

05.04.12



ELGEE REHFELD MERTZ, LLC
CERTIFIED PUBLIC ACCOUNTANTS

AN INDEPENDANT MEMBER OF
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EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

Internal Control and Operating Comments

February 2, 2007

Exxon Valdez Oil Spill Trustee Council

441 W. 5th Ave., Suite 500 • Anchorage, AK 99501-2340 • 907 278 8012 • fax 907 276 7178



March 30, 2007

Members, *Exxon Valdez* Oil Spill Trustee Council

Enclosed are documents pertaining to the FY 06 Audit of the *Exxon Valdez* Oil Spill Trustee Council Trust Funds, Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the years ended June 30th, 2006 and 2005, and the Natural Resource Damage Assessment and Restoration Funds (NRDA&R) as of and for the years ended September 30, 2006 and 2005.

Elgee Rehfeld Mertz LLC has successfully completed the annual audit for FY 06. The Internal Control and Operating Comments have been reviewed and actions are already in progress to ensure the items addressed are completed. The cover letter from the auditor and the management letter is intended for the Trustee Council agencies and for the management of the Trustee Office only.

The Financial Statements were received, reviewed and approved for distribution. Public information copies are being provided to the Alaska Resources Library & Information Services Office, as well as being made electronically available on the *Exxon Valdez* Oil Spill Trustee Council website.

I would like to thank the Trustee agencies for their time and cooperation in the audit processes, as well as their positive responses to items covered within the management letter.

Sincerely,

A handwritten signature in cursive script, reading "Michael Baffrey".

Michael Baffrey
Executive Director

cc: Trustee Council Members
TC Agency Liaisons
- TC Agency Financial Contacts

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
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February 2, 2007

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council Trust Funds, Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the years ended June 30, 2006 and 2005, and the Natural Resource Damage Assessment and Restoration Funds (NRDA&R) as of and for the years ended September 30, 2006 and 2005, and have issued our report thereon dated February 2, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 12, 2005, amended September 28, 2005, March 28, 2006, and October 1, 2006, 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 *Exxon Valdez* Oil Spill Trustee Council (the Council). Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Council's compliance with certain provisions of laws, regulations and contracts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the 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. No new accounting policies were adopted and the application of existing policies was not changed during 2006 or 2005. We noted no transactions entered into by the Council during these years 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). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Council, either individually or in the aggregate, indicate matters that could have a significant effect on the Council's financial reporting process.

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 auditors' 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 auditors' 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,

ERM

ELGEE REHFELD MERTZ, LLC

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February 2, 2007

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 June 30, 2005 and 2006 for the Investment Fund and State of Alaska Settlement Fund, and September 30, 2006 and 2005 for the NRDA&R Fund, we considered the internal control structure used to administer the Trust Funds and used to expend funds related to restoration projects conducted by the Federal and State Trustee Agencies. This was done in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

However, during our audit we noted certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 2, 2007, on the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds.

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 the staff at the Restoration Office 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

Return Unobligated Funds to NRDA&R and Investment Fund

Two federal Trustee Agencies have not returned lapsed funds to NRDA&R for several years. Excess funds at the agencies do not earn interest, and the Operating Procedures (OPs) require unobligated funds returned to NRDA&R by March 31 of the year following the project. This allows funds to be available for future projects. These Agencies are as follows:

- NOAA - Last return was of FY01 funds that were returned during the 3rd quarter of FY02. As a result, NOAA needs to return unobligated FY02-FY06 funds.
- FWS - Last return was of FY02 funds that were returned during the 2nd quarter of FY03. As a result, FWS needs to return unobligated FY03-FY06 funds.

Separately, unspent funds in the State Settlement Fund should be returned to the State Investment Fund, as it is designed to earn a higher rate of return. We have discussed this matter with Restoration Office and finance staff at ADF&G, and they are working to determine an appropriate amount of unobligated balances to be returned to the Investment Fund.

We recommend that the federal trustee agencies mentioned above determine the amount of excess funds from prior years and return these to NRDA&R. Similarly, the State should transfer excess Settlement Trust Funds to the Investment Fund.

Review and Close Outstanding Contracts

NOAA has several outstanding contracts that are several years old. It appears that some of these contracts have deliverables that have not been met by contractors. These contracts should be reviewed to determine whether they should be closed, and any unspent funds returned to NRDA&R as required by the OPs. As part of this review, NOAA staff should determine whether they need to follow up on contracts with outstanding deliverables. Trustee Agencies should request extensions from the Restoration Office for those Projects that have not been completed in accordance with the approved project timeline.

We recommend NOAA review all outstanding contracts for balances not expected to be expended and notify the Restoration Office of contracts expected to be completed outside of the approved project period. Unspent contract balances should be returned to NRDA&R.

Provide Training for Trustee Agency Staff

Over the past year, the Restoration Office has developed an on-line financial and narrative project reporting system. The system's goal is to make historical project information more accessible and easier to review and summarize. Since the Federal and State Trustee Agencies have separate and different accounting systems and methods of summarizing accounting information, and due to on-going changes to the reporting system, it appears that not all trustee agencies understand the system and how to input their project information. As a result, financial information in the system may not be accurate.

We recommend that the Restoration Office consider establishing a periodic (at least annual), interactive training for Trustee Agency staff on the use of the on-line reporting data base.

Develop Individual Budgets for Department of the Interior

The Department of the Interior receives funding at several agencies for project 060100, U.S. Geological Survey, U.S. Fish and Wild Life Service, Office of the Secretary, etc. Each of these have separate accounting records and personnel. Budgets for these have been prepared as if they are all one entity, which makes it difficult to track the budget among agencies and for the quarterly reporting.

We recommend separate budgets be prepared for each agency receiving funding for the Department of the Interior.

Develop Restoration Office Internal Procedures Manual

An important control relative to the functioning of the Restoration Office is consistent execution of important tasks. This control is supported by written documentation, the absence of which exposes the Restoration Office to the risk that tasks are not performed if the employees who perform these tasks terminate or are otherwise unavailable. The recent turnover of key employees, combined with the lack of written procedures was evidence of the need for this documentation.

A written desk manual that describes various daily, monthly, quarterly and annual tasks, the types of reports prepared, timing for certain critical events, and a complete list of all reports gathered from the various trustee agencies should be documented in a formalized desk manual.

We recommend the Restoration Office develop a procedures desk manual.

Improve Approval of Expenditures

Billings submitted at ADF&G for Project 040210 - *Youth Area Watch* were not reviewed prior to authorization for payment. A review and approval by authorized personnel familiar with the project is necessary to ensure expenditures are within the approved project budget.

We recommend that ADF&G staff clearly communicate project responsibility and that invoices indicate approval for payment only after they have been reviewed by authorized personnel.

STATUS OF PRIOR YEAR INTERNAL CONTROL AND OPERATING COMMENTS

Adhere to Operating Procedures

Prior Year Recommendation

In prior year, we recommended that the Restoration Office develop and implement a system that will alert them to turnover of personnel responsible for project accounting at Trustee Agencies, and that new accounting personnel receive a copy of the Operating Procedures (OPs) and any other necessary information to sufficiently expend and report project funds. We also recommended the Restoration Office consider providing periodic training for agency personnel regarding how to apply the OPs to agency expenditures and appropriately report on those expenditures.

In addition, we recommended that the Restoration Office develop an internal procedure manual to ensure proper project and information gathering and monitoring is performed should significant personnel turnover occur in the future.

Status

As noted in our current year comments, the Restoration Office has developed on-line reporting and is planning training for agency personnel to ensure all understand how to apply the OPs. The Restoration Office still needs to develop an internal procedures manual.

Return Unobligated Funds to NRDA&R

Prior Year Recommendation

In prior year, we recommended the Restoration Office monitor unobligated project funds to ensure that funds are returned promptly to NRDA&R to be available for future projects approved by the Restoration Office.

Status

As noted in our current year comments, two agencies still need to return unobligated funds.

Maintain Current Project Authorization Documentation

Prior Year Recommendation

In prior year, we recommended the Restoration Office implement controls to ensure information they have is complete and updated.

Status

Issue resolved. The Restoration Office has made substantial improvements in the documentation maintained. All requested information was provided promptly.

05.04.12



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EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
TRUST FUNDS FINANCIAL STATEMENTS
and
SUPPLEMENTARY RESTORATION PROJECTS INFORMATION
Fiscal Years 2006 and 2005
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL
TRUST FUNDS FINANCIAL STATEMENTS
and
SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

Fiscal Years 2006 and 2005

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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, Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the years ended June 30, 2006 and 2005, and the Natural Resource Damage Assessment and Restoration Fund (NRDA&R) as of and for the years ended September 30, 2006 and 2005 as listed in the accompanying table of contents. These financial statements are the responsibility of the *Exxon Valdez* Oil Spill Trustee Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

As discussed in Note 2, the financial 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 as of September 30, 2006 and 2005 and the results of operations for the years then ended on the basis of accounting described in Note 2 for NRDA&R and the financial position of the

Investment Fund and Settlement Trust as of June 30, 2006 and 2005, and the results of their operations for the years ended June 30, 2006 and 2005, 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 Feb 2, 2007, 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.

ERM

February 2, 2007

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

BALANCE SHEETS
 June 30, 2006 and 2005

	2006				2005			
	Research	Habitat	Koniag	Total	Research	Habitat	Koniag	Total
ASSETS:								
Cash and Investments	\$111,481,145	\$ 35,146,346	\$ 42,407,083	\$189,034,574	\$107,212,639	\$ 32,410,855	\$ 39,526,068	\$179,149,562
Total Assets	<u>\$111,481,145</u>	<u>\$ 35,146,346</u>	<u>\$ 42,407,083</u>	<u>\$189,034,574</u>	<u>\$107,212,639</u>	<u>\$ 32,410,855</u>	<u>\$ 39,526,068</u>	<u>\$179,149,562</u>
LIABILITIES:								
Accounts Payable	\$ 101,159	\$ 30,348	\$ 37,092	\$ 168,599	\$ 54,309	\$ 15,470	\$ 19,254	\$ 89,033
Assets Held in Custody by the State of Alaska	<u>111,379,986</u>	<u>35,115,998</u>	<u>42,369,991</u>	<u>188,865,975</u>	<u>107,158,330</u>	<u>32,395,385</u>	<u>39,506,814</u>	<u>179,060,529</u>
Total Liabilities	<u>\$111,481,145</u>	<u>\$ 35,146,346</u>	<u>\$ 42,407,083</u>	<u>\$189,034,574</u>	<u>\$107,212,639</u>	<u>\$ 32,410,855</u>	<u>\$ 39,526,068</u>	<u>\$179,149,562</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)
STATEMENTS OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
For the Years Ended June 30, 2006 and June 30, 2005

	2006				2005			
	Research	Habitat	Koniag	Total	Research	Habitat	Koniag	Total
Additions:								
Interest and investment loss	\$ 9,026,259	\$ 2,750,961	\$ 3,339,347	\$ 15,116,567	\$ 8,521,712	\$ 2,578,071	\$ 3,128,022	\$ 14,227,805
Total Additions	9,026,259	2,750,961	3,339,347	15,116,567	8,521,712	2,578,071	3,128,022	14,227,805
Deductions:								
State of Alaska								
Exxon Valdez Oil Spill Settlement Trust	2,403,486	-	-	2,403,486	2,665,727	12,400	-	2,678,127
Investment management fees	101,159	30,348	37,092	168,599	87,952	25,705	31,644	145,301
United States Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund	2,299,958	-	439,078	2,739,036	2,665,824	-	405,587	3,071,411
Total Deductions	4,804,603	30,348	476,170	5,311,121	5,419,503	38,105	437,231	5,894,839
Net Increase in Assets	4,221,656	2,720,613	2,863,177	9,805,446	3,102,209	2,539,966	2,690,791	8,332,966
Assets Held in Custody by the State of Alaska, Beginning of Year	107,158,330	32,395,385	39,506,814	179,060,529	104,056,121	29,855,419	36,816,023	170,727,563
Assets Held in Custody by the State of Alaska, End of Year	<u>\$ 111,379,986</u>	<u>\$ 35,115,998</u>	<u>\$ 42,369,991</u>	<u>\$ 188,865,975</u>	<u>\$ 107,158,330</u>	<u>\$ 32,395,385</u>	<u>\$ 39,506,814</u>	<u>\$ 179,060,529</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

STATEMENTS OF ASSETS, LIABILITIES AND TRUST FUND
BALANCE ARISING FROM CASH TRANSACTIONS
September 30, 2006 and 2005

ASSETS:	2006	2005
Cash and Investments	\$ 160,871	\$ 1,898,521
Total Assets	<u>\$ 160,871</u>	<u>\$ 1,898,521</u>
LIABILITIES AND FUND BALANCE:		
Trust Fund Balance	\$ 160,871	\$ 1,898,521
Total Liabilities and Trust Fund Balance	<u>\$ 160,871</u>	<u>\$ 1,898,521</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
 STATEMENTS OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN TRUST FUND BALANCE
 For the Fiscal Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Receipts:		
Contributions:		
<i>Exxon Valdez</i> Oil Spill Investment Fund	\$ 1,505,156	\$ 1,874,347
Unobligated Balances Returned to NRDA&R:		
U.S. Department of Interior:		
United States Geological Survey	62,781	41,442
Investment Income	<u>67,626</u>	<u>36,926</u>
Total Receipts	<u>1,635,563</u>	<u>1,952,715</u>
Disbursements:		
U.S. Department of Interior:		
Bureau of Land Management	472,567	-
Fish and Wildlife Service	518,495	612,289
United States Geological Survey	634,680	1,015,802
Office of the Secretary	71,818	24,500
U.S. Department of Agriculture, United States		
Forest Service	49,050	2,000
U.S. Department of Commerce, National Oceanic		
and Atmospheric Administration	<u>1,626,603</u>	<u>1,489,307</u>
Total Disbursements	<u>3,373,213</u>	<u>3,143,898</u>
Deficiency of Receipts Over Disbursements	(1,737,650)	(1,191,183)
Trust Fund Balance, Beginning of Year	<u>1,898,521</u>	<u>3,089,704</u>
Trust Fund Balance, End of Year	<u>\$ 160,871</u>	<u>\$ 1,898,521</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 SHEETS
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS:		
Cash and investments	\$ 4,824,269	\$ 4,791,096
Accounts receivable	26,788	330,131
Securities lending collateral	<u>934,297</u>	<u>40,966</u>
Total Assets	<u>\$ 5,785,354</u>	<u>\$ 5,162,193</u>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts payable	\$ 185,373	\$ 311,167
Obligations under securities lending	934,297	40,966
Due to State of Alaska General Fund	<u>40,548</u>	<u>185,650</u>
Total Liabilities	<u>1,160,218</u>	<u>537,783</u>
Fund Balances:		
Reserved for Encumbrances	652,498	835,828
Unreserved	<u>3,972,638</u>	<u>3,788,582</u>
Total Fund Balance	<u>4,625,136</u>	<u>4,624,410</u>
Total Liabilities and Fund Balance	<u>\$ 5,785,354</u>	<u>\$ 5,162,193</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)

STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

For the Year Ended June 30, 2006 and June 30, 2005

Revenues:	2006	2005
Contributions - State of Alaska		
<i>Exxon Valdez</i> Investment Fund	\$ 2,403,486	\$ 2,678,127
Interest and Investment Income	181,658	185,440
Federal grants in aid	292,479	822,000
Total Revenues	<u>2,877,623</u>	<u>3,685,567</u>
Expenditures:		
Current Operating:		
Natural Resources Damage Assessment and Restoration Projects - Alaska		
Department of Fish and Game	2,265,744	3,343,074
Department of Natural Resources	129,872	-
Department of Environmental Conservation	28,920	377,211
Department of Revenue	23,946	-
Department of Law	222,844	607,156
Total Current Operating Expenditures	<u>2,671,326</u>	<u>4,327,441</u>
Capital Expenditures:		
Research Infrastructure Improvements - Alaska		
Department of Fish & Game	-	238,081
Department of Environmental Conservation	-	545,310
Department of Natural Resources	205,571	-
Land Acquisitions - Alaska		
Department of Natural Resources	-	750,000
Total Capital Expenditures	<u>205,571</u>	<u>1,533,391</u>
Total Expenditures	<u>2,876,897</u>	<u>5,860,832</u>
Excess (Deficiency) of Revenues Over Expenditures	726	(2,175,265)
Fund Balance, Beginning of Year	<u>4,624,410</u>	<u>6,799,675</u>
Fund Balance, End of Year	<u>\$ 4,625,136</u>	<u>\$ 4,624,410</u>

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 June 30, 2006 and 2005 (State Funds)
Fiscal Years Ended September 30, 2006 and 2005 (NRDA&R)

1. EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

Formation of the Exxon Valdez Oil Spill Trustee Council

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

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

Exxon Valdez Oil Spill Trustee Council Structure

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

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

Restoration Office

The Council has established a Restoration Office, which is responsible for the coordination and supervision of the activities of the Council. The Restoration Office is managed by an Executive Director who reports directly to the Council. Since the Council exists through the MOA, it and the Restoration Office operate within the framework of the Trustee Agencies. During fiscal 2006 and 2005, most administrative functions of the Restoration Office were conducted through the Alaska State Departments of Fish and Game.

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

Termination of the Exxon Valdez Oil Spill Trustee Council

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

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State of Alaska, Exxon Valdez Oil Spill Investment Fund

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

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

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

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

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

Disbursements which are made from the Investment Fund to the United States are deposited in the U.S. Department of the Interior, 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

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. For the Settlement Trust presentation in these financial statements, GASB 34 does not apply. Accordingly, Management Discussion and Analysis and Required Supplemental Information are not presented for this fund.

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

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

Basis of Accounting

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

The basis of accounting used by the Investment Fund, NRDA&R, and Settlement Trust 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.

Expenditures are recorded when the related liability is incurred. Encumbrance accounting, under which purchase orders and contracts for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary integration of the Settlement Trust. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Settlement Trust (Continued)

Until June 30, 1997, interest and investment income was allocated to the Settlement Trust as agreed to under a Memorandum of Understanding (MOU) by and between the State Departments of Revenue and Administration effective July 1, 1993. Under the MOU, interest was credited daily to the Settlement Trust by determining the Settlement Trust's daily cash balance and applying the current weekly 180-day Treasury Bill Rates based on the Treasury Bill auctions. Effective July 1, 1997, a new MOU, dated November 26, 1997, superseded the original MOU and modified the method of determining interest income earned by the Settlement Trust. Under the new method, interest income is allocated daily based on actual earnings of the cash management pool of which the Settlement Trust is a part.

Statement Presentation

Separate 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 June 30, 2006 and 2005, but which relate to fiscal 2006 and 2005 restoration activities.

Deferred Revenues in the Settlement Trust financial statements include amounts received or receivable at June 30, 2006 and 2005, which are to be expended by the State during the following fiscal year.

3. CASH AND INVESTMENTS

Cash and investments for the Investment Fund, and the Settlement Trust as of June 30, 2006 and for NRDA&R as of September 30, 2006 are as follows:

Settlement Trust - The Council invests Settlement Trust Funds in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures, available from the Department of Revenue.

Investment Fund - The State maintains the Investment Fund as part of several investment pools including the Short-term Fixed Income Pool, the Broad Market Fixed Income Pool, and the non-retirement Domestic and International Equity Pools. The Non-retirement Domestic and International Equity Pools are open-ended mutual fund-like pools, and are therefore not categorized with regard to credit risk.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Investment Fund (Continued)

By law, all deposits and investments relating to the Investment Fund are under the control of the Commissioner of the State Department of Revenue. The State's cash is invested pursuant to State laws which mandate that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Assets in the pools are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

The accrual basis of accounting is used for investment income and investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.

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

Type of Investment Pool	2006			2005		
	Investment Fund	Settlement Trust	Total	Investment Fund	Settlement Trust	Total
Short-Term Fixed Income Pool	\$ 7,609	\$ 2,034	\$ 9,643	\$ 8	\$ 2,536	\$ 2,544
Intermediate-Term Fixed Income Pool	-	2,790	2,790	-	2,255	2,255
Broad Market Fixed Income Pool	58,566	-	58,566	68,445	-	68,445
Non-retirement Domestic Equity Pool	88,872	-	88,872	75,865	-	75,865
SOA International Equity Pool	33,988	-	33,988	34,832	-	34,832
Money market	-	934	934	-	-	-
Total invested assets	<u>\$189,035</u>	<u>\$ 5,758</u>	<u>\$194,793</u>	<u>\$179,150</u>	<u>\$ 4,791</u>	<u>\$183,941</u>

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

Investment Type	June 30, 2006				
	Short-term Fixed Income Pool	Intermediate-term Fixed Income Pool	Broad Market Fixed Income Pool	Other	Total
Overnight Sweep Account (LMCS)	\$ 17	\$ -	\$ -	\$ -	\$ 17
Short-term Investment Fund	414	-	-	-	414
Money Market	-	-	-	934	934
Commercial Paper	831	-	-	-	831
U.S. Treasury Notes	-	1,413	3,525	-	4,938
U.S. Treasury Bonds	-	-	3,906	-	3,906
U.S. Government Agency Discount Notes	-	-	1,047	-	1,047
U.S. Government Agency Mortgage-backed	-	526	7,259	-	7,785
Other Asset-backed	716	312	30,922	-	31,950
Corporate Bonds	4,975	70	1,201	-	6,246
Corporate Bonds	2,574	462	15,122	-	18,158
Yankees:					
Government	-	-	368	-	368
Corporate	106	15	991	-	1,112
Domestic Equity	-	-	-	88,907	88,907
International Equity	-	-	-	34,000	34,000
Total Invested Assets	9,633	2,798	64,341	123,841	200,613
Pool related net assets (liabilities)	10	(8)	(5,774)	(48)	(5,820)
Net Invested Assets	<u>\$ 9,643</u>	<u>\$ 2,790</u>	<u>\$ 58,567</u>	<u>\$ 123,793</u>	<u>\$ 194,793</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Investment Fund (Continued)

Investment Type	June 30, 2005				
	Short-Term Fixed Income Pool	Intermediate-Term Fixed Income Pool	Broad Market Fixed Income Pool	Equity Pools	Total
Overnight Sweep Account (LMCS)	\$ 4	\$ -	\$ -	\$ -	\$ 4
Commercial Paper	210	-	-	-	210
U.S. Treasury Bills	154	-	-	-	154
U.S. Treasury Notes	133	1,043	4,605	-	5,781
U.S. Treasury Bonds	-	-	5,039	-	5,039
U.S. Treasury Strips	-	22	1,028	-	1,050
U.S. Government Agency Discount Notes	34	147	173	-	355
U.S. Government Agency Mortgage-backed	-	283	3,665	-	3,948
Other Asset-backed	388	444	35,325	-	36,157
Corporate Bonds	1,087	112	2,484	-	3,683
Yankees:	493	337	16,585	-	17,415
Government	-	-	296	-	296
Corporate	19	1	357	-	377
Domestic Equity- Indexed	-	-	-	85,774	85,774
International Equity	-	-	-	24,788	24,788
Total Invested Assets	2,522	2,389	69,557	110,562	185,030
Pool related net assets (liabilities)	25	(134)	(1,113)	134	(1,088)
Net Invested Assets before earnings distribution to participants	\$ 2,547	\$ 2,255	\$ 68,445	\$ 110,696	\$ 183,941

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2006 and 2005, the expected average life of individual fixed rate securities ranged from one day to ten months and the expected average life of floating rate securities ranged from less than one year to three years.

Intermediate-term and Broad Market Fixed Income Pools

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to \pm 20% of the Lehman Brothers Aggregate Bond Index and the Merrill Lynch 1-5 year Government Bond Index for the years ended June 30, 2006 and 2005, respectively. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2006 was 4.8 years. The effective duration for the Merrill Lynch 1-5 year Government bond Index at June 30, 2005 was 2.31 years.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

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

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

	Effective Duration (in years)			
	2006		2005	
	Intermediate Term Fixed Income Pool	Broad Market Fixed Income Pool	Intermediate Term Fixed Income Pool	Broad Market Fixed Income Pool
U.S. Treasury Notes	2.01	3.13	2.26	3.91
U.S. Treasury Bonds	-	9.74	-	10.39
U.S. Treasury Strips	-	-	0.086	15.97
U.S. Government Agency	2.36	4.25	3.01	7.00
Mortgage-backed	2.79	3.75	2.01	2.41
Other Asset-backed	1.06	0.09	0.84	1.31
Corporate Bonds	2.65	4.99	2.60	5.39
Yankees-Government	-	8.83	-	6.50
Yankees-Corporate	4.17	6.34	3.09	9.86
Pool Effective Duration	2.16	3.96	2.10	4.10

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is BBB3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

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

The State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale) at June 30:

2006				
Investment Type	Rating ¹	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool
Overnight Sweep Account	Not Rated	0.17%	-	-
Short-term Investment Account	Not Rated	4.29%	-	-
Commercial Paper	A	8.60%	-	-
U.S. Government Agency				
Discount Notes	Not Rated	-	-	1.79%
U.S. Government Agency	Not Rated	-	18.84%	12.39%
Mortgage-backed	AAA	-	10.48%	44.12%
Mortgage-backed (Agency)	Not Rated	7.40%	0.69%	8.68%
Other Asset-backed	AAA	48.17%	1.67%	2.05%
Other Asset-backed	A	3.28%	0.85%	-
Corporate Bonds	AAA	2.02%	5.78%	2.01%
Corporate Bonds	AA	15.32%	3.20%	4.01%
Corporate Bonds	A	9.27%	4.42%	10.91%
Corporate Bonds	BBB	-	3.17%	8.89%
Yankees - Corporate	AAA	-	0.24%	0.36%
Yankees - Corporate	AA	0.91%	-	0.22%
Yankees - Corporate	A	0.18%	0.13%	0.63%
Yankees - Corporate	BBB	-	-	0.48%
Yankees - Government	AAA	-	-	0.33%
Yankees - Government	BBB	-	-	0.30%
No Credit Exposure		0.39%	50.53%	2.83%
		<u>100%</u>	<u>100%</u>	<u>100%</u>

¹Rating modifiers are not disclosed.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

2005				
Investment Type	Rating ¹	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Broad Market Fixed Income Pool
Commercial Paper	A	8.20%	-	-
U.S. Government Agency Discount Notes	Not Rated	1.33%	6.54%	-
U.S. Government Agency	Not Rated	-	12.56%	6.00%
Mortgage-backed	AAA	15.23%	6.44%	11.00%
Mortgage-backed (Agency)	Not Rated	-	11.48%	41.00%
Other Asset-backed	AAA	39.37%	4.18%	3.00%
Other Asset-backed	A	3.08%	0.77%	-
Corporate Bonds	AAA	0.58%	1.43%	2.00%
Corporate Bonds	AA	11.40%	1.97%	2.00%
Corporate Bonds	A	9.39%	5.62%	7.00%
Corporate Bonds	BBB	-	5.91%	12.00%
Yankees - Corporate	A	0.74%	-	-
No Credit Exposure		12.26%	43.06%	16.00%
		<u>100%</u>	<u>100%</u>	<u>100%</u>

¹Rating modifiers are not disclosed.

At June 30, 2006 and 2005, the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

Concentration of Credit Risk

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. At June 30, the Corporation's had more than five percent of their investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

	2006		2005	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation	\$ 7,620,749	4%	\$ 1,012,147	4%
Federal National Mortgage Association	17,743,564	9%	1,317,984	9%

Foreign Currency Risk

The Commissioner of Revenue (for the Trustee Council) formally adopts asset allocation policies which places limitations on the amount of international securities each fund is allowed to hold.

During fiscal year 2006 the policy was 17% plus or minus 5% with actual foreign holding as follows:

	Policy	Actual
EVOS Research Investment Fund	17% ± 5%	18.00%
EVOS Habitat Investment Fund	17% ± 5%	17.91%
EVOS Koniag Investment Fund	17% ± 5%	17.91%

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

Foreign Currency Risk (Continued)

During fiscal year 2005 the policy was 17% plus or minus 5% with an actual foreign holding of 19.44%.

Securities Lending

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend securities in the Short-term and Intermediate-term Fixed Income Pools. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2006 and 2005, the fair value of securities on loan allocable to the Settlement Trust totaled \$917,117 and \$40,966, respectively.

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. Loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral securities unless the borrower defaults, they are not recorded in the financial statements. Securities under loan, cash collateral and cash collateral payable are recorded in the financial statements at fair value. The Bank, the Settlement Trust and the borrower receive a fee from earnings on invested collateral. The Bank and the Settlement Trust share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the years ended June 30, 2006 and 2005, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

Additional investment information on the various pools and investments, as well as the Funds, may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405 or at www.revenue.state.ak.us/treasury.

NRDA&R - All cash and investments of NRDA&R are held in the name of the U.S. Department of the Interior, Fish and Wildlife Service, Natural Resources Damage Assessment and Restoration Fund at the U.S. Department of the Treasury. At September 30, 2006 and 2005, 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, 2006 and 2005. There are no uninsured or unregistered deposits or investments.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS (Continued)

NRDA&R investments consist of the following at September 30, 2006 and 2005:

	September 30, 2006		September 30, 2005	
	Cost	Market Value	Cost	Market Value
<u>Cash and Equivalents</u>				
Cash	\$ 428	\$ 428	\$ 1,085	\$ 1,085
<u>U.S. Treasury Bills and Notes</u>				
US Treasury Bills	160,443	160,443	1,897,436	1,897,436
	<u>\$ 160,871</u>	<u>\$ 160,871</u>	<u>\$1,898,521</u>	<u>\$1,898,521</u>

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.

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

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

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

Reopener for Unknown Injury

In addition to the payment terms discussed above, the Agreement also has a reopener provision 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.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

4. CONTRIBUTIONS BY EXXON CORPORATION (Continued)

Reopener for Unknown Injury (Continued)

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. On August 31, 2006 the governments demanded payment of \$92,240,982 under the reopener provision. Costs related to the demand were provided to Exxon 90 days prior to the demand as required in the reopener provision 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.

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.

Several of the projects approved as part of the *Fiscal Year 2005 Work Plan* and *Fiscal Year 2006 Work Plan* include approval of multi-year funding.

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 Work Plan, which approves the funding for all projects to be conducted during the plan period. For the Work Plan for the fiscal years ending September 30, 2005 and 2006, the following project solicitation and review process was used by the Council:

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

6. DISBURSEMENTS FROM INVESTMENT FUND (Continued)

Project Approval (Continued)

1. In March 2004 and March 2005, the Council published an *Invitation to Submit Restoration Proposals for Federal Fiscal Year 2005* and *Invitation to Submit Restoration Proposals for Federal Fiscal Year 2006*, respectively. As part of the requirements, proposers developed and submitted detailed project descriptions and project budgets for review.
2. In June 2004 and June 2005, the Council's Chief Scientist and core reviewers coordinated a preliminary scientific and technical review of the proposals *Fiscal Year 2005 Proposals* and *Fiscal Year 2006 Proposals*, respectively. 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 July 2004 and July 2005, all proposals and the results of the reviews were published in the *Draft Fiscal Year Draft Fiscal Year 2005 Work Plan* and *Draft Fiscal Year Draft Fiscal Year 2006 Work Plan*, respectively, distributed for public comment and the Public Advisory Group met to advise Trustee Council on the final work plan.
4. In July 2004 and July 2005, public hearings were held on the *Draft Fiscal Year 2005 Work Plan* and *Draft Fiscal Year 2006 Work Plan*, respectively.
5. The majority of approved projects received funding from the Council in August 2004 and in August 2005 relating to the *Fiscal Year 2005 Work Plan* and *Fiscal Year 2006 Work Plan*, respectively.
6. The Council approved additional projects as part of the *Fiscal Year 2005 Work Plan* and *Fiscal year 2006 Work Plan* at various times throughout the fiscal years.

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 years ending September 30, 2006 and 2005 disbursements to the United States were reduced by \$152,308 and \$49,500, respectively, for such interest income and unspent or unobligated balances. During fiscal years ending June 30, 2006 and 2005 disbursements to the State were reduced by \$241,996 and \$266,105, respectively, for such interest income and unspent or unobligated balances.

Disbursements from the Investment Fund

During the year ended June 30, 2006 and 2005, the Council disbursed \$5,670,633 and \$5,833,395 respectively for restoration projects, land acquisition and other Council Authorizations pursuant to the MOA as follows:

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

6. DISBURSEMENTS FROM INVESTMENT FUND (Continued)

Disbursements from Investment Fund for:

	Year ended June 30,	
	2006	2005
Restoration Projects Authorized by the Council		
To be conducted by the State	\$ 2,739,036	\$ 2,665,824
To be conducted by the United States	1,964,408	2,678,124
Total Restoration projects	<u>4,703,444</u>	<u>5,343,948</u>
Land Acquisitions and Research Infrastructure		
Improvements Authorized By The Council		
To be acquired by the United States	439,078	405,589
Investment Management Fees	<u>168,599</u>	<u>145,301</u>
Disbursements from the Investment Fund	<u>\$ 5,311,121</u>	<u>\$ 5,894,838</u>

Reconciliation between deductions from of the Investment Fund per the statements of Changes in fiduciary Assets and Liabilities for period ending June 30 2006 and 2005 and contributions into NRDA&R fund Statement of Receipts, Disbursements and Changes in Trust fund Balance for period ending September 30, 2006 and 2005 is as follows:

	Year Ended September 30,	
	2006	2005
Transfers to NRDA&R Per Investment Fund Statement of Activities	\$ 2,739,036	\$ 3,071,411
Less transfers 7/1/2004-9/30/2004	-	(2,903,511)
Plus transfers 7/1/2005-9/30/2005	-	1,706,447
Less transfers 7/1/2005-9/30/2005	(1,706,447)	-
Plus transfers 7/1/2005-9/30/2006	<u>472,567</u>	<u>-</u>
Contributions from Exxon Valdez Oil Spill Investment Fund	<u>\$ 1,505,156</u>	<u>\$ 1,874,347</u>

7. DEFERRED REVENUE

NRDA&R received the United States' disbursement relating to the initial funding for restoration projects to be conducted by the Trustee Agencies in fiscal 2006 prior to September 30, 2006 and 2005 respectively. The amount received of \$2,497,924 for fiscal 2006 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. There was no advance payment for fiscal 2007 in fiscal 2006. NRDA&R also received \$472,567 in August 2006 related to the annual payment for the Koniag Easement. These funds are expected to be disbursed in fiscal 2006 and 2005.

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.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

8. REAL PROPERTY ACQUISITIONS (Continued)

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, 2006, the Council funded the acquisition, through either the purchase of the property or the acquisition of a limited term conservation easement, for 651,084 acres, with a total purchase cost of \$408,900,863. Of the total purchase cost, excluding interest, \$352,837,567 is being provided from Joint Trusts, and \$56,063,296 from other sources.

During fiscal 2005 and fiscal 2006, no large parcel acquisitions were completed. The most recently completed large parcel acquisition was in fiscal year 2003, and no additional large parcel acquisitions are being actively pursued.

Small Parcel Acquisitions

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

Through September 30, 2006, the Trustee Council has completed the acquisition on 113 parcels containing 10,330 acres with a total cost of \$23,000,950. 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, the Trustee Council is working with the Nature Conservancy for purchase of two parcels totaling 57 acres with a total cost to the Trustee Council of \$175,000. 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, \$22,489,450 is being provided from the *Exxon Valdez* Oil Spill Trust Funds, and \$511,500 from other sources.

Pending Small Parcel Acquisitions

A small parcel acquisition offer for 57 acres has been accepted and is expected to close during fiscal 2007.

Kodiak Island Borough Master Waste Management Plan

The Council has 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) expended the funds and the project was completed in June 2005. A total of, \$1,058,026 was expended on the project.

Archeological Repository

The Trustee Council has approved the concept of a single regional archeological repository in one of eight communities in the Chugach and lower Cook Inlet regions to house and display spill-related artifacts at a cost not to exceed \$1 million, the construction of new or renovated community facilities in the remaining seven communities to display spill-related archeological resources at a total cost not to exceed \$1.6 million, and the development of traveling exhibits of spill-related archeological materials for display in community facilities in the spill area at a total cost not to exceed \$200,000. During fiscal 1999, the Trustee Council resolved to provide \$2.8 million (plus a reasonable amount of funding for project management and general administration to be approved by the Council) to the Alaska Department of Natural Resources (DNR) to administer a grant award to Chugachmiut. Through fiscal 2005, the Trustee Council also approved \$157,200 for project management and general administration making the total approved \$2,957,200. As of June 30, 2006, \$2,625,564 has been expended on the project. It is anticipated this project will be completed by September 2007.

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS

9. SUBSEQUENT EVENTS

On July 6, 2006, the Council notified the United States District Court of Alaska of a disbursement of \$44,000 from the Habitat Investment Sub-Account, of the Investment Fund, and \$9,300 from the Department of the Interior's Natural Resource Damage Assessment and Restoration Fund (monies previously disbursed and interest earnings) for the Fiscal Year 2006 Work Plan and \$76,000 from the State of Alaska Settlement Fund (monies previous disbursed and interest earnings)for the Fiscal Year 2006 work plan.

On August 29, 2006, the Council notified the United States District Court of Alaska of a disbursement of \$472,567 from the Koniag Investment Sub-Account of the Investment Fund for the October 2006 Koniag Easement payment. This amount has been recorded in the NRDA&R accounts and is reflected on the income statement for the year ended September 30, 2006.

On September 18, 2006, the Council notified the United States District Court of Alaska of a disbursement of \$2,062,477 from the Research Investment Sub-Account the of the Investment Fund for the Fiscal Year 2007 Work Plan.

On October 17, 2006, the Council notified the United States District Court of Alaska of a disbursement of \$260,000 from the Research Investment Sub-Account the of the Investment Fund and \$64,439 from the Department of the Interior's Natural Resource Damage Assessment and Restoration Fund (monies previously disbursed and interest earnings), and \$22,074 from the State of Alaska Settlement Fund (monies previous disbursed and interest earnings) for the Fiscal Year 2007 Work Plan.

On January 23, 2007, the Council notified the United States District Court of Alaska of a disbursement of \$3,794,162 from the Research Investment Sub-Account the of the Investment Fun and \$142,300 from the State of Alaska Settlement Fund (monies previous disbursed and interest earnings) for the Fiscal Year 2007 Work Plan.

SUPPLEMENTARY RESTORATION PROJECTS INFORMATION

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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, Oil Spill Investment Fund and Oil Spill Settlement Fund as of and for the year ended June 30, 2006 and 2005, and the Natural Resource Damage Assessment and Restoration Fund (NRDA&R) as of September 30, 2006 and 2005, as listed in the accompanying table of contents, and have issued our report thereon dated February 2, 2007. These financial statements are the responsibility of the *Exxon Valdez* Oil Spill Trustee Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, Trust Funds, taken as a whole. The accompanying Schedule of Expenditures and Obligations - Budget and Actual, on pages 26 through 30, are presented for purposes of additional analysis and are not a required part of the financial statements. With the exception of the projects, on page 27 through 30 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.



February 2, 2007

Exxon Valdez Oil Spill Trustee Council
Alaska Department of Fish and Game
Schedule of Cumulative Expenditures and Obligations - Budget and Actual
Through Fiscal Year Ending September 30, 2006

			Actual Expenditures and Obligations								
Project Number	Project Title	Total Budget	U.S. Department of Commerce, National Oceanic and Atmospheric Administration	Alaska Department of Fish and Game	Alaska Department of Environmental Conservation	U.S. Department of Interior, U.S. Geological Survey	U.S. Department of Interior, Office of Secretary	U.S. Department of Interior, Fish and Wildlife Service	Alaska Department of Natural Resources	U.S. Department of Agriculture, U.S. Forest Service	Total Cumulative Project Expenditures through 09/30/2006
Audited											
060100	EVOS Administration	\$ 1,986,072	\$ 49,516	\$ 964,146	\$ 69,369	\$ 190,906	\$ 37,772	\$ -	\$ 246,488	\$ 22,224	\$ 1,580,421
060783	Information Synthesis and Recovery	565,312	22,510	26,361	-	14,451	-	10,812	-	-	74,134
040699	AK Marine Highway System Ferries	503,300	444,427	60,996	-	-	-	-	-	-	505,423
040712	Nutrient-Based Resource management	502,850	-	-	-	488,502	-	-	-	-	488,502
040726	Marine Derived Nutrients	472,100	-	464,825	-	-	-	-	-	-	464,825
040635	Top-down and Bottom-up Processes	-	464,944	-	-	-	-	-	-	-	464,944
040624	A CPR Based Plankton Survey	405,600	405,600	-	-	-	-	-	-	-	405,600
050764	Shore Zone Mapping - Kodiak	403,200	403,221	-	-	-	-	-	-	-	403,221
040210	Youth Area Watch	380,700	-	380,700	-	-	-	-	-	-	380,700
050750	GEM Nearshore Monitoring Plan	331,700	-	-	-	312,353	-	-	-	-	312,353
Unaudited											
050749	Harbor Seal Monitoring	309,800	-	227,500	-	-	-	-	-	-	227,500
040725	Seafood Waste Discharge	293,315	193,319	-	-	-	-	-	-	-	193,319
040775	Lingering Oil and Sea Otters	262,100	-	-	-	257,102	-	-	-	-	257,102
040620-2	Lingering Oil and Sea Otters	260,200	-	-	-	243,752	-	-	-	-	243,752
040703A	Marine-derived Nutrients on Sockeye Salmon	252,400	-	251,326	-	-	-	-	-	-	251,326
040703	Marine-terrestrial Linkages	240,468	-	240,468	-	-	-	-	-	-	240,468
040340	Alaska Coastal Current	227,085	-	180,004	-	-	-	-	-	-	180,004
050765	Salmon Smolt Monitoring	201,700	-	137,909	-	-	-	-	-	-	137,909
050751	Marine bird abundance surveys	196,300	-	-	-	-	-	-	-	-	-
040610	Kodiak Archipelago	189,000	-	189,000	-	-	-	-	-	-	189,000
040670	Dynamics of the Alaska Coastal Current	185,700	-	185,139	-	-	-	-	-	-	185,139
050769	Temporal Stability of Fatty Acids	182,200	104,357	44,842	-	-	-	-	-	-	149,199
050763	Monitoring of Anthropogenic Hydrocarbons	176,700	-	117,133	-	-	-	-	-	-	117,133
040620-1	Lingering Oil: Population Status	150,100	149,603	-	-	-	-	-	-	-	149,603
040639	Ecosystem Parameters in GOA	149,700	-	117,374	-	-	-	-	-	-	117,374
060550	ARLIS - Alaska Resources Library	139,629	-	139,613	-	-	-	-	-	-	139,613
050794	Herring Populations and Updated synthesis	132,024	71,745	59,457	-	-	-	-	-	-	131,202
040708	Lingering Oil on Boulder-Armored Beaches	110,755	13,136	-	-	88,322	-	-	-	-	101,458
060784	Commercial Fishery Synthesis & Modeling	108,400	108,489	-	-	-	-	-	-	-	108,489
040706	Energy Allocation and Salmon Carcasses	104,700	-	104,596	-	-	-	-	-	-	104,596
040614	Monitoring Program in the NE Pacific Ocean	89,110	-	89,110	-	-	-	-	-	-	89,110
050742	Killer Whales in PWS/Kenai Fjords	66,600	42,826	-	-	-	-	-	-	-	42,826
040290	Hydrocarbon Database	-	66,600	-	-	-	-	-	-	-	66,256
050743	Connecting with Coastwalk	61,100	-	43,988	-	-	-	-	-	-	43,988
060782	Herring Larval Drift	52,211	-	52,211	-	-	-	-	-	-	52,211
		<u>\$ 10,223,680</u>	<u>\$ 2,761,678</u>	<u>\$ 3,854,969</u>	<u>\$ 69,369</u>	<u>\$ 1,595,388</u>	<u>\$ 37,772</u>	<u>\$ 10,812</u>	<u>\$ 246,488</u>	<u>\$ 22,224</u>	<u>\$ 8,598,700</u>

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

NOTES TO SUPPLEMENTARY INFORMATION RELATED TO RESTORATION PROJECTS

Fiscal Years Ended September 30, 2006 and 2005

1. PRESENTATION

The information presented in the accompanying Schedule 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 2006 Work Plan* and *Fiscal Year 2005 Work Plan*, and any amendments approved thereto, along with expenditures and obligations incurred by the Trustee Agencies in carrying out the Fiscal 2006 and 2005 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 2006 and 2005 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 2006 and 2005 are discussed in Note 6 to the Trust Funds Financial Statements.

2. BASIS OF ACCOUNTING

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

As discussed in Note 2 to the Trust Funds Financial Statements, the State of Alaska accounts for the expenditure of funds from the State of Alaska, Exxon Valdez Oil Spill Settlement Trust (Settlement Trust) on the modified accrual basis of accounting.

As discussed in Note 2 to the Trust Funds Financial Statements, the United States accounts for the U.S. Department of the Interior, 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. The Trustee Council has adopted a several revision of the original Procedures that supersede the previous Procedures. The most recent revision of the original Procedures was adopted April 23, 2003. 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 Years Ended September 30, 2006 and 2005

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 based on approved project budget amounts, not to exceed 9% of approved budget.

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

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

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Investment Fund as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated February 2, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

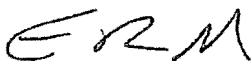
In planning and performing our audits, we considered the *Exxon Valdez* Oil Spill Trustee Council, State of Alaska, *Exxon Valdez* Oil Spill Settlement Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the *Exxon Valdez* Oil Spill Trustee Council, in a separate letter dated February 2, 2007.

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



February 2, 2007

ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

9309 Glacier Highway, Suite B-200 • Juneau, Alaska 99801
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the *Exxon Valdez* Oil Spill Trustee Council, U.S. Department of the Interior, Natural Resource Damage Assessment and Restoration Fund as of and for the years ended September 30, 2006 and 2005, and have issued our report thereon dated February 2, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

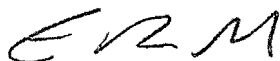
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Members, *Exxon Valdez* Oil Spill Trustee Council,
Anchorage, Alaska:

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 June 30, 2005 and 2006, and have issued our report thereon dated February 2, 2007. 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.

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February 2, 2007