Internal Control and Operating Comments

February 10, 2000



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INTERNAL CONTROL AND OPERATING COMMENTS AND RECOMMENDATIONS

Table of Contents

	<u>Page</u>
LETTER TO THE TRUSTEE COUNCIL	1
CURRENT YEAR COMMENTS	
GENERAL COMMENTS	
General Administration Budget Recovery by Agencies Compliance with Annual Reporting Requirements Timely Close-out of Capital Projects Improve Contract Management Return of Lapsed Funds	2 2 3 3 3
Indirect Cost Allocation Guidance in OPs COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT	3
Reduce Registry Fees	4
UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND	5
STATE OF ALASKA, EXXON VALDEZ OIL SPILL SETTLEMENT TRUST	5
ALASKA DEPARTMENT OF NATURAL RESOURCES	5
ALASKA DEPARTMENT OF FISH AND GAME	5
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION	5
UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE \cdot	5
UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL SUR	VEY
Unallowable Direct Project Costs Consistent Treatment of General Administration Budgets	6 6
UNITED STATES DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE	7
UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION	7
UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE	
Return Unspent Funds from Prior Year Projects	8

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INTERNAL CONTROL AND OPERATING COMMENTS AND RECOMMENDATIONS

Table of Contents (Continued)

STATUS OF PRIOR YEAR COMMENTS

í.

ļ

GENERAL COMMENTS	9
COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT	9
UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND	-
RESTORATION FUND	9
STATE OF ALASKA, EXXON VALDEZ OIL SPILL SETTLEMENT TRUST	9
ALASKA DEPARTMENT OF FISH AND GAME	9
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION	9
ALASKA DEPARTMENT OF NATURAL RESOURCES	10
UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE	10
UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL	
SURVEY	10
UNITED STATES DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE	10
UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND	
ATMOSPHERIC ADMINISTRATION	10
UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST	
SERVICE	10

TRUSTEE AGENCY RESPONSES

APPENDIX 1

Page



9309 Glacier Highway, Suite B-200 · Juneau, Alaska 99801 Phone: 907-789-3178 · FAX: 907-789-7128

Certified Public Accountants

February 10, 2000

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

Dear Members:

In planning and performing our audit of the financial statements of the Exxon Valdez Oil Spill Trustee Council Trust Funds as of and for the year ended September 30, 1999, we considered the internal control structure used to administer the Trust Funds and used to expend funds related to restoration projects conducted by the Federal and State Trustee Agencies. This was done in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

However, during our audit we noted certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 10, 2000, on the financial statements of the Exxon Valdez Oil Spill Trustee Council, Trust Funds. Following our comments, we have listed our internal control and operating comments identified during our fiscal 1998 audit and the status of those comments as of our current year audit.

We have organized our comments by Trustee Agency. Those comments that relate to all Trustee Agencies or to other matters that came to our attention precede the individual Trustee Agency comments.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with appropriate personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would also like to thank Molly McCammon, Traci Cramer and the members of the Federal and State Trustee Agencies with whom we worked for their assistance during the audit. They worked very intently to ensure that the audit was completed as smoothly and as efficiently as possible.

Sincerely.

Elger, Kehreld & Funk, LLC

GENERAL COMMENTS

General Administration Budget Recovery by Agencies

Finding -

- The Trustee Council's operating procedures ("OPs") allow for restoration project budgets to include costs related to general administration of the projects. These general administration funds are intended to reimburse the Trustee Agencies for indirect costs such as office space, office utilities, fixed telephone charges and all normal agency services for administering the projects. The general administration budgets are calculated based on a percentage of direct project costs -- 15 percent of each project's direct personnel costs, and 7 percent of the first \$250,000 of each project's contract costs, plus 2 percent of contract costs in excess of \$250,000.
- While we have seen significant improvement in the manner in which all agencies monitor their use of general administration budgets, the method used by the agencies for calculating and recovering administrative costs is inconsistent between agencies, and we continue to note that some agencies do not monitor allowable recovery of general administration based on actual direct project spending. As a result, through the audit process some agencies were required to adjust the amount of general administration budgets they had recovered since the allowable amount was less than the recovered amount.

Recommendation -

We have developed a spreadsheet to calculate allowable general administration recovery based on actual project spending. This spreadsheet has been provided to those agencies not already performing a calculation as discussed above. We recommend that all agencies perform a calculation periodically using this spreadsheet, or one like it, to ensure that they have charged an allowable amount of general administration costs for each project. We would be happy to review the use of this spreadsheet with any Agency Personnel.

Compliance With Annual Reporting Requirements

Finding -

The OPs establish a close-out period and stipulate that by January 31 of each year, Agencies will report to the Executive Director the total expended for each project, plus any obligations relating to the fiscal year just ended. During the current year audit, we noted that some Agencies did not complete the close-out process prior to December 31st. As such, the agencies were unable to report on expenditures and obligations by January 31st.

Recommendation -

We recommend that all Agencies continue to be aware of the deadline for submitting project expenditures and obligations, and structure their internal policies and procedures to comply with this requirement.

Timely Close-Out of Capital Projects

Finding –

The Trustee Council has approved several capital projects since fiscal 1996. Early in fiscal 1999, two of these projects, executed through the Alaska Department of Fish and Game, appear to have been completed. However, approximately \$100,000 remains encumbered within the State's Settlement Trust as of the end of the fiscal 1999 close-out period. It is important that capital projects be closed as soon as practical after the completion of the project to ensure that any unused funds are made available to the Trustee Council for other purposes.

Recommendation -

We recommend that the Trustee Council establish procedures to close-out capital projects and provide for the return of any unspent funds to the State Settlement Trust or NRDA&R.

Improve Contract Management

Finding -

Several Trustee Agencies enter into Reimbursable Service Agreements and contracts with other state agencies or contractors to conduct restoration projects as approved by the *Exxon Valdez* Oil Spill Trustee Council (Trustee Council or EVOS). Trustee Agencies are responsible for ensuring public trust and accountability with respect to these projects. ADF&G and NOAA have included stipulations in their contracts and agreements that require a detailed list of expenditures, subtotaled by line item, to support amounts billed. Most contracts also require a narrative project progress report. However, other Trustee Agencies have not implemented these requirements. With this support, project managers can perform a detailed review of amounts billed, compare those amounts to the budgets for the projects, and determine whether these items are reasonable, valid and represent expenditures of the appropriate fiscal year. Most contractors and state agencies provide this documentation; however, not all do.

Recommendation -

We recommend that all other agencies include these stipulations in their contracts and agreements. This detail should be summarized by object code (personnel, travel, contractual, etc.), and should clearly indicate to which federal fiscal year the invoices relate. We also recommend that project managers strictly adhere to this requirement prior to approval for payment. In addition, we recommend project managers undergo training on contract invoice approval procedures.

Return of Lapsed Funds

Finding -

The Council's Operating Procedures ("OP") state that "On January 31 of each year, Federal Trustee Agencies shall return to the Natural Resource Damage Assessment and Restoration Fund (NRDA&R) the unexpended and unobligated balance for the fiscal year just ended. Concurrently, the agencies shall return any recovery of prior year obligations." As of the end of our fieldwork only one Federal Trustee Agency had returned the unexpended and unobligated balance for fiscal year 1998 and no Federal Trustee Agency had for fiscal year 1999. In addition, some Federal Trustee Agencies have not returned unexpended and unobligated balances for fiscal years prior to 1997.

Recommendation -

We recommend that Federal Trustee Agencies return unexpended and unobligated balances as required in the OPs.

Indirect Cost Allocation Guidance in OPs

Finding -

As noted in the prior year, the method for calculating and recovering administrative costs is inconsistent between agencies. This is partially a result of (1) unclear guidance provided in the OPs regarding whether recoverable general administrative costs are limited to the general administrative budget for each project and (2) whether general administrative costs can be recovered on actual expenditures and encumbered/obligated amounts, or only actual expenditures. As a result, the actual general administration costs recovered by some agencies are higher given specific projects than by other agencies.

Recommendation -

We recommend that the Trustee Council modify the OPs to provide more explicit guidance regarding the recovery of general administration costs. Specifically, the OPs should address whether the amount of general administration is limited to the projects' general administration portion of the approved budget or if the allowable general administration shall be based on actual direct project costs and encumbrances/obligations. In order for agencies to efficiently and effectively allocate general and administration costs allowed, we recommend that the Trustee Council modify the OPs to allow agencies to calculate allowable general administration costs on actual direct project costs and encumbrances/obligations for personnel and contractual line items.

COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT

Reduce Registry Fees

Finding -

From inception of the Liquidity Account with the Court Registry Investment System (CRIS) to date, CRIS has charged a fee on earnings on Liquidity Account balances. These fees are known as "Registry Fees", and are assessed in accordance with federal statutes. Federal Regulations provide for a schedule of fees based on earnings of each individual Account. From inception through April 14, 1999, the Joint Trust Fund was charged a fee of 10 percent of earnings. Effective April 15, 1999, the fee was reduced to 5 percent of earnings. The following table shows the balances in the Joint Trust Account with CRIS and the registry fees incurred each fiscal year since inception. Amounts shown are as of and for the fiscal years ending September 30:

		Liquidity		
Fiscal		Registry		Balance at
<u>Year</u>		Fees Paid	S	eptember 30,
1992	\$	3,189	\$	24,003,798
1993		273,780		123,833,097
1994		308,160 ⁻		134,813,760
1995		542,728		117,067,523
1996		388,712		112,885,654
1997		257,800		102,673,335
1998		391,957		116,476,208
1999	_	132,928		90,490,626
	<u>\$</u>	2,299,254		

- CRIS, which is administered by the Court Clerk for the U.S. District Court for the Southern District of Texas, operates in a manner substantially different from the usual process employed by Court Clerks in administering registry funds like the Joint Trust Account. The structure used to administer CRIS allows for minimal involvement by the Court Clerk's staff and, therefore, the costs to administer CRIS are much lower than costs to administer other registry funds. Based on our understanding of CRIS, the Registry Fee charged the Joint Trust Account greatly exceeds the costs incurred by the Court Clerk in administering CRIS.
- In addition to the fees listed above, the Account is also charged a fee by the contractor financial institution that manages the invested funds for CRIS. This fee is charged through an interest rate basis reduction on invested funds, which is further discussed in the Trust Funds Financial Statements.
- Our understanding of fee structures of other potential depositories for these funds indicates that remaining EVOS funds could be invested elsewhere at significant reduction in management fees. Other potential depositories include the State of Alaska, Department of Revenue, the Natural Resources Damage Assessment and Restoration Fund, and third-party private investment managers.

Recommendation -

In each of the prior audits, we have commented with respect to this issue. The Trustee Council and Executive Director have explored the viability of various alternatives for remaining EVOS funds. We recommend that this continue, and that the funds be transferred from CRIS as soon as practicable.

UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND

We have no comments with respect to the United States, Natural Resources Damage Assessment and Restoration Fund.

STATE OF ALASKA, EXXON VALDEZ OIL SPILL SETTLEMENT TRUST

We have no comments with respect to the State of Alaska, Exxon Valdez Oil Spill Settlement Trust.

ALASKA DEPARTMENT OF NATURAL RESOURCES

We have no comments with respect to the Alaska Department of Natural Resources.

ALASKA DEPARTMENT OF FISH AND GAME

We have no comments with respect to the Alaska Department of Fish and Game.

ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION

We have no comments with respect to the Alaska Department of Environmental Conservation.

UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE

We have no comments with respect to the U.S. Department of Interior, Fish and Wildlife Service.

UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL SURVEY

Unallowable Direct Project Costs

Finding -

During our audit of Project #99025 – Mechanisms of Impact and Potential Recovery of Nearshore Vertebrate Predators (NVP), we noted that USGS incurred supply, contractual service, and travel costs totaling \$8,149 which were inappropriate projects costs. These costs were not contemplated in the Detailed Project Description. Our inquiry of the project manager indicated no apparent reasonable benefit to the project from these. We have provided a detail list of the questioned costs to USGS management. Subsequent to the audit, USGS removed \$4,710 of these questioned items; however, \$3,438 remains.

Recommendation -

We recommend that the Restoration Office determine whether the remaining questioned costs should be disallowed and returned to NRDA&R.

Consistent Treatment of General Administration Budgets

Finding -

- During fiscal 1999, USGS implemented a plan to separate direct project budgets from general administration (GA) budgets within its accounting system in order to help to ensure that the Agency expended its GA budgets in accordance with the Trustee Council's Operating Procedures (OPs). This has resolved comments we made in prior years concerning USGS's use of GA budgets.
- We did note, however, that not all projects were treated consistently. The budget for Project #99423 Pattern and Processes of Population Change in Sea Otters, included a provision for GA totaling \$5,100. When USGS established the project in its accounting system, it did not separate the GA and direct project components of the budget. As a result, the entire project budget was used for direct project costs. This reduced the amount of funds to the Agency for GA related activities and created inconsistency in the use of GA.

Recommendation -

We recommend that USGS treat all EVOS budget GA components consistently in order to maximize the efficiency of accounting for EVOS projects, and to ensure that the GA activities of the Agency are supported as intended by the approved project budgets.

UNITED STATES DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE

We have no comments with respect to the United States Department of Interior, National Park Service.

UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

We have no comments with respect to the United States Department of Commerce, National Oceanic and Atmospheric Administration.

UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE

Return Unspent Funds from Prior Year Projects

Finding –

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The Trustee Council Agencies are required by the Trustee Council's Operating Procedures to return all unspent funds from prior year projects to NRDA&R. It does not appear that all unspent or unobligated funds have been returned.

Recommendation -

We recommend that USFS investigate its prior year EVOS projects and determine whether funds exist that should be returned to NRDA&R. Unspent or unobligated Project funding should be identified, reported to the Restoration Office and returned to NRDA&R.

Prior Year Caption	Current Status		
GENERAL COMMENTS			
Improve Contract Management	See our comment in the Current Year Comments section of this letter.		
Improve Review of Restoration Project Expenditure Activity	This issue was resolved in the current fiscal year.		
Return Lapsed Funds	See our comment in the Current Year Comments section of this letter.		
Indirect Cost Allocation Guidance in Ops	See our comment in the Current Year Comments section of this letter.		
COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT			

Reduce Registry Fees

See our comment in the Current Year Comments section of this letter.

UNITED STATES, NATURAL RESOURCES DAMAGE ASSESSMENT AND **RESTORATION FUND**

Improve Controls Over Cash Flow Plan

This issue was resolved in the current fiscal year.

STATE OF ALASKA, EXXON VALDEZ OIL SPILL SETTLEMENT TRUST

We had no comments with respect to the State of Alaska, Exxon Valdez Oil Spill Settlement Trust in our prior audit.

ALASKA DEPARTMENT OF NATURAL RESOURCES

We had no comments with respect to the Alaska Department of Natural Resources during our prior audit.

ALASKA DEPARTMENT OF FISH AND GAME

Improve Contract Management	This issue was resolved in the current fiscal year.
Accurate Recording of Payroll Activity	This issue was resolved in the current fiscal year.

ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION

Review of Restoration Project Activity	This issue was resolved in the current fiscal year.
Payroll Costs Improperly Charged to Project	This issue was resolved in the current fiscal year.

UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE

Improve Review of Restoration Project Expenditure Activity	This issue was resolved in the current fiscal year.
Unallowable Direct Project Costs	This issue was resolved in the current fiscal year.
Overexpended General and Administrative Costs	This issue was resolved in the current fiscal year.
Overexpended Project Budget	This issue was resolved in the current fiscal year.

UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL SURVEY

Improve Review of Restoration Project Activity	This issue was resolved in the current fiscal year.
Identify Current Financial Status of Fiscal 1997 Projects	This issue was resolved in the current fiscal year.
Segregate and Monitor Expenditure of General Administration	This issue was resolved in the current fiscal year.

UNITED STATES DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE

We had no comments with respect to the United States Department of Interior, National Park Service in our prior audit.

UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

Segregate Costs to Appropriate Project	This issue was resolved in the current fiscal year.
Improve Review of Restoration Project Expenditure Activity	This issue was resolved in the current fiscal year.
Identify Current Financial Status of Prior Year Projects	This issue was resolved in the current fiscal year.

UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST SERVICE

Preparation of Quarterly Financial Reports	This issue was resolved in the current fiscal year.
Identify Current Financial Status of	This issue was resolved in the current fiscal year.

Prior Year Projects

Page 10

Exxon Valdez Oil Spill Trustee Council

645 G Street, Suite 401, Anchorage, AK 99501-3451 907/278-8012 fax:907/276-7178



March 17, 2000

Elgee, Rehfeld & Funk, CPAs 9309 Glacier Highway, Suite B-200 Juneau, Alaska 99801

On behalf of the Trustee Council, I am submitting responses to the general comments and those relating to the Court Registry Investment System - Joint Trust Account contained in the *Exxon Valdez* Oil Spill Trustee Council, Internal Control and Operating Comments dated February 10, 2000. Specific agency comments are addressed separately by the affected agency.

GENERAL COMMENTS

Comment: General Administration Budget Recovery by Agencies

Response: We concur and will encourage agencies to perform a periodic calculation of allowable general administration costs to ensure that projects have not been overcharged. I would like to thank you for providing your spreadsheet to those agencies that are not already performing a periodic calculation and for your offer to review the spreadsheet with agency personnel. The sooner an overcharge is identified, the easier it will be for the agency to correct.

Comment: Compliance with Annual Reporting Requirements

Response: We concur and will remind agencies of the importance of the close-out period and the requirement to report expenditures and obligations by January 31 of each year.

Comment: Timely Close-Out of Capital Projects

Response: We concur that the Operating Procedures do not currently have a process for closing out capital projects. We will review the procedures with the Restoration Work Force and develop language to provide more explicit guidance regarding the close-out of capital projects. Once developed, the language will be submitted to the Trustee Council for their consideration.

Regarding the two projects mentioned, we have contacted the agency responsible for implementing the projects and requested that the projects be completed this fiscal year and any unobligated funding be returned.

Comment: Improve Contract Management

Response: We concur and will continue to emphasize the importance of obtaining detailed listings of expenditures along with progress narratives to support amounts claimed by vendors.

Comment: Return of Lapsed Funds

Response: We concur and will work with the agencies to ensure more timely return of unexpended and unobligated project funding.

Comment: Indirect Cost Allocation Guidance in the Operating Procedures

Response: We concur that the Operating Procedures are silent regarding whether recoverable general administration is limited to the general administration budgeted for each project and whether general administration costs can be recovered on encumbrances and obligations that have yet to be paid. We will review the procedures with the Restoration Work Force and develop language to provide more explicit guidance regarding the recovery of general administration costs. Once developed, the language will be submitted to the Trustee Council for their consideration.

COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT

Comment: Reduce Registry Fee

Response: We concur. It is the Trustee Council's belief that the fees charged by the United States Court System are disproportionate to the costs incurred by the Court for this service. While we were successful in getting the fee reduced from 10 percent of earnings to 5 percent of earnings, we continue to pursue other alternatives. With passage of Public Law 106-113 the Trustee Council now has the ability to deposit the funds in accounts outside the United States Treasury. If all goes according to schedule, it is my desire to have the Joint Funds removed from CRIS prior to the end of this fiscal year.

Sincerely,

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Molly McCammon Executive Director

Appendix I Page 2



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United States Department of the Interior

U.S. GEOLOGICAL SURVEY BIOLOGICAL RESOURCES DIVISION Alaska Science Center 1011 E. Tudor Road Anchorage, Alaska 99503

March 20, 2000

IN REPLY REFER TO: MFEB/DB

Traci Cramer Administrative Officer, EVOS Trustee Council 645 G Street, Suite 401 Anchorage, AK 99501-3451

Dear Traci,

We have completed our review of the three documents you sent us relating to the Draft Fiscal Year 1999 external audit developed by Elgee, Rehfeld and Funk for the EVOS Trustee Council. Here are our comments:

Internal Control and Operating Comments dated February 10, 2000 The auditors report that USGS has a remainder of \$3,438 in questioned costs for project 99025. The USGS principle investigator for these charges requests an opportunity to meet with the appropriate staff from the Restoration Office to discuss and justify these costs.

<u>General Comments and comments relating to the Court Registry Investment System</u> USGS has no comments on this section.

Financial Statements for the Fiscal Year ending September 30, 1999 We have reviewed the Financial Statements, and concur with the bottom line amounts for USGS.

Thank you for the opportunity to review the Fiscal Year 1999 Draft Audit.

Sincerely,

William K. Seitz, Director Alaska Biological Science Center



United States Department of Agriculture Forest Service Chugach National Forest 3301 C Street Suite 300 Anchorage, AK 99503

File Code: 1590/6520 Date: March 9, 2000

Molly McCammon Executive Director 645 G Street, Suite 401 Anchorage, Alaska 99501-1351

Molly McCammon;

We have enclosed our comments to the "Fiscal Year 1999 Draft Audit: letter, dated February 23, 2000, page 8, "Internal Controls and Operating Comments and Recommendations".

"Return unspent funds from prior year projects."

We take this finding very seriously and will investigate all prior year balances to identify all funds to be returned. We hope to resolve this matter in the next couple of months.

We fully support and understand the need to return prior year unspent funds to the NADA&R account. We appreciate the opportunity to comment on the draft audit. If you have any questions or would like to discuss the comments please contact Bonnie McElmurry at (907) 754-2313.

Sincerely,

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Kenneth E. Holbrook Agency Liaison





EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL TRUST FUNDS FINANCIAL STATEMENTS

and

SUPPLEMENTARY RESTORATION PROJECTS INFORMATION Fiscal Year Ended September 30, 1999 TOGETHER WITH INDEPENDENT AUDITORS' REPORT



TABLE OF CONTENTS

•

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. .

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· · ·

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.

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TRUST FUNDS FINANCIAL STATEMENTS and

SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Fiscal Year Ended September 30, 1999

TABLE OF CONTENTS

	Page
Table of Contents	i - ii
TRUST FUNDS FINANCIAL STATEMENTS	
Independent Auditors' Report	1-2
Trust Fund Financial Statements Statement of Assets, Liabilities and Joint Trust Account - CRIS Balances Arising from Cash Transactions - <i>Exxon Valdez</i> Oil Spill Settlement Account with the	
Court Registry Investment System	3
Statement of Receipts, Disbursements and Changes in Joint Trust Account - CRIS Balance Exxon Valdez Oil Spill Settlement Account with the Court Registry Investment System Statement of Assets, Liabilities and Trust Fund Balance Arising from	
Cash Transactions - U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund Statement of Receipts, Disbursements and Changes in Trust Fund Balance - U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage	5
Assessment and Restoration Fund	6
Balance Sheet - State of Alaska, Exxon Valdez Oil Spill Settlement Trust	7
Statement of Revenues, Expenditures and Changes in Fund Balances - State of Alaska, <i>Exxon Valdez</i> Oil Spill Settlement Trust	8
Notes to Trust Funds Financial Statements	9 - 19
SUPPLEMENTARY RESTORATION PROJECTS INFORMATION	
Independent Auditors' Report on Supplementary Restoration Projects Information	20
Schedules of Expenditures and Obligations - Budget and Actual State of Alaska	
Department of Fish and Game	21-22
Department of Environmental Conservation	23
Department of Natural Resources	24
United States Government	
Department of Agriculture, United States Forest Service	25
Department of Interior, Fish and Wildlife Service	26
Department of Interior, U.S. Geological Survey	27
Department of Interior, National Park Service	28
Department of Interior, Office of the Secretary	29
Department of Commerce, National Oceanic and Atmospheric Administration	30

TABLE OF CONTENTS (Continued)

SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

·	Page
Schedule of Fiscal 1998 Work Plan Status as of September 30, 1999 (Unaudited)	31
Notes to Supplementary Information Related to Restoration Projects	32-34

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

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance	
with Government Auditing Standards	
Exxon Valdez Oil Spill Trustee Council	
Court Registry Investment System, Exxon Valdez Oil Spill Settlement Account	35
U.S. Department of the Interior, Natural Resources Damage Assessment	
and Restoration Fund	36
State of Alaska, Exxon Valdez Oil Spill Settlement Trust	37

TRUST FUNDS STATEMENTS

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9309 Glacier Highway, Suite B-200 · Juneau, Alaska 99801 Phone: 907-789-3178 · FAX: 907-789-7128

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds as of and for the year ended September 30, 1999, as listed in the accompanying table of contents. These financial statements are the responsibility of the *Exxon Valdez* Oil Spill Trustee Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial presentation for the Court Registry Investment System (CRIS), *Exxon* Valdez Oil Spill Settlement Account (Joint Trust Account - CRIS) is of this account only and is not intended to present the financial position of CRIS or the United States District Court for the Southern District of Texas and the results of their operations, in conformity with generally accepted accounting principles.

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

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

As discussed in Note 2, the financial statements for the Joint Trust Account - CRIS and NRDA&R are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Joint Trust Account - CRIS and NRDA&R and the financial position of the Settlement Trust as of and for the year ended September 30, 1999, and the results of their operations for the year then ended on the basis of accounting described in Note 2 for the Joint Trust Account - CRIS and NRDA&R, and in conformity with generally accepted accounting principles for the Settlement Trust.

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 10, 2000, on our consideration of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations and contracts.

Elger, Kehteld & Funk, LLC

February 10, 2000

UNITED STATE DISTRICT COURT - FIFTH CIRCUIT COURT REGISTRY INVESTMENT SYSTEM EXXON VALDEZ OIL SPILL SETTLEMENT ACCOUNT

STATEMENT OF ASSETS, LIABILITIES AND JOINT TRUST ACCOUNT BALANCES ARISING FROM CASH TRANSACTIONS September 30, 1999

ASSETS:

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Cash and Investments	\$ 90,490,326
Total Assets	\$ 90,490,326
LIABILITIES AND JOINT TRUST ACCOUNT BALANCES:	
Liabilities	\$ -
Joint Trust Account Balance - Liquidity Account Joint Trust Account Balance - Reserve Account	 40,532,885 49,957,441
Total Liabilities and Joint Trust Account Balances	\$ 90,490,326

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

- 3 -

UNITED STATE DISTRICT COURT - FIFTH CIRCUIT COURT REGISTRY INVESTMENT SYSTEM EXXON VALDEZ OIL SPILL SETTLEMENT ACCOUNT

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN JOINT TRUST ACCOUNT BALANCES For the Fiscal Year Ended September 30, 1999

Receipts:

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Receipts	\$ 66,250,000
Investment Income - Liquidity Account	1,512,835
Investment Income - Reserve Account	1,352,864
Recovery of Registry Fees	 166,488
Total Receipts	 69,282,187
Disbursements:	
State of Alaska, Exxon Valdez Settlement Trust:	
Fiscal 1999 Natural Resource Damage Assessment	
and Restoration Projects	(1,578,800)
Fiscal 2000 Natural Resource Damage Assessment	
and Restoration Projects	(5,001,200)
Land Acquisition Disbursements	 (55,877,990)
Total Disbursements to State of Alaska	 (62,457,990)
U.S. Department of Interior, Natural Resources Damage Assessment and Restoration Fund: Fiscal 1999 Natural Resource Damage Assessment	
and Restoration Projects	(564,200)
Fiscal 2000 Natural Resource Damage Assessment	(501,200)
and Restoration Projects	(4,859,800)
Land Acquisition Disbursements	(27,253,150)
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Total Disbursements to United States	 (32,677,150)
Court Registry Fees	 (132,928)
Total Disbursements	 (95,268,068)
Excess (Deficiency) of Receipts Over Disbursements	(25,985,881)
Joint Trust Account Balances, Beginning of Year	 116,476,207
Joint Trust Account Balances, End of Year	\$ 90,490,326

UNITED STATE DEPARTMENT OF THE INTERIOR, FISH AND WILDLIFE SERVICE NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND

STATEMENT OF ASSETS, LIABILITIES AND TRUST FUND BALANCE ARISING FROM CASH TRANSACTIONS September 30, 1999

ASSETS:	۲
Cash and Investments	\$ 8,261,638
Total Assets	\$ 8,261,638
LIABILITIES AND FUND BALANCE:	
Liabilities	\$ -
Trust Fund Balance	 8,261,638
Total Liabilities and Trust Fund Balance	\$ 8,261,638

UNITED STATE DEPARTMENT OF THE INTERIOR, FISH AND WILDLIFE SERVICE NATURAL RESOURCES DAMAGE ASSESSMENT AND RESTORATION FUND

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN TRUST FUND BALANCE For the Fiscal Year Ended September 30, 1999

Receipts:

Contributions - Court Registry Investment		
System, Joint Trust Account	_\$	32,677,150
Unobligated Balances Returned to NRDA&R: U.S. Department of Interior:		
Fish and Wildlife Service		505,114
U.S. Geological Survey		54,580
Office of the Secretary		6,832
U.S. Department of Commerce, National Oceanic		,
and Atmospheric Administration		146,500
		713,026
Investment Income		455,364
Total Receipts		33,845,540
Disbursements:		
U.S. Department of Interior:		
Fish and Wildlife Service		(1,308,660)
United States Geological Survey		(1,045,600)
National Park Service		(826,700)
Office of the Secretary		(43,000)
Bureau of Land Management		(37,900)
U.S. Department of Agriculture, United States Forest Service		(27,770,350)
U.S. Department of Commerce, National Oceanic and Atmospheric Administration		(2,461,400)
Total Disbursements		(33,493,610)
Excess of Receipts Over Disbursements		351,930
Trust Fund Balance, Beginning of Year		7,909,708
Trust Fund Balance, End of Year	\$	8,261,638

STATE OF ALASKA - EXXON VALDEZ OIL SPILL SETTLEMENT TRUST

BALANCE SHEET September 30, 1999

ASSETS:	•
Cash and Investments	 38,027,502
Total Assets	\$ 38,027,502
LIABILITIES AND FUND BALANCES:	
Liabilities: Accounts Payable Deferred Revenues	\$ 1,366,927 27,359,190
Total Liabilities	 28,726,117
Fund Balances:	
Reserved for Encumbrances	2,565,914
Unreserved	6,735,471
Total Fund Balances	 9,301,385
Total Liabilities and Fund Balances	\$ 38,027,502

STATE OF ALASKA - EXXON VALDEZ OIL SPILL SETTLEMENT TRUST

STATEMENT OF REVENUES , EXPENDITURES AND CHANGES IN FUND BALANCES For the Fiscal Year Ended September 30, 1999

Revenues:

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Contributions - Court Registry Investment System, Joint Trust Account Interest and Investment Income	\$
Total Revenues	45,628,368
Expenditures:	
Current Operating: Natural Resources Damage Assessment and Restoration Projects Department of Fish and Game Department of Environmental Conservation Department of Natural Resources	7,337,255 220,509 1,324,855
Total Current Operating	8,882,619
Capital Outlay: Research Infrastructure Improvements - Alaska Department of Fish & Game Land Acquisitions - Alaska Department of Natural Resources	162,251 32,320,000
Total Expenditures	41,364,870
Excess of Revenues Over Expenditures	4,263,498
Fund Balances, Beginning of Year	. 5,037,887
Fund Balances, End of Year	<u>\$ 9,301,385</u>

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

- 8 -

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NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

1. EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

Formation of the Exxon Valdez Oil Spill Trustee Council

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

Exxon Valdez Oil Spill Trustee Council Structure

- The Council consists of six trustees, three trustees represent the United States and three trustees represent the State. The United States' trustees are the Secretaries of the United States Departments of Interior and Agriculture and the Administrator of the National Oceanic and Atmospheric Administration (a bureau of the United States Department of Commerce). The State's trustees consist of the Commissioners of the State Departments of Environmental Conservation and Fish and Game, and the Attorney General of the State of Alaska. The MOA allows the President of the United States or the Governor of the State of Alaska to transfer trustee status from one official to another official of their respective governments.
- All decisions of the Council must be made by the unanimous agreement of the trustees. The decisions of the United States' trustees must be made in consultation with the United States Environmental Protection Agency. 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 1999, all activities of the Restoration Office were conducted through the Alaska State Departments of Fish and Game and Natural Resources. In addition, the National Oceanic and Atmospheric Administration administered certain parts of the Restoration Office's activities.
- The Restoration Office develops an annual budget, which, upon approval by the Council, sets forth the anticipated expenditures of the Restoration Office. The Council makes an annual contribution to the State agencies equal to the budget for the Restoration Office. The contributions are made using the disbursements procedures discussed in Note 6.

Termination of the Exxon Valdez Oil Spill Trustee Council

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

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Joint Trust Account - CRIS - Court Registry Investment System

- As further discussed in Note 5, amounts paid by Exxon Corporation 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 and as ordered by the presiding Court and 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 an interest-bearing account in the Court Registry Investment System (CRIS) administered through the United States District Court for the Southern District of Texas. An account entitled "Exxon Valdez Oil Spill Settlement Account" (Liquidity Account) was established in CRIS specifically for the Exxon settlement proceeds. A second account (Reserve Fund) was established in fiscal 1995 and is intended to be an investment mechanism for funds pertaining to the settlement with Exxon, which are anticipated to be held for longer periods of time (see additional discussion in Note 9). Together, the Liquidity and Reserve Accounts are referred to as the Joint Trust Account - CRIS.
- CRIS is a cash management system developed by the United States District Court for the Southern District of Texas. All amounts placed with the CRIS liquidity account are maintained in United States government treasury securities with maturities of 100 days or less, and are held in the name of the Clerk, U.S. District Court, Southern District of Texas at the Federal Reserve Bank. Amounts placed with the CRIS reserve fund are maintained in United States government treasury securities with maturity dates ranging from fiscal 1999 through fiscal 2004, and are held in the name of the Clerk, U.S. District Court, Southern District of Texas at the Federal Reserve Bank. The financial presentation for the Joint Trust Account - CRIS is of the Joint Trust Account - CRIS only and is not intended to present the financial position of CRIS or the United States District Court for the Southern District of Texas and the results of their operations.
- Upon unanimous approval of the Trustee Council, funds are disbursed to the United States and the State to be expended by the Trustee Agencies in accordance with the Council's wishes. The accompanying financial statements for the Joint Trust Account CRIS 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 which the disbursements are to be expended by the Trustee Agencies.
- As allowed under 28 USC 1913, 1914 (b) and 1930(b), the Clerk of the Court for the United States Courts is allowed to charge a registry fee for administering investment holdings of funds held in their registry accounts. During the year ended September 30, 1999, the registry fee charged to the Joint Trust Account CRIS was ten percent of investment income as determined on a cash basis until April 21, 1999; thereafter it was adjusted to five percent in accordance with registry fee regulations. In addition, CRIS has entered into a contract with a Houston, Texas based financial institution to provide investment advisory information, securities trading services, and accounting services at a fee of .025 percent added to the cost of securities purchased by CRIS.

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

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

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U.S. Department of the Interior, Natural Resources Damage Assessment and Restoration Fund (Continued) Disbursements from NRDA&R are made pursuant to the directions of the Council and as approved by the Court. At the beginning of each fiscal year, the Department of Interior, Fish and Wildlife Service communicates with each of the United States Trustee Agencies to determine the timing of disbursements from NRDA&R to each Federal Trustee Agency. Investments are purchased in order to earn interest on available balances within NRDA&R, with scheduled maturity dates coincident with the scheduled date of disbursement.

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

State of Alaska, Exxon Valdez Oil Spill Settlement Trust

- Disbursements which are made from the Joint Trust Account CRIS 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 an expendable trust fund of the State. Expendable trust funds account for assets held by the State in a trustee capacity where the principal and income may be expended in the course of the fund's designated operations.
- Upon approval by the Council, the Court, and the State of Alaska, State Trustee Agencies make expenditures directly against the Settlement Trust.
- The financial presentation for the Settlement Trust is of the Settlement Trust only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

Basis of Accounting

- Basis of accounting refers to when revenues, expenditures and the related assets and liabilities are recorded in the accounts and financial statements. Specifically, it relates to the timing of the financial measurements made, regardless of the measurement focus applied.
- The basis of accounting used by the Joint Trust Account CRIS, NRDA&R and the Settlement Trust are as follows:
 - <u>Joint Trust Account CRIS</u> The financial statements of the Joint Trust Account CRIS are prepared on a cash basis of accounting. As such, revenues are recognized when received, and disbursements are recognized when paid.
 - <u>NRDA&R</u> 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.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- <u>Settlement Trust</u> The financial statements of the Settlement Fund are accounted for using a current financial resources measurement focus on the modified accrual basis. The Settlement Fund recognizes revenues when the source is measurable and available, and intended for the fiscal year. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Assets are recorded when measurable and due.
- Expenditures are recorded when the related liability is incurred. Encumbrance accounting, under which purchase orders and contracts for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary integration of the Settlement Trust. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.
- Until June 30, 1997, interest and investment income was allocated to the Settlement Trust as agreed to under a Memorandum of Understanding (MOU) by and between the State Departments of Revenue and Administration effective July 1, 1993. Under the MOU, interest was credited daily to the Settlement Trust by determining the Settlement Trust's daily cash balance and applying the current weekly 180-day Treasury Bill Rates based on the Treasury Bill auctions. Effective July 1, 1997, a new MOU, dated November 26, 1997, superceded the original MOU and modified the method of determining interest income earned by the Settlement Trust. Under the new method, interest income is allocated daily based on actual earnings of the cash management pool of which the Settlement Trust is a part.

Statement Presentation

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

Accounts Payable and Deferred Revenue - Settlement Trust

- Accounts payable in the Settlement Trust financial statements include disbursements made against the Settlement Trust subsequent to September 30, 1999, but which relate to fiscal 1999 restoration activities.
- Deferred Revenues in the Settlement Trust financial statements include amounts received or receivable at September 30, 1999, which are to be expended by the State in fiscal 2000.

3. CASH AND INVESTMENTS

- Cash and investments for the Joint Trust Account CRIS, NRDA&R and the Settlement Trust are as follows:
 - Joint Trust Account CRIS All deposits and investments of the Joint Trust Account CRIS are held in the name of the Clerk, U.S. District Court, Southern District of Texas at the Federal Reserve Bank. At September 30, 1999, the balances held in the CRIS liquidity account are held in U.S. Treasury Bills with maturities less than 100 days, and the balances held in the CRIS reserve fund are held in U.S. Treasury Bills with maturity dates on November 15, in each year from 1998 through 2004. Market values of investment securities held by CRIS approximate their cost at September 30, 1999. There are no uninsured or unregistered deposits or investments. This places all of CRIS's investments and deposits in GASB credit risk category 1 *.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

3. CASH AND INVESTMENTS (Continued)

- <u>NRDA&R</u> All cash and investments of NRDA&R are held in the name of the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund at the U.S. Department of the Treasury. At September 30, 1999, substantially all balances are held in U.S. Treasury Bills and Notes with maturities ranging from 30 to 300 days. A nominal amount of cash is also included in the balance. Market values of investment securities held by NRDA&R approximate their cost at September 30, 1999. There are no uninsured or unregistered deposits or investments. This places all of NRDA&R's investments and deposits in GASB credit risk category 1 *.
- Settlement Trust Cash and Investments of the Settlement Trust represent cash on deposit in banks, and cash invested in various investments as a part of the State's short-term cash management pools. By law, all deposits and investments relating to the Settlement Trust are under the control of the Commissioner of the State Department of Revenue. The State's cash is invested pursuant to State laws which mandate that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Investments of the State are stated at fair value in accordance with GASB Statement No. 31. All investments are stated at fair value, which approximates market value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All deposits are insured or collateralized with securities held by the State or by its custodian in its name. All investments are insured or registered in the State's name and are held by the State or its custodian. This places all of the State's General Investment Fund deposits and investments, of which the Settlement Trust cash and investments are a part, in GASB credit risk category 1 *. 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.
 - * GASB Statement No. 3 requires deposits and investments to be categorized to indicate the level of risk assumed by an entity. For investments, category 1 consists of investments that are insured or registered for which the securities are held by the entity or its custodian in the entity's name, category 2 consists of uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the entity's name, and category 3 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department for which the securities are held by the broker's or dealer's trust department or agent not in the entity's name.

4. CONTRIBUTIONS BY EXXON CORPORATION

Agreement and Consent Decree

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

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

4. CONTRIBUTIONS BY EXXON CORPORATION (Continued)

Agreement and Consent Decree (Continued)

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

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

During fiscal 1999, Exxon Corporation made the contribution to the Joint Trust Account - CRIS as required by the Agreement. As further discussed in Note 5, \$3,750,000 of the \$70,000,000 contribution was paid directly to the State of Alaska. The balance of \$66,250,000 was placed with the Joint Trust Account - CRIS.

Reopener for Unknown Injury

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

The cost of the restoration projects must not be grossly disproportionate to the magnitude of the benefits obtained, and the reopener is available only for any losses or declines that could not reasonably have been known or anticipated from information available at the time of the Agreement.

5. REIMBURSEMENTS TO THE UNITED STATES AND THE STATE

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

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

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

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

- 4. Response and clean-up costs incurred by either of them after December 31, 1990 in connection with the Oil Spill;
- 5. To assess injury resulting from the Oil Spill and to plan, implement, and monitor the restoration, rehabilitation, or replacement of natural resources, natural resource services, or archaeological sites and artifacts injured, lost or destroyed as a result of the Oil Spill, or the acquisition of equivalent resources or services after March 12, 1991; and
- 6. (State only) Reasonable litigation costs incurred by the State after March 12, 1991.

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

During fiscal 1999, \$3,750,000 was paid to the State of Alaska as a reimbursement pursuant to the Agreement. There were no other reimbursements made to the United States or the State during fiscal 1999 under the Agreement.

6. DISBURSEMENTS FROM JOINT TRUST ACCOUNT - CRIS

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 Joint Trust Account - CRIS. 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.

Project Approval

The Council has developed a solicitation and review process for projects to address the purposes stated above. The outcome of the process is the development of a fiscal year Work Plan, which approves the funding for all projects to be conducted during the fiscal year. For the fiscal year ending September 30, 1999, the following project solicitation and review process was used by the Council:

- 1. In February 1998, the Council published an *Invitation to Submit Restoration Proposals for Federal Fiscal Year 1999*. As part of the requirements, proposers developed and submitted detailed project descriptions and project budgets for review.
- 2. In May 1998, the Council's Chief Scientist and core reviewers coordinated a preliminary scientific and technical review of the proposals. The Council's Executive Director also discussed proposals with Trustee agencies, Chief Scientist and representatives of the Public Advisory Group (the Public Advisory Group consists of members of the public and concerned groups and was appointed by the Secretary of Interior based on the Council's recommendations in accordance with the MOA to help provide meaningful public participation in the injury assessment and restoration process) and drafted preliminary recommendations.
- 3. In June 1998, all proposals and the results of the reviews were published in the Draft Fiscal Year 1999 Work Plan and distributed for public comment.
- 4. In July 1998, a public hearing was held on the FY'99 Draft Work Plan and the Public Advisory Group met to advise Trustee Council on the final work plan.
- 5. The majority of approved projects, received funding from the Council in August 1998. In addition to the public review many proposals underwent further technical, budget, policy, and legal review.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

6. DISBURSEMENTS FROM JOINT TRUST ACCOUNT – CRIS (Continued)

Project Approval (Continued)

6. In December 1998, the Council approved ten additional research, monitoring, and general restoration projects for the FY'99 Final Work Plan.

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

Interest Income 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 Joint Trust Fund for future projects. During fiscal 1999, disbursements to the United States and the State were not reduced for such interest earnings.

Unobligated Balance Recovery - NRDA&R and the Settlement Trust

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 1999, there were no reductions in amounts disbursed to United States and the State from the Joint Trust Fund for unobligated balances.

Disbursements from the Joint Trust Account - CRIS

During fiscal 1999, the Council disbursed \$95,135,140 for restoration projects and land acquisition pursuant to the MOA as follows:

Restoration Projects Authorized By the Council

For 1999 and 2000:		
To be conducted by the United States	. , \$	5,424,000
To be conducted by the State		6,580,000
Total		12,004,000
Land Acquisitions and Research Infrastructure Improvements Authorized By The Council For 1999 and 2000:		
To be acquired by the United States		27,253,150
To be acquired by the State		55,877,990
Total		83,131,140

Disbursements from the Joint Trust Account - CRIS <u>\$ 95,135,140</u>

7. DEFERRED REVENUE

In August 1999, the Court approved the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2000 and land acquisition disbursements to be made in fiscal 2000. The disbursements relating to this activity were made from the Joint Trust Account - CRIS on September 9 and September 23, 1999, and the amount disbursed to the State Trustee Agencies' of \$5,001,200 for restoration projects and \$22,357,990 for fiscal 2000 land acquisitions has been recorded as deferred revenue.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

7. DEFERRED REVENUE (Continued)

NRDA&R received the United States' disbursement relating to the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2000 prior to September 30, 1999. The amount received of \$4,859,800 has been recorded as Receipts - CRIS in the NRDA&R financial statements since NRDA&R is accounted for using the cash basis of accounting. NRDA&R also continues to hold approximately \$400,000 related to closing of certain small tracts which were part of the fiscal 1998 English Bay large parcel acquisition. These funds are expected to be disbursed in fiscal 2000.

8. REAL PROPERTY ACQUISITIONS

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

Large Parcel Acquisitions

- The large parcel phase of the land evaluation and acquisition process was initiated in 1992. This evaluation process lead to the consideration of numerous parcels for acquisition by Trustee Agencies. As of September 30, 1999, the Council funded the acquisition, through either the purchase of the property or the acquisition of a limited term conservation easement, for 635,770 acres, with a total purchase cost of \$397,618,270 (excluding interest). Of the total purchase cost, \$341,624,924 is being provided from the Joint Trust Account CRIS, and \$55,993,346 from other sources.
- During fiscal 1999, large parcel acquisitions were completed on 117,175 acres with a total purchase cost of \$116,346,850. All of the total purchase cost is being provided from the Joint Trust Account CRIS.
- Three of the acquisitions completed to date are to be paid on an installment basis through fiscal 2002. The following is a summary of the remaining commitments (excluding interest) due from the Joint Trust Account CRIS as of September 30, 1999:

Fiscal Year Ending

September 30:	
2000	\$ 29,500,000
2001	32,000,000
2002	 18,805,734
	\$ 80,305,734

Pending Large Parcel Acquisitions

Negotiations continue on one other large parcel acquisition. Currently, the area under negotiation includes approximately 55,402 acres that are now under a limited term conservation easement which will expire in fiscal 2001.

Small Parcel Acquisitions

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

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

8. **REAL PROPERTY ACQUISITIONS (Continued)**

Small Parcel Acquisitions (Continued)

Through September 30, 1999, the Trustee Council has completed the acquisition on 42 parcels containing 5,930 acres with a total cost of \$18,858,600. One of the acquisitions also contained a provision in which the seller relinquished remaining selections totaling 1,207 acres under their entitlement pursuant to the Alaska Native Claims Settlement Act (ANCSA). In addition, offers have been accepted by sellers on 7 parcels that are expected to close during fiscal 2000. These parcels contain 169 acres and have a total cost of \$740,800. All of the small parcels are purchased under fee simple title, and cash is paid on these parcels at closing. Most of these acquisitions are purchased through the Alaska Department of Natural Resources or the U.S. Department of the Interior, Fish and Wildlife Service. Of the total purchase cost on the parcels acquired to date, \$18,415,600 is being provided from the Joint Trust Account - CRIS, and \$484,000 from other sources.

Alaska Sea Life Center

- During fiscal 1997, the Council approved additional funding, totaling \$545,600, for the construction of Fish Pass at the Alaska Sea Life Center in Seward, Alaska. The Sea Life Center is affiliated with the University of Alaska, School of Fisheries and Ocean Sciences, Institute of Marine Science. The funds are being expended by the Alaska Department of Fish and Game, under an amendment to a cooperative agreement with the City of Seward, Alaska. As of September 30, 1999, \$492,963 of the funds had been expended, and \$29,685 remained encumbered. Of the balance, \$22,952 and is be ing retained by the Alaska Department of Fish and Game for contract administration.
- Also during fiscal 1997, the Council approved funding for the acquisition of research equipment for the Alaska Sea Life Center totaling \$724,000. The additional funds are also being expended by the Alaska Department of Fish and Game. As of September 30, 1999, \$643,665 of the funds had been expended, and the balance remained encumbered. The Alaska Department of Fish and Game will retain none of these funds for contract administration. It is anticipated that all of these funds will be expended during fiscal 2000.

Kodiak Island Borough Master Waste Management Plan

During fiscal 1999, the Trustee Council approved the expenditure of \$1,857,100 for capital improvement to various waste management systems of the remote communities of Kodiak Island. Specifically, this project 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) will expend the funds principally through contracts to be initiated in fiscal 2000. Of the total funding for the project, \$48,700 will be retained by DEC for contract administration.

Port Graham Hatchery Reconstruction

During fiscal 1999, the Trustee Council approved the expenditure of \$781,300 for capital improvement to help rebuild the Port Graham Hatchery that was destroyed by fire on January 30, 1998. Of the total approved, \$777,500 was allocated to the Alaska Department of Fish and Game to fund reconstruction efforts and \$3,800 was allocated to the United States Forest Service for National Environmental Policy Act (NEPA) compliance work. The Department of Fish and Game will expend funds through a Reimbursable Services Agreement (RSA) with the Alaska Department of Community and Economic Development. The RSA was signed during fiscal 1999 and the project is anticipated to completed during fiscal 2000.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 1999

8. REAL PROPERTY ACQUISITIONS (Continued)

Archeological Repository

During fiscal 1998, the Trustee Council approved the concept of a single regional archeological repository in one of eight communities in the Chugach and lower Cook Inlet regions to house and display spillrelated artifacts at a cost not to exceed \$1 million, the construction of new or renovated community facilities in the remaining seven communities to display spill-related archeological resources at a total cost not to exceed \$1.6 million, and the development of traveling exhibits of spill-related archeological materials for display in community facilities in the spill area at a total cost not to exceed \$200,000. During fiscal 1999, the Trustee Council resolved to provide \$2.8 million (plus a reasonable amount of funding for project management and general administration to be approved by the Council) to the Alaska Department of Natural Resources (DNR) to administer a grant award to Chugachmiut. Also during fiscal 1999, the Trustee Council approved \$40,400 for project management and general administration making the total approved \$2,840,400. The project is anticipated to begin in fiscal 2000.

9. RESTORATION RESERVE

- The Restoration Reserve Fund was established in fiscal 1995. Subsequent to the Reserve's establishment, the Council considered the restoration mission, past restoration program efforts and accomplishments, and obtained input from a variety of public sources to determine whether long-term restoration work needed to continue. It also obtained the most current information regarding the status of recovery of the resources and services injured by the oil spill in order to identify whether there was substantial and continuing long-term restoration needs. As a result of this process, the Trustee Council determined that full recovery of many injured resources and services is not yet complete, and that further scientific research and monitoring, and a continuing commitment to habitat protection is needed.
- By October 2002, as a result of the past and anticipated future deposits into the Reserve, it is estimated that the total balance in the Reserve and other remaining unobligated settlement funds will be \$170 million, unless, prior to that time, on-going negotiations concerning potential habitat acquisitions obligates some of these funds. The Trustee Council resolved on March 1, 1999, that \$55 million of the funds would be managed as a long-term funding source, with a significant proportion of these funds to be used for small parcel habitat protection. It was further recognized that any funding that may be authorized for purchase of lands along or adjacent to the Karluk or Sturgeon rivers or other potential habitat acquisitions would be made from within the \$55 million allocated. The remaining balance of the funds would be managed so that the annual earnings, adjusted for inflation, would be used to fund annual work plans that include a combination of research, monitoring and general restoration.

10. SUBSEQUENT EVENTS

- On December 6, 1999, the Council approved a disbursement of \$126,000 for small parcel acquisition under the small parcel acquisition program. The funds were disbursed from interest earned on available balances in NRDA&R and prior year recovery of unexpended project funds.
- On January 10, 2000, the Council applied for the third disbursement related to its fiscal 2000 Work Plan for Restoration Projects to be conducted by the Trustee Agencies and for small parcel acquisition under the small parcel acquisition program. The total amount approved was \$1,336,300. This amount includes \$709,500 for Restoration Projects and \$626,800 for small parcel acquisition.

SUPPLEMENTARY INFORMATION

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ELGEE REHFELD & FUNK LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds as of and for the year ended September 30, 1999, as listed in the accompanying table of contents, and have issued our report thereon dated February 10, 2000. 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 audit.

We conducted our audit 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 audit provides 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 Schedules of Expenditures and Obligations - Budget and Actual, and Schedule of Fiscal 1998 Work Plan Status as of September 30, 1999 on pages 21 through 31, are presented for purposes of additional analysis and are not a required part of the financial statements. With the exception of the Schedule of Fiscal 1998 Work Plan Status as of September 30, 1999, on page 31 on which we express no opinion and which are marked "unaudited," the information in these schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Elger, Kehteld & Fund, LLC

February 10, 2000

Exxon Valdez Oil Spill Trustee Council Alaska Department of Fish and Game Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
99025	Mechanisms of Impact and Potential Recovery of Nearshore Vertebrate Predators (NVP)	\$ 48,800	\$ 48,800	\$-
99052A	Community Involvement	243,400	243,279	121
99052B	Traditional Ecological Knowledge	38,900	38,876	24
99064	Monitoring, Habitat Use, and Trophic Interactions of Harbor Seals in Prince William Sound	263,300	262,481	819
99100	Administration, Science Management, and Public Information	1,553,600	1,482,766	70,834
99126	Habitat Protection and Acquisition Support	22,400	21,923	477
99127	Tatitlek Coho Salmon Release	10,700	10,700	-
99131	Chugach Native Region claim Restoration	306,200	306,111	89
99139A2	Port Dick Creek Tributary Restoration and Development	85,800	85,735	65
99162A	Investigation of Disease Factors Affecting Declines of Pacific Herring Populations: Manuscripts/Conference Attendance (Part A)	58,600	58,600	-
99162B	Investigation of Disease Factors Affecting Declines of Pacific Herring Populations: Manuscripts/Conference Attendance (Part B)	13,400	13,400	-
99163L	APEX: Historical Data Review	29,100	29,103	(3)
99163T	APEX: Aerial Surveys	58,200	58,200	-
99188-CLO	Otolith thermal Mass Marking of Hatchery Reared Pink Salmon in Prince William Sound	185,200	185,282	(82)
99190	Construction of Linkage Map for the Pink Salmon Genome	270,000	270,000	-
99191A-CLO	Field Examination of Oil-Related Embryo Mortalities in Pink Salmon Populations in Prince William Sound	.58,400	58,400	-
99196-CLO	Genetic Structure of Prince William Sound Pink Salmon	50,000	46,989	3,011
99210	Youth Area Watch	150,400	150,362	38
99225	Port Graham Pink Salmon Subsistence Project	75;600	75,600	-
99245	Community-Based Harbor Seal Management and Biological Sampling	70,700	68,056	2,644
99247	Kametolook River Coho Salmon subsistence Project	20,800	19,986	814
99250	Project Management	239,000	199,636	39,364
99252	Investigations of Genetically Important Conservation Units of Rockfish and Walleye Pollock	308,300	273,124	35,176
99256B	Sockeye Salmon Stocking at Solf Lake	39,100	38,220	880
99263	Assessment, Protection and Enhancement of Salmon Streams in Lower Cook Inlet	42,100	42,044	56
99273	Surf Scoter Life History and Ecology: Linking Satellite Technology with Traditional Knowledge to Conserve the Resource	206,200	206,317	. (117)
99278	Development of an Ecological Characterization and Site Profile for Kachemak Bay/Lower Cook Inlet	70,000	68,990	1,010
99311	Pacific Herring Productivity Dependencies in the Prince William Sound Ecosystem Determined with Natural Stable Isotop Tracers	90,000	89,982	18
99320E-CLO	SEA: Salmon and Herring Predation	91,700	91,572	128
99320G-CLO	SEA: Phytoplankton and Nutrients	74,900	74,900	-
				(Continued)

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

Exxon Valdez Oil Spill Trustee Council Alaska Department of Fish and Game Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

			Actual	
Project			Expenditures	(Over) Under
Number	Project Title	Budget	& Obligations	Expended
(Continued)		•		
99320H-CLO	SEA: Role of Zooplankton	54,800	54,800	-
99320R-CLO	SEA: Trophodynamic Modeling and Remote Sensing	74,900	74,900	-
99320T-CLO	SEA: Juvenile Herring Growth and Habitats	160,500	160,500	-
99320T-SUP	SEA: Supplement - Herring Traditional Ecological Knowledge	25,100	25,100	-
99320U-CLO	SEA: Somatic Energetics	74,900	74,900	-
99320Z1-CLO	Sound Ecosystem Assessment (SEA)	89,900	89,900	-
99325-BAA	Assessment of Injury to Intertidal and Nearshore Subtidal Communities Following EVOS: Preparation of Manuscripts for Publication	18,500	18,500	-
99327	Pigeon Guillemot Restoration Research at the Alaska SeaLife Center	17,800	17,762	38
99340	Toward Long-Term Oceanographic Monitoring of the Gulf of Alaska Ecosystem	91,400	91,378	· 22
99341	Harbor Seal Recovery: Controlled Studies of Health and Diet	356,800	356,800	-
99348	Response of River Otters to Oil Contamination: A controlled Study of Biological Stress Markers	316,600	316,600	-
99366	Improved Salmon Excapement Enumeration Using Remote Video and Time-Lapse Recording Technology	52,000	51,807	193
99367	Synthesis and Publication of Fisheries Research	73,100	9,547	63,553
99371	Effects of Harbor Seal Metabolism on Stable Isotope Ratio Tracers	120,000	120,000	-
99375	Effect of Herring Egg Distribution and Ecology on Year-Class Strength and Adult Distribution	76,500	76,500	-
99379	Assessment of Risk Caused by Residual Oil in Prince William Sound Using P450 Activity in Fishes	115,500	115,500	-
99441	Harbor Seal Recovery: Effects of Diet on Lipid Metabolism and	158,400	158,400	-
99462	Effects of Disease on Pacific herring Population Recovery in Prince William Sound	75,100	69,646	5,454
99470	10 Year Symposium and Related Events and Materials	160,700	123,456	37,244
99471	Updating the Status of Services Reduced or Lost Due to the Oil Spill	195,000	188,702	6,298
	Alaska Department of Fish and Game Totals	\$ 7,082,300	\$ 6,814,132	\$ 268,168

Exxon Valdez Oil Spill Trustee Council Alaska Department of Environmental Conservation Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

Project Number	Project Title	 Budget	Actual penditures Obligations	``	er) Under pended
99100	Administration, Science Management and Public Information	\$ 61,200	\$ 59,130	\$	2,070
99250	Project Management	12,700	12,700		-
99291-CLO	Chenega Shoreline Residual Oiling Reduction : Final Report Writing	9,300	5,632		3,668
99391	Cook Inlet Information Management/Monitoring System	88,700	87,757		943
99514	Lower Cook Inlet Waste Management Plan	 54,500	 53,560		940
	Alaska Department of Environmental Conservation Totals	\$ 226,400	\$ 218,779	\$	7,621

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

Exxon Valdez Oil Spill Trustee Council Alaska Department of Natural Resources Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

Project Number	Project Title	 Budget	•	(Over) Under Expended	
99007A	Archaeological Index Site Monitoring	\$ 91,800	\$ 83,825	\$	7,975
99100	Administration, Science Management and Public Information	555,100	518,393		36,707
99126	Habitat Protection and Acquisition Support	316,500	252,657		63,843
99149	Archaeological Site Stewardship	9,900	9,890		10
99180	Kenai Habitat Restoration & Recreation Enhancement	199,600	26,306		173,294
99250	Project Management	25,500	21,951		3,549
99300	Synthesis of the Scientific Findings from EVOS Restoration Program	80,300	75,489		4,811
99314	Homer Mariner Park Habitat Assessment and Restoration Design	99,500	99,454		46
99339	Prince William Sound Human Use and Wildlife Disturbance Model	13,500	12,519		981
99391	Cook Inlet Information Management/Monitoring system	 238,700	 237,111		1,589
	Alaska Department of Natural Resources Totals	 1,630,400	\$ 1,337,595	<u> </u>	292,805

- 24 -

Exxon Valdez Oil Spill Trustee Council Department of Agriculture, United States Forest Service Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

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Project Number	Project Title	 Budget	Ex	Actual penditures Dbligations	-	ver) Under xpended
98180	Kenai Habitat and Restoration and Recreation Enhancement	\$ 21,400	\$	21,400	\$	-
99007A	Archeological Index Site Monitoring	28,000		21,773		6,227
99043B-CLO	Monitoring of Cutthroat Trout and Dolly Varden Habitat Improvement Structures	9,500		9,572		(72)
99100	Administration, Science Management, and Public Information	54,400		31,892		22,508
99126	Habitat Protection and Acquisition Support	248,600		214,715		33,885
99145-CLO	Cutthroat Trout and Dolly Varden: Relation Among and Within Populations of Anadromous and Resident Forms	50,100		50,100		-
99180	Kenai Habitat and Restoration and Recreation Enhancement	100,000		78,609		21,391
99250	Project Management	22,400		15,602		6,798
99256B	Sockeye Salmon Stocking at Solf Lake	29,200		23,120		6,080
99320Q-CLO	SEA: Avian Predation on Herring SP	11,300		11,300		-
99339	Western Prince William Sound Human Use and Wildlife Disturbance Model	48,500		32,792		15,708
99346	Publication of an Indexed Bibliography of the Genus Ammodytes (Sand Lance)	10,400		-		10,400
99368	Maps Depicting Environmentally Sensitive Areas in Prince William Sound (Summary Seasonal Maps Only)	5,200		4,856		344
99381	Status of Seabird Colonies in Northeastern Prince William Sound	13,000		11,958		1,042
99391	Cook Inlet Information Management/Monitoring System	7,600		6,167		1,433
99470	10 Year Symposium and Related Events and Materials	 10,100		4,490		5,610
	Department of Agriculture, United States Forest Service Totals	\$ 669,700	\$	538,346	\$	131,354

- 25 -

Exxon Valdez Oil Spill Trustee Council Department of Interior, Fish and Wildlife Service Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
99007A	Archaeological Index Site Monitoring	\$ 16,500	\$ 16,454	\$ 46
99144A	Common Murre Population Monitoring	72,600	63,530	9,070
99149	Archaeological Site Stewardship	5,300	4,882	418
99159	Surveys to Monitor Marine Bird Abundance in Prince William Sound During Winter and Summer: Report and Publication	37,000	38,558	(1,558)
99163B	APEX: Seabird Interactions	120,900	120,633	267
99163E	APEX: Kittiwakes	312,800	304,254	8,546
99163F	APEX: Guillemots	188,500	189,842	(1,342)
99163J	APEX: Barren Islands Seabird Studies	115,700	108,281	7,419
99163K	APEX: Large Fish as Samplers	12,000	11,339	661
99163R	APEX: Marbled Murrelet Productivity	114,700	112,591	2,109
99339	Western Prince William Sound Human Use and Wildlife Disturbance Model	5,200	-	5,200
99434	East Amatuli Island Remote Video Link	75,800	75,539	261
	Department of Interior - Fish and Wildlife Service Totals	\$ 1,077,000	\$ 1,045,903	\$ 31,097

- 26 -

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Exxon Valdez Oil Spill Trustee Council Department of Interior, U.S. Geological Survey Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

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Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended	
99025	Mechanisms of Impact and Potential Recovery of Nearshore Vertebrate Predators (NVP)	\$ 402,200	\$ 396,114	\$ 6,086	
99163L	APEX: Barren Island Survey & Historical Data Review	22,800	22,800	-	
99163M	Response of Seabirds to Forage Fish Density	267,700	267,700	-	
99169	Genetic Study of Murres, Guillemots and Murrelets	92,700	92,700	-	
99306	Ecology and Demographics of the Pacific Sand Lance in Lower Cook Inlet	30,000	30,000	-	
99327	Pigeon Guillemot Restoration Research at the Alaska SeaLife Center	160,600	160,600	-	
99338	Survival of Adult Murres and Kittiwakes in Relation to Forage Fish Abundance	57,900	58,600	(700)	
99423	Pattern and Processes of Population Change in Sea Otters	60,000	60,000	-	
99459	Residual Oiling of Armored Beaches and Mussel Beds in the Gulf of Alaska	114,500	113,175	1,325	
99466	Recovery Status of Barrow's Goldeneyes	12,200	12,200	-	
99479	Effects of Food Stress on Survival and Reproductive Performance of Seabirds	84,700	84,700	-	
	Department of Interior - U.S. Geological Survey Totals	\$ 1,305,300	\$ 1,298,589	\$ 6,711	

Exxon Valdez Oil Spill Trustee Council Department of Interior, National Park Service Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

Project Number	Project Title	Budget			tual ditures igations	(Over) Under Expended	
99007A	Archaeological Index Site Monitoring	\$	15,200	\$	-	\$	15,200
	Department of Interior - National Park Service Totals	· · .	15,200	\$	· _	\$	15,200

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

- 28 -

Exxon Valdez Oil Spill Trustee Council Department of Interior, Office of the Secretary Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

Project Number	Project Title		Budget	Actual penditures Obligations	``	ver) Under xpended
99100	Administration, Science Management and Public Information	\$	189,100	\$ 175,893	\$	13,207
99126	Habitat Protection and Acquisition Support		182,900	112,421		70,479
99250	Project Management		72,500	 72,329		171
	Department of Interior - Bureau of Indian Affairs, Office of the			·		
	Secretary Totals	<u> </u>	444,500	\$ 360,643	\$	83,857

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

- 29 -

Exxon Valdez Oil Spill Trustee Council U.S. Department of Commerce, National Oceanic and Atmospheric Administration Schedule of Expenditures and Obligations - Budget and Actual Fiscal Year Ending September 30, 1999

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
99012A-BAA	Comprehensive Killer Whale Investigation in Prince William Sound	\$ 85,400	\$ 85,400	\$ -
99025	Mechanisms of Impact and Potential Recovery of Nearshore Vertebrate Predators (NVP)	49,000	46,600	2,400
99090	Monitoring of Oiled Mussel Beds in Prince William Sound	150,000	147,600	2,400
99100	Administration, Science Management and Public Information	82,300	65,300	17,000
99163A	APEX: Forage Fish Assessment	272,400	262,100	10,300
99163G	APEX: Seabird Energetics	179,100	194,100	(15,000)
99163I	APEX: Project Management	98,800	67,700	31,100
99163L	APEX: Historical Data Review	38,300	42,400	(4,100)
99163O	APEX: Statistical Review	32,100	32,100	-
99163Q	APEX: Modeling	72,200	72,200	-
99163S	APEX: Jellyfish as Competitors and Predators of Fishes	116,800	116,800	-
99195	Pristane Monitoring in Mussels	96,700	99,600	(2,900)
99250	Project Management	94,800	93,500	1,300
99289-BAA	Status of Black Oystercatchers in Prince William Sound	8,600	8,600	-
99290	Hydrocarbon Data Analysis, Interpretation, and Database Maintenance	58,900	55,700	3,200
99320M-CLO	SEA: Physical Oceanography	62,500	62,500	-
99320N-CLO	SEA: Nekton and Plankton Acoustics	51,100	51,100	-
99320Y-CLO	Bird Predation on Salmon Fry	10,700	10,700	-
99320Z2-CLO	SEA Synthesis and Integration	69,600	69,600	-
99325-BAA	Assessment of Injury to Intertidal and Nearshore Subtidal Communities: Preparation of Manuscripts	22,600	22,600	-
99328	Synthesis of the Toxicological and Epidemiological Impacts of the Oil Spill on Pacific Herring	46,100	41,400	4,700
99329	Synthesis of the Toxicological Impacts on Pink Salmon	68,900	66,800	2,100
99330-BAA	Mass-Balance Model of Trophic Fluxes in EVOS-Impacted Areas	149,800	149,800	-
99347	Fatty Acid Profile and Lipid Class Analysis for Estimating Diet Composition and Quality at Different Trophic Levels	92,600	91,600	1,000
99361-BAA	Dynamic Graphical Techniques for Ecosystem Synthesis, Communication and Product Delivery	25,600	20,000	5,600
99368	Maps Depicting Environmentally Sensitive Areas in Prince William Sound (Summary Seasonal Maps Only)	32,100	32,100	-
99393-BAA	Prince William Sound Food Webs: Structure and Change	125,000	125,000	-
99401	Assessment of Spot Shrimp Abundance in Prince William Sound	38,300	37,300	1,000
99459	Residual Oiling of Armored Beaches and Mussel Beds in the Gulf of Alaska	10,400	-	10,400
99468-BAA	FEATS: Fundamental Estimations of Acoustic Target Strength	146,600	146,600	-
99476	Effects of Oiled Incubation Substrate on Pink Salmon Reproduction	74,100	70,900	3,200
	U.S. Department of Commerce, National Oceanic and			
	Atmospheric Administration Totals	\$ 2,461,400	\$ 2,387,700	\$ 73,700

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

Exxon Valdez Oil Spill Trustee Council Schedule of Fiscal 1998 Work Plan Status as of September 30, 1999 (Unaudited)

	Budget	Actual Expenditures & Obligations as of 9/30/99	Unobligated Balance as of 9/30/99
Alaska Departments of:			
Fish & Game	\$ 8,627,600	\$ 7,938,647	\$ 688,953
Environmental Conservation	61,200	61,200	-
Natural Resources	1,415,100	1,226,260	188,840
Total State of Alaska	10,103,900	9,226,107	877,793
United States Departments of:		,	
Agriculture, United States Forest Service	805,800	712,423	93,377
Interior:			
Fish & Wildlife Service	1,358,500	1,162,095	196,405
U.S. Geological Survey	1,722,000	1,666,854	55,146
National Park Service	22,100	18,564	3,536
Office of the Secretary	123,300	93,864	29,436
Bureau of Indian Affairs	90,200	84,300	5,900
Commerce, National Oceanic & Atmospheric			
Administration	3,729,700	3,688,701	40,999
Total United States	7,851,600	7,426,801	424,799
Totals	\$ 17,955,500	\$ 16,652,908	\$ 1,302,592

See Note 5 of the Notes to Supplementary Information Related to Restoration Projects on Page 34 for additional discussion relating to this schedule.

See Independent Auditors' Report on Supplementary Restoration Project Information and Notes Thereto.

- 31 -

NOTES TO SUPPLEMENTARY INFORMATION

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NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 1999

1. PRESENTATION

- The information presented in the accompanying Schedules of Expenditures and Obligations Budget and Actual present the budgets for each project approved by the *Exxon Valdez* Trustee Council (Council) as included in the Council's *Fiscal Year 1999 Work Plan*, and any amendments approved thereto, along with expenditures and obligations incurred by the Trustee Agencies in carrying out the Fiscal 1999 restoration projects, only. The information presented is not intended to present the results of operations of any other activities conducted by the Trustee Agencies. Expenditures incurred by the Trustee Agencies in Fiscal 1999 relating to restoration projects of prior years and to the liquidation of prior year encumbrances, are also not presented. The procedures used to develop and implement the project budgets for Fiscal 1999 are discussed in Note 6 to the Trust Fund Financial Statements.
- The schedules titled "Department Total" for each agency reflect total budgets, expenditures and obligations for each Trustee Agency.

2. BASIS OF ACCOUNTING

- Basis of accounting refers to when revenues, expenditures and the related assets and liabilities are recorded in the accounts and financial statements. Specifically, it relates to the timing of the financial measurements made, regardless of the measurement focus applied.
- As discussed in Note 2 to the Trust Fund Financial Statements, the State of Alaska accounts for the expenditure of funds from the State of Alaska, Exxon Valdez Oil Spill Settlement Trust (Settlement Trust) on the modified accrual basis of accounting.
- As discussed in Note 2 to the Trust Fund Financial Statements, the United States accounts for the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund (NRDA&R) on the cash basis of accounting. However, the United States Trustee Agencies use modified accrual accounting to account for the expenditure of funds within each agency. Expenditures are recorded when the related liability is incurred. Encumbrance (obligation) accounting, under which purchase orders and contracts for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary integration of the United States Government. Encumbrances (obligations) outstanding at year-end are included in the Actual Expenditures & Obligations column in the accompanying Schedules of Expenditures and Obligations Budget and Actual.

3. FINANCIAL OPERATING PROCEDURES

On September 21, 1992, the Council adopted <u>Financial Operating Procedures</u> (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. On August 29, 1996, the Trustee Council adopted Procedures that supersede the Operating Procedures adopted by the Trustee Council September 21, 1992. The purpose of the adopted Procedures was to provide guidance regarding the authorities and responsibilities of agencies that receive Joint Trust Funds approved by the Trustee Council.

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 1999

3. FINANCIAL OPERATING PROCEDURES (Continued)

Adjustments

The Procedures allow Trustee Agencies to transfer funds into or out of projects up to the cumulative amount of \$25,000 or up to ten percent of the authorized level of funding for each affected project, whichever is less, provided that such transfers will not alter the underlying scope or objectives of the project. Transfers in excess of this amount must be approved by the Council. 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 in proportion to actual direct costs and is limited to:
 - 1. Fifteen percent of each project's actual personnel costs; and
 - 2. Seven percent of the first \$250,000 of each projects actual contractual costs, plus two percent of project's actual contractual costs in excess of \$250,000.
- Amounts budgeted and expended on projects for general administration are included in the personnel and contractual lines as appropriate in the accompanying Schedules of Expenditures and Obligations Budget and Actual.

4. SETTLEMENT TRUST RECONCILIATION

Total Current Operating Expenditures reflected in the State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust (Settlement Trust), Statement of Revenues, Expenditures and Changes in Fund Balances reconcile to Actual Expenditures and Obligations reflected in the accompanying "Department Totals" Schedules of Expenditures and Obligations - Budget and Actual for each State Trustee Agency as follows:

Actual Expenditures and Obligations, "Department Totals" Schedules of Expenditures and Obligations - Budget and Actual,		
Alaska Department of Fish and Game	\$	6,814,132
Alaska Department of Environmental Conservation		218,779
Alaska Department of Natural Resources		<u>1,337,595</u>
Total		8,370,506
Add: Prior Years' Encumbrances Liquidated During Fiscal 1998		1,289,581
Less: Encumbrances Outstanding at September 30, 1999 Relating to Fiscal 1999 Restoration Projects		(777,468)
Total Current Operating Expenditures, Settlement Trust Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$</u>	8,882,619

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 1999

5. CURRENT STATUS OF 1998 WORK PLAN RESTORATION PROJECTS

- Total expenditures and obligations relating to 1998 Work Plan Restoration Projects for each agency as of September 30, 1999 is presented on pages 31. This information is included in order to reflect any changes in expenditures and obligations from amounts previously reported.
- The significant changes in the amounts previously reported, are due to encumbrances existing at September 30, 1998 which, during fiscal 1999, were liquidated due to incurring less expenditures under contracts than the amounts originally anticipated by the agencies.

ADDITIONAL REPORTS

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

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Court Registry Investment System, Exxon Valdez Oil Spill Settlement Account as of and for the year ended September 30, 1999, and have issued our report thereon dated February 10, 2000. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, Court Registry Investment System, *Exxon Valdez* Oil Spill Settlement Account's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated February 10, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Exxon Valdez* Oil Spill Trustee Council, Court Registry Investment System, *Exxon Valdez* Oil Spill Settlement Account's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council in a separate letter dated February 10, 2000.

This report is intended for the information of the *Exxon Valdez* Oil Spill Trustee Council and management. However, this report is a matter of public record and its distribution is not limited.

Elger, Repfeld & Fink, LLC

February 10, 2000



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Certified Public Accountants

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

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

We have audited the financial statements of the Exxon Valdez Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund as of and for the year ended September 30, 1999, and have issued our report thereon dated February 10, 2000. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated February 10, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council in a separate letter dated February 10, 2000.

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Elger, Rehfeld & Funk, LLC

February 10, 2000



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Certified Public Accountants

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

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

We have audited the financial statements of the Exxon Valdez Oil Spill Trustee Council, State of Alaska, Exxon Valdez Oil Spill Settlement Trust as of and for the year ended September 30, 1999, and have issued our report thereon dated February 10, 2000. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated February 10, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *Exxon Valdez* Oil Spill Trustee Council in a separate letter dated February 10, 2000.

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Elger, Rehfeld & funk, LLC

February 10, 2000