473 | 11,402 | 16,469 | 63,344 | 91,607 | 27,679 | 39,699 | 158,985 |
| Accounts Payable, End of Year | 46,674 | 14,994 | 21,130 | 82,798 | 35,473 | 11,402 | 16,469 | 63,344 |
| Assets Held in Custody | | | | | | | | |
| by the State of Alaska, Beginning of Year | 91,561,524 | 29,406,732 | 41,451,575 | 162,419,831 | 86,412,299 | 26,112,194 | 37,442,757 | 149,967,250 |
| Additions | 20,240,022 | 6,752,189 | 9,546,955 | 36,539,166 | 10,933,154 | 3,294,538 | 4,581,852 | 18,809,544 |
| Deductions | 12,756,285 | 681,518 | 609,871 | 14,047,674 | 5,783,929 | - | 573,034 | 6,356,963 |
| Assets Held in Custody by the State of Alaska, End of Year | 99,045,261 | 35,477,403 | 50,388,659 | 184,911,323 | 91,561,524 | 29,406,732 | 41,451,575 | 162,419,831 |
| | \$ 99,091,935 | \$ 35,492,397 | \$ 50,409,789 | \$ 184,994,121 | \$ 91,596,997 | \$ 29,418,134 | \$ 41,468,044 | \$ 162,483,175 |

See accountants' report.

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, 2011 and 2010

| ASSETS: | <u>2011</u> | <u>2010</u> |
|--|--------------------------|----------------------------|
| Cash and investments | <u>\$ 393,325</u> | <u>\$ 3,414,489</u> |
| Total Assets | <u><u>\$ 393,325</u></u> | <u><u>\$ 3,414,489</u></u> |
| LIABILITIES AND FUND BALANCE: | | |
| Trust Fund Balance | <u>\$ 393,325</u> | <u>\$ 3,414,489</u> |
| Total Liabilities and Trust Fund Balance | <u><u>\$ 393,325</u></u> | <u><u>\$ 3,414,489</u></u> |

See accountants' report.

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, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Receipts: | | |
| Contributions: | | |
| <i>Exxon Valdez</i> Oil Spill Investment Fund | \$ 2,622,997 | \$ 7,199,960 |
| Unobligated Balances Returned to NRDA&R: | | |
| U.S. Department of Commerce | | |
| National Oceanic and Atmospheric Administration | 9,154 | 61,349 |
| U.S. Fish and Wildlife Service | | 87,748 |
| U.S. Geological Survey | - | 15,792 |
| Investment Income | 2,349 | 1,849 |
| Total Receipts | 2,634,500 | 7,366,698 |
| Disbursements: | | |
| U.S. Department of Interior: | | |
| Bureau of Land Management | 13,625 | - |
| Fish and Wildlife Service | 483,706 | 462,585 |
| U.S. Geological Survey | 890,377 | 841,420 |
| Office of the Secretary | 676,091 | 1,217,571 |
| U.S. Department of Agriculture, | | |
| Forest Service | 30,927 | 30,927 |
| U.S. Department of Commerce, National Oceanic and Atmospheric Administration | 3,560,938 | 2,186,026 |
| Total Disbursements | 5,655,664 | 4,738,529 |
| Excess (Deficiency) of Receipts Over Disbursements | (3,021,164) | 2,628,169 |
| Trust Fund Balance, Beginning of Year | 3,414,489 | 786,320 |
| Trust Fund Balance, End of Year | \$ 393,325 | \$ 3,414,489 |

See accountants' report.

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, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| ASSETS: | | |
| Cash and investments | \$ 9,921,567 | \$ 3,093,314 |
| Accounts receivable | - | 2,108 |
| Total Assets | \$ 9,921,567 | \$ 3,095,422 |
| LIABILITIES AND FUND BALANCES: | | |
| Liabilities: | | |
| Accounts payable | \$ 70,742 | \$ 116,605 |
| Due to State of Alaska General Fund | 118,472 | 69,334 |
| Total Liabilities | 189,214 | 185,939 |
| Fund Balances: | | |
| Restricted for Development | 9,732,353 | 2,909,483 |
| Total Liabilities and Trust Fund Balance | \$ 9,921,567 | \$ 3,095,422 |

See accountants' report.

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, 2011 and 2010

| | 2011 | 2010 |
|--|--------------|--------------|
| Revenues: | | |
| Contributions - State of Alaska | | |
| <i>Exxon Valdez</i> Oil Spill Investment Fund | \$ 8,317,965 | \$ 2,317,811 |
| Interest and investment income | 120,296 | 113,797 |
| Other income | 4,559 | 9,047 |
| Total Revenues | 8,442,820 | 2,440,655 |
| Expenditures: | | |
| Current Operating: | | |
| Natural Resources Damage Assessment and Restoration Projects - Alaska | | |
| Department of Fish and Game | 1,073,409 | 1,771,646 |
| Department of Natural Resources | 124,212 | 161,561 |
| Department of Environmental Conservation | 2,250 | 9,758 |
| Total Current Operating Expenditures | 1,199,871 | 1,942,965 |
| Capital Expenditures: | | |
| Land Acquisitions - Alaska | | |
| Department of Natural Resources | 420,079 | - |
| Total Expenditures | 1,619,950 | 1,942,965 |
| Excess of Revenues Over Expenditures | 6,822,870 | 497,690 |
| Trust Fund Balance, Beginning of Year | 2,909,483 | 2,411,793 |
| Trust Fund Balance, End of Year | \$ 9,732,353 | \$ 2,909,483 |

See accountants' report.