



Kavilco Incorporated

KAVILCO NEWS

Volume 7, Issue 2

August 2012

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39th Annual Meeting of Shareholders

The 39th Annual Meeting of Shareholders is scheduled for Saturday, **November 3, 2012** 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 are up for re-election this year are **John Campbell, Kenneth Gordon and Louis Jones, Sr.** The Board recommends re-election of all three members.

Your Annual Report and Proxy Statement will be mailed in October 2012.

We urge you to come to the Annual Meeting of Shareholders as attendance at our shareholder meetings helps to maintain good communication and understanding.

Your vote is very important! Even if you are unable to attend the Annual Meeting we ask that you **vote the management proxy** as soon as you receive it.

Our **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. The annual auction benefits the Kasaan Haida Heritage Foundation, if you have anything to contribute to the auction please contact Jeane Breinig at jeane@gci.net.

Please feel free to call me at the Field Office in Kasaan, 907-542-2214 or toll free at our Seattle office, at 1-800-786-9574.

Louis A. Thompson



Focus On: The Upcoming Annual Report

We would like to hear from you if you or your ancestors have spent any time in the Red Bunkhouse in Kasaan and would like to share your memories in our upcoming Annual Report. Do you have any old photographs that we could copy? Do you have any stories we can share? Please contact us by email at carol.kavilco@gmail.com or send us a letter by fax or mail. If you have any questions, please feel free to contact the Corporate Office at our toll free number.

We would also like to notify you that the **audited financial statements** that are mailed to you in the beginning of each year for the previous fiscal year will no longer be

duplicated in the Annual Report as they have been in the past. Instead, **current** details on the economy and the portfolio of Kavilco Incorporated will be included for your information in the Annual Report.



This new style of Annual Report will allow us more room to focus on shareholders and stories about Kasaan while providing you with information that is up to date with regard to the economy and the portfolio of Kavilco Incorporated.

The **audited financial statements** that were sent to you in February 2012 can be mailed out to you at any time by contacting the Corporate Secretary at 800-786-9574.

In Kasaan

The **Tour boats in Kasaan** have been arriving as scheduled, the interest in our culture seems to be never waning. **The Bunkhouse** that **Kavilco** leased to the **Organized Village of Kasaan** is being renovated by them and they should be moving in soon. A **New Totem** was raised on June 16, 2012 in Kasaan and serves as a wonderful welcome that will be there for years to come. The humpback whales have made their way around and we're sharing the salmon with the local bears. The salmon have been smoked, the shrimp have been pickled and the August weather is fine here **In Kasaan**.



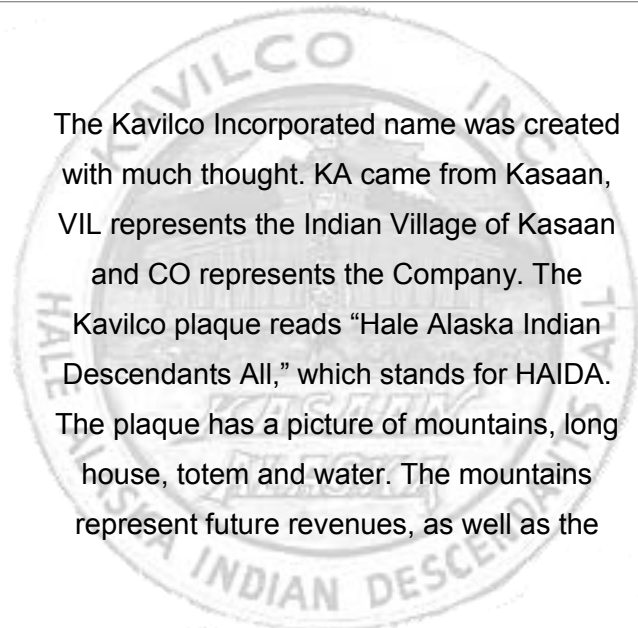
Original Kavilco Shareholder Sarah Rose Peele Dies At Age 88

March 10, 1924 - July 17, 2012

Original Kavilco shareholder, Sarah Rose Peele was born on March 10, 1924 in Kasaan, Alaska, to Elizabeth Annette (Eaton) and James Edward Peele. She passed away on July 17, 2012 in Kirkland, Washington. She is survived by her loving children and grandchildren, and so many family members and friends.

If you have a picture of Sarah that you could donate to the Kavilco archives, it would be very much appreciated.

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



KAVILCO INCORPORATED
 (An Investment Company)
FINANCIAL STATEMENTS
 For the six months ended June 30, 2012 (unaudited)

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Investments in securities, at market value (identified cost \$ 30,204,999)	\$	33,486,573
Real estate at fair value (identified cost \$ 1,054,089)		3,794,617
Cash and cash equivalents		3,538,110
Interest receivable		488,273
Premises and equipment, net		23,030
Prepaid expenses and other assets		24,040
Total assets		41,354,643

LIABILITIES

Accounts payable and accrued expenses	\$	182,426
Dividends payable		14,867
Total liabilities		197,293

NET ASSETS

\$ 41,157,350

Net assets consist of:

Unrealized appreciation on		
Investments	\$	3,281,574
Real estate		2,740,528
Contributed capital		35,135,248
Net assets	\$	41,157,350

Net asset value per share of Class A and Class B
 common stock (\$ 41,157,350) divided by 12,000
 shares outstanding)

\$ 3,430

See accompanying notes (unaudited).

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SCHEDULE OF INVESTMENTS	Principal Amount or Shares	Fair Market Value
INVESTMENTS IN SECURITIES - 82.4%		
U.S. Corporate Obligations - 79.5%		
Chemical Industry - 7.5%		
The Dow Chemical Company, 5.900%, due February 15, 2015	610,000	\$ 680,229
E.I. Du Pont de Nemour, 5.250%, due December 15, 2016	1,519,000	1,791,615
Total Chemical Industry		2,471,844
Communications - 15.8%		
Comcast Corp., 10.625%, due July 15, 2012	1,338,000	1,341,452
AT&T, 5.100%, due September 15, 2014	1,250,000	1,364,787
CBS Corporation, 4.625%, due May 15, 2018	2,000,000	2,182,300
Deutsche Telekom Int. Fin., 6.000%, due July 8, 2019	250,000	295,182
Total Communications		5,183,721
Consumer, Cyclical - 12.5%		
Home Depot Inc., 5.250%, due December 16, 2013	1,000,000	1,066,660
Safeway Inc., 5.625%, due August 15, 2014	1,229,000	1,318,877
Target Corp., 5.875%, due July 15, 2016	1,000,000	1,186,710
Avon Products Inc., 6.500%, due March 1, 2019	500,000	544,040
Total Consumer, Cyclical		4,116,287
Consumer, Non-cyclical - 4.0%		
McDonald's Corp., 5.300%, due March 15, 2017	500,000	590,260
Kraft Foods Inc., 6.500%, due August 11, 2017	250,000	303,322
Yum! Brands Inc., 5.300%, due September 15, 2019	355,000	407,962
Total Consumer, Non-cyclical		1,301,544
Diversified Company Industry - 5.7%		
TYCO Intl Group, 6.000%, due November 15, 2013	1,245,000	1,337,703
Fortune Brands Inc., 6.375%, due June 15, 2014	500,000	547,690
Total Diversified Company Industry		1,885,393
Energy - 17.7%		
Kinder Morgan Energy Partners, 5.625%, due February 15, 2015	500,000	550,120
PPL Energy Supply LLC, 5.700%, due October 15, 2015	80,000	86,811
Plains All American Pipeline, 6.125%, due January 15, 2017	1,345,000	1,563,684
XTO Energy Inc., 6.250%, August 1, 2017	1,000,000	1,238,260
Kinder Morgan Energy Partners, 5.950%, due February 15, 2018	460,000	533,421
Transocean Inc., 7.375%, due April 15, 2018	1,350,000	1,586,587
Hess Corporation, 8.125%, due February 15, 2019	199,000	256,149
Total Energy		5,815,032
Financial - 1.1%		
American Express Credit Co., 5.300%, due December 2, 2015	117,000	131,120
General Electric Capital Corp., 5.625%, due September 15, 2017	215,000	246,728
Total Financial		377,848
Paper & Forest Products Industry - 2.0%		
International Paper, 9.375%, due May 15, 2019	500,000	671,235

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Total Paper & Forest Products Industry		671,235
Technology - 4.6%		
Cisco Systems Inc., 5.500%, due February 22, 2016	960,000	1,113,974
Oracle Corp., 5.000%, due July 08, 2019	250,000	296,840
Adobe Systems Inc., 4.750%, due February 1, 2020	100,000	111,702
Total Technology		1,522,516
Transportation - 8.4%		
CSX Corp., 5.500%, due August 1, 2013	964,000	1,012,104
Union Pacific Corp., 4.875%, due January 15, 2015	1,000,000	1,089,290
FedEx Corp., 8.000%, due January 15, 2019	500,000	659,025
Total Transportation		2,760,419
Utilities - 11%		
Dominion Resources Inc., 5.000%, due March 15, 2013	1,000,000	1,029,560
Potomac Electric Power, 4.650%, due April 15, 2014	600,000	637,212
American Electric Power, 5.250%, due June 1, 2015	50,000	54,336
Southern Power Company, 4.875%, due July 15, 2015	1,250,000	1,368,425
Southern Electric Power, 5.550%, due January 15, 2017	174,000	196,815
Metropolitan Edison, 7.700%, due January 15, 2019	250,000	315,630
Total Utilities		3,601,978
Total U.S. Corporate Bonds (cost \$ 25,800,610)		29,707,817
U.S. Common Stock - 11.7%		
Computer Software & Services - .3%		
Microsoft Corp.	3,640	111,348
Total Computer Software & Services		111,348
Drug Industry - .6%		
Bristol-Myers Squibb	1,500	53,925
Lilly Eli & Co.	2,000	85,820
Merck & Co. Inc.	1,500	62,625
Total Drug Industry		202,370
Electric Utility - 1.5%		
Avista Corp.	2,000	53,400
Atmos Energy Corp.	400	52,605
Consolidated Edison Inc.	1,500	93,285
Duke Energy Corp.	700	16,142
Entergy Corporation New	800	54,312
NSTAR (Northeast Utilities)	787	30,551
Pennsylvania Pwr & Lt Com (PPL) Corp.	1,800	50,058
Progressive Energy Inc.	600	36,102
Scana Corp.	700	33,488
Southern Company	1,800	83,340
Total Electric Utility		503,283

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SCHEDULE OF INVESTMENTS	Principal Amount or Shares	Fair Market Value
Exchange Traded Funds - .7%		
iShares Investment Grade Corp. Bonds	640	75,258
iShares Silver Trust	1,525	40,641
SPDR Barclays Capital High Yield Bond ETF	1,300	51,298
SPDR Gold Trust	350	54,316
Total Exchange Traded Funds		221,513
Food Processing - .2%		
Kraft Foods Inc.	1,500	57,930
Total Food Processing		57,930
Mining - .1%		
Silver Wheaton Corp.	700	18,788
Total Mining		18,788
Natural Gas (Diversified) - .2%		
ONEOK Inc.	1,200	50,772
Total Natural Gas (Diversified)		50,772
Office Equipment - .1%		
Pitney Bowes Inc.	3,000	44,910
		44,910
Petroleum Industry - .1%		
Diamond Offshore Drilling	800	47,304
Total Petroleum Industry		47,304
Real Estate Investment Trust - 2.2%		
AvalonBay Communities	400	56,592
Healthcare Realty Trust Inc.	2,300	54,832
Hospitality Properties Trust	2,000	49,540
LTC Properties Inc.	4,080	148,022
Mack Cali Rlty Corp	3,600	104,652
Omega Healthcare Investors	2,500	56,250
Senior Housing Properties	4,300	95,976
Washington Real Estate Invt	3,800	108,110
Ventas Inc.	600	37,872
Total Real Estate Investment Trust		711,846
Telecommunications Services - 1.7%		
AT&T	3,300	117,678
Boardwalk Pipeline Partners	1,900	52,497
CenturyTel Inc.	4,900	193,501
Consolidated Communications Holdings, Inc.	2,000	29,600
Frontier Communications Corp.	192	735
Verizon Communications Inc.	3,400	151,096
Total Telecommunications Services		545,107
Netherlands Common Stock - Petroleum Industry - .1%		
Royal Dutch Shell PLC	400	26,972

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SCHEDULE OF INVESTMENTS	Principal Amount or Shares	Fair Market Value
United Kingdom Common Stock - Food Processing - .1%		
Unilever PLC	800	26,984
France Common Stock - Drug Industry - .1%		
Sanofi-Aventis-ADR	600	22,668
Total Common Stock		2,591,795
Cost \$		
Publicly Traded Partnerships - 3.7%		
Oil/Gas Distribution		
Amerigas Partners-LP	3800	154,850
Atmos Energy Corp	1500	52,605
Boardwalk Pipeline Partners	1900	52,497
Buckeye Partners LP	4000	208,680
Energy Transfer Partners LP	2800	123,732
Enbridge Energy Partners LP	1700	52,309
Enterprise Products Partners	1600	81,984
Kinder Morgan Energy Partners	1750	137,515
Nustar Energy LP Unit Com	2800	150,892
PAA NAT Gas Storage LP Com Unit Ltd	3000	53,610
Plains All American Pipeline	800	64,648
Suburban Propane Partners L.P.	2000	82,540
Total Oil/Gas Distribution		1,215,862
Total Publicly Traded Partnerships		1,215,862
Cost \$		
Total Investments in Securities		\$ 34,079,761
Cost \$		

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STATEMENT OF OPERATIONS

INVESTMENT INCOME

Interest	\$ 782,046
Dividends	67,503
Total investment income	<u>849,549</u>

EXPENSES

Salaries and benefits	125,142
Directors' compensation and expenses	122,319
Legal and accounting	30,979
Custodian	11,390
Insurance	43,503
Office and equipment leases	30,434
General and administrative	53,285
Total expenses	<u>417,052</u>

Net investment income 432,497

REALIZED AND UNREALIZED GAIN ON INVESTMENTS

Net realized gain on investments	0
Net increase in unrealized appreciation on investments (Note 4)	297,050
	<u>297,050</u>

NET OPERATING INCOME 729,547

OTHER INCOME 94,787

**NET INCREASE IN NET ASSETS RESULTING FROM
OPERATIONS** \$ 824,334

See accompanying notes (unaudited).

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STATEMENT OF CHANGES IN NET ASSETS

INCREASE IN NET ASSETS FROM OPERATIONS

Net investment income	\$ 432,497
Net realized gain on investments	0
Net increase in unrealized appreciation on investments	297,050
Other income	<u>94,787</u>
Net increase in net assets resulting from operations	<u>824,334</u>

**DIVIDENDS AND DISTRIBUTIONS
TO SHAREHOLDERS**

(198,960)

Total increase in net assets 625,374

NET ASSETS

Beginning of year 40,531,976

Six months ended 6/30/2012 \$ 41,157,350

See accompanying notes (unaudited).

KAVILCO INCORPORATED
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FINANCIAL STATEMENTS
 For the six months ended June 30, 2012 (unaudited)

NOTES TO THE FINANCIAL STATEMENTS:

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	\$
Officers' compensation	\$

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, 2012.

	Level 1	Level 2	Level 3	Balance as of June 30, 2012
ASSETS				
Investments				
U.S. corporate obligations	\$	\$	\$	\$
Common stock				
Publicly traded partnerships				
Real estate				
	\$	\$	\$	\$

KAVILCO INCORPORATED

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FINANCIAL STATEMENTS

For the six months ended June 30, 2012 (unaudited)

NOTE 3 Purchases and Sales of Securities

Purchases and sales of securities for the six months ended June 30, 2012 totaled \$ and \$ respectively.

NOTE 4 Unrealized Gain on Investments

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