

05.04.09

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**ELGEE, REHFELD, MERTZ & BARRETT**

CERTIFIED PUBLIC ACCOUNTANTS

*EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL*

**Internal Control and Operating Comments**

March 3, 2003

# ELGEE, REHFELD, MERTZ & BARRETT, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801  
907.789.3178 • FAX 907.789.7128 • [www.ermbcpa.com](http://www.ermbcpa.com)

March 3, 2003

Members, *Exxon Valdez* Oil Spill Trustee Council  
Anchorage, AK

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council (the Council) as of and for the year ended September 30, 2002, and have issued our report thereon dated March 3, 2003. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 18, 2002, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Council are described in Note 2 to the financial statements. As discussed in Note 2 to the financial statements, the State of Alaska adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis for State and Local Governments*, in fiscal year 2002 effective July 1, 2001.

We noted no transactions entered into by the Council during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no accounting estimates that were both sensitive and significant.

### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Council's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments during our current year audit.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors

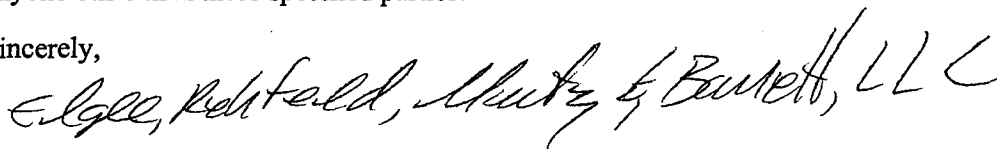
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

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

Sincerely,

A handwritten signature in cursive script that reads "Elgee, Redfield, Murty & Barnett, LLC". The signature is written in dark ink and is positioned below the "Sincerely," text.

**EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL**

**INTERNAL CONTROL AND OPERATING COMMENTS AND RECOMMENDATIONS**

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**EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL**

**INTERNAL CONTROL AND OPERATING COMMENTS AND RECOMMENDATIONS**

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# ELGEE, REHFELD, MERTZ & BARRETT, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801  
907.789.3178 • FAX 907.789.7128 • www.ermbcpa.com

March 3, 2003

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, 2002, 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 March 3, 2003, 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 2001 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, Sandra Schubert 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,



## ***Internal Control and Operating Comments - Current Year Comments***

Page 2

### **GENERAL COMMENTS**

#### **Agency Accounting Personnel Turnover**

##### *Comment -*

We noted that accounting personnel turnover at the trustee agencies has led to a lack of understanding of the expenditure and reporting requirements established by the operating procedures ("OP's"). It is important that agency personnel responsible for monitoring and reporting project expenditures are aware of the unique requirements for expenditure and reporting of settlement funds that are set forth in the OP's .

##### *Recommendation-*

We recommend that the Restoration Office develop and implement a system that will alert them to turnover at agencies of accounting personnel responsible for project accounting and that new accounting personnel receive a copy of the OP's and any other necessary information to sufficiently expend and report project funds. We also recommend the Restoration office considers providing periodic training for agency personnel regarding how to apply the OP's to agency expenditures and appropriately report on those expenditures.

---

## **UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE**

#### **Improve Monitoring of Expenditures**

##### *Comment -*

We noted the accounting personnel responsible for monitoring expenditures related to EVOS funds were not familiar with the OPs. As in prior year, monitoring of the recoverable GA didn't take place. As a result, GA recovered was under the earned amount.

##### *Recommendation -*

We recommend FWS personnel responsible for monitoring and reporting activity of the FWS become familiar with the OPs and monitor the actual direct projects' spending as allowed by the OP's to ensure expenditures recovered are within the amount permissible.

---

## **UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION**

#### **Improve Monitoring of Expenditures**

##### *Comment -*

During our audit, we noted the monitoring of expenditures related to EVOS funds was not occurring regularly. During the year, monitoring of the recoverable GA didn't take place. As a result, GA recovered was less than the earned amount by \$5,578. An adjustment has been made to recover the entire earned GA.

##### *Recommendation -*

We recommend NOAA personnel monitor the actual direct projects' spending as allowed by the OP's to ensure expenditures recovered are within the amount permissible.

---



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

***Comment***

The Quarterly Reports and Cash Flow plans provided by the United States Natural Resource Damage Assessment and Restoration Fund (NRDA&R) to the Restoration Office are used to report disbursements from the fund and allow the Restoration Office to plan for future cash needs. Due to turnover of NRDA&R staff preparing reports for the Restoration Office, some of the reports provided were not timely or accurate. The fourth quarter report was not provided until requested for audit in January 2003 and beginning balances did not agree with the third quarter ending balances. The Cash Flow Plan did not include funds previously transferred and held in NRDA&R for closing of English Bay (\$414,300) as reserved for this purpose. This caused the amount transferred to NRDA&R for FY03 Restoration projects to be less than may be needed.

***Recommendation***

We recommend reports provided be reviewed and all discrepancies promptly resolved. We also recommend the quarterly Report and Cash Flow Reports be prepared as of the end of each quarter each quarter provided to the Restoration Office within 30 days of the end of the each quarter.

---

**WE HAVE NO COMMENTS WITH RESPECT TO THE FOLLOWING:**

**United States Department of Interior, United States Geological Survey**

**United States Department of Agriculture, United States Forest Service**

**United States Department of Interior, Office of the Secretary**

**State of Alaska, Exxon Valdez Oil Spill Investment Fund**

**State of Alaska, Exxon Valdez Oil Spill Settlement Trust**

**Alaska Department of Natural Resources**

**Alaska Department of Fish and Game**

**Alaska Department of Environmental Conservation**

***Internal Control and Operating Comments -  
Status of Prior Year Comments***

Page 4

Prior Year Caption

Current Status

**GENERAL COMMENTS**

Determine Allowability of Bonus Awards

This issue was resolved in the current fiscal year.

Improve Peer Review Results Reporting

This issue was resolved in the current fiscal year.

**UNITED STATES DEPARTMENT OF INTERIOR, FISH AND WILDLIFE SERVICE**

Improve Monitoring of General Administration Costs

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

**UNITED STATES DEPARTMENT OF INTERIOR, UNITED STATES GEOLOGICAL  
SURVEY**

Unallowable Direct Project Costs

This issue was resolved in the current fiscal year.

**UNITED STATES DEPARTMENT OF COMMERCE, NATIONAL OCEANIC AND  
ATMOSPHERIC ADMINISTRATION**

Improve Contract Management

This issue was resolved in the current fiscal year.

Return Unspent Funds From Prior Year Projects

This issue was resolved in the current fiscal year.

Improve Controls Over Payroll

This issue was resolved in the current fiscal year.

**UNITED STATES DEPARTMENT OF AGRICULTURE, UNITED STATES FOREST  
SERVICE**

Return Unspent Funds from Prior Year Projects

This issue was resolved in the current fiscal year.

Improve Monitoring of General Administrative Costs

This issue was resolved in the current fiscal year.

**COURT REGISTRY INVESTMENT SYSTEM - JOINT TRUST ACCOUNT**

We had no comments with respect to the United States, Court Registry Investment System – Joint Trust Account in our prior audit.

***Internal Control and Operating Comments -  
Status of Prior Year Comments***

Page 5

Prior Year Caption

Current Status

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

We had no comments with respect to the United States, Natural Resource Damage Assessment and Restoration Fund in our prior audit.

**STATE OF ALASKA, EXXON VALDEZ OIL SPILL INVESTMENT FUND**

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

**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**

We had no comments with respect to the Alaska Department of Fish and Game during our prior audit.

**ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION**

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

**UNITED STATES DEPARTMENT OF INTERIOR, OFFICE OF THE SECRETARY**

We had no comments with respect to the United States Department of Interior, Office of the Secretary.

# Exxon Valdez Oil Spill Trustee Council

441 W. 5<sup>th</sup> Ave., Suite 500 • Anchorage, Alaska 99501-2340 • 907/278-8012 • fax 907/276-7178



March 28, 2003

Max Mertz  
Elgee, Rehfeld, Mertz & Barrett  
9309 Glacier Highway, Suite B-200  
Juneau, AK 99801

Dear Max:

On behalf of the Trustee Council, I am responding to the General Comments in the *Exxon Valdez* Oil Spill Trustee Council Internal Control and Operating Comments, dated March 3, 2003.

**Comment: ENSURE THAT AGENCY PERSONNEL RESPONSIBLE FOR REPORTING PROJECT EXPENDITURES ARE AWARE OF THE TRUSTEE COUNCIL'S FINANCIAL PROCEDURES**

Response:

We agree that agency personnel must have a copy of the Trustee Council's Financial Procedures and be informed on how to apply the procedures. It has been our practice to circulate the procedures to agency personnel whenever revisions to the procedures are made (most recently July 9, 2002). At the time of staff turnover in the agencies, we have relied on departing personnel to inform new personnel of the procedures. In an enhanced effort to ensure that agency personnel are properly informed, we will individually contact new staff, make sure that they have a copy of the procedures (which are posted on our web site for easy access), and offer training. As always, we will also continue to make Trustee Council staff available to agency personnel whenever needed to explain or clarify the procedures.

Sincerely,

*Sandra Schubert*  
*for*

Molly McCammon  
Executive Director



# United States Department of the Interior

## FISH AND WILDLIFE SERVICE

1011 E. Tudor Rd.

Anchorage, Alaska 99503-6199

IN REPLY REFER TO:  
FWS/RD

APR 10 2003

Ms. Molly McCammon, Executive Director  
Exxon Valdez Trustee Council  
441 West 5<sup>th</sup> Avenue, Suite 500  
Anchorage, Alaska 99501-2340

Dear Molly:

In response to the Fiscal Year 2002 Draft Audit document, *Internal Control and Operating Comments*, dated March 3, 2003, we offer the following comments:

### Improve Monitoring of Expenditures

The audit noted that accounting personnel responsible for monitoring expenditures related to EVOS funds were not familiar with the Operating Procedures and that monitoring of the recoverable GA did not take place. We will more closely monitor expenditures to ensure that the appropriate amount of GA is recovered. Debora McClain, the Supervisory Program Analyst in our Fisheries and Ecological Services Program, has agreed to oversee this task.

In the Table appearing on Page 26, Department of Interior, Fish and Wildlife Service, Schedule of Expenditures and Obligations-Budget and Actual, Fiscal Year Ending September 30, 2002, we note a few minor changes. We have enclosed that table with the appropriate changes for your information.

If you have any questions regarding our response, please contact Tony DeGange at 786-3492.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Edwards", is written over a printed name and title. The signature is stylized and cursive.

Gary Edwards  
Acting Regional Director

Enclosure

cc: Julie Olson, Elgee, Rehfeld, Mertz and Barrett, LLC



**UNITED STATE DEPARTMENT OF COMMERCE**  
**National Oceanic and Atmospheric Administration**  
*National Marine Fisheries Service*  
*Office of Oil Spill Damage*  
*Assessment and Restoration*  
11305 Glacier Highway  
Juneau, Alaska 99801-8626

1 April 2003

Molly McCammon,  
Executive Director  
Exxon Valdez Oil Spill Trustee Council  
441 W. 5<sup>th</sup> Ave. Suite 500  
Anchorage, Alaska 99501-2340

Dear Ms McCammon, *Molly*

We have reviewed the Auditor's findings with respect to NOAA's internal control and procedures as applied to the expenditures of Exxon Valdez Oil Spill settlement funds during fiscal year 2002.

Regarding the Auditors general comment that new agency personnel may not be aware of the unique requirements for expenditures and reporting of EVOS funds, we agree with those concerns. We will make effort to inform your office of any future staff changes and to maintain awareness of EVOS procedures during periods of transition.

The Auditors specific recommendation to NOAA is that we improve our monitoring of actual direct project spending to ensure the full recovery of General Administrative (GA) funds. We agree with that suggestion and have taken such steps. We also note that as a result of changes in Operating Procedures adopted on 7/9/02, GA funds are much simpler to monitor.

Thank you for the opportunity to comment

Sincerely,

Peter Hagen, PhD  
Program Manager, EVOS

CC:  
Julie Olsen  
Sandra Schubert  
Stacy Master






# United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, D.C. 20240

April 4, 2003

## Memorandum:

To: Molly McCammon, Executive Director  
Exxon Valdez Oil Spill Trustee Council

From: Bruce Nessler, Budget Officer / Fund Manager   
Natural Resource Damage Assessment and Restoration Program

Subject: Response to Internal Control and Operating Comments,  
Draft Fiscal Year 2002 Audit Report

We have reviewed the Draft Fiscal Year 2002 Audit Report dated March 12, 2003 and offer the following observations and comments:

With respect to the Internal Control and Operating Comments – Current Year Comments, we concur with your recommendations to improve the timeliness and accuracy of the quarterly reporting to the Restoration Office. As the General Comments section noted on page 1, changes in trustee agency accounting personnel have, in some instances, led to a lack of understanding of expenditure and reporting requirements. Such a change in the Department during FY 2002 did impact the managing and coordinating of DOI EVOS quarterly reporting. As a result, there were a few misunderstandings regarding some of the financial information as responsibility for managing the day-to-day coordination changed hands. In particular, a lack of understanding of the history and prior allocation of English Bay closing funds resulted in the inaccurate reporting.

As recommended by your auditors, any discrepancies in reporting will be rectified. As discussed with Sandra Schubert of your staff, updating of the DOI EVOS Civil Funds Cash Flow Plans will now occur on a quarterly basis, thus providing a budgetary snapshot that will coincide with the financial reporting requirements. We will intensify our effort to meet reporting deadlines.

With respect to the Trust Fund Financial Statements section, the amounts shown accurately reflect the activity and status of EVOS civil funds held in the DOI Natural Resource Damage Assessment and Restoration Fund. We would, however, recommend the deletion of "Fish and Wildlife Service" in the headings on pages 5 and 6, and replaced with "Office of the Secretary". The DOI Restoration Fund is no longer housed in the Fish and Wildlife Service.

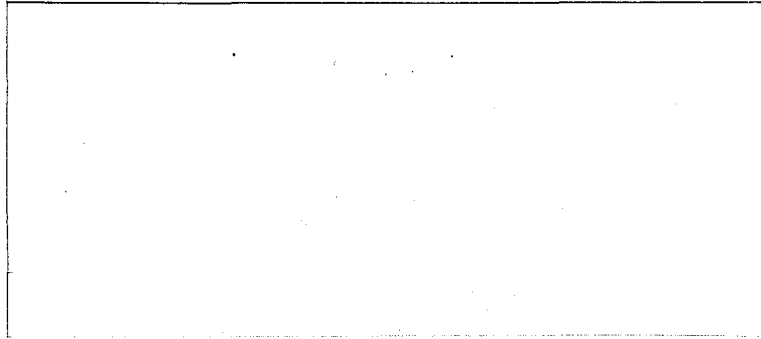
With respect to the Notes to Financial Statements section, similar changes are needed in the Section 2., Summary of Significant Accounting Policies and Section 3., Cash and Investments. The paragraphs pertaining to the DOI Natural Resource Damage Assessment and Restoration

Fund on pages 10, 11, and 13 should be revised. "Office of the Secretary" should replace those references to the "Fish and Wildlife Service".

Thank you for the opportunity to review and offer comments to the FY 2002 draft audit report. You or your staff may contact me at (202) 208-4093 if you have any questions or comments.



05.04.09

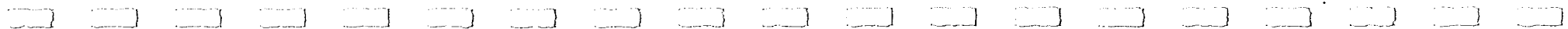


**ELGEE, REHFELD, MERTZ & BARRETT**

CERTIFIED PUBLIC ACCOUNTANTS

**EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL**  
**TRUST FUNDS FINANCIAL STATEMENTS**  
**and**  
**SUPPLEMENTARY RESTORATION PROJECTS INFORMATION**  
**Fiscal Year Ended September 30, 2002**  
**TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

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**TRUST FUNDS FINANCIAL STATEMENTS**  
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**SUPPLEMENTARY RESTORATION PROJECTS INFORMATION**

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INDEPENDENT AUDITORS' REPORTS  
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*Exxon Valdez* Oil Spill Trustee Council

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# TRUST FUNDS STATEMENTS



# ELGEE, REHFELD, MERTZ & BARRETT, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801  
907.789.3178 • FAX 907.789.7128 • www.ermbcpa.com

## INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds as of and for the year ended September 30, 2002, 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 of the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 State of Alaska, *Exxon Valdez* Oil Spill Investment Fund (Investment Fund) is of the Investment Fund only and is not intended to present the financial position of the State of Alaska or any of its component units and the results of their operations.

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of NRDA&R and the financial position of the Investment Fund and Settlement Trust as of and for the year ended September 30, 2002, and the results of their operations for the year then ended on the basis of accounting described in Note 2 for NRDA&R, and in conformity with generally accepted accounting principles of the United States for the Investment Fund and Settlement Trust.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 3, 2003, 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.

*Elgee, Rehfeld, Meitz & Barnett, LLC*

March 3, 2003



*EXXON VALDEZ* OIL SPILL TRUSTEE COUNCIL  
STATE OF ALASKA - *EXXON VALDEZ* OIL SPILL INVESTMENT FUND  
(An Agency Fund of the State of Alaska)

BALANCE SHEET  
September 30, 2002

ASSETS:

Cash and Investments	\$ 142,313,451
Interest Receivable	<u>4,786</u>
Total Assets	<u>\$ 142,318,237</u>

LIABILITIES:

Accounts Payable	\$ 28,224
Assets Held in Custody by the State of Alaska	<u>142,290,013</u>
Total Liabilities	<u>\$ 142,318,237</u>

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

*EXXON VALDEZ* OIL SPILL TRUSTEE COUNCIL  
STATE OF ALASKA - *EXXON VALDEZ* OIL SPILL INVESTMENT FUND  
(An Agency Fund of the State of Alaska)  
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
For the Year Ended September 30, 2002

Additions:

Interest and Investment Loss	\$ (10,303,330)
Total Additions	<u>(10,303,330)</u>

Deductions:

State of Alaska	14,472,734.00
<i>Exxon Valdez</i> Oil Spill Settlement Trust	
Investment management fees	97,364
United States Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund	<u>7,260,000</u>
Total Deductions	<u>21,830,098</u>
Net Decrease in Assets	(32,133,428)
Assets Held in Custody by the State of Alaska, Beginning of Year	<u>174,423,441</u>
Assets Held in Custody by the State of Alaska, End of Year	<u><u>\$ 142,290,013</u></u>

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

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

STATEMENT OF ASSETS, LIABILITIES AND TRUST FUND  
BALANCE ARISING FROM CASH TRANSACTIONS  
September 30, 2002

ASSETS:

Cash and Investments	\$ 1,239,036
Total Assets	<u>\$ 1,239,036</u>

LIABILITIES AND FUND BALANCE:

Liabilities	\$ -
Trust Fund Balance	<u>1,239,036</u>
Total Liabilities and Trust Fund Balance	<u>\$ 1,239,036</u>

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

**EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL**  
**UNITED STATES DEPARTMENT OF THE INTERIOR,**  
**FISH AND WILDLIFE SERVICE**  
**NATURAL RESOURCES DAMAGE ASSESSMENT**  
**AND RESTORATION FUND**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND**  
**CHANGES IN TRUST FUND BALANCE**  
**For the Fiscal Year Ended September 30, 2002**

**Receipts:**

**Contributions :**

<i>Exxon Valdez</i> Oil Spill Settlement Trust	\$ 764,750
<i>Exxon Valdez</i> Oil Spill Investment Fund	7,260,000
	<u>8,024,750</u>

**Unobligated Balances Returned to NRDA&R:**

U.S. Department of Interior:	
Fish and Wildlife Service	42,948
United States Geological Survey	6,652
U.S. Department of Commerce, National Oceanic and Atmospheric Administration	94,900
U.S. Department of Agriculture, United States Forest Service	531,368
	<u>675,868</u>

Investment Income	<u>35,723</u>
<b>Total Receipts</b>	<u><b>8,736,341</b></u>

**Disbursements:**

U.S. Department of Interior:	
Fish and Wildlife Service	(607,710)
United States Geological Survey	(875,800)
National Park Service	(12,800)
Office of the Secretary	(26,000)
Bureau of Land Management	-
U.S. Department of Agriculture, United States Forest Service	(7,044,200)
U.S. Department of Commerce, National Oceanic and Atmospheric Administration	(1,160,100)
<b>Total Disbursements</b>	<u><b>(9,726,610)</b></u>

Deficiency of Receipts Over Disbursements	(990,269)
Trust Fund Balance, Beginning of Year	<u>2,229,305</u>
Trust Fund Balance, End of Year	<u><u>\$ 1,239,036</u></u>

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

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

BALANCE SHEET  
September 30, 2002

ASSETS:

Cash and Investments	\$ 8,374,632
Total Assets	<u>\$ 8,374,632</u>

LIABILITIES AND FUND BALANCES:

Liabilities:

Accounts Payable	\$ 940,284
Deferred Revenues	<u>3,849,996</u>
Total Liabilities	<u>4,790,280</u>

Fund Balances:

Reserved for Encumbrances	2,375,208
Unreserved	<u>1,209,144</u>
Total Fund Balance	<u>3,584,352</u>
Total Liabilities and Fund Balance	<u>\$ 8,374,632</u>

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

**EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL**  
**STATE OF ALASKA - EXXON VALDEZ OIL SPILL SETTLEMENT TRUST**  
**(A Special Revenue Fund of the State of Alaska)**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**For the Fiscal Year Ended September 30, 2002**

Revenues:

Contributions - State of Alaska	
<i>Exxon Valdez</i> Investment Fund	\$ 14,049,588
Interest and Investment Income	<u>391,106</u>
Total Revenues	<u>14,440,694</u>

Expenditures:

Current Operating:

Natural Resources Damage Assessment and Restoration Projects - Alaska	
Department of Fish and Game	3,169,275
Department of Environmental Conservation	81,206
Department of Natural Resources	<u>620,135</u>
	<u>3,870,616</u>

Capital Outlay:

Research Infrastructure Improvements - Alaska	
Department of Fish & Game	-
Department of Environmental Conservation	157,902
Department of Natural Resources	823,419
Land Acquisitions - Alaska	
Department of Natural Resources	<u>12,263,299</u>
	<u>13,244,620</u>

Total Expenditures	<u>17,115,236</u>
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Deficiency of Revenues Over Expenditures	(2,674,542)
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Fund Balance, Beginning of Year	<u>6,258,894</u>
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Fund Balance, End of Year	<u><u>\$ 3,584,352</u></u>
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The accompanying notes to trust fund financial statements are an integral part of this statement.



## EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

### NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

#### 1. EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

##### Formation of the Exxon Valdez Oil Spill Trustee Council

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

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

##### Exxon Valdez Oil Spill Trustee Council Structure

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

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

##### Restoration Office

The Council has established a Restoration Office, which is responsible for the coordination and supervision of the activities of the Council. The Restoration Office is managed by an Executive Director who reports directly to the Council. Since the Council exists through the MOA, it and the Restoration Office operate within the framework of the Trustee Agencies. During fiscal 2002, most activities of the Restoration Office were conducted through the Alaska State Departments of Fish and Game and Natural Resources.

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

##### Termination of the Exxon Valdez Oil Spill Trustee Council

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



EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State of Alaska, Exxon Valdez Oil Spill Investment Fund

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

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

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

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

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

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

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

State of Alaska, Exxon Valdez Oil Spill Settlement Trust

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

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

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

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

Basis of Accounting

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

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

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

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

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

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

Basis of Accounting (Continued)

Settlement Trust (Continued)

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, superseded the original MOU and modified the method of determining interest income earned by the Settlement Trust. Under the new method, interest income is allocated daily based on actual earnings of the cash management pool of which the Settlement Trust is a part.

Statement Presentation

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

Accounts Payable and Deferred Revenue - Settlement Trust

Accounts payable in the Settlement Trust financial statements include disbursements made against the Settlement Trust subsequent to September 30, 2002, but which relate to fiscal 2002 restoration activities.

Deferred Revenues in the Settlement Trust financial statements include amounts received or receivable at September 30, 2002, which are to be expended by the State in fiscal 2002.

**3. CASH AND INVESTMENTS**

Cash and investments for the Investment Fund, NRDA&R, and the Settlement Trust are as follows:

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

**EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL**

**NOTES TO TRUST FUNDS FINANCIAL STATEMENTS**

Fiscal Year Ended September 30, 2002

**3. CASH AND INVESTMENTS (Continued)**

Investment Fund (Continued)

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

	Market/Carrying Value September 30, 2002
<u>Cash and Equivalents</u>	
Short-term Fixed	
Income Pool	\$ 23,771
Marketable Debt and	
Equity Securities	
Bond Market Fixed	
Income Pool	63,862,585
Non-retirement Domestic	
Equity Pool	54,829,560
State of Alaska International	
Equity Pool	<u>23,602,321</u>
	<u>\$ 142,318,237</u>

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

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

	Category *			Market Value
	1	2	3	
<u>Cash and Equivalents</u>				
Cash	\$ 618	\$ -	\$ -	\$ 618
<u>U.S. Treasury Bills and Notes</u>				
U.S Treasury Bill	<u>1,238,418</u>	<u>-</u>	<u>-</u>	<u>1,238,418</u>
	<u>\$ 1,239,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,239,036</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

3. CASH AND INVESTMENTS (Continued)

NRDA&R (Continued)

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

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

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

	Market/Carrying Value
<u>Cash and Equivalents</u>	
Short-term Fixed	
Income Pool	\$ 8,374,632

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

4. CONTRIBUTIONS BY EXXON CORPORATION

Agreement and Consent Decree

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

**4. CONTRIBUTIONS BY EXXON CORPORATION (Continued)**

Agreement and Consent Decree (Continued)

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

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

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

Reopener for Unknown Injury

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

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

**5. REIMBURSEMENTS TO THE UNITED STATES AND THE STATE**

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

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

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

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

**6. DISBURSEMENTS FROM INVESTMENT FUND**

Approved Payment Uses

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

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, 2002, the following project solicitation and review process was used by the Council:

1. In February 2001, the Council published an *Invitation to Submit Restoration Proposals for Federal Fiscal Year 2002*. As part of the requirements, proposers developed and submitted detailed project descriptions and project budgets for review.
2. In May 2001, 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 2001, all proposals and the results of the reviews were published in the *Draft Fiscal Year 2002 Work Plan* and distributed for public comment.
4. In July 2001, a public hearing was held on the *Draft Fiscal Year 2002 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 2001.
6. In December 2001 the Council approved additional projects as part of the *FY 2002 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. The Council separately approves land acquisitions.

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

The governments are to report to the Council the amount of interest earned on net available balances in NRDA&R and the Settlement Trust. When appropriate, the Council then recovers the interest reported by reducing subsequent disbursements from the Investment Fund for future projects. In addition, actual project costs are frequently less than the original project budgets. When this occurs, the United States and the State retain the unspent or unobligated balances. When appropriate, the Council then recovers these balances by reducing subsequent disbursements for new projects. During fiscal 2002, disbursements to the United States and the State were reduced by \$1,970,450 and \$1,041,800 for such interest income and unspent or unobligated balances, respectively.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

**6. DISBURSEMENTS FROM INVESTMENT FUND (Continued)**

Disbursements from the Investment Fund

During fiscal 2002, the Council disbursed \$21,830,098 for restoration projects, land acquisition and other Council Authorizations pursuant to the MOA as follows:

Restoration Projects Authorized By the Council

For 2002

To be conducted by the State	\$ 18,800
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For 2003

To be conducted by the United States	100,000
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To be conducted by the State	<u>2,607,200</u>
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Total	<u>2,726,000</u>
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Land Acquisitions and Research Infrastructure

Improvements Authorized By The Council

For 2002:

To be acquired by the United States	160,000
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To be acquired by the State	41,000
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For 2003:

To be acquired by the United States	7,000,000
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To be acquired by the State	<u>11,805,734</u>
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Total	19,006,734
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Investment Management Fees	<u>97,364</u>
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Disbursements from the Investment Fund	<u>\$ 21,830,098</u>
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**7. DEFERRED REVENUE**

In August 2002, the Court was notified of the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2003 and land acquisition disbursements to be made in fiscal 2003. A disbursement relating to this activity was made from the Investment Fund on September 3, 2002, and of the amount disbursed to the State Trustee Agencies', \$2,607,200 has been recorded as deferred revenue for fiscal 2003 restoration projects, land acquisition and other Council Authorizations. In addition, revenues disbursed in prior years for capital projects and land acquisitions totaling \$1,242,796 has been recorded as deferred revenue at September 30, 2002.

NRDA&R received the United States' disbursement relating to the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2003 prior to September 30, 2002. The amount received of \$100,000 has been recorded as Receipts - Investment Fund in the NRDA&R financial statements since NRDA&R is accounted for using the cash basis of accounting. NRDA&R also continues to hold approximately \$414,000 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 2006.



EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

**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, 2002, 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 \$395,648,124. Of the total purchase cost, excluding interest, \$339,454,778 is being provided from Joint Trusts, and \$56,193,346 from other sources.

During fiscal 2002, no large parcel acquisitions were completed.

Pending Large Parcel Easement Acquisitions

A large parcel acquisition offer for 55,402 acres that are now under a limited term conservation easement, is pending. An offer has been accepted and is expected to close during fiscal 2003. The easement terms are for a commitment by the Council of \$29,800,000 over the next ten years (until 2012). Payments will be made over the next ten years. At that time the seller has the option to sell the land in fee for the remainder of the committed funds plus any interest earnings in the fund.

Pending Large Parcel Acquisitions

A large parcel acquisition offer for 17,000 acres and timber rights for 2,300 acres, which will expire in fiscal 2005 is pending. The offer by the Council is to pay for one-half the value of these parcels, the balance of funds to be obtained by a group called the Afognak Conservation Partners.

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 nominations are evaluated under a grant to a third party through the Department of the Interior.

Through September 30, 2002, the Trustee Council has completed acquisition of 103 parcels containing 6,859 acres with a total cost of \$21,161,450. 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, sellers on 4 parcels have accepted offers. These parcels contain 59 acres and have a total cost of \$306,000. All of the small parcels are purchased under fee simple title, and cash is paid on these parcels at closing. Most of these acquisitions are purchased through the Alaska Department of Natural Resources or the U.S. Department of the Interior, Fish and Wildlife Service. Of the total purchase cost on the parcels acquired to date, \$20,677,450 is being provided from the *Exxon Valdez* Oil Spill Trust Funds, and \$484,000 from other sources.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2002

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

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 initiated in fiscal 2001 with anticipated completion by September 30, 2003. As of September 30, 2002, \$280,536 has been expended. Of the total funding for the project, \$48,700 will be retained by DEC for contract administration.

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 spill-related artifacts at a cost not to exceed \$1 million, the construction of new or renovated community facilities in the remaining seven communities to display spill-related archeological resources at a total cost not to exceed \$1.6 million, and the development of traveling exhibits of spill-related archeological materials for display in community facilities in the spill area at a total cost not to exceed \$200,000. During fiscal 1999, the Trustee Council resolved to provide \$2.8 million (plus a reasonable amount of funding for project management and general administration to be approved by the Council) to the Alaska Department of Natural Resources (DNR) to administer a grant award to Chugachmiut. Through fiscal 2002, the Trustee Council also approved \$157,200 for project management and general administration making the total approved \$2,957,200. As of September 30, 2002, \$1,270,653 has been expended on the project.

**9. SUBSEQUENT EVENTS**

On October 11, 2002, the Council notified the United States District Court of Alaska of a disbursement of \$456,000 from the Investment Fund for large and small parcel habitat acquisitions.

On October 11, 2002, the Council instructed the State of Alaska, Department of Revenue, to establish sub-accounts within the Investment Fund. These sub-accounts include: the Research Investment Sub-Account, the Habitat Investment Sub-Account, and the Koniag Investment Sub-Account. These sub-accounts were established to carry out the Council's resolution of March 1, 1999 to separately manage the remaining assets of the Joint Trust Funds for the specific purposes of funding a long-term research and monitoring program, the acquisition of lands along the Karluk River and the establishment of a fund to purchase small parcels of land that may become available in the future.

On December 10, 2002, the Council notified the United States District Court of Alaska of a disbursement of \$1,727,708 from the Research Sub-Account of the Investment Fund related to its fiscal 2003 *Work Plan* for restoration projects and a capital project and \$48,400 from the Habitat Sub-Account of the Investment Fund related to habitat protection to be conducted by the Trustee Agencies.

On December 12, 2002, the large parcel acquisition referred to in Note 8 closed.



# ELGEE, REHFELD, MERTZ & BARRETT, LLC

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds as of and for the year ended September 30, 2002, as listed in the accompanying table of contents, and have issued our report thereon dated March 3, 2003. 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.

Except as discussed in the following paragraph, 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 2001 *Work Plan* Status as of September 30, 2002 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 2001 *Work Plan* Status as of September 30, 2002, 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.

*Elgee, Rehfeld, Mertz & Barrett, LLC*

March 3, 2003

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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02052	Natural Resource Management and Stewardship Capacity Building	\$ 131,400	\$ 131,400	\$ -
02100	Public Information, Science Management and Administration	1,030,300	921,317	108,983
02190	Construction of Linkage Map for the Pink Salmon Genome	168,000	168,000	-
02210	Prince William Sound/Lower Cook Inlet Youth Area Watch	106,100	106,100	-
02245	Community-Based Harbor Seal Management and Biological Sampling	26,800	26,800	-
02247	Kametolook River Coho Salmon Subsistence Project	30,800	20,512	10,288
02250	Project Management	60,600	55,188	5,412
02320	Sound Ecosystem Assessment (SEA): Printing the Final Report	2,100	599	1,501
02340	Toward Long-Term Oceanographic Monitoring of the Gulf of Alaska Ecosystem	77,800	77,800	-
02395	Workshop on Nearshore/Intertidal Monitoring	63,600	63,304	296
02407	Harlequin Duck Population Dynamics	68,700	68,375	325
02423	Patterns and Processes of Population Change in Selected Nearshore Vertebrate Predators	153,000	153,000	-
02441	Harbor Seal Recovery: Effects of Diet on Lipid Metabolism and Health	20,200	20,200	-
02455	GEM Data System	105,000	95,771	9,229
02462-CLO	Effects of Disease on Pacific Herring Population Recovery in Prince William Sound	77,400	74,794	2,606
02535	EVOS Trustee Council Restoration Program Final Report	52,400	35,952	16,448
02538	Evaluation of Two Methods to Discriminate Pacific Herring Stocks along the Northern Gulf of Alaska	32,800	25,000	7,800
02550	Alaska Resources Library and Information Services	93,400	92,715	685
02556	Mapping Marine Habitats: Kachemak Bay	62,400	62,035	365
02558	Harbor Seal Recovery: Application of New Technologies for Monitoring Health	292,300	292,264	36
02584	Evaluation of Airborne Remote Sensing Tools for GEM Monitoring	63,600	63,600	-
02593	River Otters and Fishes in the Nearshore Environment: A Synthesis	32,400	32,400	-
02603	Implementation of an Ocean Circulation Model: A Transition from SEA to GEM	80,000	80,000	-
02608	Permanent Archiving of Specimens Collected in Nearshore Habitats	61,600	61,550	50
02610	Kodiak Archipelago Youth Area Watch	61,800	61,800	-
02612	Detecting and Understanding Marine-Terrestrial Linkages in the Kenai River Watershed	44,600	43,177	1,423
02613	Mapping Marine Habitats: Prince William Sound to McCarty Fjord	80,000	80,000	-

(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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
(Continued)				
02614	Monitoring Program for Near-Surface Temperature, Salinity and Flourescence in the Northern Pacific Ocean	38,200	38,200	-
02619	Mapping Marine Habitats: Kodiak	70,000	70,000	-
02630	Planning for GEM	187,000	180,491	6,509
02649	Reconstructing Sockeye Populations in the Gulf of Alaska over the Last Several Thousand Years	88,100	88,100	-
02671	Coordinating Volunteer Vessels of Opportunity to Collect Oceanographic Data in Kachemak Bay and Lower Cook Inlet	34,800	34,633	167
	Alaska Department of Fish and Game Totals	<u>\$ 3,497,200</u>	<u>\$ 3,325,077</u>	<u>\$ 172,123</u>

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

Exxon Valdez Oil Spill Trustee Council  
Alaska Department of Environmental Conservation  
Schedule of Expenditures and Obligations - Budget and Actual  
Fiscal Year Ending September 30, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02100	Public Information, Science Management and Administration	\$ 23,000	\$ 6,245	\$ 16,755
02250	Project Management	10,300	8,774	1,526
02514	Lower Cook Inlet Waste Management Plan Implementation Phase 1	47,900	15,000	32,900
02630	Planning for GEM	16,100	16,700	(600)
02667	Effectiveness of Citizens' Environmental Monitoring Program	17,900	22,151	(4,251)
02668	Developing an Interactive Water Quality and Habitat Database and Making it Accessible on the Web	16,100	15,000	1,100
	Alaska Department of Environmental Conservation Totals	<u>\$ 131,300</u>	<u>\$ 83,870</u>	<u>\$ 47,430</u>

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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02100	Public Information, Science Management and Administration	\$ 307,700	\$ 305,565	\$ 2,135
02126	Habitat Protection and Acquisition Support	105,700	105,700	-
02250	Project Management	8,600	8,600	-
02600	Synthesis of the Ecological Findings from the EVOS Damage Assessment and Restoration Programs, 1989-2001	133,800	133,796	4
02630	Planning for GEM	117,700	59,844	57,856
	Alaska Department of Natural Resources Totals	<u>\$ 673,500</u>	<u>\$ 613,505</u>	<u>\$ 59,995</u>

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



*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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02100	Public Information, Science Management and Administration	\$ 20,000	\$ 21,028	\$ (1,028)
02250	Project Management	8,700	8,500	200
02256B-CLO	Sockeye Salmon Stocking at Solf Lake	15,500	9,093	6,407
	Department of Agriculture, United States Forest Service Totals	<u>\$ 44,200</u>	<u>\$ 38,621</u>	<u>\$ 5,579</u>

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

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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02126	Habitat Protection and Acquisition Support	\$ 75,000	\$ 7,635	\$ 67,365
02144	Common Murre Population Monitoring	14,800	14,796	4
02159	Surveys to Monitor Marine Bird Abundance in Prince William Sound	33,200	33,300	(100)
02423	Patterns and Processors of Population Change in Selected Nearshore Vertebrate Predators	12,100	12,085	15
02561	Evaluating the Feasibility of Developing a Community - Based Forage Fish Sampling Project for GEM	54,300	33,720	20,580
	Department of Interior - Fish and Wildlife Service Totals	<u>\$ 189,400</u>	<u>\$ 101,536</u>	<u>\$ 87,864</u>

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

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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02100	Public Information, Science Management and Administration	\$ 112,500	\$ 108,790	\$ 3,710
02163M	APEX: Numerical and Functional Response of Seabirds to Fluctuations in Forage Fish Density	50,000	49,985	15
02250	Project Management	36,200	36,200	-
02404	Testing Archival Tag Technology in Coho Salmon	104,600	104,544	56
02423	Patterns and Processes of Population Change in Selected Nearshore Vertebrate Predators	317,600	317,600	-
02479	Effects of Food Stress on Survival and Reproductive Performance of Seabirds	55,000	54,998	2
02585	Lingering Oil: Bioavailability and Effects to Prey and Predators	94,800	94,223	577
02656	Retrospective Analysis of Nearshore Marine Communities Based on Analysis of Archeological Material and Isotopes	105,100	87,772	17,328
Department of Interior - U.S. Geological Survey Totals		<u>\$ 875,800</u>	<u>\$ 854,112</u>	<u>\$ 21,688</u>

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

*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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02100	Administration, Science Management and Public Information	\$ 43,800	\$ 40,688	\$ 3,112
	Department of Interior - Office of the Secretary Totals	<u>\$ 43,800</u>	<u>\$ 40,688</u>	<u>\$ 3,112</u>

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

Exxon Valdez Oil Spill Trustee Council  
Department of Interior, National Parks Service  
Schedule of Expenditures and Obligations - Budget and Actual  
Fiscal Year Ending September 30, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02656	Retrospective Analysis of Nearshore Marine Communities Based on Analysis of Archeological Material and Isotopes	\$ 4,800	\$ 4,800	\$ -
	Department of Interior - National Parks Service Totals	<u>\$ 4,800</u>	<u>\$ 4,800</u>	<u>\$ -</u>

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

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, 2002

Project Number	Project Title	Budget	Actual Expenditures & Obligations	(Over) Under Expended
02012-BAA	Photographic and Acoustic Monitoring of Killer Whales in Prince William Sound and Kenai Fjords	\$ 35,200	\$ 35,200	\$ -
02100	Public Information, Science Management and Administration	22,600	13,384	9,216
02195	Pristane Monitoring in Mussels	20,000	19,890	110
02250	Project Management	57,300	60,506	(3,206)
02290	Hydrocarbon Database and Interpretation Service	35,000	34,409	591
02360-BAA	The <i>Exxon Valdez</i> Oil Spill: Guidance for Future Research Activities	90,100	90,094	6
02396	Alaska Salmon Shark Assessment	28,800	27,800	1,000
02401	Assessment of Spot Shrimp Abundance in Prince William Sound	25,500	22,125	3,375
02476	Effects of Oiled Incubation Substrate on Pink Salmon Reproduction	39,800	36,700	3,100
02492	Were Pink Salmon Embryo Studies in Prince William Sound Biased	24,000	24,300	(300)
02538	Evaluation of Two Methods to Discriminate Pacific Herring Stocks along the Northern Gulf of Alaska	47,600	29,872	17,728
02543	Evaluation of Oil Remaining in the Intertidal from the Exxon Valdez Oil Spill	113,100	107,349	5,751
02552-BAA	Exchange Between Prince William Sound and the Gulf Alaska	102,500	109,200	(6,700)
02574-BAA	Assessment of Bivalve Recovery on Treated Mixed-Soft Beaches in Prince William Sound	94,800	94,831	(31)
02584	Evaluation of Airborne Remote Sensing Tools for GEM Monitoring	15,000	13,600	1,400
02585	Lingering Oil: Bioavailability and Effects to Prey and Predators	201,600	201,280	320
02622	Digital Maps from Existing Seasonal Environmental Sensitive Area Maps: Cook Inlet/Kenai Peninsula	36,600	36,380	220
02624-BAA	A CPR-Based Plankton Survey Using Ships of Opportunity to Monitor the Gulf of Alaska	120,600	120,632	(32)
02636-BAA	Management Applications: Commercial Fishing	50,000	49,948	52
	U.S. Department of Commerce, National Oceanic and Atmospheric Administration Totals	<u>\$ 1,160,100</u>	<u>\$ 1,127,500</u>	<u>\$ 32,600</u>

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

*Exxon Valdez Oil Spill Trustee Council*  
Schedule of Fiscal 2001  
*Work Plan* Status as of September 30, 2002  
(Unaudited)

	Budget	Actual Expenditures & Obligations as of 9/30/2002	Unobligated Balance as of 9/30/2002
Alaska Departments of:			
Fish & Game	\$ 3,642,500	\$ 3,435,835	\$ 206,665
Environmental Conservation	108,900	103,296	5,604
Natural Resources	830,700	752,242	78,458
Total State of Alaska	<u>4,582,100</u>	<u>4,291,373</u>	<u>290,727</u>
United States Departments of:			
Agriculture, United States Forest Service	320,400	279,999	40,401
Interior:			
Fish & Wildlife Service	122,200	119,931	2,269
U.S. Geological Survey	777,100	773,753	3,347
Office of the Secretary	274,370	234,118	40,252
Commerce, National Oceanic & Atmospheric Administration	<u>1,893,400</u>	<u>1,836,500</u>	<u>56,900</u>
Total United States	<u>3,387,470</u>	<u>3,244,301</u>	<u>143,169</u>
Totals	<u>\$ 7,969,570</u>	<u>\$ 7,535,674</u>	<u>\$ 433,896</u>

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





## EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

### NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2002

#### 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 2002 Work Plan*, and any amendments approved thereto, along with expenditures and obligations incurred by the Trustee Agencies in carrying out the Fiscal 2002 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 2002 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 2002 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 Financial Operating Procedures (Procedures) to be used by the United States and State of Alaska Trustee Agencies in conducting restoration projects. The objective of the Procedures was to ensure public trust and accountability while maximizing the Council's ability to use settlement funds for approved restoration activities. On August 3, 2000, the Trustee Council adopted a second revision of the original Procedures that superseded the previous Procedures. On July 9, 2002, the Trustee Council adopted a third revision of the original Procedures that supersede the previous Procedures adopted by the Trustee Council August 3, 2000. The purpose of the adopted Procedures was to provide guidance regarding the authorities and responsibilities of agencies that receive Joint Trust Funds approved by the Trustee Council.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2002

**3. FINANCIAL OPERATING PROCEDURES (Continued)**

Adjustments

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

Single Project Budget Transfers

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

General Administration

The Procedures include a provision for general administration costs to be included in the budgets of the restoration projects. Actual recovery of general administrative costs shall be 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 project's actual contractual costs, plus two percent of project's actual contractual costs in excess of \$250,000.

**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	\$ 3,325,077
Alaska Department of Environmental Conservation	83,870
Alaska Department of Natural Resources	<u>613,505</u>
Total	34,022,452

Add: Prior Years' Encumbrances Liquidated During Fiscal 2002 231,249

Less: Encumbrances Outstanding at September 30, 2002 Relating  
to Fiscal 2002 Restoration Projects (383,285)

Total Current Operating Expenditures, Settlement Trust  
Statement of Revenues, Expenditures and Changes in  
Fund Balances \$ 3,870,616

*EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL*

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Year Ended September 30, 2002

**5. CURRENT STATUS OF 2001 *WORK PLAN* RESTORATION PROJECTS**

Total expenditures and obligations relating to 2001 *Work Plan* Restoration Projects for each agency as of September 30, 2002 is presented on page 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, 2001 which, during fiscal 2002, were liquidated due to incurring less expenditures under contracts than the amounts originally anticipated by the agencies.

ADDITIONAL REPORTS



# ELGEE, REHFELD, MERTZ & BARRETT, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund as of and for the year ended September 30, 2002, and have issued our report thereon dated March 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### 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 March 3, 2003.

### 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 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 March 3, 2003.

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

*Elgee, Rehfeld, Mertz & Barrett, LLC*

March 3, 2003

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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, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund as of and for the year ended September 30, 2002, and have issued our report thereon dated March 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### 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 March 3, 2003.

### 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 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 March 3, 2003.

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

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March 3, 2003

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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, 2002, and have issued our report thereon dated March 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### 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 March 3, 2003.

### 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 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 March 3, 2003.

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March 3, 2003