



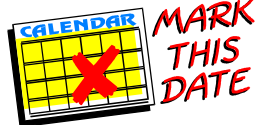
# KAVILCO NEWS

August 2001



## Annual Meeting of Shareholders

The 2001 Annual Shareholders meeting is scheduled for Saturday, November 10th at the Ted Ferry Civic Center in Ketchikan. Registration will begin at 11:00 a.m. and end at 12:00 noon. The meeting will begin at 1:00 p.m. and end at 3:00 p.m. Primary items of business are the approval of the Corporation's independent public accountants and the election of directors. The directors whose terms expire this year are Louis A. Thompson, Laird A. Jones and Melanie Locklear.



*A change has been made this year!* The banquet after the meeting will be held in the Ted Ferry Civic Center. Doors will open at 5:30 p.m. The event will be catered by Cape Fox Lodge.

## 5<sup>th</sup> Annual Cemetery Cleanup

Due to inclement weather, the 5<sup>th</sup> Annual Cemetery Cleanup could not take place.

## Kavilco Approves Dividend Direct Deposit

Recent changes at Kavilco's custodial bank give our shareholders the opportunity to have their dividends deposited directly into their bank accounts. Finally, Kavilco has joined the rank and file of the 21<sup>st</sup> Century! With Direct Deposit your money is credited to your bank account on the distribution date. This will eliminate the risk of lost or stolen checks, and it will also eliminate delays caused by relying on the mail. There is no cost to sign up or receive direct deposit.



You may request Direct Deposit by completing the "Authorization for Direct Deposit of Dividends" form that accompanies this newsletter. You **MUST** return it to Kavilco no later than November 1, 2001. That means Kavilco must have it in their business office by that date, it does not mean post marked by that date.

Kavilco's custodial bank will charge a \$35.00 handling fee if a Direct Deposit is ever rejected, and Kavilco will pass that fee on to the shareholder. Therefore it is important that you notify Kavilco **IN WRITING** if there is any change to your account





## PORTFOLIO



The Federal Reserve has made an unprecedented six Fed Fund rate reductions in the first half of the year. In past economic cycles, stimulating cuts are usually spread over a two-year period. The Fed's action is even more unique in that the economy is not in a recession. Why did the Fed take such action? Fed Chairman Alan Greenspan fully understands that economies are especially vulnerable following the bursting of an asset bubble and that the risks of easing too much are small relative to the economic downside if policy is kept too tight. Thus, the Fed will not hesitate to lower rates further, if necessary.

The Fed is battling several powerful headwinds, including weakening conditions overseas, a severe downturn in corporate profits and the aftershocks to the tech sector implosion. These negative forces will ensure that the U.S. economy recovers at a sluggish pace, despite stimulative monetary policy and looming tax cuts.

History clearly shows that an accommodating Federal Reserve is a strong catalyst for a substantial recovery. This time, though, stocks and the economy have been slow to respond to the Fed's prodding. When the books finally closed on the first half of the year, the Standard and Poor's 500 Index and the New York Stock Exchange Composite were off by 7.3% and 5.3% respectively. The NASDAQ 100 was down 12.7%. In April, the stock market started to recover and the advance/decline line was very strong. This seemed to be a prime time to start building our equity portfolio. Utilities seemed to be a prime sector to lead the market out of its doldrums. Unfortunately,

the Federal Energy Regulator Commission slapped price caps on West Coast power producers and suppliers. Even though the energy stocks we had in the portfolio had no association with California's energy problem; guilt by association and a general market retrenchment drove down the price of our stocks. As a result of these unforeseen economic events, we have net trading losses of \$6,821. We will probably withhold further equity investments until there is some signs that the Fed's interest rate cuts are stimulating the moribund economy.

Our bond portfolio has been spared any of the defaults and corporate down grades that has plagued the telecom sector. The only area we may have some exposure is the banking sector. J.P. Morgan Chase's loan portfolio could have exposure in derivatives and sub-investment grade bonds. Losses in these notional investments could result in a reduction in the bank's earnings. However, loan losses should not impact interest payments on our bond investment. As for the rest of our bond portfolio, these are very strong companies and have been doing quite well during the current economic slowdown.

## IN KASAAN

### *Rayonier Completes Timber Harvest*

Rayonier has completed timber operations in the area of Sandy Point and they work to close out the roads in the Smith Cove and Paul's Bight area. This includes removal of all culverts and bridges, as well as water baring roads to protect from erosion by water. The Kasaan peninsula area is partially closed out. Rayonier is still operating in Lyman Anchorage with logs being brought in for resorting. There is a possibility a little more log salvaging may go on before they

are totally complete. The contract will end on December 31<sup>st</sup> this year unless they request an extension. If that happens they will have to pay the extension penalty of \$50,000. Notice will also have to be submitted to Kavilco in advance.

### ***Subdivision Sewer and Water***

The Alaska Native Tribal Health Consortium (formerly US Public Health Services) is doing preliminary engineering for water and sewer in the Kavilco shareholder subdivision. This project is to be completed in five phases starting within the area closest to the village and working out through the rest of the subdivision. In phase four a new location for a new water treatment plant and a new 500,000-gallon water storage tank will be built. Some lots may have individual septic systems or be connected with a sewer collection method through a sewer treatment process, with an outfall to extreme lower tide level. At this point in time only the preliminary study has been completed. Start up of this project has not been announced. <sup>1.</sup>

### ***1971 Stumpage Sale on Kasaan Island***

A letter and phone call from the Federal Government's Office of the Special Trustee, Office of Trust Funds Management has notified us that the process of closing out funds belonging to Kavilco has started. These funds, including interest, are from the residential homesite leases on Kasaan Island<sup>2.</sup> as well as stumpage on timber sales that have occurred since 1971.

### ***Robert Burnett Returns for a Visit***

Kavilco employed Bob as an Administrative Assistant to the General Manager for several years during the early 1980's. He lived first in one of the bunkhouse rooms, then in the doublewide trailer until a large 14' x 60' trailer

was purchased and set up. He was accompanied by his wife and stepdaughter during his visit on July 28 – 30<sup>th</sup>. He was able to revisit the totem house, the office where he worked as well as other familiar places. He remarked on all the different changes that have occurred during the 20 or so years he has been gone. At least now his wife will have a better understanding when he speaks about Kavilco and Kasaan. After he left Kasaan he went back to college and completed his Master's Degree in archaeology. He worked in this field for a time until he retired. He has been residing in Mexico for the last couple of years.

## **VILLAGE CEO MEETING**

Louis A. Thompson attended the Village CEO meeting via telephone April 26, 2001.

Kootznoowoo Inc – In 1998 Carlton Smith, CEO was hired to manage Kootznoowoo. Liquidation of their airline company's Taguan Air and Air One was a major deal to keep them out of bankruptcy. Kootznoowoo's staff was cut from 27 employees to just 7. Their main intent is to slow or stop paying for losing business investments. If their goals can be met, profitability can be reached by 2003.

Huna Totem – Sam Furness CFO. A trust account is in place of \$37.7 million, with a payment of 60% of their net income to shareholders in the form of dividends. They are mainly an investment company with a small interest in tourism, such as shareholders hired as interpreters by the cruise ships into Glacier Bay. They are fairing fine except for a lawsuit against their trust account being threatened by Fred

Treem, an attorney. This maybe a class action suit.

Cape Fox Corp - Peter Giante CEO. They have \$11 million in trust to pay a shareholder dividends. Their dividend payment policy dictates that the dividend can not be less than the one paid the previous year, even if that requires that there is a dip into the principle.

Shaan Seet Corp - Adrian Le Cornu CEO. They own a small hotel, a trailer park, a charter business, and a contract logging company. They gave 623 acres to the city of Craig under 14c3. They have a small \$3.5 million trust that is being liquidated. There is no possibility for growth. Their logging equipment is their biggest asset at \$11 million.

Haida Corp - Russ Weller CEO. They have a \$12 million self -liquidating trust that pays out a dividend of \$500 per month to each shareholder. This trust is scheduled to end May of 2002. There is no market in their area to develop business and the Directors don't want any investment outside of Hydaburg. They were trying for a land exchange near Sitka, AK but were meet with opposition, so they withdrew. They are working at developing a 5 megawatt hydro system on Reynolds Creek near Hydaburg and there is still land to log. The shareholder home site program is bogged down by an attempt at equal division of lots among the shareholders, and the shareholders wanting to sell their lots back to the corporation. In addition to that a shareholder employee embezzled funds from their oil company. There is no light at the end of the tunnel for Haida Corp. The directors can't stand up to the shareholders who want to cash out now.

Sealaska -Chris McNeil CEO & Ross Soboloff Communications – Tri Quest, which

was purchased in 1997, is now up for sale again. A previous attempt to sell failed due to a lack of customer confidence and a slump in sales. A company named Crossroads, LLC was hired to turn Tri Quest around. A log stumpage sale purchased from Huna Totem Corp was over priced and with the market like it is today, harvesting is not likely. Sea Cal has been written off and is now on the market for sale. The Casino being built near San Diego will operate out of temporary facilities while a permanent facility is built. They will have 700 machines to start with and 2000 machines when finished. Sealaska, Arctic Slope Regional and Doyon formed Alaska Native Wireless to join AT&T in purchasing broadband licenses. This was structured to give a fixed rate of return of 6%. This purchase is being challenged by Nexwave as not being a totally minority company. Chris said that there is a 50/50 chance to win. Sealaska is looking at more utilization of wood fibers.

Goldbelt Corp - David Goade. Earlier on a move was made by their 3100 shareholders to cash out; however it didn't happen. In 1995 a vision document was produced of what to do after the timber was harvested. Today the company owns a dock, a tramway, a 169-unit apartment building in Anchorage, AK, a 15,000 square-foot office building in Juneau and 17 subsidiaries. They have had a net loss for two years in a row. A restructure of Glacier Bay Tours, downsizing, and cash flow problems are major topics of discussion at their Board meetings. They are leveraged to the limit right now. Currently they make \$38 million in revenue from tourism. The Tramway was successful, but requires major expenses in the form of maintenance and repairs to the upper level. This caused a \$500,000 loss and the cost of a ride on the tram rose to \$19.90. A program to run 900-foot cruise ships into Hobart Bay is in the works to create shareholder hire.

This would be a small ship (90 passengers) the Cruise company uses in Mexico during winter months. But the Cruise companies trap you into concessions to do little things that are vital to the operation once they get a signed contract.

Kake Tribal Corp - Sam Jackson Jr. CEO.  
October 1999 Kake filed for bankruptcy. Senator Ted Stevens is working on a financial bail out of \$5 million on Kake's behalf. They have restructured their debt and they hope to pay off their creditors up to 100%, over time. Kake's last dividend payment was made in 1997. Sealaska has contracted with Kake Tribal Logging to handle some of its work. Kake Fisheries is losing money, so they are working on a different marketing plan with Pelican Seafoods. This is a cold storage plant they purchased for custom processing seafood. This plant is not bringing in a lot of revenue and may be converted into a lodge. Kake Tribal Fuel is undercapitalized. Some of Kake's 558 shareholders have filed a suit, through attorney Fred Treem, opposing an insurance program for shareholders living in Kake, AK only. A tough go. A good nine member Board is now restructuring Kake Tribal Corp into a business instead of a social organization.

Shee Atika - Robert Louiselle CEO/CFO.  
Shee Atika has three entities to manage. They have \$28 million in corporate assets, \$54 million in a trust account limited to paying dividends, and \$3 million in a scholarship and funeral fund. As much as \$200,000 was paid out in scholarships last year. They sold the last of their timber, 20 million board feet, to Rayonier under a 5-year contract. Now that the timer harvesting is completed on their land on Admiralty Island there is a plan to sell their 23,000-acre holding. A vote of the shareholders granted this right. Their dividend trust has paid out

\$34 million since Shee Atika's inception. Dividends are paid out twice a year. With over 1200 shareholders, that is an average of \$18,000 per shareholder. Dividends do not decrease even if it means dipping into the principle.

Kavilco, Incorporated – Louis A. Thompson CEO – Mr. Thompson spoke about the fact that Kavilco is the smallest Native Village Corporation in Southeast Alaska. We must be the first corporation that is out of timber. We sold the last of our timber in 1987. We are made up of 120 original shareholders with a nine (9) member Board of Directors. We have had a financial office in Seattle since 1980 and a staff of two persons there that handle all the necessary things. The Board of Directors reviews and approves the strategy of the Chief Financial Officer as he manages the day to day monitoring of the portfolio. We manage a total asset base of \$38.5 million, \$34 million of which is comprised of stocks and bonds. In 1990 we became a US registered investment company under the Securities and Exchange Act of 1940. The benefit of becoming a registered investment company was that the Corporation pays no US Income Tax, so the net effect is almost doubling the dividends to shareholders. Also, according to the Act, 90% of the net income must be distributed to the shareholders, and we are audited annually by an independent auditor to make sure we comply with SEC rules and regulations.

Since 1980 our shareholders have received over \$300,000 in dividends. Last year we earned \$2.5 million and had an operating cost of \$670,000.

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## Semi-Annual Financial Statements

Enclosed are the financial statements for the six months ended June 30, 2001. The financial statements are presented in a format that all investment companies must adhere to pursuant to Security and Exchange Commission requirements and generally accepted accounting principles. In an investment company, the primary objective of the financial statements is to show how the net asset value changed throughout the year (net asset value is defined as the value of securities owned, cash, receivables and other assets over liabilities). We realize that these statements are esoteric to say the least. However, in an effort to make the financial information more meaningful, we will discuss the purpose of each financial statement.

### STATEMENT OF ASSETS AND LIABILITIES

This statement reflects everything the corporation owns or is obligated to pay as of June 30, 2001. All assets and liabilities are stated in terms of current market value. When there is no readily available market value, the Board will set the value, as was the case with premises and equipment and real estate.

### SCHEDULE OF INVESTMENTS

With the exception of a small investment in stocks, Kavilco's portfolio is primarily made up of bonds. Bonds are debt instruments that carry a stated interest rate and maturity date. The Federal, State and Municipal governments along with corporations can issue bonds. Corporate obligation is another term for bonds. Changes in corporate bond valuations are not related to the stock in the

underlying corporation, and have no impact on future dividend payments.

### STATEMENT OF OPERATIONS

The Statement of Operations is an analysis of all income and expense that the corporation incurred during for the period ending June 30, 2001. Unrealized gain/losses are accounting adjustments that relate to changes in market value of the portfolio. This account is not subject to Federal taxation and has no impact on the computation of dividend payments. For additional discussion see Notes to Financial Statement.

### STATEMENT OF CHANGES IN NET ASSETS

What happened to our assets during the year? This statement shows all increases and decreases in our assets. With the exception of the dividends to shareholder account, it is identical to the Statement of Operations.

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As always, please feel free to call me at (907) 542-2214, or our Seattle office at 1-800-786-9574.

Sincerely,

*Louis A. Thompson*

Louis A. Thompson  
President/CEO

