



# KAVILCO NEWS

August 2002



## Annual Meeting of Shareholders

The 2002 Annual Shareholders meeting is scheduled for **Saturday, November 9<sup>th</sup>**. A change from

previous years, the



meeting will be held at the **Cape Fox Lodge** 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 Jeane Breinig, Ramona Hamar and Rosemarie Trambitas.

The banquet after the meeting will also be held in the Cape Fox Lodge. Doors will open at 5:30 p.m.

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

The Board of Directors have for years taken the Saturday portion of the July Board meetings to pay their respects to the dearly departed elders by cleaning the cemetery in Kasaan. This year the Board needed to conduct an aerial review of the timber harvest after the close of the final timber contract with Rayonier. Therefore Walter Young, a local shareholder, was hired to

clear brush around the cemetery, totem house and totem poles as well as cut back the trails.

## Direct Deposit



Just a reminder that you can have your dividends deposited directly into your bank accounts. 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 an "Authorization for Direct Deposit of Dividends" form by calling Kavilco at 1-800-786-9574. You **MUST** return the completed form to Kavilco no later than October 1, 2002 for the Fall dividend. 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



### A MID-YEAR REVIEW

The first six months of 2002 have proven to be extremely difficult for the financial markets. The bear market in stocks is about the longest list of lies, bullish propaganda, and corporate scandals that have ever infected the trusting public. The mission of the bear market is to get to the point where the maximum number of people have the maximum amount of their money in stocks so that collectively they can lose the maximum possible. Case in point: Some \$7 trillion in market value has vanished since the market peaked in March 2000.

How did Kavilco avoid the worst bear market since the depression of the 1930's; worse, even, than the vicious panic of 1973-74? You will note that during the stock-market-bubble years of the latter 90's our newsletters and annual reports addressed the mania and our exit strategies to avoid being caught in the downdraft once the bubble started to deflate. However, it was impossible to predict the start (March 2000), depth (S&P stock index down 45%), and duration (over 2 years and counting) of the coming bear market. If we look to historical financial averages of the S&P stock index (price to earnings, price to book and various other ratios) the market is still overvalued. Accordingly, the bear has not yet completed its mission.

The corporate bond market has also been suffering. Our research pointed out that bubbles and investment manias are followed by deflationary busts. In other words, as profits decline, fixed income obligation payments (interest and principal) become

more difficult to make and, in the worst case scenario, lead to defaults and bankruptcies. With this point in mind, we constructed a bond portfolio of strong investment grade companies. What we couldn't anticipate was the level of fraudulent transactions and accounting scams that took place during the mania years. Given the current economic environment, any hint of accounting irregularities or a reduction in anticipated profit can result in a loss of value in a companies stocks and bonds. Unfortunately, our portfolio is not immune to corporate chicanery.

In 1995, we purchased in U.S. West Communications, which was later taken over by Qwest Communications. Last year Qwest was considered one of the strongest companies in the telecommunications industry. This year, the Department of Justice and the Securities and Exchange Commission is investigating Qwest for possible accounting irregularities dating back to 1999. Based on these recent revelations, credit rating agencies reduced their bond credit rating to a highly speculative grade. Simply put, if we trade the bonds we will take a huge financial loss. Going forward, a new and experienced management team is overseeing Qwest's 18 million access lines in 14 states and is in the process of selling assets in order to reduce debt. Only time will tell how this little melodrama will play out.

## IN KASAAN

### *Rayonier Completes Timber Harvest*

A fly over inspection of all Kavilco land ownership was conducted by the total Board of Directors and Claire Doig from Forest and Land Management, Inc on July 13,2002. Road closures, location and regeneration of all harvested sites were viewed. A lot of

pictures as well as video were taken, and some of the photos should appear in the upcoming Annual Report. The weather was kind of damp, with low fog, but overall the Directors could see the most recent timber harvest and clean-up, as well as the new crop of timber replacing that which was harvested before.

### **National Historic Site**

On June 11, 2002 Chief Son-I-Hat's Whale House and Totems Historic District in Kasaan was listed in the National Register of Historic Places. The following is



a short history of what has sometimes been called the Totem Park by shareholders.

In 1880 Chief Son-I-Hat, a Yadas chief, built Neyuwens (great house) near Kasaan Bay northwest of New Kasaan and lived there with his family until 1915. In 1938 the Civil Conservation Corps employed local natives to rebuild Neyuwens, since it had not been occupied since the Chief left and had become badly deteriorated. The walls and roof had caved in, but the basic timbers were sound with little decay. The interior roof support house-posts remained. They had been carved to represent "Coon-Ahts who captured the monster Gonaqadate, got into its skin and hunted whales for his mother-in-law." The carving of these two poles had been assigned to brothers, so though each pole is basically the same, each has different, unique details. Also remaining was the center post that Chief Son-I-Hat had

brought from his uncle's house after his uncle died. The CCC representatives obtained permission from James Peele, Chief Son-I-Hat's son to restore the house and its totem. The Whale House frontal pole was copied from the original and replaced. The Whale House was recognized as an outstanding example of a faithful reconstruction of a Kaigani community house.

Also in 1938 the Park Service, who had acquired the area of Old Kasaan and dedicated it as a National Monument, gave permission to move totems from Old Kasaan to New Kasaan and agreements were negotiated for transfer of the poles with the Peele, Thomas and Young families. Several totem poles were moved to New Kasaan and renovated: 1) a 15 meter totem surmounted by an eagle which was one of a pair of totems that stood in front of Chief Skowl's Rib House. When the pole was moved to New Kasaan, the eagle at the top was replaced. 2) a tall totem recovered from the beach in front of a house located two houses east of Chief Skowl's house. The thunderbird figure at the top was newly carved as the old one had rotted. 3) a totem known as the Spencer Pole which was erected by a Kasaan woman who had married a white man by the name of Spencer. The figure at the top of the pole (Mr. Spencer) was re-carved. 4) a totem pole, which was, relocated approximately 18 meters behind the Spencer Pole at New Kasaan. It belonged to the grandfather of Son-I-Hat and was carved by a Tlingit craftsman. And 5) a bear grave marker, which stands about 2 meters high. It stood over Peter Jones' father's grave and was located inside a small grave house at the west end of the village. Other poles were copied including a killer whale grave marker, a brown bear memorial pole and a large frog pole. In all eight totems were transferred. The head carver was James Peele.



Mr. Peele was father to Kivilco's shareholder David Peele who held the title of Chief Son-I-Hat until he passed the title on to John McAllister shortly before his death in 1999. The workers names pictured here were (from left to right) Felix Young, Healy Jones, Julius Frank, George Jones, Pete Jones, Robert Young, Robert Jones and Walter Young. Of those, two of them were original Kivilco shareholders, George Jones and Walter Young.

In 1981 Kivilco allowed an archaeological study of Old Kasaan and the Whale House and totems in New Kasaan. Despite the fact that Old Kasaan had been designated a National Monument from 1913 until 1955 not much had been done to preserve it as it stood. Many of the totems and a few of the houses were carefully moved to museums and the Totem Park in Ketchikan in an effort to save them from thieves and vandals. By 1981 all of the structures in Old Kasaan had largely decayed into the soil. Outlines of foundations and recesses of graves were all that remained.

However, they did find that despite the lack of a rigorous maintenance program, the Whale House fared remarkably well during the 40 years since it was completed. A few roof and floor boards were missing or broken. Some of the boards around the central fire pit were charred. Vandals had obliterated a small figure from one of the three house poles and there was refuge scattered about. Vandals had also damaged

the other totems with gunshot holes. Community members have taken it upon themselves to make whatever repairs they could, paying the expenses out of their own pockets. Some effort was made by Louis Thompson to place a pad lock on the door to the Whale House in an attempt to keep vandals out, but the lock was quickly broken. Other Native members of the island community claimed entitlement to access because of their alleged relationship to Chief Son-I-Hat. In the mid-1990s many noticed that the foundation timbers were showing signs of decay. Some members of Kivilco's Board felt it was time to take action before Kasaan's only remaining example of traditional native architecture disappeared too.

In 1996 Kivilco started the process to establish the Kasaan Haida Heritage Foundation (KHHF), going through all of the necessary legal steps to register it as a non-profit corporation in the State of Alaska. In 1999 KHHF became incorporated, with Kenneth Gordon, President, John Campbell, Vice President and Jeane Breinig, Secretary/Treasurer. With the help of Kivilco's staff and Board of Directors KHHF began researching the best methods of preserving the Whale House and Totems. Obviously funds from Kivilco would not be used since that would reduce the annual shareholder dividends. Grant funds were available, but before KHHF could apply for those funds the Whale House and Totems would have to be designated as a National Historic Site. Louis Thompson offered to obtain the information and forms necessary to complete application for this designation.

The application was submitted in 2001 and accepted in the Spring of 2002. Now KHHF can begin searching for the best methods to preserve the Whale House and Totems and the grant funds to accomplish them. With this

new designation, perhaps Kasaan could become a tourist destination with the Whale House and Totems the central attraction.

---



---

## Semi-Annual Financial Statements

Enclosed are the financial statements for the six months ended June 30, 2002. 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, 2002. 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, 2002. 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.

---



---

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

President/CEO

