

COMMERCIAL  
FISHING &  
AGRICULTURE  
BANK (CFAB)  
BRIEFING

2-20-81

# Alaska State Legislature

BETTYE FAHRENKAMP, CHAIRMAN  
VIC FISCHER, VICE-CHAIRMAN  
BRAD BRADLEY  
DICK ELIASON  
DON GILMAN  
BOB MULCAHY  
ARLISS STURGULEWSKI



POUCH V  
STATE CAPITOL  
JUNEAU, ALASKA 99811  
(907) 465-3834  
(907) 465-3835

## Senate

### Committee on Resources

February 20, 1981  
1:30 p.m.

Beltz Room  
211 - Capitol

#### MEMBERS PRESENT

SENATOR FAHREMKAMP  
SENATOR FISCHER  
SENATOR BRADLEY  
SENATOR STURGULEWSKI  
SENATOR MULCAHY  
SENATOR ELIASON  
SENATOR GILMAN

The Committee was briefed by Mo Mathews and Austin Ward, Office of the Federal Inspector, Alaska Natural Gas Transportation System and Gary Anderson, President, Alaska Commercial Fishing and Agriculture Bank, Frank Homan, Chairman, Alaska Commercial Fishing and Agriculture Bank and Joe Carter, President, Spokane Bank of Cooperatives.

Mo Mathews stated that the responsibilities of the Office of Federal Inspector are:

1. Coordinate the scheduling and issuance of all Federal permits and related activities to assure timely and unified decisions;
2. Monitor activities to assure that cost control, safety, and environmental protection objectives are fulfilled while still meeting the project completion schedule;
3. Keep the President and Congress informed on project progress, including potential delays or problems;
4. Establish a joint surveillance and monitoring agreement with the State of Alaska; and
5. Enforce all Federal Statutes which affect the project, assuring that the builders are complying with all conditions or stipulations attached to any Federal approval.

In response to the question, Is the outlined schedule for the completion of the pipeline reasonable? Mr. Mathews stated that the real key to the schedule is the financing plan which he has no responsibility for.

In response to the question, are the impacts on communities in Alaska being taken into consideration? Mr. Mathews stated that there is an

agreement with the State that they will conduct the community impact studies. The impact will be mostly on communities that are close to the gas pipeline.

In response to the question, what is the outlook for the financing problems? Mr. Mathews stated that Northwest was the only proposal that stated they could construct the line without Federal aid. There may be some need for removal of antitrust provisions to allow North Slope producers to become financially involved. Federal aid is a long way off and even then only as a last resort.

Frank Homan, stated that the 1978 legislature created the Alaska Commercial Fishing and Agriculture Bank (CFAB). The State provided seed money to the bank and it is to be repaid to the State in 20 years. Customers and borrowers become members of the bank, with dividends payable to them in proportion to the amount interest they pay annually. CFAB is an alternative to direct state financing of fisheries and agriculture. CFAB can draw upon other sources of money, and can leverage its money with the Federal Farm Credit System.

The purposes of CFAB are:

1. Provide sources of credit for Alaskan agriculture and fishing industries;
2. Encourage utilization of the fisheries off the coast of Alaska that have been underutilized in the past by local fishermen;
3. Encourage harvesting, processing and marketing of underutilized fish species;
4. Encourage technological development in the harvesting and processing of underutilized fish species; and,
5. Promote the more rapid development of agriculture.

He stated that CFAB is not involved in venture capital. CFAB loans money to farmers and fishermen that have demonstrated an ability to repay the loan.

Joe Carter stated that the Bank of Cooperatives was founded in 1933. The initial funding was from the Federal government, the loan was repaid and now is owned by the users of the Bank. He indicated that a problem arose after the capital loan was paid off - the members thought since the capital loan was paid off they could do what ever they wanted with the funds of the Bank. He stated that he felt that government overview was important in order to insure the original intent is being carried out.

# What CFAB Can Mean To You

# What We Do

2/60

The cooperative members of the Bank provide financial services to members and the general public in Alaska.

**1. Proprietary Interest**  
As a member/borrower with CFAB, you gain a piece of the pie, so to speak. Our goal is to maximize the earnings of the fishing and agriculture industries, not to maximize our profits.

**2. Dividends**  
Any profits we receive over and above operating costs, reserves and monies needed to pay debts, revert to our members in the form of dividends. Dividends are declared and paid at the discretion of the Board of Directors, and are distributed on the basis of interest paid by the borrower. In effect, your cost of borrowing is reduced by the amount of your dividend.

**3. Voice in Administration**  
As a member of the cooperative, you have a direct vote in the election of the Board of Directors. Your members of the Board and the Board's management represent your interests and concerns.

**4. Financial Strength**  
We have a strong financial base, loan limits, and a sound operating policy. Our members are provided with a secure financial environment, and our members are provided with a secure financial environment.

CFAB provides financial support and business expertise for the **COMMERCIAL FISHING** and **AGRICULTURE** industries in Alaska. We deal only with these two industries and only in Alaska.

Financial support is in the form of loans for most aspects of the fishing and agriculture industries. These loans are made at competitive rates with terms designed especially to suit the peculiar nature of these businesses. The inserts accompanying this brochure give you the details.

For the fishing industry, CFAB provides money for vessel construction; vessel purchase; gear; working capital for seasonal supplies; real estate; processing equipment; inventories; and receivables.

The agriculture industry is provided with revolving credit for crops as well as longer term loans for equipment, dairy animals, cattle and capital improvements.

## How We Operate

As a cooperative, CFAB is concerned with meeting the needs of its customers/members. Applying for financial assistance, therefore, has been made as simple as possible.

We have or will have offices in Anchorage, Ketchikan, Cordova, Sand Point, Homer, Dillingham and Seattle, staffed with people who know the **FISHING** and **AGRICULTURE** industries. They are business people first, bankers second; they know your special needs and how CFAB can meet them.

We have adopted the state format for vessel loan applications. This format is straight forward and familiar to most of the people in the industry.

We have one Specialist assigned to Agriculture to meet your needs.

Our service office personnel can help you organize the necessary information, such as surveys and photographs, to speed the approval process. In most cases, your application can be processed within 30 to 45 days.

In addition, our personnel are there to listen to you. We realize how difficult it is to maintain communications with lending institutions and still tend to the job at hand. We make every effort to be available when you need us; to listen to your problems and suggestions; and to follow up as necessary to see a solution through.

# Who We Are

## 5. Expertise In the Field

Because we are business people like you, we know your special needs and interests. In addition, the Bank is specializing in commercial fishing and agriculture; no other industries are involved. This specialization leads to (a) expertise in the industry; and (2) an aggressive approach to marketing the bank's services so you and your business receive prompt attention.

## 6. Competitive Rates

The money used by CFAB comes through sales of bonds. Because of this, the interest rates and other costs of borrowing money are reduced. Often times, this provides you with money at rates that are substantially lower than those prevailing at conventional financial institutions.

## 7. Longer Terms

Depending on the type of loan you receive, you may take from seven to twenty-five years to repay it. Nowhere else are terms like these available for your business.



## An Invitation

Take the time to read through the information provided with this brochure, information which applies specifically to your industry. We think you will be impressed with the services available through CFAB.

Then give us a call. We'll be happy to sit down and discuss your plans and needs, and how CFAB can go to work for you.



The Alaska Commercial Fishing & Agriculture Bank (CFAB) was created in 1978 by the Alaska State legislature to fulfill the need for financial services in the COMMERCIAL FISHING and AGRICULTURE industries in Alaska.

It is important to point out that the bank is not part of a 'soft-money' state loan program, but a private financial institution designed to work with and for these important Alaska industries.

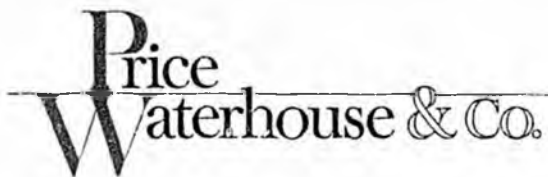
CFAB was initially capitalized at \$2.0 million. In March of 1980, the Alaska legislature increased that capitalization to \$32.0 million. This money is loaned to CFAB and must be repaid over 20 years.

CFAB is a cooperative bank. That is, customers and borrowers become members of the bank, with dividends payable to them in proportion to the amount of interest they pay annually. In addition to dividends, members have voting rights in the election of the board of directors. In this way, the bank's condition is controlled by its members, and members holding their interest above all else.



CFAB  
P.O. Box 4-2070  
2550 Denali Street, Suite 1201  
Anchorage, Alaska 99509

ALASKA COMMERCIAL FISHING  
AND AGRICULTURE BANK  
FINANCIAL STATEMENTS  
DECEMBER 31, 1980 AND 1979



101 WEST BENSON BOULEVARD  
ANCHORAGE, ALASKA 99503  
907-279-1424

January 28, 1981

To the Shareholders and Board of Directors  
Alaska Commercial Fishing and  
Agriculture Bank

In our opinion, the accompanying balance sheets and the related statements of income, of changes in capital and allocated undistributed patronage earnings and of changes in financial position present fairly the financial position of the Alaska Commercial Fishing and Agriculture Bank at December 31, 1980 and 1979, and the results of its operations and the changes in its financial position for the year ended December 31, 1980 and for the period from May 4, 1979 (inception) through December 31, 1979, <sup>and</sup> in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse & Co.*

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

BALANCE SHEET

ASSETS

	<u>December 31,</u>	
	<u>1980</u>	<u>1979</u>
Cash	\$ 168,240	\$ 41,386
Investments at cost, which approximates market value	9,056,237	200,000
Trust account, State of Alaska		1,727,674
Loan to officer		65,000
Loans, net of allowance for loan losses of \$400,000	24,876,124	
Accrued interest receivable - Investments	231,409	
Loans	568,847	
Organization costs, net of amortization of \$42,595 and \$14,198 at December 31, 1980 and 1979, respectively	99,387	127,784
Bank furniture and equipment, net	390,656	45,172
Other assets	<u>33,691</u>	<u>3,397</u>
	<u>\$35,424,591</u>	<u>\$2,210,413</u>

See accompanying notes to financial statements

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

BALANCE SHEET

LIABILITIES, CAPITAL AND PATRONAGE EARNINGS

LIABILITIES

	<u>December 31,</u>	
	<u>1980</u>	<u>1979</u>
Accounts payable and accrued expenses	\$ 127,426	\$ 27,404
Accrued interest payable	116,497	
Note payable	500,000	
Federal income taxes payable	35,000	1,374
Obligation under capital lease	23,916	30,300
	<u>802,839</u>	<u>59,078</u>

CAPITAL AND PATRONAGE EARNINGS

Share capital -		
Class C special preferred stock, authorized 4,000 shares, \$10,000 par value; 3,200 shares and 200 issued and outstanding at December 31, 1980 and 1979, respectively	32,000,000	2,000,000
Class B preferred stock, authorized 400,000 shares, \$100 par value; 22,995 shares issued and outstanding	2,299,500	
Class A membership stock, authorized 10,000 shares, \$10 par value; 79 shares issued and outstanding	790	
Capital in excess of par value	6,480	
Contributed capital	<u>144,626</u>	<u>144,626</u>
Total capital	34,451,396	2,144,626
Allocated undistributed patronage earnings, net of tax effect	<u>170,356</u>	<u>6,709</u>
Total capital and allocated undistributed patronage earnings	<u>34,621,752</u>	<u>2,151,335</u>
	<u>\$35,424,591</u>	<u>\$2,210,413</u>

See accompanying notes to financial statements

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

STATEMENT OF INCOME

	For The Year Ended <u>December 31, 1980</u>	For The Period May 4, 1979 (Inception) To <u>December 31, 1979</u>
<u>INTEREST INCOME:</u>		
Interest on loans	\$1,773,656	
Interest on short-term invest- ments	1,454,554	\$ 6,654
Interest on State of Alaska Trust Account		<u>121,250</u>
	<u>3,228,210</u>	<u>127,904</u>
<u>INTEREST EXPENSE:</u>		
Interest on note payable, net of patronage dividends of \$39,412	285,489	
Interest on State of Alaska loan	480,205	
	<u>765,694</u>	
Net interest income	2,462,516	127,904
Provision for loan losses	<u>400,000</u>	
Net interest income after provision for loan losses	<u>2,062,516</u>	<u>127,904</u>
<u>NON-INTEREST EXPENSE:</u>		
Salaries and benefits	996,692	41,050
Occupancy expense	121,593	4,818
Professional fees	148,018	5,220
Directors' fees	32,479	5,550
Depreciation and amortization	76,852	14,316
Supplies	127,087	6,086
Travel, lodging and meals	170,499	33,370
Advertising and promotion	107,834	2,015
Telephone and postage	40,656	1,340
Miscellaneous	42,159	6,056
Total non-interest expense	<u>1,863,869</u>	<u>119,821</u>
Patronage earnings before tax effect	198,647	8,083
Federal income tax effect	<u>35,000</u>	<u>1,374</u>
Allocated undistributed patronage earnings	<u>\$ 163,647</u>	<u>\$ 6,709</u>

See accompanying notes to financial statements

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK  
STATEMENT OF CHANGES IN CAPITAL AND ALLOCATED UNDISTRIBUTED PATRONAGE EARNINGS  
FOR THE PERIOD MAY 4, 1979 (INCEPTION) TO DECEMBER 31, 1980

	<u>Share Capital</u>	<u>Capital In Excess Of Par Value</u>	<u>Contributed Capital</u>	<u>Allocated Undistributed Patronage Earnings</u>	<u>Total</u>
Issuance of stock during the period					
200 shares of Class C stock	\$ 2,000,000				\$ 2,000,000
Contributed capital - State of Alaska			\$144,626		144,626
Allocated undistributed patronage earnings				<u>\$ 6,709</u>	<u>6,709</u>
Balance, December 31, 1979	<u>2,000,000</u>		<u>144,626</u>	<u>6,709</u>	<u>2,151,335</u>
Issuance of stock during the year:					
3,000 shares of Class C stock	30,000,000				30,000,000
22,995 shares of Class B stock	2,299,500				2,299,500
79 shares of Class A stock	790	\$6,480			7,270
Allocated undistributed patronage earnings				<u>163,647</u>	<u>163,647</u>
Balance, December 31, 1980	<u>\$34,300,290</u>	<u>\$6,480</u>	<u>\$144,626</u>	<u>\$170,356</u>	<u>\$34,621,752</u>

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

STATEMENT OF CHANGES IN FINANCIAL POSITION

	For The Year Ended December 31, 1980	For The Period May 4, 1979 (Inception) To December 31, 1979
Sources of Financial Resources:		
From Operations -		
Allocated undistributed patronage earnings	\$ 163,647	\$ 6,709
Items not requiring funds -		
Depreciation and amortization	76,852	14,316
Provision for loan losses	<u>400,000</u>	<u>          </u>
Total from operations	640,499	21,025
Capital contributed by the State of Alaska		144,626
Proceeds from stock issuance	32,306,770	2,000,000
Increase In -		
Accounts payable and accrued expenses	100,022	27,404
Accrued interest payable	116,497	
Note payable	500,000	
Federal income taxes payable	33,626	1,374
Obligation under capital lease		30,300
Decrease In -		
Loan to officer	65,000	
Trust account, State of Alaska	<u>1,727,674</u>	<u>          </u>
	<u>\$35,490,088</u>	<u>\$2,224,729</u>
Uses of Financial Resources:		
Increase In -		
Cash	\$ 126,854	\$ 41,386
Investments	8,856,237	200,000
Trust account, State of Alaska		1,727,674
Loan to officer		65,000
Loans	25,276,124	
Accrued interest receivable	800,256	
Organization costs		141,982
Bank furniture and equipment	393,939	45,290
Other assets	30,294	3,397
Decrease In -		
Obligation under capital lease	<u>6,384</u>	<u>          </u>
	<u>\$35,490,088</u>	<u>\$2,224,729</u>

See accompanying notes to financial statements

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1980 AND 1979

NOTE 1 - OPERATIONS AND ACCOUNTING POLICIES:

Operations -

The Alaska Commercial Fishing and Agriculture Bank (CFAB) was incorporated on May 4, 1979. The purposes of CFAB are to:

- provide sources of credit for Alaskan agriculture and fishing industries;
- encourage utilization of the fisheries off the coast of Alaska that have been underutilized in the past by local fishermen;
- encourage harvesting, processing and marketing of underutilized fish species;
- encourage technological development in the harvesting and processing of underutilized fish species;
- promote the more rapid development of agriculture.

CFAB intends to accomplish its purposes primarily by making loans to individuals who are residents of Alaska and are engaged in commercial agriculture or fishing, or to corporations, partnerships or joint ventures primarily engaged in commercial agriculture or fishing, the majority of whose owners are residents of the State of Alaska. A loan recipient must be a member of CFAB.

CFAB is a cooperative corporation and intends to refund any allocated undistributed patronage earnings at such time as the Board of Directors finds that the financial condition of CFAB will so permit.

Accounting Policies -

Investments and investment income - Investments are stated at cost, adjusted for amortization of premium and accretion of discount. Investment income is recorded as earned.

Interest on loans - The accrual of income on loans is discontinued when, in management's opinion, there is doubt as to the collectibility of such income.

Patronage dividends - Patronage dividends received from Spokane Bank for Cooperatives (SBC), of which CFAB is a member, are shown as a reduction of interest expense to SBC (see Note 7) in the year in which those dividends are declared by SBC.

Allowance for loan losses - Additions to the allowance for loan losses are provided from charges to income based on management's evaluation of the loan portfolio under existing economic conditions.

Bank furniture and equipment - Bank furniture and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to operations by use of the straight-line method over estimated useful lives of five to ten years. Expenditures for maintenance and repairs are charged to operating expenses as incurred. Expenditures for renewals or improvements which extend the life of an asset are capitalized at cost and depreciated as stated above. Upon sale, retirement or other dispositions of property, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in income.

Organization costs - Certain costs related to the feasibility, capital needs and incorporation phases of CFAB have been deferred and are being amortized over sixty months. Such costs consist of legal and advisory fees.

Income taxes - Under Alaska Statute 44.54.170, CFAB is exempt from all taxes and special assessments of the State. The federal income tax effect of patronage earnings is based on patronage earnings reported for financial statement purposes rather than amounts currently payable under tax laws. The Bank uses the flow-through method of accounting for investment tax credits, which results in a reduction of income taxes in the year credits are utilized. Investment tax credits utilized in 1980 amounted to approximately \$36,000.

Reclassifications - Certain amounts included in the comparative financial statements have been reclassified to conform to current classifications. Such reclassifications had no effect on previously reported patronage earnings.

NOTE 2 - INVESTMENTS:

Investments held are as follows:

	<u>December 31,</u>	
	<u>1980</u>	<u>1979</u>
Time Certificate of Deposit:		
@ 13.125%, maturing January 18, 1980		\$ 100,000
@ 11.5%, maturing March 16, 1981	\$3,000,000	
@ 12.1%, maturing January 14, 1981	2,500,000	
@ 12%, maturing January 14, 1981	2,500,000	
Repurchase agreement	1,000,000	100,000
Spokane Bank for Cooperatives:		
Class C capital stock	46,384	
Equity in allocated surplus	9,853	
	<hr/>	<hr/>
Total investments	<u>\$9,056,237</u>	<u>\$ 200,000</u>
State of Alaska Trust Account interest bearing		<u>\$1,727,674</u>

Investment activity through December 31, 1980 has been limited to the deposit of funds in the interest earning State of Alaska Trust Account, the purchase of repurchase agreements and certificates of deposit, the purchase of SBC Class C capital stock in accordance with a loan agreement (described in Note 7) and the receipt of SBC Class C capital stock and equity in SBC's allocated surplus received as patronage dividends.

NOTE 3 - RELATED PARTY TRANSACTIONS:

In the ordinary course of business, CFAB has made loans to members who also serve on CFAB's Board of Directors or are CFAB employees. Total loans to these members at December 31, 1980 were \$484,000.

A \$65,000 loan was made to the President of CFAB in October, 1979, to provide funds for the purchase of a residence in Alaska prior to the sale of his previous residence. The note was interest bearing

at 12% and was due upon the sale of his previous residence. The loan, with accrued interest, was fully repaid on January 3, 1980.

NOTE 4 - LOANS:

The following represents a classification of CFAB's loan portfolio by major category at December 31, 1980:

Fish processors	\$16,738,521
Vessels	6,086,708
Gear, entry permits and other	<u>2,450,895</u>
	25,276,124
Less: Allowance for loan losses	<u>(400,000)</u>
Net loans	<u>\$24,876,124</u>

Under the State of Alaska senate bill 140, portions of certain of the fish processor loans included above are guaranteed by the State.

As this is the first year of lending activity for CFAB, there is no past loan loss experience nor is there a similar lending institution on which to base an allowance for expected loan losses. CFAB has no delinquent loans at December 31, 1980. Management, however, has established the allowance for loan losses at 1.5% of the total loan portfolio at December 31, 1980. Additionally, there has been included a specific allowance for one borrower who is currently operating under Chapter 11 Bankruptcy (reorganization) status.

NOTE 5 - BANK FURNITURE AND EQUIPMENT:

The following represents a classification of bank furniture and equipment by major category at December 31 in each of the past two years:

	<u>December 31,</u>	
	<u>1980</u>	<u>1979</u>
Furniture, fixtures and equipment	\$343,079	\$ 4,776
Leasehold improvements	65,850	10,214
Equipment under capital lease	<u>30,300</u>	<u>30,300</u>
	439,229	45,290
Less - Accumulated depreciation and amortization	<u>(48,573)</u>	<u>(118)</u>
	<u>\$390,656</u>	<u>\$45,172</u>

NOTE 6 - LEASE OBLIGATIONS:

During 1980, CFAB entered into certain long-term operating type lease agreements for buildings and equipment. Rental expense under these leases was \$103,681 for the year ended December 31, 1980. At December 31, 1980 these leases require minimum annual payments as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
1981	\$178,461
1982	\$156,423
1983	\$149,474
1984	\$149,474

CFAB has determined that a photo copy machine lease entered into during the prior year meets the criteria for capitalization under Statement of Financial Accounting Standards No. 13 which provides that such a lease be recorded as a purchase of an asset with an accompanying obligation based upon an interest rate implicit in the lease. The resulting asset in the amount of \$30,300 has been recorded in equipment under capital lease and is being amortized over its lease life. Interest expense is provided on the declining balance of the recorded lease obligation at the rate of 10%.

NOTE 7 - NOTE PAYABLE:

On May 14, 1980 CFAB executed an agreement with SBC establishing a credit line whereby CFAB can borrow up to \$15,000,000 to finance current lending activity. The agreement is for a term of one year from June 1, 1980, bearing interest at a floating rate prescribed by SBC, with interest payable on the last day of each calendar quarter. Further, as required by SBC according to the Farm Credit Act, CFAB must invest in Class C stock of SBC a sum equal to 15%, or such lessor amount as may be prescribed by SBC (10% through December 31, 1980), of quarterly interest payable to SBC during the year. The amount of CFAB's investment in SBC's Class C stock was \$46,384 at December 31, 1980. The loan is secured by all CFAB notes evidencing loans to members. The line of credit is to be renegotiated annually.

The maximum amount due SBC during 1980 was \$10,500,000; the balance due SBC at December 31, 1980 is \$500,000.

NOTE 8 - SHARE CAPITAL:

Shares purchased by the State of Alaska must be repurchased within twenty years by CFAB.

Preferential shareholders rights on dissolution are attached in the order of Class C, Class B and Class A.

Upon issue, the following rights will attach to the three categories of stock:

- Class C - No voting or dividend rights. May only be issued to the State of Alaska.
- Class B - No voting rights. Class B stock may only be held by members of CFAB, and dividends shall not exceed \$10/share annually. Borrowers must purchase and maintain Class B stock in an amount equal to 10% of their loan proceeds. This amount is added to the loan proceeds in determining the loan balance.
- Class A - No dividend rights. Each member of CFAB must own one share of Class A stock. Each share of stock carries one vote. To vote, a member must be engaged in commercial fishing or agriculture and must be a current borrower or have borrowed from CFAB during the preceding two years or have retained patronage earnings with CFAB of at least \$2,500.

NOTE 9 - CONTRIBUTED CAPITAL:

Certain organization costs and other expenses have been paid by the State of Alaska, some of which were paid prior to May 4, 1979. As it is not the State's intention to require reimbursement of these amounts, such amounts have been treated as contributed capital in the accompanying financial statements.

NOTE 10 - INCENTIVE COMPENSATION PLAN:

All CFAB employees participate in an incentive compensation plan whereby bonuses are awarded based upon goals and objectives established by management and approved by the Board of Directors.

NOTE 11 - PENSION PLAN:

All regular, full-time employees of CFAB are covered by a contributory plan which provides for retirement benefits based upon employee compensation, length of service and age at retirement. Pension costs, which are funded as accrued, totaled approximately \$58,000 for the year ending December 31, 1980. The excess, if any, of the actuarially computed value of vested benefits over the total of the pension fund assets is not available.

NOTE 12 - INTEREST ON STATE OF ALASKA LOAN:

On March 13, 1980 the State of Alaska executed a loan agreement with CFAB whereby CFAB could borrow \$30,000,000 from the State in two installments. The first installment of \$15,000,000 was received at that time. The loan was for a term of twenty years, bearing interest at the rate of 9 1/2% per annum; interest was to be payable annually commencing April 1, 1981 and principal was to be payable in fifteen equal annual installments of \$1,000,000 commencing April 1, 1986.

During May of 1980, the Alaska Legislature amended CFAB's enabling legislation to allow the Department of Revenue to purchase CFAB Class C stock. This fulfilled the original intent to capitalize CFAB and cleared the way to convert the \$30,000,000 in loans to Class C stock. On July 18, 1980 CFAB received the second installment of its loan which along with the first installment, was simultaneously converted to Class C stock. Interest of \$480,205 on the first installment was paid at that time.