ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
5449 SRES YUKON FISHERY HEARING / NENANA -- SB 8

1977 session.

IV. ISSUE: The Department lacks the data collection capability in the upper Yukon River districts to assess inseason run strength.

Concern has been expressed by area legislators and commercial fisherman about the lack of reliable inseason stock assessment programs on the Yukon River and particularly the upper river districts. Major challenges to fisheries management along the river are the immense size of the drainage, the number of stocks, and the lack of adequate assessment at key points where fisheries are concentrated. After the salmon runs have passed Pilot Station at river mile 120, where the department operates a sonar counting project , no quantitative assessment occurs until the runs reach parent spawning streams, with the exception of a test fishwheel stationed on the north bank near Ruby for fall chum salmon monitoring. The Tanana River confluence is 580 miles from Pilot Station, a distance that requires about 23 days for salmon to negotiate. The department stations one seasonal fisheries technician at Galena to monitor salmon catches and collect biological samples from catches and runs and a test fish wheel is operated at Ruby to provide an index of fall chum abundance. Obviously the department's program to assess mainstem run strength above the lower Yukon is scanty at best, and relies primarily upon fisheries harvest statistics to provide

comparisons between years.

The two areas of greatest management concern and conservation risk in the upper Yukon River area at the present time are in the mainstem above the confluence of the Tanana River and within the Tanana River itself. The inability to accurately gauge the strength and timing of the salmon runs as they move into the upper Yukon districts has greatly impeded the ability of the department to optimize harvests and provide adequate escapements.

Several program enhancements could meaningfully address these concerns. A sonar enumeration project to count salmon escapements to the Tanana River would cost approximately $210,000 the first year, including one-time equipment costs, and roughly $120,000 during subsequent years to operate the project. Although an improved assessment program on the Tanana River would be a higher priority a similar investment would provide a sonar counting station on the mainstem Yukon above its confluence with the Tanana. Another option which would provide improved run assessment and commercial fishery monitoring capabilities on the Tanana River similar to projects currently operated in Galena and Ruby would cost approximately $40,000 per year.

Unfortunately, when these projects were considered in the FY 89 budget priorities, they were considered high priorities but could not be included within the Department's budget ceiling.

Hopefully, these programs will be implemented in future budget years.

V. ISSUE: U.S.\Canada negotiations have reached a critical impasse.

During the latter stages of negotiations over the Pacific Salmon Treaty, Canada attempted to include the Yukon River under the transboundary river discussions. The State of Alaska's position, supported by the U.S. government, was that Yukon issues should be addressed in separate negotiations owing to the uniqueness of the fishery and lack of public representation from the Yukon during the negotiation of the Pacific Salmon Treaty. The U.S. position was largely sustained as the treaty, signed in March 1985, contains no specific management regime or harvest allocation requirements for the Yukon River. The treaty does make general reference to the Yukon River by requiring that negotiations begin in 1985 and that coordinated management and research plans be developed as well as an organizational structure to begin dealing with the issues.

Since April 1985, U.S. and Canadian delegations have met during one briefing session and five full negotiation sessions. Sharp differences in the positions held by each country have been identified during the negotiations. Canada continues to argue that these negotiations and any subsequent agreement be

incorporated within the framework and principles of the existing treaty. The U.S. position supports the concept of independent negotiations.

During the 1987 season, in-season chinook salmon abundance indicators including lower river cumulative test net catches, sonar enumeration, districts 4 and 5 cumulative commercial harvests, and reported subsistence catches, indicated a return of above average magnitude. The total Alaskan commercial harvest was only slightly (3%) over the recent five year average. The Canadian commercial harvest was approximately 3% below their recent years average. Spawning escapements were generally above minimum objective levels in the lower Yukon tributaries, and near objective levels in the Tanana River, and below objectives in Canadian spawning tributaries. Emergency commercial closures in Canada were implemented to meet the needs of the Indian food fishery and escapement. Strong protests from the Canadian government were registered with the U.S. State Department and the State of Alaska concerning alleged overharvests by Alaskan fisheries.

In-season evaluation of the 1987 return of fall chum salmon indicated that the return was not of sufficient magnitude to provide for a commercial fishery in Alaska, although it would provide for achievement of spawning area escapement objectives in most major spawning systems and a subsistence harvest similar to

prior years. Postseason spawning escapement information indicates that the 1987 return was increased in abundance from years during which spawning area escapements were below objective. Conservation measures taken during the 1987 were believed to be successful in continuing the rebuilding of fall chum stocks.

While the commercial fishery was closed in the Alaskan Yukon, Canadian commercial fisherman caught a record number of fall chum (25% increase from recent years average). The Alaska Board of Fisheries during their December meeting expressed grave concerns regarding the apparent disregard of the Canadian government for fall chum conservation. The members of the Board wanted the Canadian government to realize that they could not continue to ask Alaskan fisherman to make these sacrifices when the Canadian fisheries use this situation to reallocate harvests at the expense of escapements.

The Canadian negotiating team pressed the U.S. delegation to agree to meet in December. However the U.S. delegates stated that continuing to have two negotiations sessions per year did not appear profitable. Consequently, no meeting was held and the next negotiation session is scheduled for Whitehorse during the week of March 21-25. The expected focus of these negotiations will be the Joint Technical Committee (J.T.C.) reports on harvest management strategies, identification of depressed stocks, and

run rebuilding and enhancement strategies.

Although little progress has been made toward a negotiated settlement a major benefit of the negotiations has been the formation of the J.T.C. composed of fisheries scientists from both nations. The work of the committee is resulting in the exchange of important fishery data and a better understanding of salmon conservation requirements.

STEVE COWPER, GOVERNOR

DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

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January 13, 1988

JAN 19 1988

The Honorable Jack Coghill
Alaska State Legislature
P. O. Box V
Juneau, AK 99811

Dear Senator Coghill:

Mr. Fred Anderson of our Commercial Fisheries office in Fairbanks advised me of your concern about the Yukon and Tanana Rivers salmon fisheries and, in particular, your expression of interest in possibly helping the Alaska Department of Fish and Game (ADF&G) acquire sonar equipment to better manage those fisheries.

As you know, the Yukon and Tanana Rivers salmon fisheries are among the most complex in the state. Many stock entering the mouth of the Yukon River migrate 1,200 to 1,600 miles or more to their spawning streams and in the process are exposed to the possibility of harvest for 50 days or more. The mixed stock nature of the fishery presents the likelihood of over or underharvesting individual stocks in relation to their actual abundance.

Our most serious problem in managing the Yukon River salmon fishery continues to be our inability to accurately assess run strength on an in-season basis, particularly with fall chum and coho salmon. Reasonably accurate run strength assessment is required to allow commercial and subsistence harvests at optimum levels and yet provide adequate numbers of fish for spawning.

Initial assessment of run size is made using comparative catch data collected at ADF&G test-gillnet sites operated on the south, middle and north mouths of the river in District 1. Comparability of these data, however, can be adversely affected by varying water levels, the presence of debris, the effect of net saturation, and by year to year variability of migration routes in the Delta area. The other component of our test fishing program is a leased fishwheel which we operate on the north bank of the Yukon

River at approximately mile 600. Admittedly, these are rather crude measures of run strength and have been the major source of error in our judgment of relative run size. In addition to the test fishery projects, we also estimate total run size by means of a sonar operated near Pilot Station at river mile 123. Recently (1986 and 1987), the project has produced very promising results for increasing our ability to manage the fishery on the river.

Sonar as a means of estimating escapement was first used on the sockeye salmon rivers on the Kenai Peninsula. Sockeye salmon migrate very close to the shoreline in these rivers and thus counters were designed with short ranges. Today, escapement information from these counters is used exclusively to manage these rivers. The short range of these counters precluded their use in large rivers such as the Yukon and Kuskokwim. The department began experimenting with methods for use in large rivers in 1982. The results have culminated in the successful project at Pilot Station. We are satisfied that the application is producing reliable counts yet some difficulties in dealing with transducer positioning on the unstable banks and bottoms exist. We are confident that this problem will be overcome and that this project will become the single most important data source for decisions affecting in-season management of the Yukon River salmon fishery.

The department has also recently completed evaluation of a method capable of discriminating size of salmon with a new type of sonar called dual beam sonar. Successful enumeration of chinook salmon on the Kenai River using this method has been completed in 1986 and 1987. Although successful on the Kenai River, this method is limited by the size difference between the species being enumerated and by the amount of acoustical noise in the water. Thus successful implementation of this method depends on the individual river and situation. It should be noted that even if size discrimination is unsuccessful, the method still produces estimates of escapement and species allocation can be accomplished with gillnets. This type of system will be tested on the Kuskokwim River near Bethel in 1988.

Current cost estimates for a sonar project on a large river are as follows:

1. $132.0 to $188.0 (dual beam system) for sonar gear,
2. $40.0 for boats, motors, tents, gillnets, etc., and
3. $25.0 per month field operational costs.

Please bear in mind that these are rough cost projections which are subject to revision based on site location.

The coincidental/overlapping run timing of upper Yukon and Tanana Rivers salmon stocks would require acquisition of two sets of equipment in order to enumerate salmon runs in both areas. Given the probability that funding will not be made available to purchase and operate this equipment in both the upper Yukon and Tanana Rivers, our choice would be the Tanana River.

I hope this information has been helpful. Please feel free to contact me if you have additional questions or comment.

Sincerely,

Don W. Collinsworth
Commissioner

YUKON RIVER COMMERCIAL SALMON QUOTAS

Districts 1, 2, and 3: chums(fall), 0 to 110,000

Districts 1 and 2: king salmon, 60,000 to 120,000

District 3: king salmon, 1,800 to 2,200

District 4: king salmon, 2,250 to 2,850
fall chums and cohos combined, 0 to 20,000

Subdistricts 5A, B, and C: king salmon, 2,400 to 2,800
fall chums and cohos combined, 0 to 18,000

Subdistrict 5D: king salmon, 300 to 500
fall chums and cohos combined, 0 to 2,000

Subdistrict 6: king salmon, 600 to 800
fall chums and cohos combined, 0 to 10,250

Totals: kings, 67,350 to 129,150
fall chums and cohos combined, 0 to 160,250

FISHERY ISSUES: ARCTIC-YUKON-KUSKOKWIM REGION

AYK REGIONAL ISSUES

ISSUE: False Pass and high seas interceptions of salmon of AYK and western Alaska origin

Comments: The interception of salmon of western Alaskan origin in both domestic and foreign fisheries has been a longstanding issue for AYK fishermen. With regard to the False Pass fishery, a tagging study was undertaken during 1987 and although the analysis of the data is still in progress, a preliminary report was presented to the Board of Fisheries during their December meeting. Preliminary results reveal the presence of stocks of salmon from systems throughout the North Pacific and Bering Sea, including stocks of Asian origin. A final report on the findings will be available at a later date. No tag recoveries were reported from fall chum on the Yukon River. An unexpectedly large number of tagged chum salmon were recovered from the Kuskokwim Area. Although no funding presently exists, AYK fishermen have requested that funding be provided to continue the tagging studies for an additional year. The Board of Fisheries was scheduled to consider a wide rage of proposals during their December meeting dealing with the management of the 1988 False Pass fishery, but they were unable to complete their agenda and have postponed these discussions until their March meeting.

With regard to high seas interception fisheries, the International North Pacific Fisheries Commission is the body responsible for their regulation. While considerable progress has been made to reduce these interceptions over the years, salmon of western Alaskan origin are still being taken in unacceptably large numbers.

YUKON RIVER SALMON

ISSUE: Illegal subsistence roe sales

Comments: During the December Board of Fisheries meeting, the Division of Fish and Wildlife Protection staff reported to the board that they were currently investigating the possible harvest and illegal sale of approximately 82,000 pounds of chum and coho roe and 30,000 chum and coho salmon from Districts 5 and 6 of the Yukon Area during 1987. The chum stocks involved are thought to primarily be fall chums which have been depressed during the last several years. No commercial fall chum harvests were allowed in the U.S. portion of the Yukon during 1987. The majority of the fisherman under investigation are commercial fisherman who may have continued to fish during the

commercial fall chum closures. It is estimated that the sale of 92,000 pounds of roe required the harvest of approximately 160,000 - 170,000 fish. It is not known how many of these fish may be accounted for in subsistence harvest estimates.

If these allegations are substantiated, unreported harvest on this scale can have several implications for fisheries management and the public. The potential size of the unreported harvest may undermine the understanding of the fishery's dynamics needed for effective management. An accurate index of the number of salmon returning to spawning areas is required to assess the productivity of the run. In addition, the possible illegal removal of these fish from the population would deny legal fisherman the opportunity to utilize the resource by diminishing the size and value of future returns. Information uncovered during the investigation suggests that illegal harvest and sale may have been conducted annually since 1983.

This issue may be addressed by the Legislature by the introduction of a bill which would authorize the sale of subsistence-caught roe. Sale of roe from subsistence-caught salmon was allowed in A-Y-K fisheries prior to 1977. Emergency regulations were employed to authorize subsistence roe sales in 1974. Legislative action legalized the sale of subsistence roe in 1975 and 1976; however, the statute sunsetted January 1, 1977. In addition to concerns about reported waste, legal sale of subsistence roe resulted in increased harvest levels of salmon resources. The Legislature took no action to reauthorize subsistence roe sales during its 1977 session.

ISSUE: Reduced commercial harvests of Yukon chum salmon due to stock declines

Comments: There are two distinct runs of chum salmon into the Yukon River, including a summer run that enters the river prior to July 15 followed by a later fall run that enters after July 15. The size of the 1987 returns for both stocks were well below average, which required a significant reduction in the amount of fishing time in order to achieve minimum escapement goals necessary to sustain runs into the future. The 1987 season was the first time in the history of the summer chum fishery that conservation measures had to be taken. Despite the restrictions, spawning escapements in most rivers were below objective levels. The outlook for the summer chum harvest in 1988 is more optimistic; an average to above average harvest is anticipated.

The fall chum salmon return in 1987 was expected to be weak, and a conservative management plan was readopted by the Board of Fisheries in anticipation of this poor return. The fall chum salmon run was closely monitored during the season, but there was no indication that the return was of sufficient magnitude to

provide for a commercial fishery. The run was considered large enough, however, to provide for minimum spawning escapement objectives in a number of key spawning areas and to provide for needs of the subsistence fishery. Assessments of fall chum salmon escapements indicated an overall increase in abundance over the parent years that produced the 1987 return, with escapements approaching or exceeding the lower end of the range of escapement objectives. Although the outlook for 1988 is encouraging, with the possibility of a small commercial harvest if the return is at projected levels, the Board decided not to modify its conservation oriented plan until more average size returns can be established. Starting in 1989 and beyond, a return to more average size runs of fall chums is expected.

ISSUE: Potential conservation concerns for Yukon chinook salmon

Comments: Chinook salmon spawning populations are widely distributed throughout the Alaskan and Canadian portions of the Yukon River drainage. Total utilization (subsistence and commercial catch combined) of chinook salmon in the Yukon River has increased during recent years. This increase is due to an increase in subsistence catches, while commercial catches have remained at high levels. Unusually large returns during the 1979 - 1981 period set a trend for high harvest levels. Beginning in 1982, run strength declined, but harvests have remained high. In addition, during this period of time total Canadian utilization increased by 72%.

Information obtained from scale pattern analysis and tagging studies indicates that some chinook salmon stocks (primarily of Canadian origin) have undergone increased exploitation in recent years, resulting in escapements which will not maintain sustained yields. These high exploitation rates are the result of excessive chinook salmon harvests during years with runs of only average size. It may become necessary to reduce commercial chinook salmon fishing time below that allowed during recent years and/or further increase the delay in opening the season to provide for adequate spawning escapements and to allow for subsistence harvests.

ISSUE: The department lacks the data collection capability in the upper Yukon River districts to assess in-season run strength.

Comments: Concern has been expressed by area legislators and commercial fisherman about the lack of reliable in-season stock assessment programs on the Yukon River and particularly the upper river districts. Major challenges to fisheries management along the river are the immense size of the drainage, the number of stocks, and the lack of adequate assessment at key points where fisheries are concentrated. After

the salmon runs have passed Pilot Station at river mile 120, where the department operates a sonar counting project, no quantitative assessment occurs until the runs reach parent spawning streams, with the exception of a test fishwheel stationed on the north bank near Ruby for fall chum salmon monitoring. The Tanana River confluence is 580 miles from Pilot Station, a distance that requires about 23 days for salmon to negotiate. The department stations one seasonal fisheries technician at Galena to monitor salmon catches and collect biological samples from catches, and runs the test wheel at Ruby for a fall chum abundance index. Obviously the department's program to assess mainstem run strength above the lower Yukon is scanty at best and relies primarily upon fisheries harvest statistics to provide comparisons between years.

The two areas of greatest management concern and conservation risk in the upper Yukon River area at the present time are in the mainstem above the confluence of the Tanana River and within the Tanana River itself. The inability to accurately gauge the strength and timing of the salmon runs as they move into the upper Yukon districts has greatly impeded the ability of the department to optimize harvests and provide adequate escapements.

Several program enhancements could meaningfully address these concerns. A sonar enumeration project to count salmon escapements to the Tanana River would cost approximately $210.0 the first year, including one-time equipment costs, and roughly $90.0 during subsequent years to operate the project. A similar investment would provide a sonar counting station on the main stem Yukon above the confluence of the Tanana. Another option which would provide more qualitative assessments of run strength above the Tanana similar to what is presently being done in the Ruby and Galena area (described above) would cost approximately $40.0 per year.

Unfortunately, when these projects were considered in the FY 89 budget priorities, they were considered high priorities but could not be included within the department's budget ceiling.

FRED 1987 ANNUAL REPORT TO THE ALASKA STATE LEGISLATURE

Edited by

Johnny S. Holland, Ph.D.

Number 81

Alaska Department of Fish and Game
Division of Fisheries Rehabilitation,
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Don W. Collinsworth
Commissioner

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January 1988

Fishpasses, including the Frazer River pass and those on Afognak Island, contributed sockeye and pink salmon to the commercial fisheries of the area, as well as a limited number of coho and chinook salmon.

Russell Creek Hatchery had a broodstock escapement of 35,000 chum salmon; however, evaluation of the fishery contribution was not funded. Returns to the Russell Creek Hatchery in 1987 were not expected to be great because of construction problems and remodeling efforts.

Kodiak and Alaska Peninsula Releases

Again in 1987, Kitoi Bay Hatchery released more juvenile salmonids than any other state facility. The release of 90 million pink salmon fry, while lower than in 1986, is still enough fish to continue Kitoi Bay's release record. In addition to the pink salmon released, Kitoi Bay released chum and coho salmon and rainbow trout. No fish were released from Russell Creek Hatchery in 1987 because reconstruction and high-water conditions precluded egg takes in 1986.

With five years of returns to the Upper Thumb River of over 20,000 spawners, that project was closed during 1987; no fish were released.

Kodiak and Alaska Peninsula Egg Takes

The hatchery crew at Kitoi Bay Hatchery took over 97.4 million pink salmon eggs and over 6 million chum salmon eggs in 1987. With this egg take, the broodstock development for chum salmon continues to increase. In addition to pink and chum salmon eggs taken for release at the hatchery, over 600,000 coho salmon eggs were taken to continue sport fish stocking projects in the Kodiak area.

ARCTIC-YUKON-KUSKOKWIM

Summary of FRED Projects

The FRED Division maintains an area office in Fairbanks and two fish hatcheries in the Arctic-Yukon-Kuskokwim (AYK) area. Clear Hatchery is located on the Tanana River south of Fairbanks, and Sikusuilaq Hatchery is located on the Noatak River north of Kotzebue (Figure 6). Clear Hatchery will be producing coho salmon, grayling, Arctic char, and rainbow and lake trout for commercial, subsistence, and sport fisheries in the Interior. Chum and chinook salmon programs have been lost to budget cuts. The Clear Air Force Base site for this facility was chosen primarily because the waste-heated water allows a flexible rearing program. Sikusuilaq Hatchery is the northernmost hatchery in the

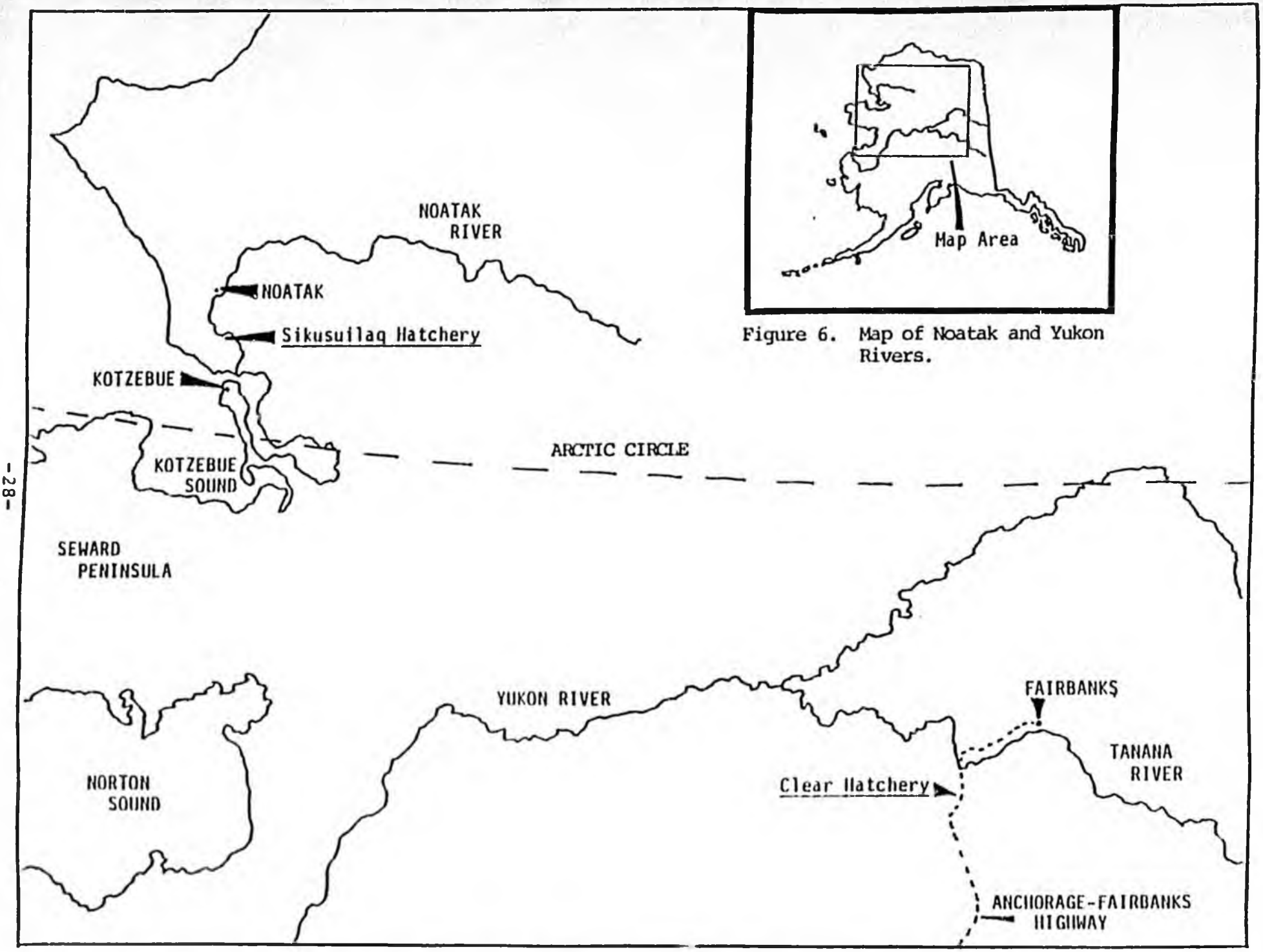

Figure 6. Map of Noatak and Yukon Rivers.

United States. It was developed in 1980 to test the feasibility of enhancement hatcheries in extreme conditions and to contribute chum salmon to the Kotzebue Sound commercial and subsistence fisheries. It was designed to handle 2 million chum salmon eggs, but has since proven to have enough water for approximately 40 million eggs. Additional incubators and outside rearing tanks were added in 1987 to allow egg takes and fry rearing of up to 10 million.

Arctic-Yukon-Kuskokwim Highlights

- Clear Hatchery personnel took lake trout eggs for the first time in 1987.
- Returns of chum salmon to Clear Hatchery indicated a continuing marine survival average of around 1%.
- Approximately 146,000 8-gram chinook salmon and 560,000 coho salmon were released from Clear Hatchery this year. The average size for chinook salmon was twice as large as previous releases in an attempt to increase survival.
- Approximately 5% of the commercially intercepted chum salmon in the Kotzebue Sound fishery were produced by Sikusuilaq Hatchery. The excellent hatchery return was in marked contrast to the record low return of wild stocks.
- More than half the chum salmon eggs taken into Sikusuilaq this year were from hatchery returns.

Arctic-Yukon-Kuskokwim Returns and Fishery Contributions

A very significant return of 8,750 chum salmon returned to the Sikusuilaq Hatchery in 1987; of these, 5,540 were harvested in commercial fisheries, while an additional 1,770 were taken in personal-use fisheries (Table 1). The significance of this return is increased because the natural stocks suffered a record low return to this area. This return and the proven availability of sufficient water and technology was the basis for a decision to increase the capacity of the Sikusuilaq Hatchery. Coho and chinook salmon returns to Clear Hatchery were less than anticipated in 1987. Chum salmon returns indicated a continuing marine survival of about 1%; in line with past returns and expected 1987 returns.

Arctic-Yukon-Kuskokwim Releases

In 1987, Clear Hatchery released 6 species totaling over 4.7 million juveniles. Over 2.5 million of those were grayling fry that were planted in over 50 sites throughout southcentral and interior Alaska. Clear Hatchery personnel also planted 1,060,000 rainbow trout, 248,000 sheefish, 4,150 char, and 300,000 coho

salmon in numerous lakes in the region. For a complete listing of the stocking location, see Appendix B. Releases of chinook and coho salmon were also made at Clear Hatchery. At the Sikusuilaq Hatchery, 1.4 million chum salmon fry were released into the Noatak River.

Arctic-Yukon-Kuskokwim Egg Takes

Over 9.6 million eggs were taken by the two facilities in this area (Table 3). At Clear Hatchery, over 5 million eggs were taken from five species, including the first lake trout eggs. Sikusuilaq Hatchery began its new development phase by taking over 4.1 million chum salmon eggs, doubling its original design capacity.

Table 1. Estimated contribution of fish by FRED hatcheries and projects in 1987.

Hatchery or Project	Species	Commercial Catch	Sport A/ Catch	Brood Stock/ Escapement	Total	Comments
SOUTHEAST REGION						
Bakewell	coho	150	--	100	250	Fishpass near Ketchikan. A/
Beaver Falls	chum	700	--	--	700	Hatchery near Ketchikan.
Chilkat Ponds	coho	1,000	--	250	1,250	Habitat improvement project near Haines. A/
Crystal Lake	chinook	9,100	1,200	6,300	16,600	Hatchery near Petersburg
	coho	4,500	20	2,967	7,487	
	chum	350	--	280	630	
	steelhead	--	--	122	122	
Cheer Creek	chinook	--	--	--		Remote release site near Petersburg. A/
Irish Creek	coho	2,500	--	2,500	5,000	Fishpass near Petersburg. A/
Deer Mountain	chinook	95	200	550	845	Hatchery in Ketchikan.
Fish Creek-Hyder	chum	35,000	--	40,000	75,000	Cooperative spawning channel project with USFS. Catch based on escapement.
Hidden Falls	chinook	400	120	115	635	Hatchery on the east side of Baranof Island.
	chum	456,000	--	87,000	543,000	
Ketchikan Creek	pink	21,000	--	80,000	101,000	Fishpass in Ketchikan.
Klawock	chum	60,000	--	3,706	63,706	Hatchery near Klawock on Prince of Wales. A/
	coho	43,000	170	9,120	52,290	
	steelhead	--	1,000	50	1,050	A/
McDonald Lake	sockeye	36,000	--	65,000	101,000	A/
Snettisham	chinook	1,220	900	633	2,753	Hatchery 40 miles SE of Juneau.
	coho	200	0	130	330	
	chum	39,100	--	62,500	101,600	
Indian Lake	coho	570	80	570	1,220	
Juneau/DJ	coho	50	--	50	100	Includes Dredge Lake and Salmon Creek A/
Twin Lakes	coho	--	6,000	--	6,000	Land locked sport harvest
Sunny Creek	pink	11,000	--	40,000	51,000	Fishpass on Prince of Wales. A/
Southeast Totals:		721,935	9,690	401,943	1,133,568	
PRINCE WILLIAM SOUND						
Cannery Creek	pink	1,800,000	--	350,000	2,150,000	Hatchery in Unakwik Inlet.
Noba Creek	pink	2,220	--	740	2,960	Fishpass 20 miles NE of Whittier. A/
Eaglik Bay	pink	13,800	--	4,600	18,400	A/
Derickson	pink	15,000	--	5,000	20,000	/
Ft. Rich/Elmendorf						Hatcheries located near Anchorage.
Whittier	coho	3,000	5,000	--	8,000	A/
	chinook	B/	300	--	300	B/
Cordova	coho	--	6,000	--	6,000	
Valdez	chinook	100	--	--	100	A/
PWS Lakes	rainbow	--	41,500	--	41,500	Based upon survival and harvest assumptions.
Clear	grayling	--	19,000	--	19,000	Based upon survival and harvest assumptions.
Quikana	sockeye	61,000	800	39,200	101,000	Streamside incubation facility near Paxson.
Main Bay	pink	328,000	--	--	328,000	Hatchery SE of Whittier.
	chum	68,000	--	60,000	128,000	
PWS TOTALS:		2,291,120	72,600	459,540	2,823,260	

-Continued-

Table 1. Continued

Hatchery or Project	Species	Commercial Catch	Sport Catch	Brood Stock/ Escapement	Total	Comments
COOK INLET						
Big Lake	sockeye	175,000	3,000	90,000	268,000	Hatchery near Wasilla.
	coho	3,840	975	2,160	6,975	Includes adjustment for tag loss.
Landlocked Lakes	coho	--	84,000	--	84,000	A/
Cottonwood Creek	coho	1,470	375	830	2,675	
Little Susitna	coho	1,680	670	700	3,050	Includes adjustment for tag loss.
Crooked Creek	chinook	--	4,500	3,400	7,900	Hatchary located on Crooked Creek.
	coho	40	1,250	2,600	3,890	
Tustumena Lake	sockeye	355,000	5,700	71,000	431,700	Stocking location on Kenai Peninsula.
Leisure Lake	sockeye	21,500	2,200	--	23,700	Stocking location in Kachemak Bay.
Chenik Lake	sockeye	102,000	--	10,000	112,000	Stocking location in Kamishak Bay.
Crooked Creek	steelhead	--	40	185	225	
Ft. Rich/Elmendorf						Hatcheries also produced fish in PWS.
Halibut Cove	chinook	500	1,250	--	1,750	Remote release location in Kachemak Bay.
Homer Spit	chinook	B/	2,000	--	2,000	Remote release location in Kachemak Bay.
Ship Creek	chinook	--	400	800	1,200	
Willow Creek	chinook	170	680	1,130	2,180	
Little Susitna	coho	8,200	3,300	3,400	14,900	Includes adjustment for tag loss.
Cook Inlet Lakes	rainbow	--	288,000	--	288,000	Based upon survival and harvest assumptions.
	chinook	--	26,000	--	26,000	Based upon survival and harvest assumptions.
Resurrection Bay	chinook	--	1,000	350	1,350	
Resurrection Bay	coho	B/	11,600	6,000	17,600	
Clear	grayling	--	14,000	--	14,000	Based upon survival and harvest assumptions.
Trail Lakes						Hatchery north of Seward on Kenai Peninsula.
Hidden Lake	sockeye	104,000	3,000	34,600	141,600	Release location on Kenai Peninsula.
Grant Lake	coho	B/	--	880	880	Catch estimated from escapement.
Caribou Lake	coho	B/	1,200	300	1,500	Release location. A/
Seldovia Lake	coho	B/	1,000	50	1,050	Release location. A/
Six Mile	coho	B/	100	1,900	2,000	Release location. A/
	chinook	--	130	400	530	A/
Cook Inlet Lakes	coho	--	32,000	--	32,000	Based upon survival and harvest assumptions.
Tutka	pink	56,000	500	4,000	60,500	Hatchery located in Kachemak Bay.
	chum	2,200	B/	200	2,400	
Halibut Cove	pink	28,500	150	--	28,650	
COOK INLET TOTALS:		860,100	489,220	234,885	1,584,205	

-Continued-

Table 1. Continued

Hatchery or Project	Species	Commercial Catch	Sport Catch	Brood Stock/ Escapement	Total	Comments
KODIAK/ALASKA PENINSULA						
Kitoi Bay	pink	1,060,000	--	153,000	1,213,000	Hatchery located on Afognak Island.
	chum	3,860	--	6,270	10,130	
Kodiak Lakes	coho	--	4,400	8,800	13,200	A/
	rainbow	--	9,000	--	9,000	
Landlocked lakes	coho	--	44,000	--	44,000	
Lake Rose Tead	chinook	B/	100	73	173	
Karluk	sockeye	8,700	--	57,800	66,500	Streamside incubation on Thumb River.
Frazer fishpass	sockeye	8,737	--	48,956	57,693	Fishpass on Kodiak Island.
	chinook	105	--	103	208	
Afognak Fishpasses	coho	4,552	--	9,500	14,052	A/
(combined)	pink	22,402	--	41,300	63,702	A/
	sockeye	476	--	13,729	14,205	A/
Russell Creek	chum	B/	--	35,000	35,000	A/
KODIAK/AK PEN TOTALS:		1,108,832	57,500	374,531	1,540,863	
ARCTIC-YUKON-KUSKOKWIM						
Clear	coho	363	--	645	1,008	Hatchery located south of Fairbanks.
	chum	--	4,500	1,530	6,030	
	chinook	80	--	20	100	
Interior lakes	coho	--	63,000	--	63,000	Based upon survival and harvest assumptions.
	rainbow	--	200,000	--	200,000	Based upon survival and harvest assumptions.
	grayling	--	20,000	--	20,000	Based upon survival and harvest assumptions.
	sheefish	--	20	--	20	Based upon survival and harvest assumptions.
	char	--	3,000	--	3,000	
	chinook	--	5,000	--	5,000	
Sikusuilaq	chum	5,540	1,770	1,440	8,750	Hatchery on the Noatak River.
AYK TOTALS:		5,983	297,290	3,635	306,908	
STATE TOTALS:		4,987,970	926,300	1,474,534	7,388,804	

BY SPECIES:				
chinook	69,624	steelhead	1,397
coho	393,707	rainbow	538,500
chum	974,946	sheefish	20
sockeye	1,308,290	grayling	53,000
pink	4,037,212	char	3,000
Salmon Subtotal	6,783,779	Non-salmon Subtotal	595,917

A/ Estimate based upon a combination of historical data, standard survival assumptions, and minimal or no sampling.
B/ Evaluation not funded

Table 2. Number of fish released during 1987 by FRED facilities.

Facility	Brood year, Stock	Species	Released
SOUTHEAST			
Beaver Falls	1986 Hugh Smith	sockeye	250,000
Crystal Lake	1985 Crystal Creek	chinook	684,000
	1986 Harding River	chinook	31,000
	1985 Crystal Creek	coho	362,000
	1986 Crystal Creek	coho	463,000
	1984 Falls Creek	steelhead	8,600
Deer Mountain	1985 Ketchikan Creek	chinook	42,000
	1986 Ketchikan Creek	chinook	302,000
Hidden Falls	1986 Hidden Falls	chum	40,140,000
	1985 H.F./Tahini	chinook	26,000
	1985 Crystal Creek	chinook	46,000
	1985 Tahini River	chinook	25,000
Klawock	1986 Klawock	chum	3,990,000
	1985 Klawock River	coho	926,000
	1986 Klawock River	coho	199,000
	1986 Klawock River	steelhead	91,000
Snettisham	1986 Snettisham	chum	25,460,000
	1984 Snettisham	coho	16,400
	1985 Snettisham	coho	779,000
	1986 Snettisham	coho	104,000
	1985 King Salmon River	chinook	86,000
	1985 Crystal Creek	chinook	961,000
	SOUTHEAST REGION TOTAL:		74,992,000
PRINCE WILLIAM SOUND			
Cannery Creek	1986 Cannery Creek	pink	42,600,000
	1986 Cannery Creek	chum	35,000
Gulkana	1986 Gulkana River	sockeye	21,400,000
Main Bay	1986 Main Bay	pink	2,130,000
	1986 Main bay	chum	76,500,000
	PRINCE WILLIAM SOUND TOTAL:		142,665,000
COOK INLET			
Big Lake	1986 Meadow Creek	sockeye	11,900,000
	1986 Big Lake	coho	2,688,000
Elmendorf	1986 Crooked Creek	chinook	684,000
	1985 Bear Creek	coho	179,000
	1985 Ship Creek	coho	56,500
	1986 Swanson River	rainbow	181,000
Crooked Creek	1986 Glacier Flats	sockeye	12,500,000
	1986 Bear Creek	sockeye	7,510,000
	1985 Crooked Creek	steelhead	70,000
	1985 Crooked Creek	coho	67,900
Tutka	1986 Tutka Lagoon	pink	24,500,000
	1986 Tutka Creek	chum	50,400
	1986 Westside Creek	chum	395,000

-Continued-

Table 2. Continued

Facility	Brood year, Stock	Species	Released
Ft. Richardson			
	1985 Little Susitna	coho	584,000
	1985 Caswell Creek	coho	32,000
	1985 18 Mile Creek	coho	108,000
	1986 Eyak Lake	coho	104,000
	1986 Big Lake	rainbow	156,000
	1987 Big Lake	rainbow	407,000
	1986 Swanson River	rainbow	1,038,000
	1987 Swanson River	rainbow	3,700,000
Trail Lakes	1986 Crooked Creek	chinook	268,000
	1986 Crooked Creek	coho	1,700,000
	1986 Bear Creek	coho	796,000
	1986 Hidden Lake	sockeye	3,720,000
	1986 Coghill	sockeye	318,000
	1986 Anchor River	steelhead	35,600
	COOK INLET TOTAL:		73,748,400
KODIAK & AK. PENINSULA			
Kitoi Bay	1986 Kitoi Bay	pink	90,000,000
	1986 Sturgeon River	chum	529,000
	1986 Big Kitoi	chum	164,000
	1986 Little Kitoi	coho	297,000
	1986 Big Kitoi	rainbow	10,000
	KODIAK & AK. PENINSULA TOTAL:		91,000,000
ARCTIC-YUKON-KUSKOKWIM			
Clear	1986 Wood Creek	char	4,150
	1986 Clear Creek	chinook	146,000
	1986 Wood Creek	coho	564,000
	1987 Swanson River	rainbow	1,060,000
	1987 Moose Lake	grayling	1,290,000
	1986 Moose Lake	grayling	1,100,000
	1986 Goodpaster Lake	grayling	106,000
	1987 Goodpaster River	grayling	59,100
	1986 Clear/Koyukuk	sheefish	248,000
Sikusuilaq	1986 Noatak River	chum	1,440,000
	ARCTIC-YUKON-KUSKOKWIM TOTAL:		6,017,250
	SPECIES TOTALS		
		Chinook:	3,301,000
		Coho:	10,025,800
		Sockeye:	57,598,000
		Chum:	148,703,400
		Pink:	159,230,000
		Steelhead:	205,200
		Rainbow Trout:	6,552,000
		Grayling:	2,555,100
		Sheefish:	248,000
		Arctic Char:	4,150
		TOTAL RELEASE:	388,422,650

Table 3. Estimated number of eggs taken by FRED Division in 1987.

Facility	Broodstock	Species	Eggs Taken
SOUTHEAST			
Beaver Falls	Karta River	sockeye	387,000
	Heckman Lake	sockeye	3,590,000
	Hugh Smith	sockeye	2,870,000
Crystal Lake	Crystal Creek	steelhead	115,000
	Crystal Creek	chinook	2,460,000
	Snettisham		2,760,000
	Medvejie		1,040,000
	Hidden Falls		165,000
	Sheldon Jackson		100,000
	Burnett Inlet		265,000
	Crystal Creek	coho	831,000
Deer Mountain	Ketchikan Creek	chinook	158,000
	Little Port Walter	chinook	164,000
	Reflection Lake	coho	328,000
Hidden Falls	Hidden Falls	chum	73,500,000
	Snettisham		6,850,000
	Hidden Falls	chinook	199,000
	Tahini River	chinook	55,000
	Crystal Creek	chinook	165,000
Klawock			
	Klawock River	steelhead	96,000
	Klawock River	sockeye	1,440,000
	Cable Creek	coho	70,000
	Klawock River	coho	1,061,000
Snettisham			
	King Salmon River	chinook	111,000
	Snettisham	chinook	1,440,000
	Snettisham, Chum	chum	47,000,000
	Peterson Creek	steelhead	8,000
	Pavlof River	coho	48,000
	Plotnikof Lake	coho	25,000
	Snettisham	coho	138,000
	SOUTHEAST	TOTAL	147,439,000
PRINCE WILLIAM SOUND			
Cannery Creek	Cannery Creek	pink	108,000,000
		chum	487,000
Gulkana	Gulkana River	sockeye	33,300,000
	East Fork	sockeye	310,000
		chinook	13,400
Main Bay	Coghill	sockeye	11,100,000
	PRINCE WILLIAM SOUND	TOTAL	153,210,400
COOK INLET			
Big Lake	Meadow Creek	sockeye	20,400,000
	Big Lake	coho	3,000,000
	Little Susitna	coho	3,000,000
Elmendorf	Crooked Creek	chinook	1,290,000
	Ship Creek	chinook	135,000
	Ship Creek	coho	48,100
	Bear Creek	coho	284,000
Crooked Creek	Tustumena	sockeye	20,000,000
	Crooked Creek	steelhead	130,000

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Table 3. Continued

Facility	Broodstock	Species	Eggs Taken
Ft. Richardson	Deshka River	chinook	218,000
	Montana Creek	chinook	121,000
	Ninilchik River	chinook	292,000
	Willow Creek	chinook	453,000
	Swanson River	rainbow	6,290,000
	Big Lake	rainbow	876,000
	Fleming Spit	coho	208,000
	Anchor River	steelhead	49,000
Tutka	Tutka Lagoon	chum	15,250,000
	Westside Creek	pink	4,500,000
Trail Lakes	Crooked Creek	coho	722,000
	Hidden Lake	sockeye	7,060,000
	Crooked Creek	coho	815,000
	Packers Lake	sockeye	4,000,000
	COOK INLET	TOTAL	89,141,100
KODIAK & AK. PENINSULA			
Kitoi Bay	Kitoi Bay	pink	97,400,000
	Kitoi Bay	chum	6,140,000
	Kitoi Bay	coho	600,000
	KODIAK & AK. PENINSULA	TOTAL	104,140,000
ARCTIC-YUKON-KUSKOKWIM			
Clear	Moose Lake	grayling	2,580,000
	Good Paster River	grayling	220,000
	Wood Creek	coho	652,000
	Swanson River	rainbow	1,810,000
	Wood River	arctic char	167,014
	Paxson Lake	lake trout	89,100
	Broodstock	sheefish	1,390,879
Sikusuilaq	Noatak River	chum	4,140,000
	ARCTIC-YUKON-KUSKOKWIM	TOTAL	11,048,993
	Egg Totals by Species:	Chinook:	11,604,400
		Chum:	153,367,000
		Coho:	11,830,100
		Pink:	209,900,000
		Sockeye:	104,457,000
		Grayling:	2,800,000
		Rainbow:	8,976,000
		Steelhead:	398,000
		Lake Trout:	89,100
		Arctic Char:	167,014
		Sheefish	1,390,879
	STATE TOTAL:		504,979,493

Table 4. A projection of the number of salmon expected to return in 1988 as a result of FRED hatcheries and projects (excluding fishways).

Return site	Numbers by species					
	Chinook	Coho	Sockeye	Chum	Pink	Steelhead
SOUTHEAST						
Crystal Lake	13,450	21,250	—	—	—	75
Ohmer Creek	1,645	—	—	—	—	—
Irish Creek	—	5,000	—	—	—	—
Petersburg	—	250	—	—	—	—
Deer Mountain	1,623	—	—	—	—	—
Hidden Falls	1,550	—	—	478,000	—	—
Klawock	—	77,000	—	382,500	—	3,000
Snettisham	1,855	6,000	—	92,000	—	—
Indian Lake	—	1,650	—	—	—	—
Earl West Cove	590	—	—	—	—	—
Farragut River	1,050	—	—	—	—	—
Brennan Lake	1,046	—	—	—	—	—
Bold Island Lakes	280	—	—	—	—	—
Tunga Inlet	—	11,700	—	—	—	—
Ward Creek	—	—	—	—	—	2,000
Juneau/DJ	—	2,000	—	—	—	—
Chilkat Ponds	—	1,250	—	—	—	—
Marx Creek	—	—	—	00,000	—	—
Badger/Bakewell	—	—	1,850	—	—	—
Hugh Smith Lake	—	—		—	—	—
McDonald Lake	—	—		—	—	—
AREA TOTALS:	23,089	126,100	1,850	1,052,500	0	5,075
PRINCE WILLIAM SOUND						
Cannery Creek	—	—	—	—	1,700,000	—
Cordova	—	2,900	—	—	—	—
Culross Lake	—	500	—	—	—	—
Gulkana	—	—	118,000	—	—	—
Main Bay	—	—	—	197,000	—	—
Whittier	1,000	2,000	—	—	—	—
Valdez	—	500	—	—	—	—
Surprise Cove	—	200	—	—	—	—
AREA TOTALS:	1,000	5,400	118,000	197,000	1,700,000	0
COOK INLET						
Big Lake	—	10,620	124,400	—	—	—
Cottonwood Drainage	—	34,590	—	—	—	—
Willow Creek	23,890	—	—	—	—	—
Little Susitna	—	39,160	—	—	—	—
Crooked Creek	8,000	2,600	—	—	—	600
Chenik Lake	—	—	100,000	—	—	—
Tustumena	—	—	360,000	—	—	—
Grant Lake	—	2,000	—	—	—	—
Six Mile Creek	2,500	2,000	—	—	—	—
Hidden Lake	—	—	121,500	—	—	—
Tutka	—	—	—	1,300	650,000	—
Halibut Cove	2,600	—	—	—	125,000	—
Homer Spit	3,200	—	—	—	11,800	—
Leisure Lake	—	—	86,900	—	—	—
Seldovia Lake	200	1,200	—	—	—	—
Caribou Lake	—	1,500	—	—	—	—
Resurrection Bay	2,700	15,000	—	—	—	—
Caswell Creek	—	3,177	—	—	—	—
Ingram Creek	—	500	—	—	1,000	—
AREA TOTALS:	43,090	112,347	792,800	1,300	787,800	600

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Table 4. Continued

Return site	Numbers by species					
	Chinook	Coho	Sockeye	Chum	Pink	Steelhead
KODIAK-AK. PENINSULA						
Karluk	—	—	118,000	—	—	—
Kitoi	173	—	—	10,000	1,693,000	—
Kodiak Lakes	—	5,550	—	—	—	—
Russell Creek	—	—	—	216,000	—	—
AREA TOTALS:	173	5,550	118,000	226,000	1,693,000	0
ARCTIC-YUKON-KUSKOKWIM						
Clear	105	1,000	—	9,640	—	—
Sikusuilaq	—	—	—	11,360	—	—
AREA TOTALS:	105	1,000	0	21,000	0	0
STATE TOTALS:	67,457	250,397	1,030,650	1,497,800	4,180,800	5,675
		GRAND TOTAL:	7,032,779			

Table 5. Production potential for FRED hatcheries in Fiscal Year 1989.

Species	1988 Egg take objectives a/	Expected adult returns from 1988 eggs b/
Sockeye Salmon	147,132,581	2,870,600
Chum Salmon	207,400,000	4,402,717
Pink Salmon	248,480,031	5,949,219
Chinook Salmon	13,184,796	264,752
Coho Salmon	14,637,606	514,325
Steelhead Trout	474,000	11,418
Rainbow Trout	5,471,908	3,321,204
Grayling	1,841,667	116,000
Sheefish	400,000	50,000
Lake Trout	62,500	25,000
TOTAL	639,085,089	17,525,235

a/ Assumes funding of FRED Division at full request.
b/ These adults will return over several years, beginning in 1990.

Genetics Laboratory

The Genetic Selection Program initiated in 1986 at the Rainbow Trout Broodstock Development Center at Fort Richardson Hatchery continued with the 1987 egg takes. The goal of this program is the production of 2-gram fingerlings for release by mid-July. These production goals have been established as optimal by Sport Fish Division field studies. To reach this goal, fish are being selected for characteristics related to growth and survival. Efforts are also underway to shift spawning time from early May to early March through genetic selection. Earlier spawning will allow a longer period of development and growth for fry to reach the target size by mid-July. Field tests have indicated that these larger fish released earlier will result in better survivals and, consequently, provide more fish to the sport anglers.

Fertility studies were conducted at the Broodstock Development Center in 1987. The purpose of these studies is to determine if early egg and fry mortalities are attributable to either the male or the female parent. This study should also give insight into the question of whether these early mortalities are the result of genetic or environmental factors.

Tissue samples were again collected from sockeye salmon spawning in seven Tustumena Lake tributaries. The purpose of this study is to determine if genetic differences can be detected between these spawning populations. The U.S. Fish and Wildlife Service is concerned that the division's enhancement program may eliminate possible stock differences. Results are not yet available.

Economics

The fish hatcheries and other enhancement activities of the FRED Division and of the PNP hatchery system have been the subject of a variety of economic studies designed to determine the economic consequences of the program. These economic studies have been undertaken to ensure that maximal social and economic benefits are derived from the state's investment in the extensive application of salmon enhancement technology.

Of the collection of public investments available to Alaska, salmon enhancement is one of the very few that improves the level of economic activity in the state by expanding the total output of the economy. Dollars invested in salmon enhancement and rehabilitation improved economic return as well as positive impacts that were produced by increasing the level of economic activity. Preliminary studies undertaken by ADF&G indicate that the FRED program is having significant net benefits and impacts not only in the salmon industry, but throughout the regional economies of Alaska.

Current estimates by officials of ADF&G suggest that the program will ultimately generate net state benefits of $90 million (over a 25-year period) for the commercial fishery portion of the

program (in 1984 dollars). This results in an overall benefit/cost ratio of 1.4:1. This means that $1.40 in fish values will be generated for each $1.00 expended, measuring all benefits and costs in dollars of equal value and discounting them as required to take into account the time at which they occur.

Decision makers are often interested in how fisheries investments, or management policy, may affect economic stability or economic development in various regions of the state. Economic impact models are often used to determine the economic development that would occur from a change in gross sales of fisheries products from such activities as an increase in catch or change in market prices. These economic impact models approximate the local economics by expressing economic relationships among business sectors of the economy. In 1986, this new analytical procedure was applied to the state's fishery enhancement program to aid in the planning and budgeting process. This was a first-of-its-kind project analysis of resident employment resulting from the state's investments in salmon ranching. The model was designed and contracted through a cooperative effort with the Institute of Social and Economic Research (ISER).

The results of the studies project large personal income and employment impacts from the state-owned hatchery program. A recent simulation of the impacts of proposed FRED budgets for the FY 88 revealed that the full-funding request of $10 million would result in the existence of over 850 resident jobs and $27 million in resident wages and income. This is 2 to 4 times the level of impacts that result from other equivalent expenditures from the state operating or capital budget.

In 1987, the FRED Division began coordinating a new and greatly enhanced phase of the fishery enhancement impact [illegible] The impact data collection and modeling effort has involved the biological, fishery, and economic analysis of over 100 state enhancement projects (including the recreational fishery component), and PNP Program component. The endeavor includes four (completed) computer-generated databases that are used in the design (ongoing) of two new impact models. This analysis has involved a multiagency data collection effort, and coordination with FRED Division staff and the PNP Program, the Department of Commerce and Economic Development's enhancement loan office, the Sport Fish Division, and ISER (ISER is making some of the model revisions under contract).

The enhancements in the 1987 FRED impact model allow an improved resolution of direct impacts to the commercial fishery and processing sector in the Alaskan economy. The FY 89 budget impacts for FRED Division result in approximately $35 million in personal resident income to Alaskans and over 1,000 jobs. The analysis of the PNP Program impacts resulting from brood year 1988 are preliminary at this time. The preliminary estimates project approximately $40 million in personal income and 1,100 resident Alaskan jobs. Evaluation of the additional personal

income impacts of recreational fishery projects are to be completed early in 1988.

In 1987, the FRED economist has also served as economic advisor and conducted staff assignments on economic matters for an ongoing legislative intent assignment (known as the Enhancement Funding Work Group). Assistance was provided to the economic study efforts by other divisions within the department. The Division of Commercial Fisheries studied the full personal income and employment impacts of commercial fisheries in Alaska. Study of the impacts for the 1984 fishing year was carried out through a contract with ISER. This study included all major fisheries. The economist was also involved with the Southeast Recreational Fishing Economic Study (RFP), solicited by the Division of Sport Fish in 1987.

Mariculture

1987 saw the enactment of Senate Bill 294--a compromise bill that allowed for bivalve shellfish mariculture and placed a moratorium on finfish cage culture. FRED staff, working with others in ADF&G as well as with the Department of Natural Resources, the Department of Environmental Conservation, and the Governor's Division of Governmental Coordination, wrote regulations and permit procedures that will set the stage for mariculture of shellfish and sea vegetables.

In the meantime, interest in sea farming is growing. New farms are being started in southeast Alaska, Cook Inlet, Prince William Sound, and Kodiak. Focus at this time is on oysters and mussels, but development work is proceeding at several locations on scallops and giant kelp. An interesting phase of this program development is the formation of local citizens' groups directed at sea farming development for their part of Alaska. FRED Division is working closely with these groups, as well as with the industry's larger organization, "Alaska Mariculture Association."

The joint feasibility study done in cooperation with Japan's OFCF has yielded many scallops, but few of the target species, Weathervane scallops. As the study goes into year number two, goals will be to expand the sampling base and to examine the possibility of species alternative to the Weathervane.

Engineering

Minimal staff, combined with continual problem solving, kept the division's two engineers extremely busy during the past year. In southeast Alaska, the requirement for additional enhancement production viz a viz the U.S./Canada Pacific Salmon Treaty and the associated enhancement facility proposals occupied much of the time of the regional engineer. Other major projects completed include construction of duplex housing at Hidden Falls

Table 17. FRED Division FY88 operating budget (all funding sources)

Function	Budget A/	Percent
Management/Administration (headquarters & regional offices)	1956.6	13
Private Nonprofit Hatchery Coordination & Regional Planning	207.3	1
Hatchery Production Statewide (facility operating budgets)	7877.4	54
Biological Projects & Staff (planning , operations , assessments)	608.4	4
Lake and Stream Improvement/Stocking (fishpasses, habitat and stocking projects)	525.1	3
Technical Supervision/Quality Control (biology, fish culture, engineering, maintenance, library, mariculture, economics)	885.4	6
Fish Pathology Services (statewide fish health services)	542.9	3
Genetics Laboratory (statewide genetics services)	84.1	0
Limnology (principal scientist and project leaders)	181.5	1
Lake Fertilization/Stocking (field projects statewide and limnology lab support)	200.5	1
Tagged Fish Recovery Laboratory (CWT) (statewide and US/Canada concerns)	361.7	2
Biometrics/Data Processing	166.7	1
Special Projects (cooperative funding projects)	694.7	4
C.I.P. Costs	265.1	1
TOTAL	14557.7	1

A/ In thousands

THE SENATE OF CANADA

THE MARKETING OF FISH IN CANADA

AN INTERIM REPORT ON THE WEST COAST FISHERIES

INTERIM REPORT II

Standing Senate Committee on Fisheries

December 1987

CHAPTER FIVE

Issues of Concern, Opportunities and Recommendations

SECURING A VALUABLE RESOURCE

A. The Canada-U.S. Pacific Salmon Treaty

Prosperity in the West Coast fishing industry begins with a secure resource base. The Committee's terms of reference therefore directed it to consider the bilateral Canada-U.S. Pacific Salmon Treaty signed in March 1985 on the management of all five Pacific salmon stocks originating in each country's waters.[11] The result of almost 15 years of negotiation, the Treaty established a Pacific Salmon Commission to advise each country on matters pertaining to it and to serve as a forum for annual management plans for major intercepting fisheries. Three panels, assigned to particular regional fisheries along the coast, were also created to provide management advice to the Commission. The Treaty calls for each country to manage the stocks originating in its own rivers, to prevent overfishing, to increase production and receive benefits commensurate with this national production,[12] except where traditional fishing patterns intervene. In implementing the two principles of conservation and equity, it directs the Pacific Salmon Commission to recognize the desirability of reducing and balancing interceptions.[13]

Last year (1986) was the first year in which the salmon fisheries of both countries were managed according to the recommendations of the Pacific Salmon Commission. Preliminary analysis by Canadian officials has revealed that salmon interceptions significantly favoured the United States in 1986, although perhaps less so than if no Treaty restraints had been placed on American fishermen.[14]

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[11] Special reference is also made to anadromous steelhead trout.

[12] *Treaty Between the Government of Canada and the Government of the United States of America Concerning Pacific Salmon*, Ottawa, 28 January 1985, in force 18 March 1985, Article III, para 1.

[13] *Ibid.*, para. 3.

[14] Department of External Affairs, Letter to the Chairman, 30 January 1987.

In view of the imbalance in salmon interceptions between Canada and the United States during the Treaty's first year of implementation, the Committee recommends:

(1) That the Canadian Section of the Pacific Salmon Commission vigorously pursue negotiations with its United States counterpart to reduce further American interceptions of salmon of Canadian origin so as to ensure that Canada gets its rightful share of the harvest. The Department of Fisheries and Oceans should also undertake a review of the overall impact of the Canada-U.S. Pacific Salmon Treaty at the end of 1987, and each year thereafter. The results of this review should be made available to the general public.

With the signing of the Treaty, new programs were initiated by the Government of Canada, including large-scale mark recapture programs. The Committee wishes to stress the importance of these initiatives in determining whether Canada's share of the salmon harvest is in proportion to the quantity of salmon produced in its coastal waters.

B. Yukon River Salmon Stocks

The Yukon Territory shares with the State of Alaska the Yukon River, the largest watershed in Alaska and Yukon Territory and the fifth largest in North America in terms of area and mean discharge.[11] The chinook and fall chum, the major species which migrate along the Canadian section of the Yukon to spawn, travel the longest known route in the world, some 3,680 km, from streams in northern B.C. to the United States territorial waters in the Bering Sea. About 41% of the river's drainage area is within Canadian territory.

A commercial fishery which harvests chum and chinook salmon operates near Dawson City along the Yukon River's main branch and in the lower sections of the Stewart and Pelly Rivers. A native food fishery scattered throughout the Yukon drainage system is not only an intrinsic part of native culture, but also provides sustenance for more than 6,000 native residents.[12] A small non-native subsistence fishery is also permitted in the same area as the commercial fishery. Because of improved road access to remote areas, participation in the sport fishery for Yukon chinook salmon has also increased over the years.

Although the primary industries in the Territory are tourism, mining and government, tremendous interest was expressed in broadening the economic opportunities of the fisheries. Discussions about fishing, processing and marketing commercial products, as well as marketing tourism and sport fishing in the area, however, led to the more fundamental issue of supply.

The signing of the Pacific Salmon Treaty between Canada and the United States in 1985 was said to have been opposed by the Yukon Territorial government and by various interest groups at that time because of the Treaty's failure to address the issue of equitably apportioning Yukon River salmon stocks between the two countries.[13]

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[11] Department of Fisheries and Oceans, *Pacific Region Salmon Stock Management Plan: Northern Transboundary Rivers*, Discussion Document, Vol. 1, 1986, p. 33.

[12] Department of Fisheries and Oceans, *Salmon Resources of the Yukon River* (undated).

[13] Canada, the Senate, *Proceedings of the Standing Senate Committee on Fisheries*, Issue No. 3, 14 November 1986, p. 48-49.

Currently, Canadian fishermen on the Yukon River obtain a very small catch of fall chum and chinook compared with American catches of the same species (Table 26). Article VIII of the Treaty, which deals with the Yukon River, states that "the parties shall initiate in 1985, and conclude as soon as possible, negotiations" on four major issues: an account of American harvests of Canadian salmon; cooperative management procedures; cooperative research programs, enhancement opportunities and exchanges of biological data; and development of an organizational structure to deal with Yukon River issues.

Since 1985, several rounds of negotiations between Canada and the United States have failed to bring about a settlement on the issue of catch allocations between the two countries. Canada's position has been that management mechanisms for the river should be incorporated into the existing Pacific Salmon Treaty, under which each country is to receive benefits in proportion to the quantity of salmon originating in its waters ("the equity principle"). It is generally accepted that the Canadian portion of the Yukon River produces approximately 50% of the fish. Current Canadian catches are well below this level: it is estimated that 90% of the chinook harvest and 95% of the chum in-river catches are taken by fishermen in the United States, leaving only about 10% of chinook and 5% of chum stocks for Canadian fishermen.[1]

After meeting with the joint Alaskan House and Senate Resources Committee in early February 1987, our Committee concluded that the two countries are far apart in agreeing on an equitable allocation. The Americans propose a separate agreement to handle the Yukon River, and maintain that the equity principle does not apply because of the size and economic importance of the well-established fishing industry in Alaska. Under the present catch allocations, which favour the United States, an expansion of the Canadian fishery could only lead to a reduction of salmon escapement, a situation which the Committee regards as unacceptable.

This Committee believes that Canadian native, subsistence, sport and commercial fishermen are entitled to more of the in-river catch of Yukon River salmon, and believes the issue should be moved up on the political agenda. It recommends:

(2a) That the Minister of External Affairs express, through the most effective diplomatic channels available to him, Canada's disagreement with the American position on the critical issue of equitably sharing the salmon stocks of the Yukon River.

(2b) That Canadian negotiators for the Yukon River base the Canadian negotiating position on Article III, paragraph 1(b) of the Pacific Salmon Treaty which states that each party to the Treaty will receive benefits equivalent to the production of salmon originating in its waters.

C. The Transboundary River Salmon Stocks of Northern B.C.

All five species of salmon are found to varying degrees in the so-called transboundary rivers of B.C., the systems of which originate in Canada but flow into Alaskan coastal waters (Figure 3). Major transboundary rivers include the Taku, the Stikine and the Alsek, which have approximately 95% of their drainage systems within Canadian territory.[2] Other, smaller rivers include the Unuk, Whiting and Chilkat. A

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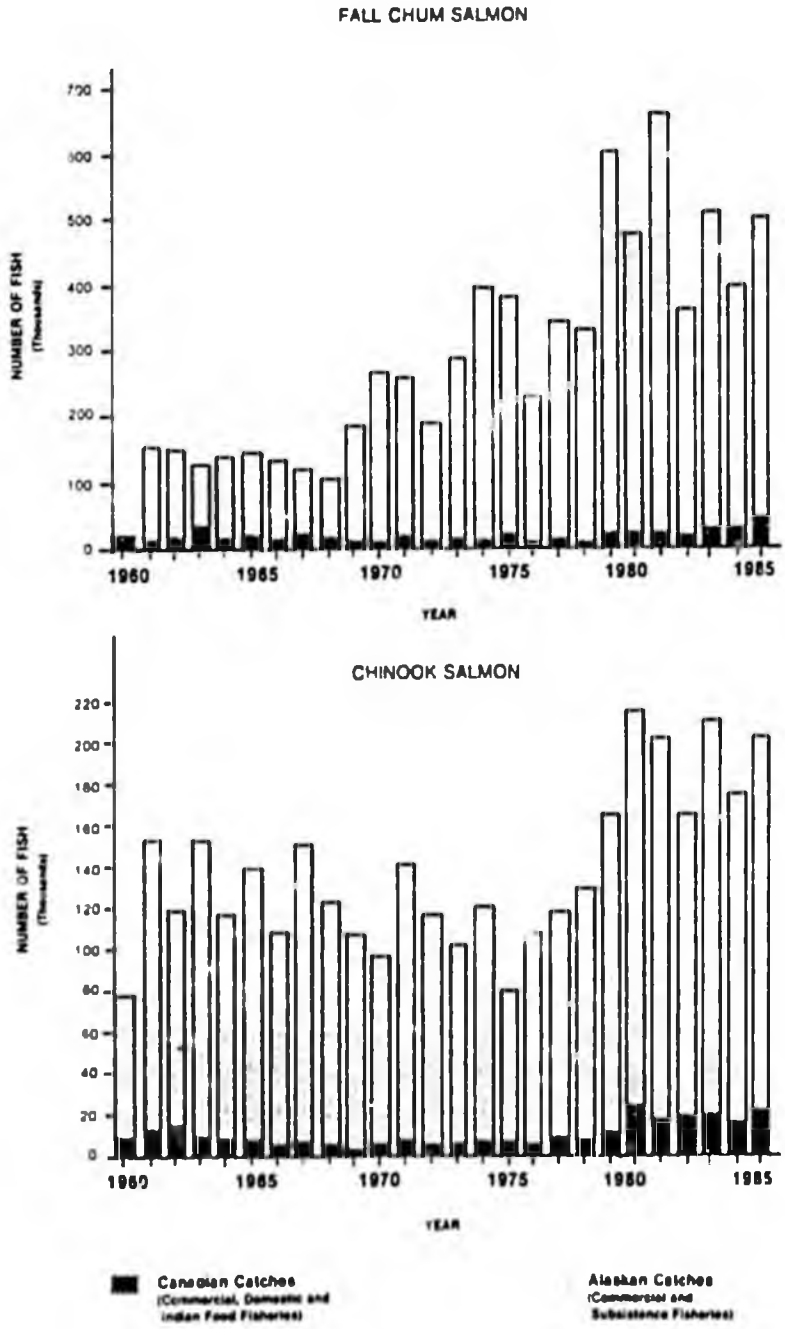
[1] Department of External Affairs, Letter to the Chairman, 30 January 1987.

[2] *Pacific Region Salmon Stock Management Plan*, 1986, p. 1, 12, 25.

TABLE 26

CANADIAN AND ALASKAN TOTAL CATCH OF FALL CHUM AND CHINOOK SALMON ON THE YUKON RIVER, 1960-1985



Source: Department of Fisheries and Oceans, *Salmon Resources of the Yukon River*, undated.

Source: Department of Fisheries and Oceans, *Salmon Resources of the Yukon River*, undated.

Canadian commercial gillnet fishery on the Taku River, directed primarily at sockeye, chum and coho salmon, has been in existence since 1979. The Canadian commercial fishery for Stikine River salmon stocks, which focuses on sockeye salmon, began in 1975, but operated at a low level until 1979 due to the limited market demand and lack of processing and storage facilities in the area. At present, there is no Canadian commercial fishery on the Alsek River. Native food and sport fisheries are present to varying degrees along all these rivers.

Until the advent of commercial fishing on these rivers in the mid to late-1970s, all commercial production accrued to the United States. A Canadian from the transboundary rivers, a member of the Northern Panel of the Pacific Salmon Commission, who testified before the Committee believed that these waterways were not fairly dealt with during the 1985 Pacific Salmon Treaty negotiations and were essentially "traded off"[1] by Canadian negotiators for concessions elsewhere in B.C. Canadian negotiators have encountered great difficulty in getting the United States to accept the equity principle on these waterways. Until recently, Canada allowed the State of Alaska to conduct research and to manage the stocks of these rivers and American journals and reports have referred to these rivers as primary U.S. salmon-producing areas. Moreover, the United States has claimed 50% of all Canadian-produced fish in these rivers because of the freshwater and estuarine rearing habitat which they maintain to allow the fish to grow and return to the rivers to spawn.[2]

Table 27 compares average catches by Canadian and American gillnet fisheries of Canadian salmon originating from the three major transboundary rivers in northern B.C., and the percentages of the total catch of Canadian stocks received by Canada both before and after the Treaty. On the Stikine River, the Canadian harvest for 1985-86 was set at 35% of the total sockeye allowable catch, or 10,000 fish, whichever was greater, and 2,000 coho salmon. On the Taku River, the Canadian sockeye harvest was set at 15% of the total allowable catch. The Committee was made aware of the fact that there are other transboundary rivers such as the Alsek, the Unuk, the Whiting and Chilkat, for which Canada receives no benefits under the Treaty. These rivers were believed to make significant contributions to the American catch.[3] In view of this, the Committee recommends:

> **(3a) That the Government of Canada demand that the equity principle, Article III, paragraph 1(b) of the Canada-U.S. Pacific Salmon Treaty, be a priority in future negotiations with the United States on the salmon stocks of the transboundary rivers.**

Estimates of total annual production for these rivers were believed to be anywhere between two and five million salmon.[4] More research should be undertaken, given that escapement and productivity data for most stocks are either inconsistent or limited.[5] More complete information would undoubtedly better support Canada's case in future negotiations. The Committee therefore recommends:

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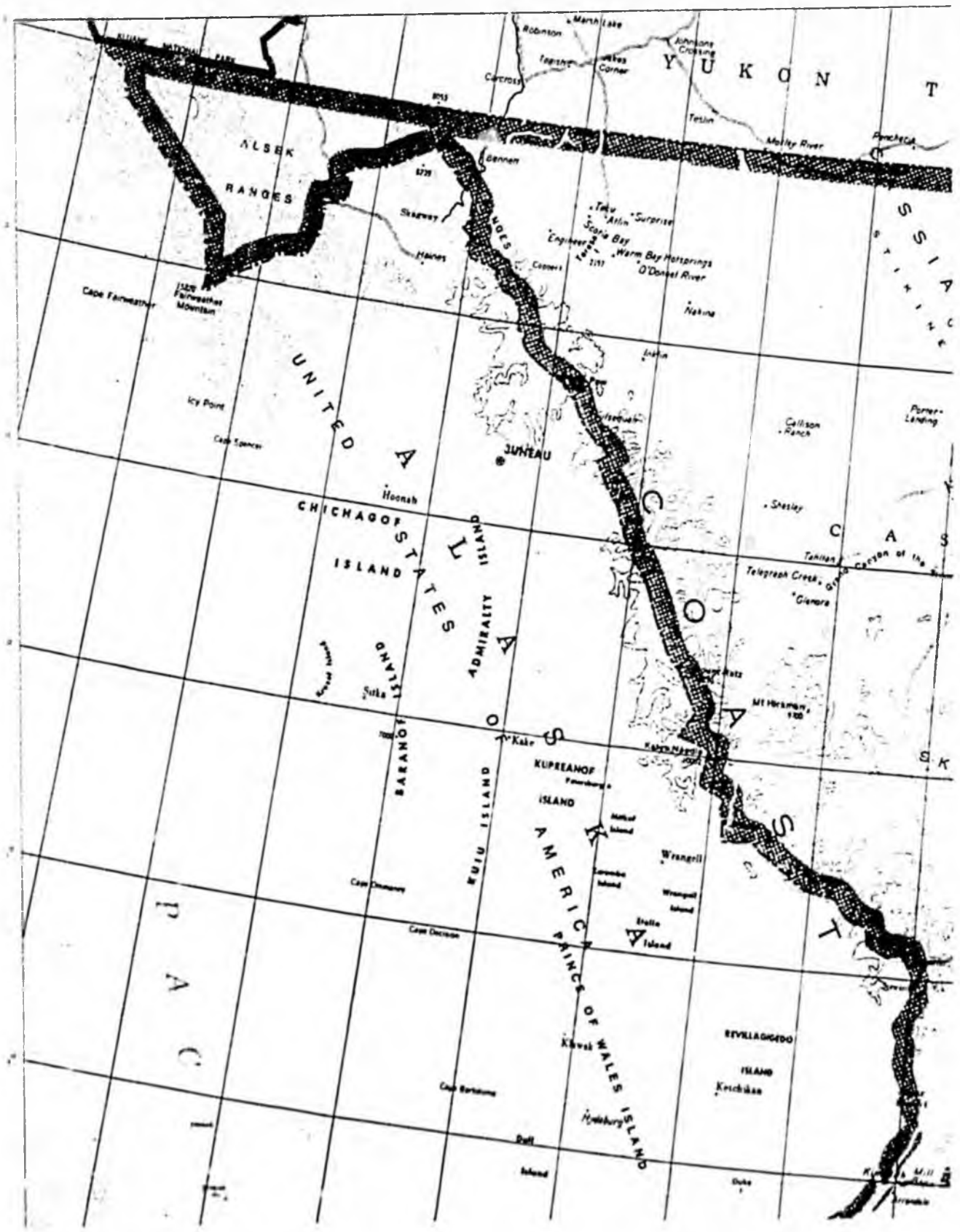
[1] Canada, the Senate, *Proceedings of the Standing Senate Committee on Fisheries*, Issue No. 3, 14 November 1986, p. 88.
[2] *Ibid.*, p. 94.
[3] *Ibid.*, p. 95.
[4] *Ibid.*, p. 89.
[5] *Pacific Region Salmon Stock Management Plan* (1986), p. 1, 12, 25.

FIGURE 3—NORTHERN BRITISH COLUMBIA



Source: Canada, Department of Energy, Mines and Resources, Surveys and Mapping Branch, Map MCR3 (British Columbia), 3rd edition, 1973

(3b) That the Department of Fisheries and Oceans provide adequate funding for research to increase its data base for the region's transboundary river salmon stocks.

TABLE 27

COMPARATIVE AVERAGE CATCHES OF CANADIAN SALMON ORIGINATING IN THE TRANSBOUNDARY RIVERS BY CANADIAN AND AMERICAN GILLNET FISHERIES, 1981-1985

(Average catches in thousands of pieces)

River	Species	U.S. in-river or terminal catch	Estimated U.S. interception[1]	Canadian in-river catch	Total catch of Canadian salmon	Average percentage to Canada (%)	Pac. Sal. Treaty % to Canada[2]
Alsek	Chinook	0.3	0.3	0.4	0.7	57.1	not
	Sockeye	18.0	16.2	3.0	19.2	15.6	negotiated
	Coho	7.1	6.4	0.1	6.5	1.5	
Taku	Chinook	2.1	2.1	0.4	2.5	16.0	incidental
	Sockeye	65.8	55.9	17.4	73.3	23.7	15%
	Coho	32.7	22.9	4.8	27.7	17.3	incidental
	Pink	177.7	151.0	5.7	156.7	3.6	incidental
	Chum	64.6	38.8	2.5	41.3	6.1	incidental
Stikine	Chinook	1.6	1.4	1.8	3.2	57.0	incidental
	Sockeye	160.1	42.4	23.7	66.1	35.9	35%
	Coho	60.3	42.2	6.7	48.9	13.7	2000 pieces
	Pink	324.9	32.5	2.3	34.8	6.6	incidental
	Chum	44.6	8.9	0.7	9.6	7.3	incidental

[1] Rough estimates. Major interceptions, particularly of chinook and coho, occur in Alaskan troll fisheries and are not accounted for in the table (e.g., somewhere between 50% and 70% of the coho catch is taken by the fishery.)

[2] Percentages do not reflect new spawning escapement guarantees.

Sources: Department of Fisheries and Oceans, brief submitted to the Committee, 14 November 1986, Table 1: Representative of Transboundary Rivers, Northern Panel of Pacific Salmon Commission, Issue No. 3, 14 November 1986, p. 95.

D. Foreign High Seas Interceptions

Also important are the incidental catches of Canadian salmon by foreign fishing vessels on the high seas, outside Canada's 200-mile limit. In the past, both Canada and the United States have attempted, directly and through the International North Pacific Fisheries Commission, to influence the Japanese in particular to moderate their fishing effort. DFO is at present conducting a series of research cruises to the North Pacific to determine whether international high seas squid fisheries represent a serious threat to Canadian salmon. The Committee believes the issue of high seas interceptions is of sufficient importance to justify such actions to improve the Department's data base, and recommends:

(4) That the Department of Fisheries and Oceans continue to pursue its data-gathering program on foreign interceptions of Canadian salmon on the high seas. Consideration should be given to further strengthening the Department's monitoring capability on the high seas.

Against state

Tanana group files roe lawsuit

Correspondent's report

TANANA—The Tanana Fish and Game Association, representing users of fish and wildlife around the village of Tanana, has filed suit against the state of Alaska over the sale of roe from subsistence-caught salmon on the upper Yukon River.

The suit, filed in Fairbanks Federal Court on Feb. 10, seeks an injunction to prevent the state from bringing criminal charges against some fishermen who have been the subject of a probe by Alaska Fish and Wildlife Protection Division.

The division has alleged the fishermen sold roe illegally from subsistence caught salmon in 1987.

The suit also seeks to overturn a state regulation of 1977 prohibiting subsistence taken roe sales. The association says the regulation violates section 804 of the Alaska National Interest Land Conservation Act. The act mandates subsistence use of fish and wildlife, including "customary trade" as having highest priority.

The suit maintains that roe sales from fish already caught for subsistence use fall under this category of "customary trade" and should be permitted.

The Yukon River is the focus of an allocation controversy involving people who fish for salmon from the Aleutian Islands all the way to the Yukon headwaters in Canada.

WORLD OCEAN PRODUCTS

927 N. Northlake Way • Suite 200 • Seattle, Washington 98103
(206) 547-7435 • Telex 32-1238 • FAX (206) 633-5770

February 25, 1988

Senator John B. Coghill

Dear Senator,

I am writing in regards to the salmon fishery on the upper Yukon River. Our firm has purchased product originating out of the Nenana area in the past and have found the quality consistent with products from other areas.

Market prices for the 1987 season were good and as far as we are able to discern all available inventories have been sold. Market prices for Dark Chums have ranged from $1.70 to $2.10 per pound wholesale, $1.20 to $1.50 for Pales. Coho prices were at about the same level as Chum and higher valued King prices ranged from $3.00 upwards. Salmon Caviar from this area is much sought after and ranged from $5.00 to $10.00 per pound.

It is our feeling that the loss of this fishery would have a major economic impact to the communities and people involved. We hope a program can be formulated to allow harvesting of salmon in this area to continue along with good conservation practices.

Sincerely,

William P. Clancy

cc: Senator Arlis Sturgelewski
Rep. John Binkley
Rep. Richard Schultz

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EO 63

Alaska State Legislature

Senate Resources Committee

Box V
Juneau, Alaska 99811
(907) 465-4907

February 11, 1987

Senator Jan Faiks
Senate President
Capital Building, Rm 107
Juneau, Alaska 99811

Dear Madam President:

After due consideration, the Senate Committee on Resources has no objection to the implementation of Executive Order No. 63.

Sincerely,

Paul Fischer

Senator Paul Fischer
Vice-Chairman, Senate Resources

Original ret. to Gov 3/20/87

STATE OF ALASKA

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : SCS3

Title : Transfer Historical Commission

Sponsor : Governor / Rules

Requestor : DNR

Date of Request : _____

FISCAL DETAIL

Agency Affected : _____

BRU : _____

Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-		
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

The transfer of the Alaska Historical Commission from Education to Natural Resources will have net-zero fiscal impact: the FY87 Revised authorization of $85.0 in Education is being RSA'ed to Natural Resources for FY87 and that same amount will be C4'ed to Natural Resources for FY88.

Prepared by: Hilton Wolfe [1] Phone: 465-2424

Division : Management Date : 10/7/86

Approved by Commissioner : Norm D Agnew Deputy Date : 10/8/86

Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

[1] In consultation with Ray Jensen, Education's Budget Analyst (10/7/86).

10/25/85

Alaska State Legislature

Senate Resources Committee

Box V
Juneau, Alaska 99811
(907) 465-4907

February 11, 1987

Senator Jan Faiks
Senate President
Capital Building, Rm 107
Juneau, Alaska 99811

Dear Madam President:

After due consideration, the Senate Committee on Resources has no objection to the implementation of Executive Order No. 63.

Sincerely,

Paul Fischer

Senator Paul Fischer
Vice-Chairman, Senate Resources

EO

64

Alaska State Legislature

Senate Resources Committee

Sen. John B. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice-Chairman
Sen. Lloyd Jones
Sen. Arliss Sturgulewski
Sen. Jim Duncan
Sen. Fred Zharoff
Sen. Dick Eliason

Box V
Juneau, Alaska 99811
(907) 465-4907

MEMORANDUM

TO: Members of the Senate Resources Committee

FROM: Resource Committee Staff

RE: Executive Order No. 64

DATE: February 10, 1987

Executive Order No. 64 consolidates the division of mining and the division of geological and geophysical surveys into one agency, the Division of Mining and Geology, within the department of natural resources.

The new division will be under the direction of the "state geologist."

> Sec. 41.08.015. State geologist. The commissioner of natural resources shall appoint the state geologist, who may be qualified by education and experience to direct the activities of the division.

Some concern has been expressed by mining interests, as to the direction of this new division.

STEVE COWPER
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 6, 1987

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Faiks:

I am today withdrawing Executive Order No. 64, which would have consolidated the Department of Natural Resources' division of mining and division of geological and geophysical surveys and named the consolidated unit the division of mining and geology.

The plan to merge the division of mining into the division of geological and geophysical surveys was conceived in response to the perceived efficiencies of the consolidation and the cost savings that would result. We have continued to analyze the possible benefits, detriments, and alternatives.

Since introducing the Order January 19, I have taken the opportunity to discuss the implications of the Order in greater detail with the new commissioner of the Department of Natural Resources, members of the legislature, scientific and public policy organizations, and interested groups and individuals throughout the state.

These discussions, the information provided to my Administration, and this additional analysis have led me to a new understanding of the effects of the proposed consolidation. Any cost saving is an important factor in these times. However, the proper structure and the effectiveness of these resource agencies is an investment in Alaska's future. These two divisions can promote our resource development efforts and return dividends worth many times whatever cost saving was originally perceived. Each of the two divisions covered by Executive Order No. 64 has a necessary and distinct expertise which, I believe, can best be used by their continuing to function as separate divisions, thereby most effectively providing the necessary information and support to the state and to industry.

I appreciate the favorable report of the Senate Resources Committee on this Order. 1987 Senate Journal, page 325. The thoughtful work of the committee has been helpful.

Thank you for your consideration of Executive Order No. 64.

Sincerely,

Steve Cowper
Governor

Alaska State Legislature

Senate Resources Committee

Box V
Juneau, Alaska 99811
(907) 465-4907

February 16, 1987

Senator Jan Faiks
Senate President
Capital Building, Rm 107
Juneau, Alaska 99811

Dear Madam President:

After due consideration, the Senate Committee on Resources has no objection to the implementation of Executive Order No. 64.

However, grave concern has been expressed regarding the direction the new division will take. Recognizing the importance of both the advocacy and regulatory roles the Division of Mining currently fills, and the data base development and research roles the Division of Geology and Geophysical Surveys has, it is of concern that their respective functions not be paramount to the other.

Sincerely,

Senator John B. Coghill
Chairman, Senate Resource Committee

EO. 64 Consolidating the functions of the division of geological and geophysical surveys and the division of mining i the Dept. of Natural Resources and to name the consolidation unit the division of mining and geology.

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

SENATE

Bill Version : EO 64
Publish Date : 1/19/87

REQUEST

Bill/Resolution No. : Exec. Order 64
Title : Division of Mining and Geology

Sponsor :
Requestor : Governor
Date of Request :

FISCAL DETAIL

Agency Affected : Natural Resources
BRU :

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

The Executive Order changes the name of a consolidated division to the Division of Mining and Geology. Approximately $200,000 was saved in FY 87 by consolidating two divisions. If the consolidation is not allowed by the Legislature, approximately $_00,000 in additional funds would be needed to operate two separate divisions.

Prepared by : Carol Wilson
Division : Commissioner's Office
Phone : 465-2400
Date : 11/18/86

Approved by Commissioner : Ronald
Date : 11/24/86
Agency : Department of Natural Resources

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

9/16/86

SB

8

Alaska Commercial Fishing and Agriculture Bank

1985 Annual Report

CFAB *was created to serve a genuine and legitimate need...*

Executive Message

Elsewhere in this 1985 Annual Report is a presentation of Touche Ross & Co.'s report on its examination of CFAB's financial statements for the years ended December 31, 1984, and December 31, 1985. That report is worthy of some careful scrutiny by members.

Numbers tend to be boring for all of us. However, since CFAB is a financial institution there is much about it which is best expressed by numbers. We therefore invite your attention to some of those numbers and the matters they represent.

Since CFAB is a financial institution there is much about it which is best expressed by numbers.

During 1985, CFAB's total assets were reduced by about $34,557,000. While this represented a reduction of all classes of assets generally, most of it was concentrated in a few areas. Early in the year, $5,628,000 of proceeds from maturing certificates of deposit were used to reduce CFAB's borrowings and, therefore, its net interest expense. Another $1,021,000 of the net reduction was in CFAB's accrued interest receivable on loans; this was essentially the effect of reduced loan volume.

The largest single component of the reduction, $26,993,000, was in CFAB's net loans outstanding. The composition of that number is significant, since CFAB's loan portfolio consists of two general groups of loans — "earning" and "non-earning." (The latter is referred to by accountants as "non-accrual"). An earning loan is one on which all payment terms have been met and are anticipated to continue to be met. A non-earning loan, on the other hand, is one on which a contractual payment is delinquent by 90 days or more and/or which CFAB's management has reason to believe represents a continuing and serious problem.

The changes within and between those two general groups represent significant progress for CFAB during 1985. They are referred to in NOTE B to the financial statements and are shown below:

	December 31, 1985	December 31, 1984	Change
Earning Loans	$50,283,591	$62,827,217	$(12,543,626)
Non-Earning Loans	15,653,345	31,979,446	(16,326,101)
Gross Loans	$65,936,936	$94,806,663	$(28,869,727)
Loan Loss Allowance	(3,441,130)	(5,317,621)	1,876,491
Net Loans	$62,495,806	$89,489,042	$(26,993,236)

Of the $16,326,000 reduction in non-earning loans, about $3,486,000 was charged to CFAB's allowance for loan losses. Most of those losses had been recognized by establishment of an allowance prior to December 31, 1984, so there was no significant impact on CFAB's balance sheet or on its 1985 operating statement. The remaining $12,840,000 of the reduction in non-earning loans represents, in general, either (a) collection of actual cash or (b) modification or restructuring of individual loans to an extent at which future performance can reasonably be expected. This is of great importance to CFAB and its borrower-owners, since the effect is to enhance CFAB's net interest earnings by about $1.5 million on an annualized basis.

CFAB *reduced its interest-bearing obligations to the Spokane Bank for Cooperatives by* $32,306,000.

Some further insight into the effect of 1985 developments may be gained also by noting the reduction in CFAB's liabilities. In particular, and as discussed in NOTE D to the financial statements, CFAB reduced its interest-bearing obligations to the Spokane Bank for Cooperatives by $32,306,000. Again because CFAB is a financial institution, there is probably no more reliable indicator of its immediate and short-term health than the relationship between its interest-earning assets and its interest-bearing obligations. The contrast between the respective year-ends should be encouraging to CFAB's borrower-owners:

	December 31, 1985	December 31, 1984
Certificates of Deposit	$ 3,200,000	$ 8,827,865
Earning Loans	50,283,591	62,827,217
Total Earning Assets	$53,483,591	$71,655,082
Interest-Bearing Obligations	(48,268,294)	(80,574,285)
Net (Deficit) Earning Assets	$ 5,215,297	$ (8,919,203)

Another *big factor was a* $391,000 *reduction in basic operating expenses.*

The shift illustrated above took place over the 12-month period. The effects of the shift will be transmitted to CFAB's statement of operations (its "profit and loss statement") over an even longer period of time. Nevertheless, there was a dramatic improvement in CFAB's net operating results — from a $9,978,000 loss in 1984 to modest net revenues of $114,000 in 1985, a positive difference of about $10,092,000. Most of that difference can be found in the reduced provision for loan losses; there were very few major new loan losses projected during 1985. Another big factor was a $391,000 reduction in basic operating expenses. For the four years 1981 through 1984 CFAB's annual operating expenses had averaged about $3.2 million. It was a challenge to achieve a significant reduction; many cost-reduction actions had a one-time cost by themselves, and most were in effect for only a few months of 1985. We are striving for a further reduction of $500,000 to $600,000 of operating expenses during 1986.

The net result of 1985 operations, as mentioned above, was a margin of $114,187. The Board of Directors, in accordance with CFAB's by-laws, applied that amount to reduce the unallocated and undistributed patronage loss remaining from 1984 operations.

A year ago, when CFAB's 1984 Annual Report was prepared, the 1985 financial outlook was uncertain at best. It is more pleasant, certainly, to be able to report a reversal of trends and that a degree of stability has been achieved. Nevertheless, a core of difficult problems remains and must be dealt with. Borrower-owners' interests continue to be impaired, and the fact that (at least at year-end) CFAB is not earning or collecting interest on nearly 24 percent of its loans means that performing borrowers have been unable yet to receive the benefit of interest rates which are generally trending downward.

CFAB's directors, management, and staff share with borrower-owners the frustrations of bearing the burdens imposed by a relative handful of non-performing loan accounts. While CFAB's non-earning loans total nearly 24 percent of its loan portfolio in dollars, they involve only **nine** percent of its total loans by number!

What is in the future for CFAB and its borrower-owners?

How do credit and liquidity problems get resolved? What is in the future for CFAB and its borrower-owners? The first question is easier to address than the second. There is really only one general strategy available to a lender confronted by a large number of non-performing loan accounts: A careful, objective, one-by-one analysis resulting in an establishment of priorities and the development of a specific strategy for each account. That in itself is a time-consuming process. The corrective action, assuming one is developed in a particular case, usually takes time also — if a borrower has cash readily available, the loan presumably would not be in default in the first place! Even in those instances in which foreclosure is the only logical alternative, the realities of the legal process involve extraordinary delays. We are pleased, within that context, to report the results of 1985 with respect to non-earning loans. Those results reflect unusual and dedicated effort by every single member of CFAB's staff.

Your directors, management, and staff are totally committed...

CFAB's future is a subject much more difficult to express with definition. Your directors, management, and staff are totally committed to structuring and operating CFAB to meet the constructive needs and demand of its mandated markets. However, CFAB really cannot influence the extent or nature of those markets. The Alaska commercial fishing, agriculture, and timber industries are each affected — often dramatically — by a broad range of external, uncontrollable, and often unforeseeable factors. Each of them is an industry which requires major commitments of capital, either owned or borrowed, but in which financial and operational stability over an extended period is an exception rather than a norm. An individual operator, and his ability to service an obligation incurred years earlier, can be severely and detrimentally impacted by uncontrollable factors. As an example, the rational business decisions by a couple of processors in a given area to not operate in a particular season can totally eliminate what has been a reliable market opportunity for dozens of fishermen. That is a difficult environment in which to operate, both for participants and for their lenders.

CFAB was created to serve a genuine and legitimate need: the need for commercial fishermen and others to have access to a reliable source of credit. The need continues to exist today. However, while it is a general need, neither CFAB nor any other lender can respond to it in a general way. The response, and the delivery of credit services, **must** be predicated upon the objective evaluation of the credit worthiness of **individual** applicants. CFAB will make loans to specific borrowers; it will **not** make loans to "the industry"!

A member's overall interests are probably best served by avoiding unnecessary new debt for the 1986 season.

As this message is written in the early spring of 1986, the immediate future seems to hold special challenges for CFAB in its quest for sound growth, especially in commercial fishing. The outlook for certain species and certain products is questionable, and there are indications that a number of processing plants will not operate. The cost and availability of insurance has become a major problem for many operators. In addition, and as discussed earlier, CFAB's financial circumstances require that its interest rates be maintained at a level higher than those offered to some applicants by some other lenders. Realistically, and in spite of the fact that CFAB's management is committed to positive progress in the institution's circumstances and effectiveness, a member's overall interests are probably best served by avoiding unnecessary new debt for the 1986 season.

It is not unusual for CFAB members to visit with directors or with management and to compare CFAB's current terms and programs with those perceived to be widely offered by other institutions. Indeed, within CFAB itself we often lapse into discussions about "the competition." The facts are, however, that CFAB is unique; that there is no true competition. There is no other private lender committed and mandated to exclusively serve the commercial fishing, agriculture, and timber industries in Alaska. There are other lenders which have, in the interests of diversification and corporate responsibility, committed a **portion** of their lending capacities to those industries or to segments of them. The basic responsibilities of those lenders' managements, however, are to protect and enhance the interests of their owners and, in some instances, their depositors. Accordingly, loan programs and terms are structured to attract and accommodate the most stable industry participants.

We take pride in being a part of the Alaska financial community as a whole.

CFAB's purposes and objectives are considerably different. CFAB has no alternative markets for its services. It must strive to attract a broad cross-section of each of the industries it serves. While it must avoid the more speculative loan proposals presented to it, CFAB cannot on the other hand structure its programs and policies to fit only those applicants who do have other financing alternatives. We have a high regard for other lenders and the services they provide; we cooperate and participate with other lenders whenever appropriate; and we take pride in being a part of the Alaska financial community as a whole. However, we are convinced that success for CFAB — no matter what standards may be used to measure that success — can be achieved only through constant and realistic evaluation of its own capabilities and of the viability of its borrower/members. Emulation of other institutions, or pursuit of objectives whose only merits are popular and temporary appeal, are courses that have proven themselves unsuitable at best.

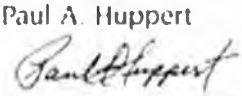
During 1985 CFAB's foundations were strengthened, its structural weaknesses were addressed, and a framework for more effective and meaningful service to borrower-owners was established. Many of those actions had an immediate and high level of visibility, while others will attain significance over a period of time. Some of the more important events or actions were:

- The closure of regional service offices in Cordova, Homer, Ketchikan, and Kodiak.
- The development of a differential interest rate program, under which unusually creditworthy borrowers may be offered lower interest rates.
- Introduction of a new Class B Preferred Stock program, effective January 1, 1986, which provides for an investment of genuine risk capital by CFAB's borrower-owners.
- A determined and ongoing effort to permanently reduce and better control CFAB's basic overhead expenses.
- Elimination of allocated patronage credits from earlier years' operations, reducing the amount of the 1984 loss carried on CFAB's books. While this appeared on the surface to be destructive to the interests of the holders of those credits, the action actually created opportunities for those members to realize cash benefits from an asset of undeterminable value with the extent of the benefit depending upon the members' respective Federal income tax situations.
- Establishment of a modified level payment program for many kinds of loans, enabling borrowers to make more reliable provisions for cash requirements.
- A special, one-time, arrangement for a professional qualitative review and analysis of CFAB's total loan portfolio by the State of Alaska's bank examiners.

We urge you to mark the appropriate date on your calendar now.

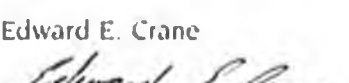
A major disappointment during 1985 was the failure to achieve a quorum at CFAB's annual meeting. Our conclusion has been that the failure was due not to apathy on the part of members, but rather to the difficulty and expense for members throughout Alaska to attend an annual meeting at a single location. Accordingly, the Board of Directors has decided to hold CFAB's 1986 annual meeting in three sessions, with appropriate recesses, and at three different locations: October 9 at Ketchikan, October 11 at Anchorage, and October 13 at Cordova. We urge you to mark the appropriate date on your calendar now. Furthermore, due to a coincidence of events in 1985 and early 1986, it is necessary that **all five** of CFAB's elected director positions be subject to election in 1986. The nomination process for director candidates will begin in mid-1986, and it is vitally important that each CFAB member take an interest and play an active role in the election of qualified directors.

Paul A. Huppert



Chairman, Board of Directors

Edward E. Crane



President

1985 Loan Activity & Economic Impact

CFAB's founding statute requires that its annual report include "...a description of the bank's loan activity during the period..." as well as "...an analysis of economic and other effects of loan decisions on the state's commercial fishing and agriculture industries..."

As shown in CFAB's financial statements and as discussed in the Executive Message, there was a significant decline in the total loan dollars outstanding during 1985. Loan balances totaled about $65.9 million on December 31, 1985; a year earlier that total had been about $94.8 million.

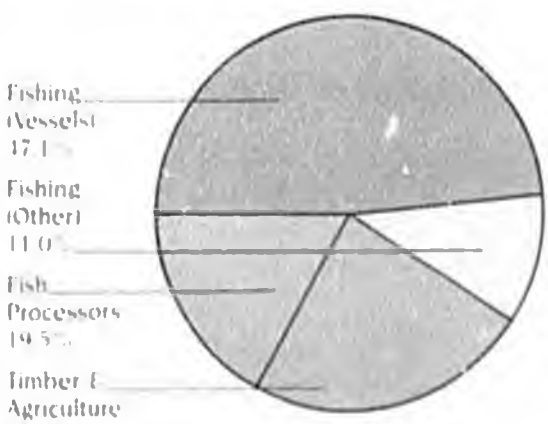
That comparison suggests clearly, and accurately, that much of CFAB's 1985 activity was focused on the liquidation of non-performing loans and on the resolution of other loan problems. In addition, the general decline in interest rates offered by some other financial institutions during 1985 attracted a number of CFAB's borrowers whose financial circumstances would permit re-financing by those institutions.

Although there were significant net reductions in both the numbers and amounts of loans outstanding, CFAB did continue to be responsive to the constructive financing needs of both new applicants and existing borrowers. CFAB made 83 new loans during 1985; 40 of them, totaling $3.1 million, were to new members while the remainder, totaling $1.2 million, were to existing members.

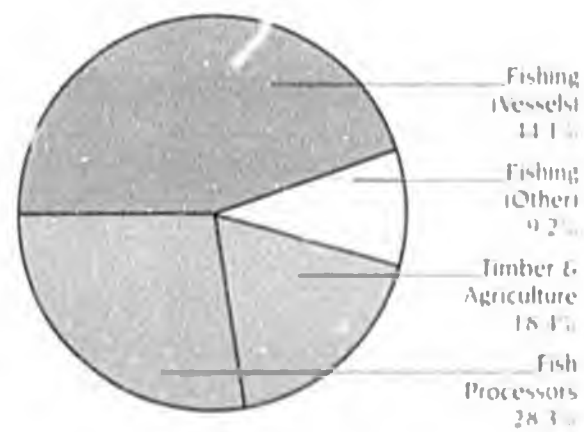
CFAB continues to be of special importance to individual participants of the commercial fishing industry. It is that general segment of the industry which appears to have the most limited access to alternative sources of financing. A large part - over 60 percent - of the net reduction in CFAB's year-end loan volumes was in the fish processing portion of the industry. The resulting shift in the composition of CFAB's loan portfolio is shown below.

Despite the language of the statute mentioned earlier, it would be speculative and perhaps pretentious to assert that CFAB's loan decisions have a major effect on its mandated industries in total. Those industries are based on massive amounts of capital, both borrowed and invested; their participants are globally based; and their conditions and trends are influenced by multitudinous factors. It is doubtful that CFAB's activities, or the activities of any other single financial institution, exert much influence on developments in those industries.

On the other hand, it is clear that CFAB's presence and decisions have a significant and continuing effect on members of those industries, whether they are individuals or corporations. Each new loan action by CFAB establishes a means whereby an Alaskan individual or corporation may participate more effectively in the fishing, agriculture, or timber industry. In addition to the direct impact on the borrower, there is a cumulative effect on the Alaska communities in which the particular industry is concentrated. This is especially true of the commercial fishing industry. For example, CFAB has 168 members in the Cordova/Prince William Sound area, 183 in the Homer/Kenai Peninsula area, and 98 in the Dillingham/Bristol Bay area. There are numerous other concentrations throughout the state. While CFAB bases its loan decisions strictly on an objective evaluation of the creditworthiness of the individual borrower/applicant, it seems reasonable to conclude that the collective impact of those decisions has enhanced the stability of local participation in the industries.



1985



1984

Report Of Independent Accountants

Touche Ross & Co.

January 31, 1986

Board of Directors
Alaska Commercial Fishing and
Agriculture Bank
Anchorage, Alaska

We have examined the balance sheets of Alaska Commercial Fishing and Agriculture Bank as of December 31, 1985 and 1984, and the related statements of operations, changes in capital and allocated/unallocated undistributed patronage earnings (loss), and changes in financial position for the years then ended. Our examinations 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.

In our opinion, the financial statements referred to above present fairly the financial position of Alaska Commercial Fishing and Agriculture Bank as of December 31, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Balance Sheets

	December 31,	
	1985	1984
Assets		
Cash	$ 106,773	$ 123,331
Certificates of deposit	3,200,000	8,827,865
Loans, net of allowance for loan losses of $3,441,130 and $5,317,621	62,495,806	89,489,042
Accrued interest receivable:		
Certificates of deposit	44,144	112,306
Loans	2,071,202	3,092,629
Investment in Spokane Bank for Cooperatives	5,252,423	4,738,734
Bank premises, furniture and equipment, net	471,503	648,231
Acquired assets held for resale	1,606,164	2,361,305
Other assets	90,563	502,048
	$75,338,578	$109,895,491
Liabilities		
Accounts payable and accrued expenses	$ 308,016	$ 372,016
Accrued interest payable	416,780	2,369,853
Notes payable	48,268,294	80,574,285
	48,993,090	83,316,154
Commitments and Contingent Liabilities (Note H)		
Capital and Patronage Earnings		
Share capital —		
Class C special preferred stock, $10,000 par value, authorized 4,000 shares, outstanding 3,180 shares	31,800,000	31,800,000
Class B preferred stock, $100 par value, authorized 400,000 shares, outstanding 65,845 and 95,177 shares	6,584,500	9,517,700
Loans receivable on Class B preferred stock	(6,584,500)	(9,517,700)
Class A membership stock, $10 par value, authorized 10,000 shares, outstanding 931 and 888 shares	9,310	8,880
	31,809,310	31,808,880
C Stock retirement pool	92,152	10,260
Capital in excess of par value	82,980	79,110
Contributed capital	144,626	144,626
	32,129,068	32,042,876
Allocated undistributed patronage earnings	1,045,365	4,514,237
Unallocated undistributed patronage loss	(6,828,945)	(9,977,776)
	26,345,488	26,579,337
	$75,338,578	$109,895,491

See notes to financial statements

Statements of Operations

	Year Ended December 31,	
	1985	1984
Interest Income:		
Interest on loans	$10,141,090	$ 11,992,708
Interest on certificates of deposit	362,767	918,081
	10,503,857	12,910,789
Interest expense	6,267,003	8,386,607
Loss on assets held for resale	91,127	72,356
Provision for loan losses	1,234,930	11,241,619
	7,593,060	19,700,582
	2,910,797	(6,789,793)
Other Expenses:		
Salaries and benefits	1,705,780	1,785,281
Occupancy expense	252,300	260,544
Office operations	126,717	201,133
Advertising and promotion	79,922	197,182
Travel, lodging and meals	136,675	192,661
Depreciation and amortization	160,279	180,127
Professional fees	150,191	148,654
Telephone and postage	87,238	114,774
Directors' fees	46,954	71,113
Miscellaneous	50,554	36,514
	2,796,610	3,187,983
Unallocated undistributed patronage earnings (unallocated undistributed patronage loss) before income tax expense and extraordinary credit	114,187	(9,977,776)
Income tax expense	32,200	
Unallocated undistributed patronage earnings (unallocated undistributed patronage loss) before extraordinary credit	81,987	(9,977,776)
Extraordinary credit — utilization of net operating loss carryforward	32,200	
Unallocated undistributed patronage earnings (unallocated undistributed patronage loss) (Note G)	$ 114,187	$ (9,977,776)

See notes to financial statements

Statements of Changes in Capital and Allocated / Unallocated Undistributed Patronage Earnings (Loss)

	Share Capital	C Stock Retirement Pool	Capital In Excess Of Par Value
Balance, January 1, 1984	$31,808,280	$ —	$73,710
Issuance (redemption) of stock during the year			
Class B preferred stock, 8,655 shares, net	(865,500)		
Class A stock, 60 shares	600		5,400
C stock retirement pool:			
Class B preferred stock assessments		89,507	
Less: Assessments receivable		(79,247)	
Reduction in loans receivable on Class B preferred stock	865,500		
Loan principal charged against allocated undistributed patronage			
Unallocated undistributed patronage loss			
Balance, December 31, 1984	31,808,880	10,260	79,110
Issuance (redemption) of stock during the year			
Class B preferred stock, 293,230 shares, net	(2,933,200)		
Class A stock, 43 shares	430		3,870
Reduction in loans receivable on Class B preferred stock	2,933,200		
C stock retirement pool			
Class B preferred stock assessments		171,398	
Less: Assessments receivable		(89,506)	
Loan principal charged against allocated undistributed patronage earnings			
Unallocated undistributed patronage earnings			
Allocation to unallocated undistributed patronage loss			
Balance, December 31, 1985	**$31,809,310**	**$92,152**	**$82,980**

See notes to financial statements

Contributed Capital	Allocated Undistributed Patronage Earnings	Unallocated Undistributed Patronage Earnings	Unallocated Undistributed Patronage Loss	Total
$144,626	$4,764,918	$ —	$ —	$36,791,534
				(865,500)
				6,000
				89,507
				(79,247)
				865,500
	(250,681)			(250,681)
			(9,977,776)	(9,977,776)
144,626	4,514,237	—	(9,977,776)	26,579,337
				(2,933,200)
				4,300
				2,933,200
				171,398
				(89,506)
	(434,228)			(434,228)
		114,187		114,187
	(3,034,644)	(114,187)	3,148,831	
$144,626	**$1,045,365**	**$ —**	**$(6,828,945)**	**$26,345,488**

ALASKA COMMERCIAL FISHING & AGRICULTURE BANK

Statements of Changes in Financial Position

	Year Ended December 31,	
	1985	1984
Source of Funds:		
From Operations —		
Allocated undistributed patronage earnings (unallocated undistributed patronage loss)	$ 114,187	$ (9,977,776)
Items not requiring the use of funds:		
Depreciation and amortization	160,279	180,127
Provision for loan loss	1,234,930	11,241,619
Gain on sale of assets	(839)	
Funds provided from operations	1,508,557	1,443,970
Net proceeds from sale of assets	20,924	
Net proceeds from stock issuance	4,300	6,000
Decrease in cash	16,558	568,945
Decrease in certificates of deposit	5,627,865	
Decrease in acquired assets held for resale	755,141	
Decrease in loans	28,869,727	8,800,349
Decrease in other assets	411,485	
Decrease in accrued interest receivable	1,089,589	2,634,426
Increase in accrued interest payable		244,769
Increase in notes payable		1,167,917
Increase in Class B preferred stock assessments, net	81,892	10,260
	$38,386,038	$14,876,636
Use of Funds:		
Loans charged off, net of recoveries	$ 3,111,420	$10,063,534
Loan principal charged against allocated undistributed patronage earnings	434,228	250,681
Increase in certificates of deposit		827,865
Increase in investment in Spokane Bank for Cooperatives	513,689	1,030,091
Increase in bank premises, furniture and equipment	3,637	106,400
Increase in acquired assets held for resale		2,148,813
Increase in other assets		275,644
Decrease in accounts payable and accrued expenses	64,000	131,348
Decrease in accrued interest payable	1,953,073	
Decrease in notes payable	32,305,991	
Decrease in patronage dividend payable		42,260
	$38,386,038	$14,876,636

See notes to financial statements

Notes to Financial Statements

Note A — Summary of Significant Accounting Policies:

Operations: The Alaska Commercial Fishing and Agriculture Bank (CFAB) was incorporated on May 4, 1979 to promote growth of Alaska agriculture and fishing by providing debt financing to resident-owned businesses engaged in harvesting, processing or marketing, and to promote its own growth as a strong user-oriented institution through cooperative ownership and self-governance.

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.

Interest on loans: The accrual of income on loans is discontinued when interest or principal is contractually past due more than 90 days.

Patronage dividends: Patronage dividends received from Spokane Bank for Cooperatives (SBC), of which CFAB is a member, reduce interest expense to SBC in the year declared.

Allowance for loan losses: The allowance for loan losses is based upon specific identification of known uncollectible loans and a general reserve for those loans not specifically identified.

Acquired assets held for resale: Acquired assets held for resale include those assets acquired through foreclosure. These assets are carried at the lower of fair market value or the recorded investment in the related loan. Holding costs are expensed when incurred unless such costs increase the fair market value of the asset.

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 ten years. Expenditures for maintenance and repairs are charged to operating expense 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.

Income taxes: Amounts provided for income tax expense are based on earnings reported for financial statement purposes, rather than on the taxable income shown on the corporate income tax return. These amounts may differ because certain items are recorded as income or expense in different years for financial statement and tax return purposes.

CFAB 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. That portion of investment tax credit not utilized in any year is not available for carryforward to a cooperative organization.

Reclassifications: Certain reclassifications have been made to the 1984 financial statements to conform with 1985 presentation.

Note B — Loans:

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

	December 31,	
	1985	**1984**
Vessels	**$34,135,387**	$46,450,679
Fish processors	**14,172,810**	29,506,571
Agriculture and timber	**16,221,453**	19,110,057
Gear, entry permits and other	**7,991,786**	9,257,056
	72,521,436	104,324,363
Less loans receivable on Class B preferred stock	**(6,584,500)**	(9,517,700)
	65,936,936	94,806,663
Less allowance for loan losses	**(3,441,130)**	(5,317,621)
	$62,495,806	**$89,489,042**

The loan portfolio includes loans which have been classified as nonaccrual. Nonaccrual loans by major category are as follows:

	December 31,	
	1985	**1984**
Fish processors	**$ 5,246,914**	$15,069,775
Vessels	**4,480,381**	5,956,277
Agriculture and timber	**3,740,558**	8,934,494
Gear, entry permits and other	**2,185,492**	2,018,900
	$15,653,345	**$31,979,446**

Activity in the allowance for loan losses is as follows:

	December 31,	
	1985	1984
Balance at beginning of year	$ 5,317,621	$ 4,139,536
Charged to expense	1,234,929	11,241,619
Recoveries on loans previously charged off	374,889	470,093
	6,927,439	15,851,248
Loans charged off	(3,486,309)	(10,533,627)
Balance at end of year	$ 3,441,130	$ 5,317,621

CFAB serves the financial needs of the commercial fishing and agricultural industries in the State of Alaska. These industries are subject to seasonal and cyclical fluctuations which could affect the borrowers' ability to repay loans on a timely basis.

Related Party Loans In the ordinary course of business, CFAB makes loans to members who serve on CFAB's Board of Directors. Loans to members who serve on the Board of Directors must be approved by the SBC. Total loans to these members were $1,613,378 and $3,182,794 in 1985 and 1984, respectively.

Note C — Bank Premises, Furniture And Equipment:

The following represents a classification of bank premises, furniture and equipment by major category:

	December 31,	
	1985	1984
Furniture, fixtures and equipment	$ 889,432	$ 976,203
Leasehold improvements	147,202	147,202
	1,036,634	1,123,405
Less accumulated depreciation and amortization	(565,131)	(475,174)
	$ 471,503	$ 648,231

Note D — Notes Payable:

Notes payable consisted of the following:

	December 31,	
	1985	1984
Spokane Bank for Cooperatives (SBC) seasonal loan, credit line of $29,000,000 expiring on April 1, 1986, bearing interest at 10.25% at December 31, 1985 (interest paid quarterly based upon floating rates)	$ 1,020,081	$15,535,000
SBC matched funds short-term notes with interest rates ranging from 8.7% to 9.1% maturing at various dates in 1986	19,200,000	35,000,000
SBC long-term notes including matched funds with interest rates ranging from 10.544% to 11.75% maturing at various dates to January, 1993	28,000,000	30,000,000
Other notes payable and capitalized equipment leases with various interest rates and maturity dates	48,213	39,285
	$48,268,294	$80,574,285

The loans are secured by substantially all CFAB assets

Principal payments required on notes payable are as follows:

Year Ending December 31,	Amount
1986	$23,263,294
1987	15,000,000
1988	—
1989 and beyond	10,000,000

SBC's matched funding loan program allows CFAB to borrow both short-term and long-term funds under its established line-of-credit at fixed rates of interest, generally providing a lower cost of funds.

CFAB must invest in SBC's Class C stock in an amount equal to at least 5% of the cumulative average loan balance maintained with SBC. The amount of CFAB's investment in SBC's Class C stock and equity in allocated surplus was $5,252,423 and $4,738,734 at December 31, 1985 and 1984, respectively.

Note E — Income Taxes:

During the year ended December 31, 1985, $3,035,000 of unallocated undistributed patronage loss was allocated to patrons. As a result of this allocation and the use of the loss to offset current year patronage earnings, the remaining unallocated undistributed patronage loss for financial statement purposes is $6,830,000.

There was no income tax benefit from the unallocated undistributed patronage loss for the year ended December 31, 1984.

Note F — Pension and Profit Sharing Plans:

CFAB has pension and profit sharing plans covering substantially all employees. The total cost charged to operations for 1985 and 1984 was $58,372 and $82,736, respectively.

A comparison of accumulated plan benefits and plan net assets as of January 1, 1985 and 1984 of the Company's defined benefit plan is as follows:

	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$ —	$ 702
Nonvested	—	—
	$ —	$ 702
Net assets available for benefits	$ 28,244	$ 27,138
Assumed rate of return used in determining actuarial present value of accumulated plan benefits	8%	8%

Information with respect to the actuarial computed value of vested benefits and pension fund assets as of December 31, 1985 is not available.

Note G — Capital and Patronage Earnings:

Share Capital Shares purchased by the State of Alaska must be repurchased by CFAB on or before July 20, 2000.

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

The following rights apply 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 paid shall not exceed $10 per share annually. Prior to December 31, 1985 all loans required a purchase of Class B stock in an amount equal to 10% of the loan balance; however, this purchase was not funded but was evidenced by notes. On loans made subsequent to December 31, 1985, each borrower will be required to make a cash purchase of Class B stock in an amount equal to 5% of the total loan. This investment will remain 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 engaged in commercial fishing or agriculture and must be a current borrower or have borrowed from CFAB during the preceding two years or have a minimum retained patronage earnings with CFAB of $2,500.

Unallocated Undistributed Patronage Loss: At December 31, 1984 Alaska Commercial Fishing and Agriculture Bank's financial statements reflected an unallocated undistributed patronage loss in the amount of $9,977,776. During 1985, in accordance with Alaska Commercial Fishing and Agriculture Bank by-laws, the Board of Directors acted to reduce that amount as follows: 1) by allocating $3,034,644 to allocated undistributed patronage earnings of prior years; and 2) by charging $114,187 to 1985 unallocated undistributed patronage earnings. At December 31, 1985 the remaining unallocated undistributed patronage loss amount was $6,828,945.

Class C Stock Repurchase Plan: In accordance with AS 44.81.010(b), on or before July 20, 2000, CFAB is required to repurchase its Class C stock issued to the State of Alaska. On November 10, 1982 an agreement was signed with the State of Alaska outlining the principles of a plan which calls for the repurchase of outstanding Class C stock with CFAB capital funds to be provided by CFAB's member-borrowers over a period of future operations. On December 12, 1983, CFAB implemented its Class C Stock Redemption Program.

Note H — Contingencies and Commitments:

Contingencies: CFAB is a defendant in several legal actions arising from normal business activities including actions related to delinquent loans and foreclosures. CFAB reserves for potential losses on delinquent loans as described in Note A. As to litigation outside of delinquencies and foreclosures, management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect CFAB's financial position or its results of operations.

Commitments: CFAB has entered into certain noncancelable long-term operating lease agreements for buildings. Rental expense under these leases totaled $231,549 and $234,076 for the years ended December 31, 1985 and 1984, respectively. Minimum annual lease payments are as follows:

Year Ending December 31,	Amount
1986	$68,000
1987	27,000
1988	8,000

Board of Directors and Staff

Board of Directors

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Chairman

Robert Waldrop
Vice Chairman

Thomas E. Thompson
Secretary/Treasurer

Roseleen "Snooks" Moore
Director
(Resigned April 1986)

Dale R. Philman
Director

Harvey H. Samuelsen
Director

Hyoung "Henry" Kim
Director
(Appointed February 1986)

Gilbert Gunderson
Director
(Appointed April 1986)

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Assistant Vice President

Karol A. Askerman
Assistant Vice President

Karl D. Barnard
Vice President

Cynthia D. Blush
Senior Bookkeeper

Darleen S. Church
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Edward E. Crane
President

John W. Enge
Fisheries Analyst

Terrence H. Hayden
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Executive Secretary

Douglas W. Sindt
Data Processing Supervisor

Lora C. Smith
Senior Bookkeeper

Deborah A. Tosch-Price
Documentation Paralegal

Godelieve C. Van Lint
Courier

DeLories M. vonGemmingen
Executive Secretary

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1984 ANNUAL REPORT
Alaska Commercial Fishing and Agriculture Bank

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Chairman's Message

1984 was a difficult and eventful year for CFAB. It was a year of heightened awareness and realization by its Board of Directors and by its management team. It was a year in which decisions were made, and direction given, by the Board to realistically identify and evaluate the total circumstances and condition of CFAB. The results of those efforts and activities are set forth in the financial statements section of this report, and are discussed in the President's Message.

Cooperatives are formed and intended — in principle, by statute, and as a matter of philosophy — to serve the interests of their members. They function most effectively and efficiently when the needs and interests of the members are homogeneous, or nearly so. That premise places an unusual burden on a cooperative formed to provide credit services, as is CFAB. While the needs of its members have a basic but superficial sameness — each of them requires, or is seeking, an extension of credit — each of them in reality represents a totally unique combination of factors and circumstances. Every loan application requires a subjective analysis and evaluation of risk factors; risk factors which are different in each case from those of any and every other case. CFAB is obliged to maintain and apply standards and policies which are rational and appropriate for a financing institution and against which each member's and each applicant's credit worthiness may be fairly and equitably evaluated. Each member, and each applicant, has the right to such an evaluation. However, there is no feature inherent to cooperative structure, or cooperative philosophy, or cooperative principle which provides protection from the laws of nature or the fundamental rules of credit and business economics. Although CFAB serves a specific purpose and is charged with a unique mission, it cannot accept risks which would be unacceptable to any other reasonable lender. As a matter of fact, since by statute and by its Articles and Bylaws CFAB is limited to serving a very narrow market, a concentration which is avoided by most lenders, it might be argued that CFAB must be especially stringent in its evaluation and acceptance of individual risks.

Historically, CFAB has attempted to be a compassionate and tolerant lender, both in practice and as a matter of philosophy. It is difficult to take issue with that general posture. However, it is clear — and it must be recognized and endorsed by you, the member-owners — that each time CFAB makes an adventurous or speculative concession to a single borrower, it is an action erosive to the aggregate interests of *all* of you. CFAB's Board of Directors and its management are determined that the future application of its credit policies will reflect their intent and obligation to protect and enhance the interests of its total ownership.

A thoughtful and perceptive observer will recognize many successes and many elements of constructive service to the Alaskan commercial fishing and agriculture industries; they should not be totally overshadowed by the difficult circumstances of today. For example, nearly 90 percent of the approximately 1,400 loans CFAB has made through 1984 have either been paid in full or are being paid in accordance with their respective terms. That CFAB serves a broad spectrum of Alaskans is demonstrated by the fact that, if the loan balances associated with the largest ten percent of CFAB's borrowers are eliminated from the calculation, the average loan balance is about $46,000. In the context of today's economy, and especially in the capital-intensive industries which CFAB serves, $46,000 is not a "large" amount; and it suggests that CFAB is providing credit support for a large number of individual fishermen and farmers. Another more subjective point often overlooked is that CFAB serves the interests of *every* eligible person in its market, whether he or she is a CFAB borrower or not. That is because CFAB's presence throughout all of the Alaskan commercial fishing and agriculture industries is a competitive factor which affects the availability and cost of loan funds offered by every lender.

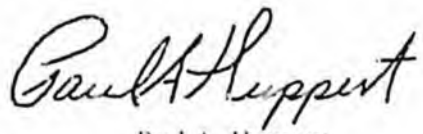
It has been necessary for CFAB to undergo an inevitable evolutionary process to bridge the gap between its creative and visionary founding statute and the hard realities of renewable resource financing. That process has taken a toll, both in dollars and in human resources. As with any evolutionary process, however, the emerging organization is one which has been tempered and shaped by both successes and failures and is now better suited than ever before to survive and prosper within its environment.

The Board of Directors is confident and determined that CFAB will be restored to a position of

vigor and productive service to its member-owners. That will not "just happen" — it can only be the result of consistent and long-term effort at the Board, management, and staff level. It will also require continued support by each of you; support in the form of contractual performance in your roles as borrowers, and in the form of communications in your roles as member-borrowers. As in any corporation, CFAB's Directors are charged with preserving and furthering the interests of the member-owners as a body rather than with representing the interest of individuals in their dealings with CFAB; it is imperative, then that you seek an understanding and perspective of CFAB's total mission and circumstances and that you express your views on them to the Board of Directors as opportunities arise or are created.

It is with deep regret that I must announce that, subsequent to year-end, Frank Homan tendered his resignation from your Board of Directors. Frank was a founding Director of CFAB, and served as its first Chairman. His service continued through re-appointment to the Board by Governor Sheffield, and his experience, judgment, and dedication have been invaluable to his fellow Directors. His record of service is worthy of the respect and thanks of every present and prospective CFAB member-owner.

Again, I urge each of you to look to the future, to participate in a positive way in the election of Directors and in CFAB's annual meeting on October 12, 1985; and to provide your support in assuring the ultimate success of your financing cooperative.



Paul A. Huppert
Chairman of the Board

Member Loan Analysis 12/31/84

	No. Members	No. Loans	Percent of Loans	Principal Outstanding	Percent of Principal Amount
Under 25,000	251	253	33.4%	$ 3,341,216	3.5%
25,000 - 74,999	239	254	33.5%	10,850,620	11.4%
75,000 - 149,999	127	141	18.7%	12,640,122	13.4%
150,000 - 499,999	62	68	9.0%	14,776,490	15.6%
500,000 - 999,999	13	16	2.1%	9,205,052	9.7%
Over 1,000,000	15	25	3.3%	43,993,163	46.4%
	707	**757**	**100%**	**$94,806,663**	**100%**

President's Message

Alaska Commercial Fishing and Agriculture Bank — your bank — opened its doors for business in April, 1980. December 31, 1984, marked the completion of over four years of lending activity. They have been years of dramatic peaks and valleys. The financial statements presented in this annual report show clearly that, no matter how 1984 might be evaluated and characterized as a single year of operation, it was a year in which the cumulative effects of several forces generated over the course of previous years were recognized, confronted, and acknowledged. It was a year in which CFAB was aggressive in identifying the realities of weaknesses among its borrowers, and equally aggressive in using all of the tools and methods available to it in dealing with those weaknesses on an individual basis. Unfortunately, as is true with *any* lender, those tools and methods are limited; and they tend to be costly and destructive both to the borrower involved and to CFAB as an institution.

As shown in the 1984 Statement of Income, CFAB suffered a loss of about $10.0 million in the year just ended. The principal component of that loss was approximately $11.2 million used to build the provision for loan losses to a level which would absorb identified and anticipated shortfalls on loans to certain borrowers.

The basic effect of the 1984 loss is a diminishment of owners' equities and other interests. As expressed in the Balance Sheet, the net book value of owners' equities decreased from $36,791,534 at December 31, 1983, to $26,579,337 at December 31, 1984. Effectively, this means that at year-end the ownership interest of each member-owner was impaired; it was a negative number. As with any corporation, this does not mean that any member-owner has a financial obligation to CFAB (aside from any borrower relationship that may exist). However, it does mean that had CFAB been liquidated at December 31, 1984, at or near the book value of its assets, there would have been no net proceeds available for distribution to member-owners. More significantly, it means that CFAB has a major deficit to overcome through the effective and efficient management of its operations in order to rebuild an ownership interest for its member-owners.

Some aspects of CFAB's circumstances today can be best understood within the context of a review of CFAB's origins, purposes, and philosophical foundations. CFAB was created to fill a void — to provide credit facilities to a market which, when judged on the basis of demonstrated commitment and activity, had been found unattractive by investor-owned, profit-oriented, lending institutions. The very existence of that void suggests that there had been a cumulative awareness of unusual risk by those traditional lenders. CFAB also was founded to serve *only* the Alaskan-owned segments of two basic industries — *commercial fishing and agriculture* — which are not only inherently volatile but are subject to a myriad of external and often unpredictable pressures. There has been no opportunity or provision for the risk-moderating effects of diversification.

Perhaps there is never a "best time" — or even a "worst time" — to introduce a new concept or to begin a new business. For all entities and organisms, birth and childhood involve an abrupt entry into an environment which can be hostile. Looking backward from the vantage point of early 1985, one can identify several factors or circumstances of the late 1970's and early 1980's which influenced the early attitudes and philosophies of CFAB, its supporters, and its markets. During that period, the acceptance and assumption of continuing inflation was widespread and a "borrow to prosper" strategy was common to many individuals, industries, and businesses. A related factor was the relatively weak U.S. dollar of those years; export volumes were growing, and the future seemed bright. Among those market segments important to CFAB, the brightest future appeared to most to belong to the King Crab industry — and that industry as a whole committed to horrendous levels of capital investment (much of it borrowed). As we know today, those 1980 outlooks proved to be ill-founded.

Although most of the efforts and circumstances which have affected CFAB or which CFAB has shaped have been positive, there have been unanticipated events over the past four years which have placed extreme negative pressures on our borrowers and, therefore, on CFAB. Among them have been:

1. The dramatic strengthening of the U.S. dollar, which has greatly inhibited export opportunities.

2. Inconsistent management of certain fisheries.
3. Financial distress or failure of non-borrowers, rendering them unable to fulfill their obligations to CFAB members.
4. The canned salmon "botulism scare" of 1981, the pervasive effects of which are significant yet today.
5. Major fishermen's strikes which, regardless of their merit, inevitably result in a reduction of total industry proceeds.

All of the above are external and largely uncontrollable factors. To them must be added the fact of human weaknesses: of imprudent judgments both by CFAB personnel and by borrowers. Clearly, the exuberance associated with building, or patronizing, a new entity created a climate conducive to speculative lending relationships.

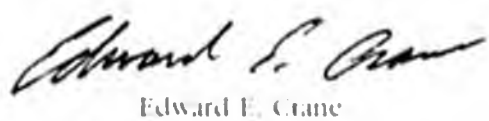
None of these are offered as excuses or rationalizations; they are presented as matters of reality and of factual background. A greater reality which must be recognized by CFAB's Board of Directors, management staff, member-owners, creditors, and other interested parties is that while the past provides lessons to be heeded, it is only the future which can be influenced and molded.

CFAB is owned by its member-owners and by the State of Alaska. Paradoxically, while the latter has the greater number of dollars at risk, it is only the member-owners who have the right (and responsibility) to vote and to otherwise influence the directions and policies of CFAB. This is a more formidable and burdensome challenge than might appear to be so.

Undeniably, CFAB is handicapped at present by the effects of its credit losses in recent years. The handicap will not be quickly or easily overcome. However, the fundamental bases for recovery are in place: There is a continuing need and market for its services, there remains a reliable source of loan funds, CFAB's fundamental policies and practices — particularly as they have been influenced by events of the past few years — are designed to protect the interests of both the borrower and CFAB as an institution, and the Board, management, and staff have been seasoned by the stresses of CFAB's "start-up" years.

Each of us prefers good news to bad, and each of us is receptive to a promise of better circumstances on an immediate basis. There is a great temptation to commit to you that 1985 will bring about a sharp reversal of trends and a major recovery of past losses. This is not realistic, however. Entrenched and endemic credit problems cannot, in general, be cured or resolved within a predictably early timeframe. Precipitous actions tend to drastically and negatively impact the interests of both lender and borrower. Most massive efforts are best conducted and concluded by attention to detail and through the identification of individual and smaller steps implemented on the basis of well-chosen priorities. CFAB is following that general strategy. Our commitment to you is that CFAB's staff and management will diligently, professionally, and rationally pursue a course of maximum recovery and benefit to the institution while at the same time seeking the sound and constructive expansion of service and substance to new and existing member-owners.

CFAB *is* your institution. It represents a significant investment and commitment by each of you. The implication of that may well be difficult to appreciate on a routine, day-to-day basis; many member-owners may have occasion to think about CFAB only a couple of times a year. Nevertheless, each of you has the right — and the obligation — to objectively and constructively influence its directions. There are many channels of expression and communications open to you. We encourage your participation and attendance at CFAB's annual meeting and at occasional area meetings. We urge you to join actively in the process of nomination and election of qualified individuals to serve as directors of CFAB, and to communicate with those individuals. Your management also earnestly and sincerely solicits your observations, questions, and suggestions. The ultimate success of this organization will only be measured by the extent to which it serves the legitimate financing needs and purposes of the Alaskan industries to which it is committed.



Edward E. Crane
President

1984 Loan Activity and Economic Impact

The 1984 loan activity of the Bank reflected a marked change from the trend of growth established over the previous four years. The decline in loan volume is considered reflective of the generally difficult economic environment being experienced by the fishing, agriculture and timber industries throughout the state. Although there are segments which have maintained economic stability, for the most part the industries served by the Bank have experienced significant challenges.

CFAB has committed itself to provide credit even during these difficult times. Because of this commitment, the Bank has had a stabilizing influence upon all sources of credit. During periods of economic depression the Alaska fisherman has often found no ready sources of credit. CFAB has continued to provide funds for those Alaskans able to demonstrate credit-worthiness, thereby helping them to maintain a high level of productivity.

The following is a summary of the Bank's loan portfolio outstanding at year-end, December 31, 1984.

	Outstanding Loans	Percentage
Processors	$ 26,876,130	28.3%
Timber	17,020,989	18.0
Vessels	41,807,481	44.1
Fishing Other	8,739,840	9.2
Agriculture	362,217	.4
	$94,806,663	**100.0%**

The year-end loan balance was down 8 percent from the year-end 1983 balance of $103,607,012. There were a total of 757 loans outstanding, and 888 Cooperative members, at year-end. CFAB approved 54 loans to new members during 1984 totaling $3.5 million and 80 loans to existing members for $13.4 million.

The Bank's credit activities were concentrated in areas other than loan approvals during 1984. The major emphasis during the year was on the resolution of problem loans and on the liquidation of loan accounts whose viability could not be established.

The economic impact of credit decisions will vary from area to area and among individual borrowers. The decision to foreclose on a vessel or to make demand on a processor has a definite and quantifiable impact on both the borrower and the Bank. However, for a given area or for an industry as a whole, the impact of these and other decisions is not felt to be concentrated so as to be measurable. Both processing and harvesting capacities have been and should continue to be sufficient to absorb the effects of the Bank's decisions to proceed against non-performing borrowers.

The most significant challenge facing all segments of the fishing and timber industries is the strong U.S. dollar. Both of these industries are dependent on foreign markets, so the problem is particularly acute. It is reasonable to expect that the value of the U.S. dollar will be realigned in the future and that demand and price should be stimulated.

CFAB will continue to be a source of financial services for those eligible applicants who can demonstrate the appropriate level of credit-worthiness. Although the Bank remains optimistic about the future for the fishing industry, it will maintain a guarded position toward the seafood processing sectors and toward the timber industry.

Report of Independent Accountants

May 17, 1985

Board of Directors
Alaska Commercial Fishing and Agriculture Bank
Anchorage, Alaska

We have examined the balance sheet of Alaska Commercial Fishing and Agriculture Bank as of December 31, 1984, and the related statements of operations, changes in capital and allocated, unallocated undistributed patronage earnings (loss), and changes in financial position for the year then ended. Our examination was 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. The financial statements of Alaska Commercial Fishing and Agriculture Bank for the year ended December 31, 1983, were examined by other auditors whose report dated January 24, 1984, expressed an unqualified opinion on those statements prior to the restatement as described in Note L.

In our opinion, the 1984 financial statements referred to above present fairly the financial position of Alaska Commercial Fishing and Agriculture Bank as of December 31, 1984, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of reporting Class B preferred stock as described in Note L to the financial statements.

We also reviewed the reclassifications described in Note L that were applied to restate the 1983 financial statements. In our opinion, such reclassifications are appropriate and have been properly applied to the 1983 financial statements.

Touche Ross & Co.
Certified Public Accountants

Balance Sheet

	Year Ended December 31, 1984	1983
Assets		
Cash	$ 123,331	$ 692,276
Operating reserve, at cost, which approximates market value	8,827,865	8,000,000
Investment in Spokane Bank for Cooperatives	4,738,734	3,708,643
Loans, net of allowance for loan losses of $5,317,621 and $4,139,536	89,489,042	99,467,476
Accrued interest receivable:		
Operating reserve	112,306	73,646
Loans	3,092,629	5,765,715
Organization costs, net of amortization of $141,982 and $127,785		14,197
Bank premises, furniture and equipment, net	648,231	707,761
Acquired assets held for resale	2,361,305	212,492
Other assets	502,048	226,404
	$109,895,491	**$118,868,610**
Liabilities		
Accounts payable and accrued expenses	$ 165,163	$ 167,435
Accrued interest payable	2,369,853	2,125,084
Notes payable	80,574,285	79,406,368
Spokane Bank for Cooperatives participation payable	206,853	335,931
Patronage dividend payable		42,260
	83,316,154	82,077,076
Commitments and Contingent Liabilities (Note K)		
Capital And Patronage Earnings		
Share capital —		
Class C special preferred stock, $10,000 par value, authorized 4,000 shares, outstanding 3,180 shares	31,800,000	31,800,000
Class B preferred stock, $100 par value, authorized 400,000 shares, outstanding 95,177 shares and 103,832 shares	9,517,700	10,383,200
Loans receivable on Class B preferred stock	(9,517,700)	(10,383,200)
Class A membership stock, $10 par value, authorized 10,000 shares, outstanding 888 and 828 shares	8,880	8,280
C Stock Retirement Pool:		
Class B preferred stock assessments	89,507	86
Less: assessments receivable	(79,247)	(86)
Capital in excess of par value	79,110	73,710
Contributed capital	144,626	144,626
	32,042,876	32,026,616
Allocated undistributed patronage earnings	4,514,237	4,764,918
Unallocated undistributed patronage loss	(9,977,776)	
	26,579,337	36,791,534
	$109,895,491	**$118,868,610**

See notes to financial statements