

SB

68

<TARGET><BILL>SB 68</BILL><SUBJECT>SB
68</SUBJECT><COMM>SFIN27</COMM></TARGET>

SENATE FINANCE COMMITTEE REPORT

DATE: 3/7/11

FURTHER:

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered SENATE BILL NO. 68

SB 68-COMMERCIAL FISHING & AGRICULTURE BANK

"An Act relating to the examinations, board, loans, records, and lobbying contracts of the Alaska Commercial Fishing and Agriculture Bank; and providing for an effective date."

and recommends:




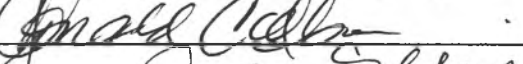

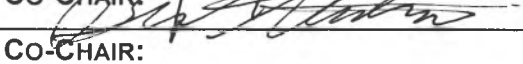
- be replaced with CS _____ (_____) Same Title New Title
- adopt previous CS _____ (_____) Same Title New Title
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

Dept Abbr.	
ADM	LEG
CED	LAW
COR	LWF
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
CED	✓			

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Thomas			✓	
	Egan	✓			
	McInure	✓			
	Olson			✓	
	Ellis			✓	
CO-CHAIR: 	Stedman			✓	
CO-CHAIR:					

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version SB 68
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) SB068-DCCED-DBS-02-08-12 Dept. Affected DCCED
 Title COMMERCIAL FISHING & AGRICULTURE BANK Appropriation Banking and Securities
 Allocation Banking and Securities
 Sponsor Senator Coghill
 Requester Senate Finance OMB Component Number 2808

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services								
Travel	0.0	0.0	5.8	0.0	0.0	5.8	0.0	
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	5.8	0.0	0.0	5.8	0.0	

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)		5.8				5.8	
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		0.0	0.0	5.8	0.0	0.0	5.8	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES			22.2			22.2
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required;
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This fiscal note was readjusted to accurately reflect the one-time nature of the costs in FY14 and FY17.

Prepared by Lorie L. Hoyanec, Director
 Division Banking and Securities
 Approved by JoEllen Hanrahan, Director Administrative Services
Commerce, Community, and Economic Development

Phone 907-269-6586
 Date/Time 2/8/12 1:45 PM
 Date 2/8/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB 68

Analysis

Senate Bill 68 allows the Alaska Commercial Fishing and Agriculture Bank (CFAB) to make loans for capital investment of operating capital to a shore-based fish processor, a timber processor, or an agricultural processor or harvester with facilities located in Alaska. This bill amends sections of AS 44.81 related to board composition, loans, records, and lobbying contracts of CFAB. It also adds a new section, AS 44.81.275, which stipulates that the Department of Commerce, Community, and Economic Development conduct regular banking evaluations.

The Division of Banking and Securities examination staff will examine CFAB once every three years. The one week examination will include the evaluation of the bank's loan portfolio quality and the appropriateness and effectiveness of policies, practices, and management ability to carry out the bank's statutory purpose. Examiners will prepare a written Report of Examination and distribute it to CFAB and the legislative auditor.

The division will use existing examination staff to conduct the examination, so no additional costs are anticipated for personal services.

Actual examination expenses (examiner hours and travel) are reimbursed by CFAB, and go into the general fund. The division up-fronts travel costs and must include travel expenditures for CFAB examinations in its travel budget. Therefore, this fiscal note for travel every three years, beginning in FY 2014, is requested in the amount of \$5.8.

Revenue will increase every three years by approximately \$22.0, which is the estimated reimbursement of examination costs as detailed below.

Estimated Examiner Hours	\$16.0
Estimated Travel Costs	<u>\$5.8</u>
Total Estimated Cost to Conduct Examination	\$22.0



January 31, 2012

Lela F. Klingert

President

Sent Via E-Mail and USPS

Senator John Coghill
State Capitol Room 504
Juneau AK, 99801

Re: SB68

Senator Coghill;

Following is the information requested by the Senate Finance Committee. This information is as of 12/31/11.

CFAB's Delinquency rate is 3.2%

Since the beginning of the current fiscal year (6/1/11) we have modified one (1) loan due to the borrower's inability to make their payment.

In addition 12 other loans were modified to allow for changes with regard to the borrowers or collateral. All of these loans are current.

As of 12/31/11 we have a total of 308 loans outstanding for a total dollar amount of \$25,022,207.

Those loans break down as follows:

<u>TYPE</u>	<u>Number #</u>	<u>Dollar Amt. \$</u>
Commercial Fishing	288	19,535,832
Agriculture	1	126,504
Processors	8	2,607,239
Tourism	11	2,752,633
All Loans	308	\$25,022,207

Our lender, CoBank, advances us funds based on a ratio of 80% of each loan. For example if we made a loan of \$100,000 they would advance us \$80,000. So given CFAB's current capital base, and assuming all other things remain equal, we would be able to make up to a total of \$100,000,000 in loans. CFAB's portfolio hit a high of about \$80,000,000 in the mid 80's, however the total portfolio of loans has hovered around \$32,000,000 or lower for over 10 years.

A concern has been expressed that if SB68 should pass that CFAB would run out of money to lend to the commercial fishing industry due to an excess of loans to the tourism industry. This is a valid concern, but one that is mitigated by several factors.

Alaska Commercial Fishing and Agriculture Bank

(907) 276-2007 • Fax (907) 279-7913 • 3040 Lakeshore Drive • Anchorage, Alaska 99517

- First, CFAB is in a strong financial position with an average of \$20,000,000 of capital on hand at any time.
- Second, CFAB partners with the National Bank for Cooperatives in Denver (CoBank) for any supplemental funding needs. The supplemental funds from CoBank are available on a four to one basis, allowing CFAB to meet up to \$100 million in loan demand.
- An unfortunate third mitigating factor is that the demand for loans from the commercial fishing industry has remained relatively flat over the last several years. This appears to be due to the increased competition from government funding sources.

These three strong mitigating factors engender an absolute confidence that should SB68 pass CFAB will continue to meet all financing needs of the commercial fishing industry.

Respectfully,


Lela F. Klingert
President



2011 ANNUAL REPORT



ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK



Margaret Adsit with Alaska Farmland Trust, CFAB President Lela Klingert, CFAB Board Member Paula Giauque, and Victoria Naegele with Agriculture in the Classroom on the occasion of their respective organizations receiving donations from CFAB.



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For more information contact:
Alaska Commercial Fishing and Agriculture Bank
3040 Lakeshore Drive
Anchorage, Alaska
(907) 276-2007 or (800) 544-2228

Executive Message to Members

Each year it is a challenge for me to write a message to CFAB's members that would prove useful in helping each of you to better understand, and perhaps better appreciate, the benefits of your cooperative. Reporting the financial side seems to be the least challenging part. The struggle comes in trying to summarize the less tangible benefits of CFAB.

OPERATING INCOME

A quick comparison of the FY2011 income total of \$2.4 million with the FY2010 total of \$3.6 million suggests a sharp decline in interest payments. That is not the case, however; the latter number was significantly enhanced by a large volume of previously non-accrued interest as a result of the distribution of EXXON VALDEZ payments. The total was reduced by slightly higher (\$33,612 vs. \$25,124) interest payments due to increased borrowings occasioned by a greater volume of loans to Members.

OPERATING EXPENSES

CFAB's operating expenses (or "overhead") increased to about \$1,495,077, up from \$1,378,700. There were several factors at work. Since CFAB is considered a "service" company the majority of its operating costs are its "people" costs (salaries and benefits). While salaries are generally controllable, other benefits, especially with respect to health care requirements, seem to be in a relentlessly upward cost spiral. In addition, the total expenses include several necessary but non-recurring costs that were accelerated and incurred in FY2011 to take advantage of tax deductions.

OTHER FACTORS AND RESULTS

In addition to "normal" operating items, there were some other events affecting CFAB's 2011 results. The largest such item (\$512,370) reflects proceeds on claims acquired as part of normal collection activities many years ago. Another item of significance included a contribution to the CFAB Scholarship Fund, in addition to meaningful contributions to two agriculture-related entities (Alaska Agriculture in the Classroom and Alaska Farmland Trust. *See front inside cover*), as well as to a range of community organizations.

The net result of all of the foregoing was net income of \$1,298,400 before taxes. Federal and State income tax obligations, totaling just over \$268,000, further reduced the total, resulting in Net Proceeds of \$1,012,298.

DISPOSITION OF NET PROCEEDS

For the 19th consecutive year the Board of Directors authorized payment of a dividend on the Class B Preferred Stock holdings of Members whose related loans had been paid in full by May 31. These dividends totaled \$40,012.

The Board of Directors also approved allocation of a patronage refund totaling \$716,293 to all eligible FY2011 Member-Patrons. As is the usual practice, 30% of the allocation will be distributed in cash by mid-September 2011 while the remainder will be retained as Allocated Members' Equity.

The remaining Net Proceeds, totaling \$255,993, were transferred to CFAB's Unallocated Surplus account.

OTHER FINANCIAL MATTERS

Other actions and events also affected the total of Members' Equities - the issuance of Class B Preferred Stock in connection with new loans; the distribution of the balance of 2003 Retained Patronage totaling \$202,659; the retirement of \$135,900 of Class B Preferred Stock associated with loans that had been paid in full in past years; and some lesser items. The combined effect of those transactions, and the retention of Net Proceeds mentioned above, was an increase in total Members' Equities to over \$19.2 million.

NEW LOAN ACTIVITY

The number of new loans in FY2011 increased slightly from that in FY2010. The average size of new loans was slightly higher as well. While we have no way of knowing for certain, we believe this is primarily the result of increased costs of vessels, permits, and IFQ's. The three-year comparison below excludes seasonal loans to processors as well as the refinancing of "old" CFAB loans.

Executive Message to Members

Number	Loan Totals
FY2009 48	\$7,215,180
FY2010 47	\$4,792,003
FY2011 58	\$7,375,734

BOARD OF DIRECTORS

At the 2010 Annual Meeting CFAB Members reelected incumbent Directors Alan Otness and Paula Giauque, to three-year terms expiring in 2013. Also, during FY2011 the three-year term of Chris McDowell, one of CFAB's two Directors who are appointed by the Governor of Alaska, expired. Subsequent to the FY2011 year-end, Governor Parnell appointed Adam Galindo, an Anchorage businessman, to the vacant seat.

At CFAB's 2011 Annual Meeting there will be one Director Seat up for election. Prior to receiving this report you will have received a call for nominations. CFAB's nomination and election process is designed to attract the broadest possible participation. We urge every member to consider service as a Director. CFAB is YOUR cooperative, YOU are its owners, and we not only welcome your interest and involvement, we strongly encourage it.

DICK ELIASON

It is with sadness, but also with respect and fond memories, that we call attention to the April passing of Richard "Dick" Eliason of Sitka. A man with a diversified background, which included significant commercial fishing experience, Dick was committed to meaningful service to Alaska and to all of its residents. He served 22 years in the Alaska State Legislature – including a term as Senate President – where he was generally regarded as a true Statesman. Shortly after his retirement from the Legislature, Dick was appointed by Governor Walter Hickel to a 3-year term as a CFAB Director, and was twice reappointed to similar terms by Governor Tony Knowles. Dick served CFAB, its members, and his peers extremely well. He was dedicated and always well-prepared, and his broad experience – coupled with his consensus-building instincts – elicited the best

efforts of those around him. We strongly and sincerely urge you to reflect on the ways that Dick Eliason, with others of like commitment, contributed to the valuable services offered by CFAB today.

ANNUAL MEETING

In November 2010, for the first time in many years, CFAB held its Annual Meeting offsite – in Seattle, Washington, during FISH EXPO. An important aspect of that meeting involved the approval by Members of revised CFAB Articles of Incorporation – that important document had not been amended since 1987, and CFAB had encountered, and undergone, many changes in the ensuing years.

We were pleased at the Member attendance at that 2010 meeting; significantly greater than has been traditionally experienced at Anchorage meetings. We are planning the 2011 Annual Meeting to be held offsite as well, to allow us to further assess Member interest and attendance. That Meeting will convene on Friday, November 18 (again, during Fish Expo) in the LEEWARD ROOM of the Hilton Hotel in Seattle. Members will receive Official Notices, and related materials, in due course. We urge you to take advantage of this additional opportunity to participate in your CFAB Membership, and to meet CFAB's Directors and staff.

30TH ANNIVERSARY CELEBRATION

In September of 2010 CFAB held a gathering of Members, industry peers and associates, and guests at our building. It was a belated celebration of CFAB's new office space as well as a celebration of CFAB's thirty years of operation. The turnout exceeded expectations as did the menu, which consisted entirely of Alaska-produced items assembled and prepared by Wes Masters of Masters Catering in Anchorage. I encourage you to visit CFAB's website to view some of the pictures from that event. It was rewarding that so many Members and friends shared in this special occasion with us.

Executive Message to Members

2011 Scholarship Recipients



CFAB President Lela Klingert with Scholarship Recipient Shane Hautanen and his father, CFAB member, Nelson Hautanen. Shane is attending Colorado State University.



Kevin Mann
Juneau
University of Alaska
Anchorage



Cody Clark
Soldotna
University of Idaho



Jonah Yakunin
Anchor Point
University of Alaska
Fairbanks



Zachary Aspelund
Naknek
University of Alaska
Fairbanks

SCHOLARSHIP FUND

We reported in the 2010 Annual Report that CFAB was able to fulfill a longtime aspiration of Managements and Directors by establishing The CFAB Scholarship Fund. Earlier this year that Scholarship Fund awarded its first scholarships – each in the amount of \$2,500 – to five students who represent various CFAB Member families. In total, applications were received from thirteen students, and every member of the selection committee was forced to struggle with the decision(s) involved. For me personally, it was immensely gratifying to see such impressive evidence of talented, committed, and involved young people spread throughout Alaska!

The winners of the scholarships were:

Cody Clark, Soldotna
Shane Hautanen, Anchorage
Zachary Ray Aspelund, Naknek
Kevin Mann, Juneau
Jonah Yakunin, Anchor Point

CONGRATULATIONS!!!!

Solicitations for applications for next year's scholarships will be mailed in early 2012.

OTHER MATTERS

In several recent Annual Reports, we have commented on various aspects of both the national and statewide economy, on developments within the Alaska commercial community, and in particular on some of the seemingly irrational trends in the granting of credit (of all kinds). With respect to the latter, the pendulum seems to continue to swing wildly, especially in the "Lower 48"; and, even though we in Alaska seem to be somewhat less affected, the results of broad credit instability certainly show up in the prices and availability of goods and services as well as in investment returns.

Executive Message to Members

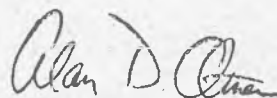
Those of us who read newspapers and other periodicals, who watch television, who browse the Internet, and who communicate with family, friends, and business counterparts – in other words, all of us – can assume a certain level of detachment in our observations of political turmoil and bloodletting, of home foreclosure trends, of unemployment trends, and of border security issues, etc., and breathe yet another prayer of thanks for the “joys of Alaska.” But each of those phenomena, with the conscious or unconscious mindset it engenders, seems to have a way of intruding, and translating its effects into, our cherished way of life.

Although I offer the foregoing couple of paragraphs as broad and general commentary, the Alaska commercial fishing community is – as always – at the forefront of my mind. After nearly 25 years of close association with that community, the values of diversity, of aggressive industriousness, and of an entrepreneurial spirit have become ingrained. And certainly, to any observer or veteran of the “gear wars” of the ‘70s and ‘80s, Alaska commercial seafood harvesters have never appeared to hold the potential to become a renowned and harmonious choir! Nevertheless, during those decades as well as throughout more recent years, the harvester community seemed to exist in public and political eyes as a single and potent entity.

In my view, much has changed in recent years. Some fisheries have disappeared, but some fisheries (in an overall sense) have flourished economically. Various rationalization mechanisms have made it possible for investors to reap the benefits of a fishery without ever setting foot on a vessel. Narrower and more stringent – and more rigidly enforced – allocation, gear, and procedural rules and regulations have created demands for fulltime, all-out efforts during each opportunity. Costs have escalated much more rapidly than have gross returns. All of these factors, and more, have combined to establish an unprecedented urgency and intensity at all levels and in virtually every fishery.

At the national level, also, and in the broadest sense, we see similar developments. America today seems to be divided in so many ways, with rifts evident in politics, between and among economic classes, in schemes for access to health care, in educational opportunities, in the impacts of legal and illegal immigration, in tax policies and initiatives, etc. To this observer, it appears that the de facto social acceptance and general support of these divisions have served to support and intensify the growing factions within our fishing community.

In Alaska, the commercial fishing community no longer has the political and socio-economic power it once held and quite possibly took for granted. The demographics of the state have changed dramatically over the past 25 or more years, and those of the Alaska State Legislature have changed perhaps even more. There is growing pressure for access to various resources by a broader range of the citizenry, and there appears to be less appreciation for the tangible, and intangible, contributions of commercial fishing to coastal, and other rural communities. I am sometimes dismayed at the seemingly cavalier attitudes within the fishing community toward the challenges that are developing from those broader changes. The commercial fishing community must not lose its capacity to respond to those challenges, but that loss of capacity is inevitable if we adopt a posture of, “As long as I’ve got mine, it’s all good!” One of the most significant hazards faced by most commercial harvesters is a vessel sinking. It is perhaps a good time to remind ourselves that when the bow of a vessel sinks, the stern inevitably follows close behind!


Alan D. Otness


Lela F. Klingert

Independent Auditor's Report



RSM McGladrey Network
An Independently Owned Member

Offices in Anchorage & Kenai

Independent Auditor's Report

The Board of Directors

Alaska Commercial Fishing and Agriculture Bank

Anchorage, Alaska

We have audited the accompanying balance sheets of Alaska Commercial Fishing and Agriculture Bank as of May 31, 2011 and 2010, and the related statements of net proceeds, changes in capital and patronage, and cash flows for the years then ended. These financial statements are the responsibility of the Alaska Commercial Fishing and Agriculture Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alaska Commercial Fishing and Agriculture Bank as of May 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mikunda, Cottrell & Co.

Anchorage, Alaska

August 31, 2011

Balance Sheets

	Years Ended May 31,	
	2011	2010
Assets:		
Cash	\$ 50,074	343,072
Loans and other receivables, net (note 3)	23,928,778	22,567,639
Accrued interest receivable	819,047	724,219
Investment in National Bank for Cooperatives	249,191	232,610
Assets acquired in liquidation of loans	8	11
Deferred tax asset (note 9)	534,746	548,924
Bank premises, furniture, and equipment, net (note 4)	1,622,423	1,679,859
Income taxes receivable	231,068	-
Other assets	25,703	22,381
Total assets	\$ 27,461,038	26,118,715
Liabilities:		
Accounts payable and accrued expenses	554,569	418,162
Member reserves	18,000	-
Accrued interest payable	12,228	11,540
Income taxes payable	-	287,921
Deferred tax liability	97,543	111,721
Notes payable (note 5)	6,295,032	5,556,909
Member notes payable (note 6)	672,841	306,661
Patronage refund distributable	214,888	305,156
Dividends payable - Class B preferred stock	40,012	38,851
Class B preferred stock retirement proceeds payable	123,600	159,200
Retained patronage distributable	202,658	202,659
Total liabilities	8,231,371	7,398,780
Capital:		
Share capital (note 7):		
Class B preferred stock, \$100 par value. Authorized 400,000 shares; outstanding 26,448 and 26,997 shares	2,644,800	2,697,700
Class A membership stock, \$10 par value. Authorized 10,000 shares; outstanding 751 and 745 shares	7,510	7,450
Total share capital	2,652,310	2,705,150
Unallocated surplus and other capital	14,820,198	14,555,006
Allocated undistributed patronage	1,757,159	1,459,779
Total capital	19,229,667	18,719,935
Commitments and contingent liabilities (notes 5,6,8 and 10)	-	-
Total liabilities and capital	\$ 27,461,038	26,118,715

See notes to financial statements

Statements of Net Proceeds

	Years Ended May 31,	
	2011	2010
Operating income:		
Loan revenues (note 3) -		
Interest and fees on loans and other receivables	\$ 2,412,172	3,642,417
Interest expense	(33,612)	(25,124)
Total operating income	<u>2,378,560</u>	<u>3,617,293</u>
Operating expenses:		
Salaries and benefits	958,129	900,385
Professional fees	97,297	138,679
Depreciation and amortization	95,906	70,069
Occupancy expense	87,182	76,401
Office operations	66,902	34,377
Advertising and promotion	66,397	38,116
Travel, lodging, and meals	52,887	45,039
Directors' fees	19,050	16,450
Telephone and postage	18,420	19,326
Miscellaneous	32,907	39,890
Total operating expenses	<u>1,495,077</u>	<u>1,378,732</u>
Non-operating income (expense):		
Loss on disposal of furniture and equipment	(53,303)	-
Gain on conversion of asset	512,370	-
Contributions	(44,150)	(500,000)
Total non-operating income (expense)	<u>414,917</u>	<u>(500,000)</u>
Income from operations before income taxes	1,298,400	1,738,561
Income tax expense (note 9)	286,102	462,052
Net proceeds	<u>\$ 1,012,298</u>	<u>1,276,509</u>

See notes to financial statements

Statements of Changes in Capital and Patronage

Years Ended May 31, 2011 and 2010

	Share Capital	Unallocated Surplus and Other Capital	Allocated Undistributed Patronage	Net Proceeds	Total Capital and Patronage
Balance at May 31, 2009	\$ 2,905,800	14,306,079	966,713	-	18,178,592
Issuance of stock during the year:					
Class B preferred stock, 520 shares issued	52,000	-	-	-	52,000
Class A stock, 31 shares	310	2,790	-	-	3,100
Retirement of stock during the year:					
Class B preferred stock, 2,523 shares	(252,300)	24,700	-	-	(227,600)
Class A stock, 66 shares	(660)	10	-	-	(650)
Revocation of outstanding distributions	-	955	-	-	955
Net proceeds	-	-	-	1,276,509	1,276,509
Dividends declared - Class B preferred stock	-	-	-	(38,851)	(38,851)
Patronage refund declared	-	-	1,017,186	(1,017,186)	-
Patronage refund distributable	-	-	(305,156)	-	(305,156)
Miscellaneous distributions	-	-	(16,305)	-	(16,305)
Distribution declared - 2003 retained patronage	-	-	(202,659)	-	(202,659)
Unallocated surplus	-	220,472	-	(220,472)	-
Balance at May 31, 2010	2,705,150	14,555,006	1,459,779	-	18,719,935
Issuance of stock during the year:					
Class B preferred stock, 830 shares issued	83,000	-	-	-	83,000
Class A stock, 36 shares	360	3,240	-	-	3,600
Retirement of stock during the year:					
Class B preferred stock, 1,359 shares	(135,900)	5,000	-	-	(130,900)
Class A stock, 30 shares	(300)	30	-	-	(270)
Revocation of outstanding distributions	-	929	-	-	929
Net proceeds	-	-	-	1,012,298	1,012,298
Dividends declared - Class B preferred stock	-	-	-	(40,012)	(40,012)
Patronage refund declared	-	-	716,293	(716,293)	-
Patronage refund distributable	-	-	(214,888)	-	(214,888)
Miscellaneous distributions	-	-	(1,366)	-	(1,366)
Distribution declared - 2003 retained patronage	-	-	(202,659)	-	(202,659)
Unallocated surplus	-	255,993	-	(255,993)	-
Balance at May 31, 2011	\$ 2,652,310	14,820,198	1,757,159	-	19,229,667

See notes to financial statements

Statements of Cash Flows

	Years Ended May 31,	
	2011	2010
Cash flows from operating activities:		
Net proceeds	\$ 1,012,298	1,276,509
Adjustments to reconcile net proceeds to net cash provided by operating activities:		
Depreciation and amortization	95,906	70,069
Loss on disposal of furniture and equipment	53,303	-
Gain on conversion of asset	(512,370)	-
Foreclosure costs paid	(2,409)	(7,790)
(Increase) decrease in accrued interest receivable	(94,828)	172,735
Increase in income taxes receivable	(231,068)	-
Decrease (increase) in deferred tax asset	14,178	(84,463)
Increase in other assets	(3,322)	(1,451)
Increase in accounts payable and accrued expenses	136,407	83,426
Increase in member reserves	18,000	-
(Decrease) increase in income taxes payable	(287,921)	263,210
(Decrease) increase in deferred tax liability	(14,178)	84,463
Increase (decrease) in accrued interest payable	688	(6,354)
Net cash provided by operating activities	184,684	1,850,354
Cash flows from investing activities:		
Loan principal repayments, net of originations	(1,358,730)	2,805,725
Investment purchases, net of retirements	(16,581)	(31,349)
Purchases of bank premises, furniture, and equipment	(91,774)	(370,425)
Proceeds from conversion of asset	512,370	-
Proceeds from sale of assets acquired in liquidation of loans	3	1
Net cash (used) provided by investing activities	(954,712)	2,403,952
Cash flows from financing activities:		
Proceeds from issuance of notes payable	8,073,123	5,551,240
Principal payments on notes payable	(7,335,000)	(9,829,133)
Net increase in member notes payable	366,180	48,237
Class A membership stock issued	3,600	3,100
Class A membership stock retired	(270)	(650)
Class B preferred stock issued	83,000	52,000
Class B preferred stock dividend paid	(38,851)	(38,009)
Class B stock retired	(166,500)	(201,700)
Patronage refund distributed	(305,156)	(130,509)
Retained patronage distributed	(202,659)	(106,635)
Payments made for miscellaneous patronage refund distributed	(1,366)	(16,305)
Revocation of outstanding distributions	929	955
Net cash provided (used) by financing activities	477,030	(4,667,409)
Net decrease in cash	(292,998)	(413,103)
Cash at beginning of year	343,072	756,175
Cash at end of year	\$ 50,074	343,072
Supplemental schedule of noncash and other activities:		
Interest paid	\$ 71,324	61,479
Income taxes paid net of refunds	\$ 510,555	198,842
Retained patronage distributable	\$ 202,659	202,659
Patronage refund distributable	\$ 214,888	305,156
Retirement - Class B preferred stock	\$ 123,600	159,200
Dividends declared - Class B preferred stock	\$ 40,012	38,851

See notes to financial statements

Notes to Financial Statements

May 31, 2011 and 2010

(1) General

The Alaska Commercial Fishing and Agriculture Bank (CFAB) was incorporated May 4, 1979 to promote growth of the Alaska agriculture, timber, and commercial fishing industries by providing debt financing to resident-owned businesses engaged in harvesting, processing, or marketing of these industries and to promote its own growth as a strong user-oriented institution through cooperative ownership and self governance. Effective in August 2000, CFAB's lending authority was statutorily expanded to include tourism and other resource-based activities in addition to its original lending areas.

The accounting and reporting policies of CFAB conform to accounting principles generally accepted in the United States of America. CFAB follows the accrual method of accounting. In preparing the financial statements, management of CFAB is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses for the period. Actual results could differ from those estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed in Note 2.

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of reporting cash flows, cash includes cash on hand and demand deposits at other financial institutions. Cash flows from loans are reported net.

Loans and Interest on Loans

Loans are stated at the amount of unpaid principal, reduced by deferred loan fees and an allowance for loan losses. The accrual of interest income is suspended on loans for which the payment of interest is contractually past due more than 90 days and/or otherwise considered by management to be worthy of nonaccrual. Upon placing a loan into nonaccrual status, any fiscal year-to-date unpaid interest is reversed by a charge against interest income. Subsequent payments received on a nonaccrual loan are credited to the loan's principal balance until sufficient payments are received to bring the loan current. When the circumstances that led to a loan being placed in nonaccrual status have been favorably resolved or otherwise changed, the loan is considered for restoration to normal accrual status. Nonaccrual loans are considered to be impaired under the provisions of FASB Accounting Standards Codification (ASC) 310.

Allowance for Loan Losses

The allowance for loan losses is maintained at an amount that management considers adequate to provide for estimated loan losses inherent in the loan portfolio. The allowance is based upon review and evaluation of individual loans, which consider numerous factors including type of loan, credit quality, collateral, industry conditions, prior loan loss experience, and management's estimate of future potential losses, as well as application of a potential loss factor consistent with CFAB's experience. Allowances for losses on loans are subjective and may be adjusted in the future depending on economic conditions.

Assets Acquired in Liquidation of Loans

Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any writedown to fair value at the time of transfer is charged to the allowance for loan losses. Management periodically performs valuations, and an allowance for losses is established by means of a charge to operations if the carrying value of a property exceeds the lower of its carrying amount or its fair value less estimated costs to sell.

Fair Value of Financial Instruments

CFAB's financial assets carried at fair value have been classified based on a hierarchy defined by ASC 820. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- **Level 1** - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Notes to Financial Statements

- **Level 2** – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- **Level 3** – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect CFAB's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Impaired loans are measured at fair value on a non-recurring basis. These assets are classified as Level 3 where significant value drivers are unobservable. The fair value of impaired loans are determined using the fair value of each loan's collateral for collateral-dependent loans as determined, when possible, by an appraisal of the property, less estimated costs related to liquidation of the collateral. The appraisal amount may also be adjusted for current market conditions.

Bank Premises, Furniture, and Equipment

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

Income Taxes

Under the asset and liability method of ASC No. 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Under ASC No. 740, the effect on deferred tax assets and liabilities of change in tax rates is recognized as income in the period that includes the enactment date. CFAB qualifies as a cooperative taxable under Subchapter T of the Internal Revenue Code.

CFAB adopted the provisions of Topic 740 of the FASB Accounting Standards Codification relating to accounting for uncertainty in income taxes. As a result of the implementation of ASC 740, CFAB made a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established by ASC 740. In this regard, an uncertain tax position represents CFAB's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. CFAB believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter. As a result of applying the provisions of ASC 740, there was no cumulative effect on retained earnings.

For the year ended May 31, 2011, there were no material changes to the total amount of unrecognized tax benefits. CFAB does not expect any significant increases or decreases for uncertain tax positions during the next 12 months.

CFAB files income tax returns in the U.S. and various state jurisdictions. The tax years 2007 through 2010 remain subject to examination by the tax jurisdictions.

CFAB's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. There is no interest or penalties accrued at May 31, 2011. As a result of this review, CFAB concluded that at this time there are no uncertain tax positions.

Member Reserves

Certain loan agreements between CFAB and members require the member to maintain financial reserves to cover maintenance and improvements to the underlying collateral during the life of the loan. The reserves are held by CFAB in cash accounts until requested for maintenance or improvements by the members.

Recent Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The objective of ASU 2010-20 is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables through additional disclosure. This ASU is intended to

Notes to Financial Statements

provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. ASU 2010-20 is effective for annual reporting periods ending on or after December 15, 2011.

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. This reclassification affects neither the net proceeds, nor the capital and patronage.

Subsequent Events

CFAB has evaluated subsequent events through August 31, 2011, the date on which the financial statements were issued.

(3) Loans and Other Receivables

CFAB's loan portfolio by major category is as follows at May 31:

	2011	2010
Seafood harvesters	\$ 20,901,560	20,675,051
Tourism	2,818,289	2,981,202
Fish processors	2,770,730	1,394,813
Agriculture	130,001	135,676
Other receivables	31,797	39,397
	<u>26,652,377</u>	<u>25,226,139</u>
Less allowance for loan losses	(2,723,599)	(2,658,500)
	<u>\$ 23,928,778</u>	<u>22,567,639</u>

In accordance with its statutory mandate and authority, CFAB's financing activity is limited to Alaska commercial fishing, agriculture, timber, tourism, and natural resource exploitation industries. This concentration of loans in resource-based industries results in an unusual level of risk exposure. At May 31, 2011 and 2010, respectively, approximately 89% and 87% of CFAB's loan portfolio was concentrated in the fishing industry.

During the ordinary course of business, CFAB receives requests to modify the existing terms and conditions of loans. As a result of requests received, CFAB modified \$4,657,673 and \$4,422,920 in loans during the years ended May 31, 2011 and 2010, respectively. No interest was forgiven on modified loans in the years ended May 31, 2011 and 2010. Of the loans modified by CFAB:

Loans totaling \$2,029,450 and \$2,908,807 for the years ended May 31, 2011 and 2010, respectively, involved payment of interest in full. The principal reamortized within the original loan terms.

Loans totaling \$2,501,823 and \$1,514,113 for the years ended May 31, 2011 and 2010, respectively, involved payment of interest in full. However, the principal reamortizations resulted in new and later final payment dates.

Loans totaling \$126,400 and \$0 for the years ended May 31, 2011 and 2010, respectively, involved no payment, or partial payment, of the interest due. Additionally, the principal reamortizations resulted in new and later final payment dates.

The loan portfolio includes \$1,098,675 and \$1,325,050 in loans classified as nonaccrual at May 31, 2011 and 2010, respectively.

CFAB recognizes no interest income on nonaccrual loans during the time the loans are maintained in nonaccrual status. Had CFAB's nonaccrual loans performed in accordance with their original terms, approximately \$98,000 and \$113,000 in additional interest income would have been recorded in the years ended May 31, 2011 and 2010, respectively.

For the years ended May 31, 2011 and 2010, the average balance of nonaccrual loans was approximately \$1,171,700 and \$994,571, respectively.

Activity in the allowance for loan losses is as follows during the years ended May 31:

	2011	2010
Balance at beginning of the year	\$ 2,658,500	2,446,744
Recoveries on loans previously charged off	71,109	222,499
Less loan amounts charged off	(6,010)	(10,743)
Balance at end of the year	<u>\$ 2,723,599</u>	<u>2,658,500</u>

Notes to Financial Statements

Management periodically evaluates the allowance for loan losses and changes are recorded through adjustment to the current period provision for loan losses.

Loans to Directors: To qualify for election to the CFAB board of directors, an individual must be a current member of the Bank. A member of the Bank may be an individual who is a principal of a partnership that is a member of the Bank or an officer of a corporation, limited liability company, or other legal entity that is a member of the Bank. Loans to these directors or their interests totaled \$2,307,801 and \$2,659,947 at May 31, 2011 and 2010, respectively. During 2011 and 2010, respectively, loan advances totaled \$948,265 and \$1,617,000, and loan repayments totaled \$1,300,411 and \$1,569,824 on these loans.

At May 31, 2011, there were no unrecorded commitments to lend additional funds to borrowers whose loans have been modified.

(4) Bank Premises, Furniture, and Equipment

Bank premises, furniture, and equipment consist of the following at May 31:

	2011	2010
Land and building	\$ 1,760,568	1,668,794
Furniture, fixtures, and equipment	215,411	312,478
	1,975,979	1,981,272
Less accumulated depreciation and amortization	(353,556)	(301,413)
	<u>\$ 1,622,423</u>	<u>1,679,859</u>

Depreciation expense for the years ended May 31, 2011 and 2010 was \$95,906 and \$70,069, respectively.

(5) Notes Payable

Notes payable consists of the following at May 31:

	2011	2010
Line of credit of \$13,000,000, with variable interest (2.17% at May 31, 2011) due January 1, 2012, collateralized by all CFAB assets	6,295,032	5,556,909

Interest expense reported is net of a patronage refund of \$47,372 in 2011 and \$89,569 in 2010. Interest expense amounting to \$38,400 and \$30,000 relates to the Bank's office building for 2011 and 2010, respectively. This interest is reported as occupancy expense in order to differentiate the expense associated with the office building.

(6) Member Notes Payable

Member notes payable are unsecured loans made to CFAB by CFAB members at fixed rates for periods ranging from 30 to 90 days. At May 31, 2011 and 2010, respectively, member notes were \$672,841 and \$306,661 and paid interest at 2.25%. Interest expense related to these notes amounted to \$11,959 and \$6,929 in 2011 and 2010, respectively.

(7) Capital

Share Capital

Preferential shareholders rights on dissolution follow in the order of Class B and Class A. The following rights apply to the two categories of stock:

Class B - No voting rights. However, at the discretion of the board of directors, a dividend may be paid to Class B stockholders whose loans are paid in full at fiscal year-end. Class B stock may only be held by members of CFAB. Each borrower is required to make a purchase of Class B stock in an amount equal to 2% of the total loan or \$2,500, whichever is less. This investment remains in place until retired by the board of directors.

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 a current patron or have been a CFAB patron during the preceding two years or have minimum retained membership earnings and/or Class B stock with CFAB of \$1,600.

(8) Employee Benefit Plan

CFAB has an employee benefit plan as defined under Section 401(k) of the Internal Revenue Code (Code) covering substantially all employees. An employee is allowed to contribute his or her earnings to the maximum limit allowed by the Code. Contributions by CFAB to the plan are at the discretion of the board of directors. Contributions by CFAB for the years ended May 31, 2011 and 2010 were \$49,560 and \$51,122, respectively.

Notes to Financial Statements

(9) Income Taxes

The components of income tax expense are as follows:

	Current	Deferred	Total
2011:			
Federal	225,687	-	225,687
State	60,415	-	60,415
	<u>\$ 286,102</u>	<u>-</u>	<u>286,102</u>
2010:			
Federal	\$ 359,603	-	359,603
State	102,449	-	102,449
	<u>\$ 462,052</u>	<u>-</u>	<u>462,052</u>

The actual tax expense differs from the "expected" tax expense for those years (computed by applying the U.S. Federal corporate tax rate of 34% to proceeds before income taxes) as follows:

	2011	2010
Computed "expected" income tax expense	\$ 441,456	591,111
State tax expense	39,874	67,617
Charitable contribution carryforward	(10,861)	131,118
Depreciation expense	(12,788)	(80,473)
Allowance for loan loss	22,134	71,997
Patronage refunds and dividends declared	(243,540)	(345,843)
Nondeductible expenses	733	865
Changes in deferred tax asset valuation allowance	(17,325)	(58,973)
Other	66,419	84,633
Tax expense	<u>\$ 286,102</u>	<u>462,052</u>

The components of and changes in the net deferred tax asset at May 31 were as follows:

	2009	Deferred (expense) benefit	2010	Deferred (expense) benefit	2011
Allowance for loan loss	\$ 978,697	84,703	1,063,400	26,039	1,089,439
Other	87,495	173,210	260,705	10,739	271,444
	1,066,192	257,913	1,324,105	36,778	1,360,883
Valuation allowance	(601,731)	(173,450)	(775,181)	(50,956)	(826,137)
	<u>\$ 464,461</u>	<u>84,463</u>	<u>548,924</u>	<u>(14,178)</u>	<u>534,746</u>

A valuation allowance on a deferred tax asset is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. CFAB has established a valuation allowance that reflects its expected taxable income and tax planning strategies.

Temporary differences that give rise to the significant portions of the deferred tax liability consist of depreciation and the basis differences in assets. The deferred tax benefit (expense) related to the deferred tax liability amounted to \$14,178 and \$(84,463) at May 31, 2011 and 2010, respectively.

(10) Commitments and Contingent Liabilities

Unused Lines of Credit

At May 31, 2011 and 2010, respectively, CFAB had commitments to members for unused credit lines of approximately \$435,000 and \$750,000.

Contingencies

CFAB is a litigant in several legal actions arising from normal business activities, related to delinquent loans and foreclosures. CFAB reserves for potential losses on delinquent loans as described in Note 2. There is no litigation unrelated to loan delinquencies and foreclosures.

Board of Directors and Staff

Board of Directors

Alan Otness, Chairman
Petersburg

Roseleen Moore, Vice Chairman
Homer

Dan Farren, Secretary-Treasurer
Homer

Stosh Anderson, Director
Kodiak

Paula Giauque, Director
Palmer

Chris McDowell, Director
Juneau

Robert L. Scott, Director
Kenai

Staff

Charlotte Calhoun
Credit Operations Assistant

Robert H. Clark
Vice President

Sandra Jobkar
Assistant Vice President

Lela F. Klingert
President

JoAnn Rodamaker
Senior Vice President

Rebecca Smith
Documentation Specialist

Godielieve C. Van Lint
Administrative Support Clerk

Karla VanderBie
Assistant Vice President

Steven Worley
Bookkeeper

Alaska Commercial Fishing and Agriculture Bank

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E mail: cfabanch@gci.net

Website: cfabalaska.com

*The wind and the wave
are always on the side
of the
ablest navigator.*

— Gibbon



February 4, 2011

The Honorable John Coghill,
Capitol Office Bldg. -- Rm 504
Juneau, Alaska 99801

Dear Senator Coghill,

I am writing to you to express my interest in SB68. We are holder of a tourism loan from CFAB. As a loan holder, I can say we are proud to be able to work with such a responsible lender. Since CFAB is owned by Alaska residents, it is available to serve Alaskan such as ourselves. I consider a direct benefit for the passage of SB68.

Originally, I understand that loans were made for agriculture, commercial fishing and other resource based operations. Their range of loans are basically the same at present, but now include loans to the tourism industry, helping another group of Alaskans.

Any of CFAB's members are eligible to hold 4 of CFAB's 5 elected Directors positions, regardless of the industry they serve. Apparently there are few agricultural loans at present, since most farmers now procure loans from established State-Federal programs. When SB68 is passed, those possibilities or serving as a Director, there is now an improved opportunity for us, as members to serve in that capacity, and that opportunity will be increased by 25%. Legislation from SB68 only affects CFAB operations, and will add value to the member's investments.

Passage of SB68 will only have positive effects for those of us who have loans, as CFAB members. I urge you to vote "YES" on SB68. Thank you.

Respectfully,

Stan Stephens
Stan Stephens Glacier and Wildlife Cruises
Valdez, Alaska



Example of CFAB Financing that would be possible as a result of the passage of SB68.

CFAB has received a request to finance the expansion of B4UDie Lodge that is located outside Dillingham in Western Alaska.

The lodge is owned by the ABC Corporation. ABC Corporation is an Alaska Corporation whose ownership is comprised as follows:

John Smith	15%	Residence	Los Angeles, CA
Susan Smith	15%	Residence	Los Angeles, CA
John Doe	15%	Residence	Seattle, WA
Mary Doe	15%	Residence	Seattle, WA
William Jones	15%	Residence	Anchorage, AK
Jane Jones	15%	Residence	Anchorage, AK
Jim Johnson	10%	Residence	Soldotna, AK

The ABC Corporation wants to borrow \$300,000 to expand their lodge by building 4 new cabins; the lodge is located in the Tik Chik region. The lodge has operated in this area for 20 years. They employ 30 Alaskans during the months of May through Sept. From October to April they have two Alaskans employed as caretakers.

The ABC Corporation owns and pays property taxes on the lodge valued at \$2,000,000 as well as 5 airplanes valued at \$500,000. In addition they pay AK Corporate Income taxes.

Jim Johnson is the manager of the B4UDie Lodge, the remaining six owners are silent partners/investors and are not involved in the day to day operations of the lodge.

Given that the majority ownership (60%) of the Corporation is owned by non-residents under its current statute, CFAB would not be able to provide financing to the ABC Corporation even though the sole operation of the Corporation is in Alaska and the role of the non-resident owners is strictly as an investment in the Corporation bringing non-resident investment to Alaska and enhancing the economic development of the region.

Passage of SB68 allowing CFAB to finance non-resident owned Tourism and Resource Based businesses whose facilities are located in Alaska would allow CFAB to finance requests such as the example shown above and increasing the financing options to increase economic opportunities for Alaskans



ALASKA STATE LEGISLATURE

SENATOR JOHN COGHILL

State Capitol, Room 504, Juneau, AK 99801-1182 (907) 465-3719
3340 Badger Road Suite #290, North Pole, AK 99705 (907) 488-5725

SB 68 Alaska Commercial Fishing and Agriculture Bank SPONSOR STATEMENT

Senate Bill 68 will strengthen the Commercial Fishing and Agriculture Bank (CFAB) and its ability to serve member-owners. CFAB was created by the legislature to fulfill a need for financing the agricultural and fishing permit industries.

Because it has been difficult to keep a resident farmer on the board of directors filled, SB 68 removes mandatory requirements to have a seat on the board designated for a resident farmer.

The bill removes dollar limitations for co-op members seeking loans for tourism-related activities and the development or exploitation of natural resources.

SB 68 will also allow CFAB to make loans for capital investment or operating capital to a shore-based fish processor, a timber processor, or an agricultural processor or harvester with facilities located in Alaska. This bill extends this allowance to tourism-related activities and the development or exploitation of natural resources as outlined in subsections (15) and (16)

The legislature supplied \$32 million in seed money to CFAB to kick start the cooperative and since the coop was using dollars borrowed from the general fund, CFAB was prohibited by law from hiring a lobbyist because it was thought of as a quasi-governmental entity until it had paid the State back the full amount of the stock. CFAB fulfilled that obligation over a year before the required time, and is now an independent business, there is no need to prohibit them from having a lobbyist.

The bill also requires CFAB's financial records to be examined by the Department of Commerce Division of Banking at 36 month intervals and requires CFAB to reimburse the state for the cost of the audit.



ALASKA STATE LEGISLATURE

SENATOR JOHN COGHILL

State Capitol, Room 504, Juneau, AK 99801-1182 (907) 465-3719
3340 Badger Road Suite #290, North Pole, AK 99705 (907) 488-5725

Section 1. Removes the requirement that one member of the CFAB board of directors must be a resident farmer.

Sec. 2.

Subsection 4. Removes dollar limitations for loans being used for tourism within the state.

Subsec. 5. Removes dollar limitations for loans being used for tourism within the state.

Subsec. 6. Removes dollar limitations for loans being used for natural resource development.

Subsec. 7. Removes dollar limitations for loans being used for natural resource development.

Subsec. 8. Clarifies that a person receiving a loan for capital investment or operating capital to a shore-based fish processor, a timber processor, or an agricultural processor or harvester, must meet all requirements except for residency and resident ownership of company.

Subsec. 10. Adds new loans to non-residents for capital investment or operating capital to operate tourism activities under subsection 15 and development and exploitation of natural resources under subsection 16, to loans secured by liens subordinate to valid first liens and security agreements granted to another creditor.

Subsec. 12. Adds new loans to non-residents for capital investment or operating capital to an operator of tourism-related activities and facilities dedicated to the development or exploitation of natural resources, to provisions for CFAB to participate with another bank without the obligor being a member of CFAB.

Subsec. 13. Allows CFAB to purchase or participate in loans from other lenders for loans to non-residents whether or not an obligor is a member of the bank.

Subsec. 15. Adds a new subsection that allows for non-residents to receive loans for tourism-related activities, providing they meet all other requirements to receive a loan stated in CFAB statutes.

Subsec. 16. Adds a new subsection that allows for non-residents to receive loans dedicated to the development of natural resources, providing they meet all other requirements to receive a loan stated in CFAB statutes.

Sec. 3. Adds an audit by Department of Commerce, Community, and Economic Development, Division of Banking and Securities, as an exception to the confidentiality provision of CFAB's financial records.

Sec. 4. Establishes a new subsection into CFAB statutes allowing for a list of candidates for director of the bank to be given to voting members of the bank.

Sec. 5. Establishes a new section in CFAB statutes providing for a bank examination at intervals of not more than 36 months, a summary report of the examination, and requiring a fee to be paid by the bank for the examination.

Sec. 6. Repeals definition of "resident farmer" and repeals the prohibition of CFAB having a lobbyist.

Sec. 7. Establishes a section prohibiting any bank examination until one year after the effective date of this act.

Sec. 8. Establishes an immediate-effective-date provision to this act.