



Kavilco Incorporated

# KAVILCO NEWS

Volume 1, Issue 2

August 2006

## DIRECT DEPOSIT

- Your money is credited to your bank account on the distribution date.
- Access your money the same day by check, ATM or debit card.
- Eliminate the risk of lost or stolen checks.
- Eliminate delays caused by relying on the mail.
- **NO COST** to sign up or receive Direct Deposit.
- Request a Direct Deposit form by calling Kavilco toll free 1-800-786-9574 or visit our website and print the form.

## Inside this issue:

The Watchman	2
Portfolio	3
Website Updates	3
In Kasaan	4
Financial Statements	5

## Annual Meeting of Shareholders



Mary Jones and Director Kenneth Gordon at the 2005 Annual Meeting.

The 2006 Annual Shareholders' Meeting is scheduled for **Saturday, November 4**. The meeting will be held at the **Ted Ferry Civic Center** in Ketchikan, Alaska. Registration will be from 11:00 a.m. to noon. The meeting will begin at 1:00 p.m. and end at 3:00 p.m. The 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 John Campbell, Kenneth Gordon and Louis Jones, Sr. Watch the mail for your 2005 Annual Report and proxy statement in October.

The Cape Fox Lodge will host the banquet and auction after the meeting. Doors will open at 5:30 p.m.



Louis Jones, Sr. during last year's auction.

## Háw'aa to KHHF and Our Donors!

The bad news is that Kavilco's application for grant funds from the **National Park Service (NPS)** was not selected this year. The NPS received 53 proposals requesting \$1.9 million, yet only had \$678,300 available for grant rewards.

The NPS encouraged us to re-apply

again in 2007. However, this is our second rejection and Chief Son-I-Hat's Whale House and Totems are rapidly deteriorating.

We contacted **MRV Architects** in Juneau, Alaska to request a revised proposal based on an estimate of

(continued on page 2)

# KHHF cont'd

costs to restore the Whale House only at this time.

The good news is that the **Kasaan Haida Heritage Foundation** voted during the July Board Meeting to fund the **\$6,301** needed so that we may take an important step to restore this outstanding example of a Kaigani Haida community house.



Whale House interior. The interior of the left-hand side of the front door wall, including a portion of the interior of the left hand wall and doorway. Note the gaps in the vertical boards.

MRV Architects will send a two-person team to Kasaan to survey the Whale House site and determine the scope of work necessary to repair and restore the Whale House. They will create measured drawings of the

building, and generate proposals to accomplish the restoration, cost estimates on time and materials, and a schedule.

Once the financial scope of the rehabilitation and restoration is known, Kavilco will then seek further funding and grants to restore the Whale House.

**Háw'aa to KHHF and our generous donors** who have contributed to KHHF either

through direct donations in memory/honor of a loved one, or the annual raffle and fundraiser dinner!

# The Watchman is Back



**Original Watchman**

The **Watchman** was a small totem carved by Louis Jones, Sr. that was used as a gavel to open and close all of Kavilco's Board Meetings and the Annual Shareholders' Meetings. It represented the spirits keeping an eye on the proceedings to make sure the right things got done.

Mr. Jones was inspired to create the Watchman after seeing a Haida watchman on the corner post of a long house in Ketchikan, Alaska. It was carved of alder wood with eyes of abalone shell. He was sitting on a log on the beach with a walking stick under his chin, watching out for friends returning from a hunt, and keeping his eyes out for enemies, weather, animals and anything else that was of

"The Watchman represents the spirits keeping an eye on proceedings to make sure the right things get done."



interest. Mr. Jones originally began the Watchman as the end of a halibut hook but changed his mind.

The Watchman was stolen in 2005 along with President Louis A. Thompson's briefcase during a Board Meeting in Seattle, Washington. The briefcase and its contents were never recovered.

In April, 2006, Mr. Thompson carved a new Watchman. His inspiration came from a photograph taken in Old Kasaan during the late 1960s and replicates the top section of a mortuary pole near a grave site.

This carving is about 8 inches tall and one inch in diameter. The wood is from a 250-year-old Alaska yew tree. The eyes are made of local abalone shell. The base of the carving is hollowed out and filled with lead to allow the carving to stand upright and serve as a gavel.

# Portfolio

In the last newsletter, I stated at the March 2006 Board Meeting that we anticipate an **economic slowdown** in the second half of the year. This prognostication was based on the increase in mortgage rates, an unchecked rise in energy prices and an inverted yield curve. Inversion in yields occurs when short-term bond investments yield more than long-dated bonds and usually indicates that an economic slowdown is in the wind. It appears that the economic slowdown is upon us. The economy was humming along at a respectable 5.1% in the first quarter. However, in the second quarter we had a sub-par growth of 2.5%. How will these economic events play out in the future?

For the most part, housing markets on both coasts have been in a bubble since the stock market crash of 2000. Now these hot markets are witnessing a substantial drop-off in prices and an increase in unsold homes. So, I think we can safely say that we are at the end of an era of massive wealth gains from housing, which provided a major tailwind in consumer spending. This is occurring when the consumer spending power is

“...unrealized gain/loss does not enter into the computation of your dividend.”

already being hit by the drag from oil prices and rising debt servicing cost. Accordingly, we feel that the economy will continue to slow down and possibly deteriorate into a recession.

Economic slowdowns can play havoc with the financial markets. We have already seen cracks developing in the stock market, and

bond yields are retreating off their June highs. At our September meeting **we plan to start mapping out strategies** to lock in some long-dated yields in order to ride out the economic slowdown.

Let's turn our attention to one account in the financial statements. Our portfolio's value is subject to the whims of the financial markets. As pointed out in all our shareholder correspondence, unrealized gain/loss is an accounting adjustment and does not enter into the computation of your dividend. The unrealized loss of \$687,901 was the result of interest rates reaching their peak for the year in June (when bond yields increase, prices decrease). After June, interest rates started to drop, and by the end of July, our unrealized losses had totally reversed.



## Website Updates

It is important for Kavalco to have your most current shareholder contact information and to know who will receive your shares after your death. Kavalco's website, [kavalco.com](http://kavalco.com), has frequently requested **affidavits and forms** in PDF files. You must have Adobe Acrobat 6.0 or better to view the forms and/or print. You may download a freeware copy from the website.

In an effort to keep communication clear and consistent with our shareholders, Kavalco has added a **“Frequently Asked Questions”** page which answers many shareholder questions and provides links to find additional information. Please call the shareholder toll free number **1-800-786-9574** if you have additional questions or need a form that is not available on the website.

## Kavilco Incorporated

600 University Street, Suite 3010  
Seattle, WA 98101-1129  
Phone: 206-624-6166  
Toll Free: 800-786-9574  
Fax: 206-624-8953

Field Office  
One Copper Crescent Drive  
PO Box KXA-Kasaan  
Kasaan, Alaska 99924  
Phone: 907-542-2214  
Fax: 907-542-2215

**Kavilco**  
INCORPORATED

We're on the web!

[www.kavilco.com](http://www.kavilco.com)

The Kavilco Incorporated name was created with much thought. KA came from Kasaan, VIL represents the Indian Village of Kasaan and CO represents the Company.

The Kavilco plaque reads "Hale Alaska Indian Descendants All," which stands for HAIDA. Also on the plaque is a picture of mountains, long house, totem and water. The mountains represent future revenues, as well as the hunting areas. The long house and totem represent the past. The blue water is the fishing area around the Village of Kasaan from which our ancestors gathered their food and made a living.

Kavilco's mission statement is to honor the vision and unselfish actions of our Kasaan Haida ancestors and elders; the goals of Kavilco Incorporated are to provide dividends and to preserve the assets for all generations.

## In Kasaan by Louis A. Thompson, President/CEO

### Broadband opportunity.

Kavilco is currently working with a wireless company to lease a site on the peak of Kasaan Mountain. This will bring broadband Internet service to our community and an improved telephone system. Our local tribal entity, Kasaan IRA is also applying for a state grant in order for locals to subscribe to Internet service.

**Low income housing.** The Organized Village of Kasaan (OVK) is working with the Tlingit and Haida Regional Housing Authority to develop low income housing in Kasaan. This project has been in the works for

several years. The water and sewer system was installed early this summer. The construction of three duplexes by Tlingit and Haida contractors is underway and will be completed this fall. There will be one unit for senior citizens, one 2-bedroom unit and one 3-bedroom unit. In addition, OVK contracted master carver, Stan Marsden to carve a 30-foot totem pole which will stand near the duplexes.

**Chief Son-I-Hat's Whale House.** The Whale House is showing its age and hopefully this summer we will obtain an evaluation on costs to restore

this sacred site (see Page 1). The Whale House was under the care of the U.S. Forest Service from the 1940s to 1971, but very little maintenance was done. Kavilco selected this site under the Alaska Native Claims Settlement Act of 1971. Kasaan Haida Heritage Foundation is providing funds to pay MRV Architects for their evaluation of costs to repair and restore the Whale House.

Please feel free to call me at the Field Office in Kasaan, 907-542-2214 or toll free at our Seattle office, 800-786-9574.

*Louis A. Thompson*

**KAVILCO INCORPORATED**  
 (an investment company)  
**FINANCIAL STATEMENTS**

**For the six months ended  
 June 30, 2006 (unaudited)**

**Statement of Assets and Liabilities**

**ASSETS**

Investments in securities, at market value (identified cost \$33,368,016)	\$ 33,082,295
Real estate at fair value	3,588,815
Cash and cash equivalents	279,778
Interest receivable	371,009
Premises and equipment, net	12,543
Prepaid expenses and other assets	26,467
Total assets	37,360,907

**LIABILITIES**

Accounts payable and accrued expenses	207
Dividends payable	60,144
Total liabilities	60,351

**COMMITMENTS AND CONTINGENCIES**

Net assets	\$ 37,300,556
------------	---------------

Net assets consist of:

Unrealized depreciation on Investments	\$ (285,721)
Real estate	2,534,726
Contributed capital	35,051,551

Net assets	\$ 37,300,556
------------	---------------

Net asset value per share of common stock (\$37,300,556 divided by 12,000 shares outstanding)	\$ 3,108.38
--	-------------

See accompanying Notes to the Financial Statements (unaudited).

**Kavilco Incorporated**  
**(an investment company)**

**For the six months ended  
June 30, 2006 (unaudited)**

**Schedule of Investments**

	Principal amount/shares	Value
<b>Investment in securities – 88.7% of net assets</b>		
<b>U.S. Government Securities – 62.8%</b>		
U.S. Treasury Bond, 4.250%, 01/15/11	2,000,000	\$ 1,931,250
U.S. Treasury Note, 4.750%, 03/31/11	1,000,000	985,000
U.S. Treasury Bond, 4.500%, 11/15/15	5,000,000	4,762,500
U.S. Treasury Bond, 7.250%, 05/15/16	2,000,000	2,315,625
U.S. Treasury Bond, 4.500%, 02/15/36	3,000,000	2,689,687
Federal National Mortgage Association – variable rates		
6.210%, 11/07/07	1,000,000	1,008,879
6.150%, 12/10/07	1,000,000	1,008,768
4.000%, 12/14/07	1,000,000	978,437
3.375%, 07/07/10	1,000,000	975,937
Federal Home Loan Bank – variable rates		
3.350%, 07/11/06	1,000,000	999,687
3.760%, 09/29/06	1,000,000	995,937
4.000%, 06/29/07	2,000,000	1,970,625
3.375%, 12/28/07	1,000,000	991,250
3.500%, 12/17/09	1,000,000	991,562
4.000%, 06/30/10	1,000,000	975,312
Total U.S. Government Securities (cost \$24,149,608)		23,580,459
<b>Corporate obligations – 20.9%</b>		
Banking		
J.P. Chase Morgan & Co., 7.875%, 07/15/06	1,000,000	1,000,575
Beverage		
Coca Cola Enterprises, 8.500%, 02/01/12	700,000	791,865
Diversified financial services		
General Electric Capital Corp., 8.500%, 07/24/08	1,000,000	1,052,235
Electric utility		
Potomac Electric Power, 6.500%, 03/15/08	190,000	191,841
Entertainment		
Walt Disney Co., 5.800%, 10/27/08	290,000	289,127
Food processing		
Heinz Corp., 6.000%, 03/15/08	229,000	229,379
Retail store		
Wal-Mart Stores, 6.875%, 08/10/09	1,000,000	1,035,556
Dayton Hudson, 8.600%, 01/15/12	100,000	113,550
Securities brokerage		
Merrill Lynch, 6.375%, 10/15/08	1,000,000	1,014,341
Bear Stearns, 7.625%, 12/07/09	1,000,000	1,060,287
Telecommunication services		
Pacific Bell, 6.125%, 02/15/08	1,000,000	1,003,132
Total Corporate Obligations (cost \$7,545,058)		7,781,888

**Schedule of Investments continued**

	<b>Principal amount/shares</b>	<b>Value</b>
<b>Common Stock – 0.5% of net assets</b>		
Coal Industry – Fording Canadian Coal Trust	500	15,850
Computer Software & Services – Microsoft Corp.	3,640	84,812
Foreign Telecommunications Industry		
Telecom Corp. of New Zealand Ltd.	700	13,923
Natural Gas (Diversified) – LP Kinder Morgan Energy Partners	400	18,384
Oil Refining & Marketing		
Sasol Limited	300	11,592
Suncor Energy Inc.	300	24,303
Sunoco Inc.	300	20,787
Valero Energy Corp.	450	29,934
Total common stock (cost \$172,992)		219,585
<b>Short-term investments – 4.5%</b>		
Prime Obligation Funds		
Total short-term investments (cost \$1,500,362)	1,500,362	1,500,362
Total investments in securities (identified cost \$33,368,016)		\$ 33,082,295

See accompanying Notes to the Financial Statements (unaudited).

**KAVILCO INCORPORATED**  
**(an investment company)**

**For the six months ended**  
**June 30, 2006 (unaudited)**

**Statement of Operations**

**Investment income**

Interest	\$ 728,988
Dividends from money market fund	97,748
Dividends	1,458
<b>Total investment income</b>	<b>828,194</b>

**Expenses**

Salaries and benefits	132,411
Directors' compensation and expenses	120,737
Legal and accounting	18,353
Custodial fees	4,527
Insurance expense	30,936
Office and equipment leases	17,697
General and administrative	48,216
<b>Total expenses</b>	<b>372,877</b>

**Net investment income** **455,317**

**Realized and unrealized gain (loss) on investments**

Net realized loss on investments	(4,884)
Net decrease in unrealized appreciation on investments (Note 3)	(687,901)

**Net realized and unrealized gain (loss) on investments** **(692,785)**

**Net operating income** **(237,468)**

**Other income** **15,012**

**Net increase in net assets resulting from operations** **\$ ( 222,456)**

See accompanying Notes to the Financial Statements (unaudited).

**KAVILCO INCORPORATED**  
**(an investment company)**

**For the six months ended  
June 30, 2006 (unaudited)**

**Statement of Changes in Net Assets**

**Increase (decrease) in net assets from operations**

Net investment income	\$ 455,317
Net realized loss on investments	(4,884)
Net (decrease) in unrealized appreciation	(687,901)
Net other income	15,012
<b>Net increase in net assets resulting from operations</b>	<b>(222,456)</b>

Dividends and distributions

Net investment income	(140,988)
Net other income	(15,012)

Total dividends and distributions (156,000)

Total (decrease) in net assets (378,456)

**Net assets**

Beginning of year 37,679,012

End of year (including undistributed net investment  
income of \$34,305 and \$1,796, respectively) \$ 37,300,556

See accompanying Notes to the Financial Statements (unaudited).

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2006 (unaudited)**

**NOTE 1. SEC Compliance**

The following information discussed in Notes 1 and 2 are required to be conveyed to shareholders pursuant to Section 30 of the Investment Act of 1940.

Board fees	\$29,700
Officers' compensation	\$106,780

**NOTE 2. Purchases and Sales of Securities**

Purchases and sales of securities for the six months ended June 30, 2006 totaled \$10,806,613 and \$10,236 respectively.

**NOTE 3. Unrealized Loss on Investments**

Unrealized gain/loss is an accounting adjustment and does not enter into the calculation of dividend payments. The \$687,901 unrealized loss is directly related to inflationary pressures and the Federal Reserve Board's action to increase interest rates. Increase in interest rates will adversely affect the value of our bond portfolio, but will afford Kavalco an opportunity to invest at higher interest rates.