



Kavilco Incorporated

# KAVILCO NEWS

Volume 6, Issue 2

August 2011

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## Inside this issue:

Economy & Portfolio	2
In Kasaan	2
Financial Statements	4

## 38th Annual Meeting of Shareholders



The 38th Annual Meeting of Shareholders is scheduled for Saturday, **November 5, 2011** at **Cape Fox Lodge** in Ketchikan, Alaska.

Registration will take place from 11:00 a.m. to noon in the **Shaa Hit Room**. 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. Directors whose terms expire this year are Jeane Breinig, Ramona Hamar and Marie Miller.

Your 2010 Annual Report and Proxy Statement will be mailed in October. We urge you to attend the Annual Meeting if possible. Attendance at our shareholder meetings helps maintain good communications and understanding. **Your vote is important!** Even if you are unable to attend the Annual Meeting we hope you will vote your proxy as soon as possible.

The **Annual Dinner and Auction** will also be held in the Shaa Hit Room at Cape Fox Lodge. Doors will open at 5:30 p.m.



2008 Annual Meeting. Attendees clockwise L-R: Ron Hadden, Eleanor Hadden, Diane Demmert, Paige Jones, Mary Jones.

## Economy & Portfolio

In October 2010, the Federal Reserve launched a program to inject \$600 billion into the economy over the next eight months. This action, coupled with various stimulus programs coming out of Washington, was to spark the economy in 2011. The hoped-for second quarter bounce in the economy is clearly not evolving. *The Economist* forecasted the current period growth would easily eclipse the 1.8% rate of gain in the initial three months. Unfortunately, the pickup in business activity will be much more muted with gross domestic product possibly not growing by more than a listless 2.0%-2.5%.



Almost all of the current data have been disappointing. The past few weeks have seen waning sales momentum at a

number of retailers and weakening results in manufacturing, durable goods orders, and consumer confidence. The most distressing news is housing, which is still in a vicious cycle of foreclosures, prices falling, and buyers remaining on the sidelines. Housing experts estimate that housing prices will decline 6 percent to 8 percent nationally this year with 6 million to 7 million more foreclosures yet to come.

Unfortunately, these problems have carried over to the employment front where non-farm payrolls rose by just 54,000 in May. That was only a third of the

gain forecast. Moreover, the joblessness rate ticked up to 9.1%; it was expected to ease to 8.9%. The broader measure of unemployment, which is referred to as U6 (individuals that dropped off the unemployment rolls but are seeking employment), is 16.2%.

The weaker business tone raises questions about the impact on our portfolio. Granted, an economic slowdown will negatively impact earnings which will in turn drive down the equity market. Accordingly, we may have a reduction in the unrealized gain in our stock portfolio.

Our bond investments should weather an economic slowdown. The majority of corporations we have investments in have an adequate cash position allowing them to make interest and principle payments. The one company we are still monitoring very closely is Transocean Inc. You will recall that they were the owners of the drilling rig that exploded in the Gulf last year. BP was operating the rig and has paid for the majority of the environmental damage. However, the Coast Guard issued a report citing Transocean for a number of violations. How all this will play out will take a number of years in the courts before any financial liability will be assigned to Transocean. So, for the time being we will continue to hold the bonds in our portfolio.

“Our bond investments should weather an economic slowdown.”

## In Kasaan

**City of Kasaan Water Treatment.** It was announced at a recent City of Kasaan council meeting that funding in the amount of over \$3 million, through the Alaska Health Consortium, will be used to upgrade Kasaan’s water system with a new water treatment plant and a 500-gallon holding tank. This project will bring water to the Kasilco shareholder subdivision.

**Dexter Wallace Boat Harbor.** Next year the Alaska Department of Transportation will spend \$1.3 million to upgrade the Dexter Wallace Boat Harbor facility in Kasaan. Many years ago, Kasilco issued an easement to the State of Alaska on the tideland property for the original construction. *(Continued on page 3)*

## Kavilco Incorporated

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**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. The plaque has 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 *(Continued from page 2)*

**Red Bunkhouse Lease.** On July 15, 2011, Kavilco entered into an agreement with the Organized Village of Kasaan (OVK) to lease the unoccupied Red Bunkhouse for use as office space by OVK. OVK has plans to totally renovate and restore the building at their expense. The term of the lease is 15 years. When the lease term has ended, OVK will return the bunkhouse to Kavilco in the restored condition.

**US Department of Agriculture Grants.** Kavilco has received two conservation program contracts from the Natural Resources Conservation Service (NRCS). Our forester,

Clare Doig, was instrumental in applying for the grants and will manage them for Kavilco. The Forest Slash Treatment contract, in excess of \$200,000, will benefit the regeneration of 232 acres of forest on Kasaan Island. The Forest Stand Improvement contract is an overall conservation management system for forest lands that have established seedlings/trees that need managing. Both projects are totally funded by the US Department of Agriculture.

**Whale House/Naay' Iwaans.** We continue to work with OVK to restore Chief Son-I-Hat's Whale House/Naay' Iwaans. The

project is moving ahead slowly due to limited funding resources. OVK has taken advantage of a U.S. Forest Service program for kids to once again cut brush and clean the cemetery. It looks very nice.

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.

Sincerely,



Louis A. Thompson  
President/CEO

**KAVILCO INCORPORATED**  
**(An Investment Company)**  
**FINANCIAL STATEMENTS**

**STATEMENT OF ASSETS AND LIABILITIES** **For the six months ended  
June 30, 2011 (unaudited)**

**ASSETS**

Investments in securities, at market value (identified cost \$30,658,788)	\$ 34,224,175
Real estate at fair value (identified cost \$1,054,089)	3,588,815
Cash and cash equivalents	242,559
Interest receivable	545,288
Premises and equipment, net	27,399
Prepaid expenses and other assets	<u>30,836</u>
Total assets	<u>40,837,072</u>

**LIABILITIES**

Accounts payable and accrued expenses	22,804
Dividends payable	<u>140,302</u>
Total liabilities	<u>163,106</u>

**NET ASSETS**

\$ 40,673,966

Net assets consist of:

Unrealized appreciation on	
Investments	\$ 244,836
Real estate	2,534,726
Contributed capital	<u>37,894,404</u>
Net assets	<u>\$ 40,673,966</u>

Net asset value per share of Class A and Class B  
common stock (\$40,673,966) divided by 12,000  
shares outstanding)

\$ 3,390

See accompanying notes (unaudited).

**KAVILCO INCORPORATED**  
**(An Investment Company)**

**For the six months ended  
June 30, 2011 (unaudited)**

**SCHEDULE OF INVESTMENTS**

	Principal amount/shares	Fair Value
<b>INVESTMENTS IN SECURITIES – 83.8%</b>		
<b>U.S. Corporate Obligations – 81.5%</b>		
Chemical Industry – 5.9%		
The Dow Chemical Company, 5.900%, due 02/15/15	610,000	\$ 685,225
E.I. Du Pont de Nemour, 5.250%, due 12/15/16	1,519,000	1,716,986
Total Chemical Industry		<u>2,402,211</u>
Communications – 12.7%		
Comcast Corp., 10.625%, due 07/15/12	1,338,000	1,470,970
AT&T, 5.100%, due 09/15/14	1,250,000	1,373,675
CBS Corporation, 4.625%, due 05/15/18	2,000,000	2,061,160
Deutsche Telekom Int. Fin., 6.000%, due 07/08/19	250,000	285,473
Total Communications		<u>5,191,278</u>
Consumer, Cyclical – 10.5%		
Dayton Hudson, 8.600%, due 01/15/12	100,000	104,248
Home Depot Inc., 5.250%, 12/16/13	1,000,000	1,092,740
Safeway Inc., 5.625%, due 08/15/14	1,229,000	1,357,701
Target Corp., 5.875%, due 07/15/16	1,000,000	1,169,140
Avon Products, 6.500%, due 03/01/19	500,000	572,525
Total Consumer, Cyclical		<u>4,296,354</u>
Consumer, Non-cyclical – 4.8%		
Coca Cola Enterprises, 8.500%, due 02/01/12	700,000	732,522
McDonald's Corp., 5.300%, due 03/15/17	500,000	571,915
Kraft Foods Inc., 6.500%, due 08/11/17	250,000	293,893
Yum! Brands Inc., 5.300%, due 09/15/19	355,000	381,579
Total Consumer, Non-cyclical		<u>1,979,909</u>
Diversified Company Industry – 5.4%		
TYCO Intl Group, 6.000%, due 11/15/13	1,245,000	1,376,298
Fortune Brands Inc., 6.375%, due 06/15/14	500,000	555,860
ITT Corp., 6.125%, due 05/01/19	250,000	293,373
Total Diversified Industry		<u>2,225,531</u>
Energy – 14.0%		
Kinder Morgan Energy Partners, 5.625%, due 02/15/15	500,000	557,880
PPL Energy Supply LLC, 5.700%, due 10/15/15	80,000	86,212
Plains All American Pipeline, 6.125%, due 01/15/17	1,345,000	1,505,068
XTO Energy Inc., 6.250%, due 08/01/17	1,000,000	1,211,360
Kinder Morgan Energy Partners, 5.950%, due 02/15/18	460,000	512,518
Transocean Inc., 7.375%, due 04/15/18	1,350,000	1,571,967
Hess Corporation, 8.125%, due 02/15/19	199,000	251,795
Total Energy		<u>5,696,800</u>
Financial – 2.2%		
Boeing Capital Corp., 6.500%, due 02/15/12	500,000	518,545
American Express Credit Co., 5.300%, due 12/02/15	117,000	128,309

**SCHEDULE OF INVESTMENTS (continued)**

General Electric Capital Corp., 5.625%, due 09/15/17	215,000	237,364
Total Financial		<u>884,218</u>
Paper & Forest Products Industry – 1.6%		
International Paper, 9.375%, due 05/15/19	500,000	<u>638,510</u>
Technology – 8.7%		
Xerox Corporation, 5.500%, due 05/15/12	2,000,000	2,079,420
Cisco Systems Inc., 5.500%, due 02/22/16	960,000	1,091,530
Oracle Corp., 5.000%, due 07/18/19	250,000	272,920
Adobe Systems Inc., 4.750%, due 02/01/20	100,000	103,129
Total Technology		<u>3,546,999</u>
Transportation – 6.8%		
CSX Corp., 5.500%, due 08/01/13	964,000	1,045,641
Union Pacific Corp., 4.875%, due 01/15/15	1,000,000	1,096,390
FedEx Corp., 8.000%, due 01/15/19	500,000	628,340
Total Transportation		<u>2,770,371</u>
Utilities – 8.9%		
Dominion Resources, 5.000%, due 03/15/13	1,000,000	1,066,130
Potomac Electric Power, 4.650%, due 04/15/14	600,000	647,934
American Electric Power, 5.250%, due 06/01/15	50,000	54,951
Southern Power Company, 4.875%, due 07/15/15	1,250,000	1,364,650
Southern Electric Power, 5.550%, due 01/15/17	174,000	188,440
Metropolitan Edison, 7.700%, due 01/15/19	250,000	301,328
Total Utilities		<u>3,623,433</u>
Total U.S. Corporate Obligations (cost \$30,834,210)		<u>33,255,614</u>
<b>Common Stock – 2.3%</b>		
Computer Software & Services – 0.2%		
Microsoft Corp.	3,640	<u>94,640</u>
Drug Industry – 0.3%		
Merck & Co. Inc.	1,500	52,935
Pfizer Inc.	2,500	51,500
Sanofi-Aventis-ADR	600	24,102
Total Drug Industry		<u>128,537</u>
Electric Utility – 0.4%		
Consolidated Edison Inc.	600	31,944
Duke Energy Corp.	700	13,181
NSTAR	600	27,588
Progress Energy Inc.	600	28,806
Scana Corp.	700	27,559
Southern Company	600	24,228
Total Electric Utility		<u>153,306</u>
Exchange Traded Funds – less than 1%		
iShares Investment Grade Corp. Bonds	200	22,026
SPDR Gold Trust	50	7,300
Total Exchange Traded Funds		<u>29,326</u>

**SCHEDULE OF INVESTMENTS (continued)**

Food Processing – 0.2%		
Kraft Foods Inc.	1,500	52,845
Unilever PLC	800	25,912
Total Food Processing		<u>78,757</u>
Natural Gas (Diversified) – 0.1%		
ONEOK Inc.	600	<u>44,406</u>
Petroleum Industry – less than 1%		
Royal Dutch Shell PLC	400	<u>28,452</u>
Real Estate Investment Trust – 0.2%		
AvalonBay Communities	400	51,360
Ventas Inc.	600	31,626
Total Real Estate Investment Trust		<u>82,986</u>
Telecommunication Services – 0.4%		
AT&T	2,400	75,384
CenturyTel Inc.	800	32,344
Frontier Communications Corp.	192	1,549
Verizon Communications Inc.	2,000	74,460
Total Telecommunication Services		<u>183,737</u>
Total Common Stock (cost \$597,156)		<u>824,147</u>
<b>Publicly Traded Partnerships – 0.4%</b>		
Oil/Gas Distribution – 0.4%		
Buckeye Partners LP	500	32,280
Energy Transfer Partners LP	600	29,322
Kinder Morgan Energy Partners	500	36,300
Plains All American Pipeline	400	25,600
Suburban Propane Partners LP	400	20,912
Total Oil/Gas Distribution		<u>144,414</u>
Total Publicly Traded Partnerships (cost \$101,630)		<u>144,414</u>
Total Investments in Securities (identified cost \$31,532,996)		<u>\$ 34,224,175</u>

See accompanying notes (unaudited).

**KAVILCO INCORPORATED**  
**(An Investment Company)**

**STATEMENT OF OPERATIONS**

**For the six months ended**  
**June 30, 2011 (unaudited)**

**INVESTMENT INCOME**

Interest	\$	849,671
Dividends		19,344
Total investment income		<u>869,015</u>

**EXPENSES**

Salaries and benefits		148,529
Directors' compensation and expenses		114,925
Legal and accounting		41,796
Custodian		9,498
Insurance		48,879
Office and equipment leases		32,340
General and administrative		37,585
Total expenses		<u>433,552</u>

Net investment income		<u>435,463</u>
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**REALIZED AND UNREALIZED GAIN ON INVESTMENTS**

Net realized gain on investments		18,259
Net increase in unrealized appreciation on investments (Note 4)		244,836
Total realized and unrealized gain on investments		<u>263,095</u>

<b>NET OPERATING INCOME</b>		698,558
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<b>OTHER INCOME</b>		<u>80,492</u>
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<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	\$	<u>779,050</u>
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See accompanying notes (unaudited).



**KAVILCO INCORPORATED**  
**(An Investment Company)**

**STATEMENT OF CHANGES IN NET ASSETS**

**For the six months ended**  
**June 30, 2011 (unaudited)**

**INCREASE IN NET ASSETS FROM OPERATIONS**

Net investment income	\$ 435,463
Net realized gain on investments	18,259
Net increase in unrealized appreciation on investments	244,836
Other income	80,492
Net increase in net assets resulting from operations	<u>779,050</u>

**DIVIDENDS AND DISTRIBUTIONS  
TO SHAREHOLDERS**

(228,000)

Total increase in net assets

551,050

**NET ASSETS**

Beginning of year 40,122,916

Six months ended \$ 40,673,966

See accompanying notes (unaudited).

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2011 (unaudited)**

**NOTE 1. SEC Compliance**

The following information discussed in Notes 1 and 3 are required to be conveyed to shareholders pursuant to Section 30 of the Investment Act of 1940.

Board fees	\$28,600
Officers' compensation	\$113,453

**NOTE 2. Financial Accounting Standards No. 157**

The Company adopted the provisions of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data from sources independent of the Company. Unobservable inputs reflect the Company's own assumption about the assumptions that market participants would use in pricing the asset or liability developed on the best information available in the circumstance. The three-tier hierarchy of inputs is summarized below.

**Level 1** – quoted prices in active markets for identical investments

**Level 2** – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

**Level 3** – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Company's investments by the above fair value hierarchy levels as of June 30, 2011.

	Level 1	Level 2	Level 3	Balance as of June 30, 2011
<b>ASSETS</b>				
Investments				
U.S. corporate obligations	\$ -	\$ 33,255,614	\$ -	\$ 33,255,614
Common stock	824,147	-	-	824,147
Publicly traded partnerships	144,414	-	-	144,414
Real estate	-	-	3,588,815	3,588,815
	\$ 968,561	\$ 33,255,614	\$ 3,588,815	\$ 37,812,990

**NOTE 3. Purchases and Sales of Securities**

Purchases and sales of securities for the six months ended June 30, 2011 totaled \$2,469,457 and \$3,473,490 respectively.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### **NOTE 4. Unrealized Gain on Investments**

Unrealized gain/loss is an accounting adjustment and does not enter into the calculation of dividend payments.