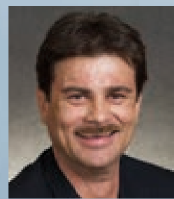
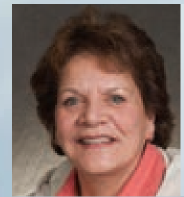
# 2012 **APICDA** Annual Report

# Board of Directors

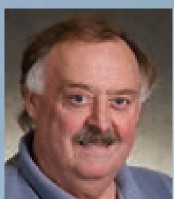
**Gilda Shellikoff**
False Pass
Chair
Term: 2012-2014



**Hugh Pelkey**
Akutan
Vice Chair
Term: 2012-2014

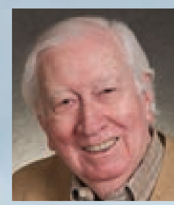


**Justine Gundersen**
Nelson Lagoon
Secretary & Treasurer
Term: 2012-2014

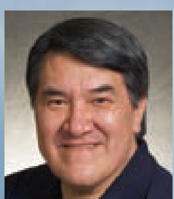


**Pete Crandall**
Financial Industry
Board Member
Term: 2013-2015

**Mark Snigaroff**
Atka
Board Member
Term: 2013-2015

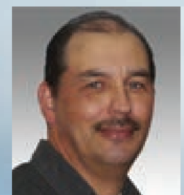


**Rick Lauber**
Fishing Industry
Board Member
Term: 2012-2014

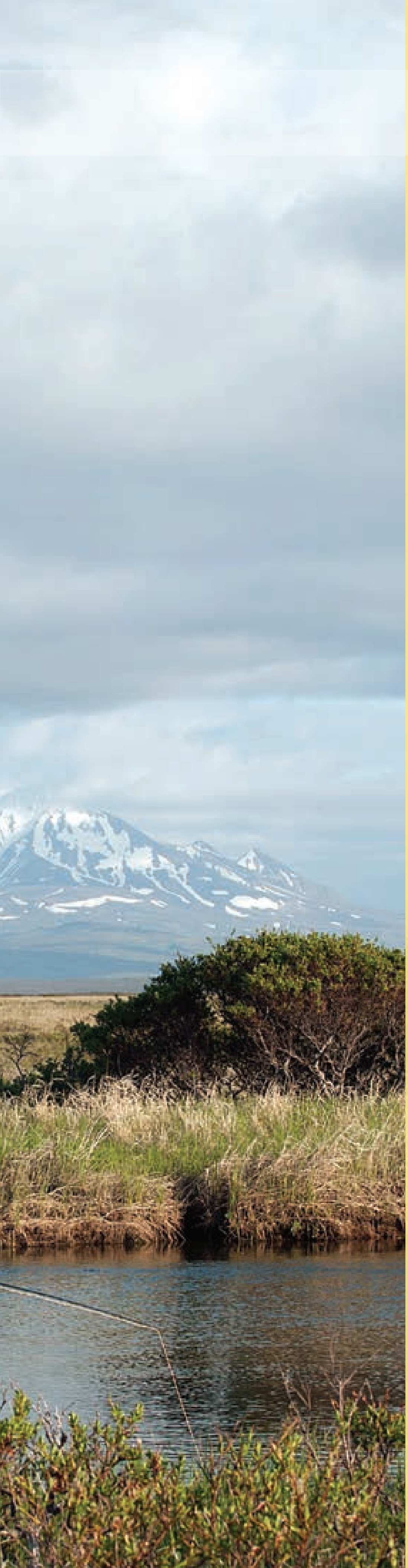


**Patrick Pletnikoff**
St. George
Board Member
Term: 2013-2015

**Andrew Lestenkof, Jr.**
Nikolski
Board Member
Term: 2012-2014



**Bill Shaishnikoff**
Unalaska
Board Member
Term: 2013-2015



## Dear **APICDA** Community and Community Residents:

In 2012, APICDA's board and staff continued to work together on strategic investments to support sustainable local economies in our region. We continue to focus on direct investments in our communities as well as in other business ventures to generate necessary financial returns for our short and long term needs.

One key component of APICDA's financial success is our $13 million Long-term Reserve Account (LRA), which provides an important safety net for our operations. With our LRA fund, we can weather economic downturns, resource shortfalls, government decisions, or other issues that might adversely affect our industry. Another benefit of our LRA is to provide a source of low-cost funds for investment, since we can borrow up to 50% of the account from ourselves at very low interest rates. At the same time, the corpus of the fund remains the same – if we borrow $7 million, the fund remains at $13 million so we continue to acquire earnings on the entire amount.

The board initiated the use of the LRA in our expansion of the Bering Pacific Seafoods processing plant in False Pass and the improvements to infrastructure in Atka at the Atka Pride Seafoods processing plant. These investments within our communities align directly with the purpose of APICDA. Those investments will return to local fishermen and the community for years to come.

The Board has the fiduciary responsibility to be good financial stewards for APICDA, as well as to ensure that APICDA is positioned to deliver economic benefits to our region, now and in the future. We take that responsibility very seriously.

Our stable board and experienced management team works hard to benefit the people of our region. I am proud of APICDA's accomplishments in 2012, and look forward to continued success in the years to come.

Gilda M. Shellikoff

Gilda Shellikoff, Chair
Board of Directors
July 1, 2013

## To the **APICDA** Community:

I am pleased to present you with our 2012 Annual Report.

APICDA's purpose is to develop stable local economies in each of our member communities. It is challenging to do business in the APICDA region, but we are up to that challenge. As you well know there are many reasons for this: our transportation system, particularly by air, is generally terrible; the cost of energy is way too high; in some communities we lack key infrastructure; our competition in the seafood processing industry is well established and protective of their markets and fleets; and substance abuse erodes our access to human resources. We cannot accomplish our purpose by ourselves in the timespan we want. Unfortunately, most of the entities in our region do not have access to capital and, to the extent they do, have other mandates and constituencies to whom they must be responsive.

To overcome the challenges facing our region we need to make smart decisions, invest wisely, listen to our residents, and minimize our mistakes. APICDA is a mature organization now. We know what works and what does not. Band-Aids do not solve long-term problems or bring long-term relief. We need to be methodical. We know what we need: year-round seafood processing facilities in Atka, False Pass and St. George; seasonal processing in Nelson Lagoon; and an Umnak Island-wide program to provide Nikolski with a foundation for the future.

We are making progress, although more in some communities than others. Over the past few years in False Pass we have invested in constructing a year-round processing facility. We are near the completion of that project and have high hopes that the new Bering Pacific Seafoods plant will both stabilize the community and allow it to grow. The same plan will need to be implemented in Atka, Nelson Lagoon and St. George.

Both St. George and Atka are in need of harbors. The St. George harbor will cost over $30 million to build. With the help of Senator Hoffman and Representatives Edgmon and Herron, we have secured about $6 million in state funds. We have a long way to go. Access to money in Washington, D.C. is very difficult although our Alaska Congressional Delegation have been very helpful. We have a plan to secure the remaining funds for St. George and a plan to acquire funds for the Atka harbor, but this will not happen overnight.

Tourism is becoming an important part of our program. While tourism may never provide the same level of job, revenue and growth opportunities as seafood processing; it is a nice complement to our investment portfolio and increasingly generates more in-region jobs and revenue.

APICDA is actually much, much more than a seafood company. Our communities have come to rely upon us for many, many things they simply cannot access elsewhere. Our education and scholarship programs are exceptional. We do not hesitate to stand up politically for our communities and our region. We do our best to be there when you need us. We will continue to focus on being a responsible member of the communities we serve, working with local leadership to address any future challenges that come our way.

Larry Cotter
Chief Executive Officer

# 2012 Highlights

- Contributed $600,000 in grants to the six member communities as a community dividend.
- Long-term Reserve Account worth $13 million at year's end.
- Employed 80 APICDA residents with a payroll of $1,790,000.
- Invested $267,000 in scholarships and internship programs.
- Invested $237,000 in grants for schools, communities, and community outreach programs.
- Gross Revenue was $35,074,306.
- Paid harvesters $15,460,000 for crab, salmon, halibut, and sablefish.
- Contributed $180,000 in grants for community infrastructure, community associated miscellaneous donations, and other industry related grants.
- Consolidated net worth grew to $66.2 million.
- Invested $6 million on projects in the region, including a $1.4 million dock project at the Atka Pride Seafoods facility.
- Continued expansion of our tourism investments in the APICDA region.
- Provided $132,000 in loans to fishermen and entities in our region.
- Completed year two of a three-year program to significantly expand the Bering Pacific Seafoods processing facility in False Pass.
- Continued to lead or co-lead activities on solving the energy needs, inclusive of alternative energy projects/studies in the Aleutian region.

# **APICDA** Subsidiaries

### APICDA JOINT VENTURES, INC.
A wholly owned profit subsidiary of APICDA formed in 1994. All other for-profit companies of the organization are consolidated under AJV.

### ALEUTIAN ADVENTURES
A wholly owned company within APICDA Joint Ventures. This company controls and operates the assets we need to support our sport hunting and fishing activities in the communities of Atka and Nelson Lagoon. In its third full year of activities, the company is building a solid client base, and expanding tourism opportunities in the region.

### APICDA VESSELS, INC.
A wholly owned subsidiary of APICDA Joint Ventures. This company manages and operates our fishing and support vessels. As of 2012, we own and operate seven vessels: AP 1, AP 2, Atka Pride, Nightrider, Nikka D, Pogo, and the Taty Z.

### ATKA PRIDE SEAFOODS, INC.
A 50/50 partnership between APICDA Joint Ventures and the Atka Fishermen's Association, organized as a Subchapter C corporation. The plant, located in Atka, processes about 500,000 pounds per year of halibut and sablefish in H&G and fillet product forms.

### F/V BARBARA J, LLC
A 50/50 partnership between APICDA Joint Ventures and Trident Seafoods. This vessel is operated by Trident Seafoods and fishes for various species of crab and Pacific cod, and serves as a salmon tender.

### BERING PACIFIC SEAFOODS, LLC
100% owned and operated by APICDA Joint Ventures. The plant has operated for four years. The plant, located in False Pass, processes salmon, halibut, and sablefish in H&G and fillet product forms. Management continues to strive to increase the quality, quantity, and cost effectiveness of the operation.

### F/V FARWEST LEADER, LLC
A 50/50 partnership between APICDA Joint Ventures and Trident Seafoods. This vessel is operated by Trident Seafoods and fishes for various species of crab and Pacific cod, and serves as a salmon tender.

### F/V GOLDEN DAWN, LLC
A partnership between APICDA Joint Ventures, Aleutian Spray Fisheries and Trident Seafoods (ownership is 25%/25%/50% respectively). Managed by Trident, this trawl catcher vessel fishes primarily for pollock in the Bering Sea.

## KAYUX DEVELOPMENT, LLC

A 50/50 partnership between APICDA Joint Ventures and the St. George Tanaq Corporation. This company is poised to participate in any upland development associated with commercial activities in Tract I, Zapadni Bay Harbor on St. George Island.

## NELSON LAGOON STORAGE COMPANY, LLC

A 50/50 partnership between APICDA Joint Ventures and the Nelson Lagoon Tribal Council. The company operates as a gear and vessel storage business in Nelson Lagoon to support the summer salmon fishery.

## ALASKA LONGLINE, LLC

A 25/25/25/25 partnership between APICDA Joint Ventures (25%), BJ Ventures, LLC (25%),Wrenchhead, LLC (25%), and Omega-3 Inc. (25%). The fleet of five vessels inclusive of the F/LL Prowler, F/VLL Ocean Prowler, F/LL Bering Prowler, F/LL Kjevlja, and F/LL Zenith are longline catcher processors that fish for Pacific cod and sablefish in the Bering Sea and Gulf of Alaska. In 2011, ACL commenced the planning/building of a 136 foot freezer longliner to add to their fleet. The F/LL Arctic Prowler is being built in Ketchikan, Alaska, and is scheduled to be completed by September 2013.

## STARBOUND, LLC

APICDA Joint Ventures owns 20% of this pollock trawl catcher processor. Other partners include Aleutian Spray Fisheries (65%), Barry Ohai (10%), and Karl Bratvold (5%). Aleutian Spray serves as the managing partner. This vessel harvests and processes approximately 80% of APICDA's pollock CDQ quota.

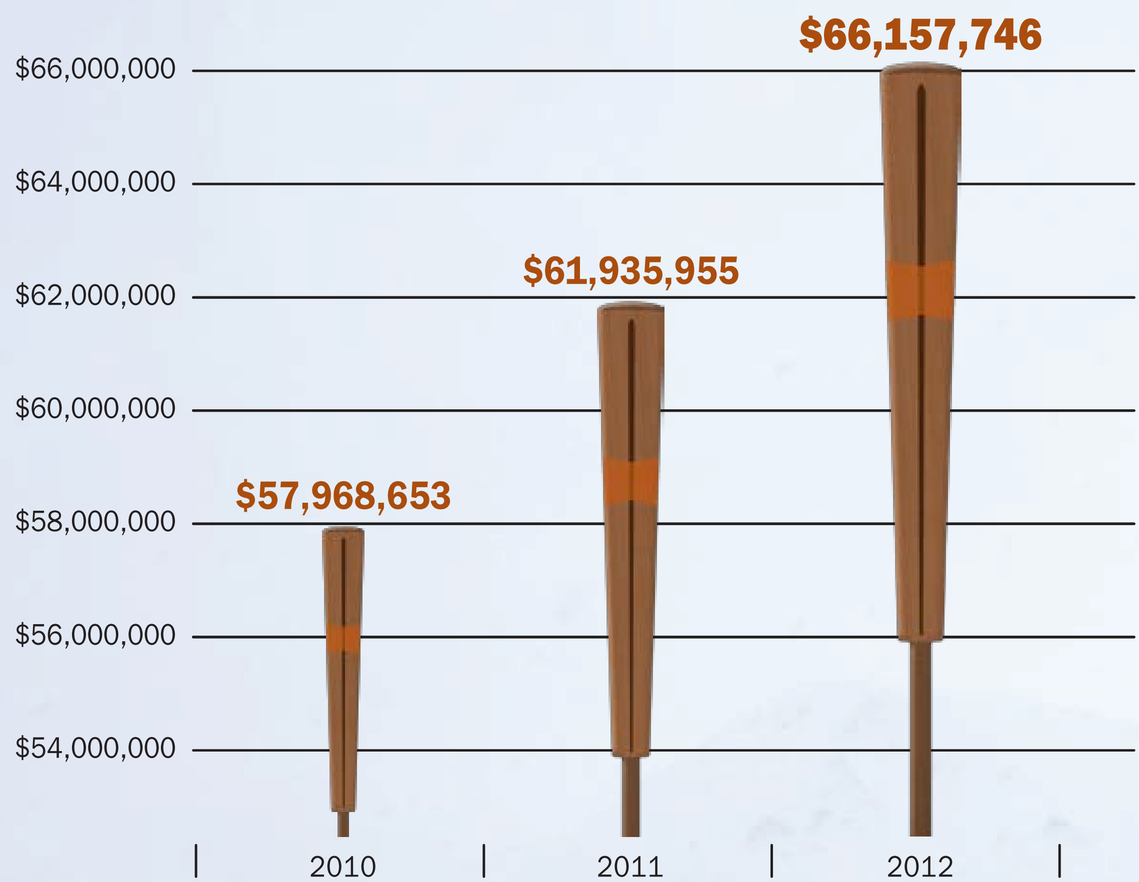
## TNG FISHERIES, LLC

A joint partnership between Bundrant and Ness (B&N) Fisheries 34%, APICDA Joint Ventures 33%, and Aleutian Spray Fisheries 33%. Vessels in this operation fish for various species of groundfish, Pacific cod, and salmon. The vessels also serve as salmon tenders.

## UGLUDAX LODGE, LLC

A 50/50 partnership between APICDA Joint Ventures and the Chaluka Corporation. The company operates the Ugludax Lodge in Nikolski on Umnak Island as a high end, sport fishing and hunting destination.

## **APICDA** CONSOLIDATED NET WORTH




## 2012 CDQ IN-REGION EMPLOYMENT

| | Individuals | Wages |
|---|---|---|
| Management/Admin | 16 | $782,076 |
| Board Members | 9 | $133,200 |
| Community Liaisons | 8 | $74,000 |
| Other Fishing | 28 | $392,950 |
| CDQ Partner | 5 | $239,708 |
| Internships | 4 | $22,619 |
| Other Employment | 17 | $145,801 |
| **Totals** | **80 **** | **$1,790,354** |

**Unique Individuals

## 2012 **APICDA** TRAINING & EDUCATION EXPENDITURES

| | Individuals | Expenditures |
|---|---|---|
| **Scholarships** | | |
| Emil Berikoff Sr. Memorial Scholarship | 64 | $201,954 |
| Supplemental Education Scholarship | 21 | $43,366 |
| **Other Expenditures** | | |
| School Grants | | $57,920 |
| Miscellaneous Grants | | $15,000 |
| **Total** | **85** | **$318,240** |

# CONSOLIDATED FINANCIALS FOR 2012

To comply with state and federal regulations, APICDA undergoes a financial and managerial audit each year, and the results are shared with state and federal regulators. The 2012 audit began February 2013 and was concluded at the end of August 2013 by the Anchorage-based accounting firm of Altman, Rogers & Co. Altman Rogers found the APICDA accounting department incorporated these additional, complex accounting standards extremely well.

The board and management place a great deal of faith and reliance with the Altman, Rogers & Co. findings as a measure of our overall corporate health. Management takes their recommendations as direction to improve managerial and accounting practices, and tries to implement them as quickly as possible. The Altman, Rogers & Co. annual audit is a critical component in our corporate governance processes, and we are extremely grateful for the professional, diligent, and forthright manner in which it is conducted each year.

Altman, Rogers & Co.'s complete "Audit and Report on Consolidated Financial Statements and Supplementary Information" is on file in the APICDA corporate office in Juneau, Alaska. Management compressed the financial information depicted below from that audit and report for 2012.

## Consolidated Statements of Financial Position

December 31, 2012 and 2011

| | | 2012 | 2011 |
|---|---|---|---|
| **Assets:** | | | |
| **Current Assets:** | | | |
| Cash and cash equivalents | $ | 8,732,029 | 6,183,061 |
| Restricted cash | | 426,551 | 426,265 |
| Short term investments | | 12,695,340 | 11,420,188 |
| Accounts receivable, net: | | 2,349,820 | 4,456,571 |
| Notes receivable - current - related party | | 3,861 | 13,714 |
| Note receivable - current | | 199,497 | 126,610 |
| Inventory | | 5,318,982 | 2,917,137 |
| Prepaid expenses | | 197,831 | 242,649 |
| Total current assets | | 29,923,911 | 25,786,195 |
| **Investments:** | | | |
| Investment in Out-of-region Entities | | 12,594,034 | 12,482,971 |
| Investment Partnerships with In-region Entities | | 843,839 | 922,549 |
| Total investments | | 13,437,873 | 13,405,520 |
| Property and equipment, net | | 29,415,640 | 23,176,520 |
| Intangible assets, net | | 6,885,829 | 6,935,653 |
| Deferred income tax | | 586,104 | 292,406 |
| Notes receivable affiliates, net of current portion | | 1,085,400 | 1,077,673 |
| Total assets | $ | 81,334,757 | 70,673,967 |
| **Liabilities and Net Assets:** | | | |
| **Current liabilities:** | | | |
| Notes payable - current | | 3,164,125 | 2,496,198 |
| Accounts payable | | 408,383 | 1,279,921 |
| Accrued payroll and related liabilities | | 319,684 | 270,191 |
| Current pension payable | | 52,972 | 51,369 |
| Interest payable | | – | 43,631 |
| Fish taxes payable | | 498,126 | 440,461 |
| Crab fees payable | | 142,226 | 174,312 |
| Unearned deposits | | 15,621 | 14,300 |
| Total current liabilities | | 4,601,137 | 4,770,383 |
| Notes payable, net of current portion | | 7,692,583 | 2,510,393 |
| Long-term pension payable | | 2,883,289 | 1,346,180 |
| Total non current liabilities | | 10,575,872 | 3,856,573 |
| Total liabilities | | 15,177,009 | 8,626,956 |
| **Net assets:** | | | |
| Controlling interests: | | | |
| Temporarily restricted | | 93,277 | 86,637 |
| Designated: | | | |
| Long-term reserves | | 13,016,306 | 12,017,826 |
| Undesignated | | 53,341,791 | 49,744,919 |
| Noncontrolling interests: | | | |
| Contributed capital | | 1,495,000 | 1,495,000 |
| Unrestricted/designated | | (1,788,626) | (1,297,371) |
| Total net assets | | 66,157,748 | 62,047,011 |
| Total liabilities and net assets | $ | 81,334,757 | 70,673,967 |

See accompanying notes to financial statements.

## Consolidated Statements of Activities

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Changes in unrestricted net assets:** | | |
| **Revenues and support:** | | |
| Royalties | $ 11,345,571 | 11,876,081 |
| EDA grant | - | 223,950 |
| Interest and dividends | 355,086 | 319,204 |
| Gain on sale of property/equipment and equity investment | 286,730 | 25,903 |
| Net realized and unrealized gains (losses) on investments | 792,173 | (318,625) |
| Nazan Bay Inn | 82 | 525 |
| Equity in profit (loss) of Out of Region Investment | 2,150,001 | 2,283,770 |
| Equity in profit(loss) of In-Region Partnerships | (78,710) | (124,964) |
| Fishing income | 3,736,822 | 4,970,125 |
| Software sales | - | 18,000 |
| Crab | 15,664,910 | 11,586,757 |
| Tourism income | 214,708 | 269,916 |
| Rental income | 107,567 | 80,480 |
| Other income | 412,729 | 55,781 |
| Total revenues and support | 34,987,669 | 31,266,903 |
| Net assets released from restrictions | 86,637 | 83,000 |
| Total revenues support and reclassifications | 35,074,306 | 31,349,903 |
| **Expenses:** | | |
| Programs: | | |
| Community development: | | |
| Grants for Education (Scholarships/Vocational) | 263,945 | 155,426 |
| Grants for projects | 913,455 | 935,629 |
| Community outreach | 191,048 | 188,788 |
| Total community development | 1,368,448 | 1,279,843 |
| Operations: | | |
| Crew | 517,395 | 1,138,770 |
| Labor | 1,888,291 | 2,237,345 |
| Boat supplies, maintenance and repairs | 4,448,941 | 3,218,358 |
| Travel and transportation | 124,827 | 127,120 |
| Insurance | 105,083 | 144,643 |
| Nazan Bay Inn | 33,158 | 73,636 |
| Tourism | 353,670 | 439,152 |
| Licenses, taxes and fees | 593,461 | 544,225 |
| St. George fish handling facility | 81,313 | 228,239 |
| Crab | 13,546,082 | 10,502,825 |
| Miscellaneous | 74,488 | 41,417 |
| Total operations | 21,766,709 | 18,695,730 |
| Total program expenses | 23,135,157 | 19,975,573 |
| General and administrative: | | |
| Travel and transportation | 321,989 | 251,516 |
| Labor | 3,819,597 | 3,541,361 |
| Office expense | 623,862 | 525,092 |
| Management fees | 140,778 | 145,629 |
| Directors' fees and per diem | 377,840 | 393,008 |
| Insurance | 165,733 | 199,754 |
| Professional fees | 484,966 | 431,397 |
| Licenses, taxes and fees | 260,376 | 188,720 |
| Repairs and maintenance | 116,769 | 65,896 |
| Miscellaneous | 132,832 | 129,106 |
| Total general and administrative | 6,444,742 | 5,871,479 |

## Consolidated Statements of Activities
December 31, 2012 and 2011

| | | 2012 | 2011 |
|---|---|---|---|
| Interest and depreciation expense: | | | |
| Interest | | 195,100 | 205,625 |
| Depreciation | | 1,488,908 | 1,337,100 |
| Total interest and depreciation | | 1,684,008 | 1,542,725 |
| Total expenses | | 31,263,907 | 27,389,777 |
| Income before tax provision | | 3,810,399 | 3,960,126 |
| Income tax benefit (expense) | | 293,698 | 154,687 |
| Increase in unrestricted net assets before non-controlling interests | | 4,104,097 | 4,114,813 |
| Increase in unrestricted net assets attributable to non-controlling interests | | 491,255 | 67,330 |
| Total Increase in unrestricted net assets | | 4,595,352 | 4,182,143 |
| Change in temporarily restricted net assets: | | | |
| Contributions | | 93,277 | 86,637 |
| Net assets released from restriction | | (86,637) | (83,000) |
| Change in temporarily restricted net assets | | 6,640 | 3,637 |
| Total change in net assets | $ | 4,110,737 | 4,118,450 |

See accompanying notes to financial statements.

# I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Description of Business

Aleutian Pribilof Island Community Development Association ("APICDA") is an Alaskan nonprofit corporation formed in September 1992 for the benefit of various southwestern Alaska villages for the purpose of participating in the Alaska Community Development Quota ("CDQ") program established by the Federal Government. Under the CDQ program, CDQ representative groups apply periodically for a portion of the harvestable ground fishery in the coastal waters of the Bering Sea and Aleutian Islands of Alaska. During 2006, the U.S. Congress extended the CDQ rights for all species indefinitely and established the allocation percentage for all species at 2002 levels through 2012.

### Principles of Consolidation

In 1994, APICDA formed two wholly owned for profit subsidiaries, APICDA Joint Ventures, Inc. ("AJV"), and APICDA Management Corporation ("AMC"). On January 1, 1996, AMC was renamed as APICDA Vessels, Inc. ("AVI") and APICDA's investment in AVI was transferred to AJV.

AJV is a 100% owner of AVI and Bering Pacific Seafoods, L.L.C. ("BPS"), and a 50% owner of, Ugludax Lodge, L.L.C and Atka Pride Seafoods (APS).

In accordance with accounting principles generally accepted in the United States of America, APICDA, AJV, AVI, BPS, APS and Ugludax Lodge, L.L.C. have been consolidated for the years ended December 31, 2012 and 2011. The consolidated entity is referred to as APICDA in these financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

### Operations

APICDA promotes local economic development in the Bering Sea/Aleutian Islands area of Alaska including fisheries development and protection. APICDA evaluates requests for assistance and distributes grants or other forms of financial assistance.

APICDA received a community development quota of approximately 33,697 metric tons in 2012 and 33,806 metric tons in 2011, which represents approximately 17.02% of Alaska's CDQ reserve.

APICDA has entered into agreements with seafood processors whereby APICDA receives royalty payments for the utilization of the CDQ by processors. Under the agreements, the royalty is calculated using fixed rates, applied to round weights caught, and percentages applied to gross revenues from pollock and pollock roe produced, plus additional amounts if average sale prices exceed amounts defined in the agreement.

APICDA Joint Ventures, Inc. is a 50% owner of Atka Pride Seafoods, Inc. ("APS"), located in Atka, Alaska, which purchases and processes fish for resale; a 25% owner of Golden Dawn, L.L.C., a vessel engaged in commercial fishing in Alaska; a 50% owner of Nelson Lagoon Storage Company, L.L.C., which stores fishing gear and vessels in Nelson Lagoon, Alaska; a 50% owner of Kayux Development, L.L.C., which is a harbor operating on Tract I in the City of St. George, Alaska; a 100% owner of Bering Pacific Seafoods, L.L.C. ("BPS"), located in False Pass, Alaska, which purchases and processes fish for resale; a 50% owner of Ugludax, L.L.C., which operates a fishing lodge in Nikolski, a 20% owner of Starbound, L.L.P., a vessel engaged in fish processing; a 50% owner in the Barbara J., L.L.C., a vessel engaged in commercial fishing in Alaska, during 2008 became a 50% owner of Reagan L.L.C, a vessel engaged in commercial fishing in Alaska, and during 2011 became a 50% owner of TNG, L.L.C., which is engaged in commercial fishing in Alaska. During 2012 a portion of the ownership interest in TNG, L.L.C. was sold which reduced AJV's ownership to 33.3%.

In 2009 AJV became a 25% owner of the newly formed Alaska Longline L.L.C. As part of the new L.L.C. being formed Alaska Longline L.L.C. acquired 100% interest in the Prowler L.L.C. and Ocean Prowler L.L.C.

APICDA Joint Ventures, Inc. is a 100% owner of APICDA Vessels, Inc. (AVI), which purchases fishing vessels that are leased to fishermen in various southwestern Alaska villages. AVI is a 50% owner of Farwest Leader, L.L.C., a vessel engaged in commercial fishing in Alaska. AVI accounts for its investment in Farwest Leader, L.L.C. by the equity method.

AJV accounts for its investments in Golden Dawn, L.L.C., Alaska Longline L.L.C., Kayux Development, L.L.C., Nelson Lagoon Storage Company, L.L.C., Barbara J., L.L.C., Reagan, L.L.C., Starbound, L.L.P. and TNG L.L.C. by the equity method. All other companies are consolidated.

In 2011 Reagan L.L.C was dissolved.

### Basis of Accounting

APICDA's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when they are earned. Liabilities and expenses are recorded when incurred.

APICDA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At years ended December 31, 2012 and 2011 APICDA did not have any net assets that were classified as permanently restricted.

Unrestricted net assets represent that portion of net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets are resources restricted by the donor, grantor, or other outside parties whose restrictions expire by the passage of time or can be fulfilled or removed by actions of APICDA. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As of December 31, 2012 and 2011 temporarily restricted net assets was comprised entirely of landing tax, these contributions cannot be spent until subsequent fiscal year.

Permanently restricted net assets represent the part of the net assets from contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Fair Value of Financial Instruments

The Company must disclose its estimate of the fair value of material financial instruments, including those recorded as assets or liabilities in its financial statements and derivative financial instruments.

The following financial instruments are recorded at fair value or at amounts that approximate fair value: (1) cash and cash equivalents, (2) investments, (3) receivables, net, (4) certain other current assets, (5) accounts payable and (6) other current liabilities. The carrying amounts reported in the balance sheets for the above financial instruments closely approximates their fair value due to the short-term nature of these assets and liabilities, except for the Company's investments. The carrying amounts of the Company's investments were determined based on quoted market prices.

### Cash and Cash Equivalents

APICDA, for the purpose of the Statement of Cash Flows, considers cash and cash equivalents to include amounts in demand deposits and short-term investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and that present an insignificant risk of changes in value due to changes in interest rates or other factors. APICDA maintains a number of checking, savings and time certificate of deposit accounts for each one of its consolidated companies. Included in cash and cash equivalents are certificates of deposits with a total value of $361,996, with a maturity of greater than three months after year end. Accounts are held with Wells Fargo bank and are insured up to $250,000 per bank, per Employer Identification Number (EIN), by FDIC. From December 31, 2010 through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account and the ownership capacity of the funds. Amounts in interest bearing accounts in excess of $250,000 are uninsured. The uninsured cash balance held at Wells Fargo bank at December 31, 2012 and 2011 were $736,855 and $715,303, respectively.

There are certificate of deposits that are restricted by the State of Alaska and cannot be used by APIDCA and Subsidiaries until the state releases the funds. The amount of restricted cash as of December 31, 2012 and 2011 is $426,551 and $426,265, respectively.

### Investments

APICDA carries investments at fair value. The change in the fair value is included in the consolidated statement of activities. Investments consist of mutual funds, equity securities, U.S. agency obligations, and corporate debt securities. For purposes of calculating realized gains and losses, cost is determined by the specific identification method on a trade date basis.

### Trade Accounts Receivable, Other Receivables and Notes Receivables

APICDA uses the reserve for bad debt method of valuing doubtful receivables which is based on historical experience, coupled with a review of the current status of existing receivables. The balance of the reserve for doubtful accounts, deducted against trade accounts receivable to properly reflect the realizable value, is $11,819 and $8,819 at December 31, 2012 and 2011, respectively. The balance of the reserve for doubtful account, deducted against notes receivables to properly reflect the realized value, $89,089 and $89,089 at December 31, 2012 and 2011, respectively. Receivables are charged off when all collection efforts have been exhausted.

### Inventory

Inventory consists of retail merchandise and fish to be sold at wholesale. Retail merchandise is stated at cost. Fish is valued at lower of cost or market. Accounting for retail merchandise is on the first in, first out (FIFO) method.

### Prepaid Items

Payments made to vendors for services that are applicable to future accounting periods are recorded as prepaid items.

### Intangible Assets

Intangible assets are comprised primarily of fishing rights and permits.

In accordance with Accounting Standards Codification (ASC) 250 Intangibles, Goodwill and Others effective January 1, 2002, the Company discontinued amortizing the intangible assets with indefinite lives. The Company reviews the fishing permits for impairment annually on December 31, and more frequently if circumstances warrant. The Company performed the annual review as of December 31, 2012 and 2011 and determined that the fishing permits continue to have indefinite lives and that there was no impairment of these assets.

### Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets, generally five, seven, or ten years. Expenditures for major additions, renewals and betterments are capitalized and maintenance, repairs, minor additions and renovations are charged to expense. Gains or losses upon asset disposal are recorded as revenue.

### Revenue Recognition

Royalty revenue from applying fixed rates to round weights caught or finished product is recognized at the time of harvest. Royalty revenue resulting from CDQ species and CDQ roe sold, and from the variable rate based on product mix and related market price, is recognized when these products are sold and the amount of royalty is determined to be measurable and collectible.

Income from leasing fishing vessels which is calculated as a percentage of the lessee's sales, is recognized in the period such sales occur.

### Community Development Quota

The fair value of the CDQ quota received by APICDA is not considered to be determinable within reasonable limits. Accordingly, no value is assigned to the receipt of the quota in the financial statements.

### Income Taxes

On July 27, 1993, APICDA was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, effective September 29, 1992. APICDA believes that none of its activities subject it to taxation of unrelated business taxable income, in evaluation of unrelated business income, the Company follows GAAP, when accounting for uncertainty in income taxes. The Company's policy is to include penalties and interest associated with income taxes in income tax expense. The prior three years of tax returns remain subject to examination by state and federal taxing agencies. However, all subsidiaries conduct activities, which are subject to federal and state taxation (See Note XIII).

### Reclassification

Certain prior year balances have been reclassified to conform to the current year presentation.

## II. INVESTMENTS

Investments are stated at fair value and are as follows at December 31, 2012 and 2011:

| | | Fair Value | |
|---|---|---|---|
| | | 2012 | 2011 |
| Mutual funds: | $ | 2,165,507 | 1,872,633 |
| Marketable securities | | 7,460,537 | 6,762,565 |
| Accrued interest | | 8,298 | 9,544 |
| Commodity trading advisors | | 514,940 | 555,778 |
| Government bonds | | 2,546,058 | 2,219,668 |
| Total investments | $ | 12,695,340 | 11,420,188 |

The following schedule summarizes the investment return for the years ended December 31, 2012 and 2011:

| | | Unrestricted | |
|---|---|---|---|
| | | 2012 | 2011 |
| Interest and dividends | $ | 346,385 | 305,133 |
| Net realized and unrealized gains (losses) | | 792,173 | (318,625) |
| Investment management fees | | (140,078) | (145,629) |
| Net investment return | $ | 998,480 | (159,121) |

Included in investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or for certain bonds and preferred stock when carried at the lower of cost or market.

The fair value of an asset is the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Fair values are based on quoted market prices when available. The Company does not have investments for which quoted market prices are not available.

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

- Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following table provides information as of December 31 about the Company's financial assets and liabilities measured at fair value on a recurring basis.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets at fair value - | | | | |
| 2012 Investments | $ 12,695,340 | - | - | 12,695,340 |
| 2011 Investments | $ 11,420,188 | - | - | 11,420,188 |

Given the narrow definition of Level 1 and the Company's investment asset strategy, all of the Company's investment assets are classified in Level 1. Changes in investments is presented on the statement of activities as interest, dividends and realized and unrealized gains and losses on investments.

## III. NOTES RECEIVABLE

Notes receivable at December 31 are comprised of the following:

| | 2012 | 2011 |
|---|---|---|
| Notes receivable from affiliates | $ 725,789 | 642,589 |
| Notes receivable from non-affiliates: | 575,127 | 579,305 |
| Total notes receivable | 1,300,916 | 1,221,894 |
| Allowance for doubtful notes | (89,089) | (89,089) |
| Notes receivable, net | 1,211,827 | 1,132,805 |
| Less current portion of notes receivable: | | |
| Affiliates | - | - |
| Non-affiliates | (199,497) | (126,610) |
| Total current portion of notes receivable | (199,497) | (126,610) |
| Long term notes receivable, net: | | |
| Affiliates | 725,789 | 642,589 |
| Non-affiliates | 286,541 | 363,606 |
| Total long term notes receivable, net | $ 1,012,330 | 1,006,195 |

The receivables from affiliates are notes receivables advanced to companies of which APICDA is part owner. The notes receivable from non-affiliates are loans that were made to fishermen in the Aleutian Islands Region of Alaska. At December 31, 2012, the notes receivable from affiliates were uncollateralized.

## IV. ADVANCES DUE FROM AFFILIATED NON-CONSOLIDATED COMPANIES

Advances receivable at December 31 are comprised of the following:

| | 2012 | 2011 |
|---|---|---|
| Advances due from Kayux Development, L.L.C., non-interest bearing | $ 25,600 | 24,000 |
| Total all advances | 25,600 | 24,000 |

## V. PROPERTY AND EQUIPMENT

Property and equipment at December 31 are comprised of the following:

| | 2012 | 2011 |
|---|---|---|
| Property and equipment being depreciated: | | |
| Office equipment | $ 623,519 | 600,146 |
| Fishing vessels and gear | 1,792,553 | 2,682,333 |
| Electronic equipment | 101,534 | 131,711 |
| Deck gear | 171,576 | 250,154 |
| Safety gear | 42,141 | 46,079 |
| Automobiles | 643,944 | 469,688 |
| Machinery | 6,013,934 | 4,096,855 |
| Buildings and infrastructures | 23,536,781 | 21,034,916 |
| Total property and equipment being depreciated | 32,925,982 | 29,311,882 |
| Less accumulated depreciation | (8,281,775) | (7,382,494) |
| Net property and equipment being depreciated | 24,644,207 | 21,929,388 |
| Property and equipment not being depreciated: | | |
| Construction in progress | 3,988,561 | 488,260 |
| Land and land improvements | 782,872 | 758,872 |
| Total property and equipment not being depreciated | 4,771,433 | 1,247,132 |
| | $ 29,415,640 | 23,176,520 |

## VI. INTANGIBLE ASSETS

Other assets consist of intangible assets.

| | | 2012 | 2011 |
|---|---|---|---|
| Intangible assets balances by asset at December 31 are: | | | |
| Individual fishing quota shares | $ | 2,710,003 | 2,710,003 |
| Less accumulated amortization & impairment | | (919,363) | (919,363) |
| Individual processing quota shares | | 4,021,985 | 4,021,985 |
| Catch history rights | | 110,500 | 110,500 |
| Less accumulated amortization | | (21,600) | (21,600) |
| Land use rights | | 1,495,000 | 1,495,000 |
| Less accumulated amortization | | (510,696) | (460,872) |
| | $ | 6,885,829 | 6,935,653 |

## VII. RELATED PARTY TRANSACTIONS

**Related Party Note Receivable**

During 2003, AJV extended a loan in the amount of $95,567 to one of its Board members. The note is non-interest bearing and is payable in annual payments equal to 20% of the total ex-vessel value of the halibut IFQ harvested and sold during each calendar year. The balance due at December 31, 2012 is $51,331, $3,861 of which is classified as current and $47,470 is classified as non-current. The entire unpaid principal balance is payable in full in November 2014.

During 2008, AVI extended a loan in the amount of $25,000 to one of its Board members. The note is payable in minimum annual payments of $6,250 prior to September 30 of each year. During 2012 the loan was paid in full.

During 2012 AJV purchased the Konrad I, a fishing vessel from AVI for $750,000. The boat was then transferred to TNG, L.L.C. as an additional capital contribution of $750,000.

## VIII. NOTES PAYABLE

Notes payable consists of the following:

Loan payable to Wells Fargo, final payment is scheduled to be on August 1, 2021. The original amount of the loan was $787,000. The loan has a variable interest rate calculated based upon the LIBOR index rate plus 2.25%. The current rate on the loan is 2.625%. Principal balance due at December 31, 2012 is $694,209, $71,997of which is classified as current. The quota share that was purchased with this loan is collateral for the note payable.

Loan payable to Wells Fargo, final payment is scheduled to be on May 15th, 2026. The original loan amount was $1,275,000. The loan has a variable interest rate calculated based upon the LIBOR index rate plus 2.25%. The current rate on the loan is 2.625%. Principal amount due at December 31, 2012 is $1,162,263, $74,258 of which is classified as current. The building that was purchased with this loan is collateral for the note payable.

Grant from the Alaska Science and Technology Foundation is to be repaid in the following manner: Repayment shall equal five percent of the grantee's gross receipts which arise from the project to which the grant was related to, until ½ the amount of the grant has been repaid. The original amount of the grant was $140,000. Principal balance due at December 31, 2012 is $133,576, which is classified as non-current. Also included is a note finance charge of $66,788, which at December 31, 2012 is included in long-term notes payable.

Loan payable to Westward Seafoods, Inc. due in full on December 31, 2023 interest is 4.6%. The original amount of the loan was $659,381. Principal balance due at December 31, 2012 is $454,858, $51,131 of which is classified as current and $403,727 is classified as long-term notes payable

Line of credit payable of $2,255,130 to Merrill Lynch. Interest rate of the Federal discount rate plus 2.0% floating. Loan is collateralized by investments. The loan balance may never exceed fifty percent of the value of the investments. Full amount of line of credit is classified as long-term liability.

Loan payable to Wells Fargo in the form of a straight line of credit, due in full on February 13, 2018. The original amount of the line of credit was $5,000,000, $2,717,843 of which was drawn down as of December 31, 2012. Interest is calculated on the unpaid principal balances using an interest rate based on the LIBOR index rate plus 2.25%. The current interest rate on the loan is 2.625%. 59 monthly consecutive principal payments of $83,333.33 each, begins March 15, 2013 and one principal and interest payment of $83,495.32 on February 13, 2018.

Line of credit payable to Wells Fargo, due in full on May 30, 2013 with a variable interest rate of 2.750%. The original amount of the loan was $6,000,000. Principal balance due at December 31, 2012 is $2,058,202, all of which is classified as current.

Loan payable to Wells Fargo, due in full on June 15, 2027 with a variable interest rate of 2.50%. The original amount of the loan was $1,350,000. 179 payments of $9,031.02 each payment commences on July 15, 2012 and an irregular last payment estimated at $9,030.60. Principal balance due at December 31, 2012 is $1,313,839, $75,204 of which is classified as current and $1,238,350 is classified as long-term notes payable.

| | 2012 | 2011 |
|---|---|---|
| Total notes payable | $ 10,856,708 | 5,006,591 |
| Less current portion of notes payable | 3,164,125 | 2,496,198 |
| Long-term portion of notes payable | $ 7,692,583 | 2,510,393 |

Annual maturities of long-term debt for the five years subsequent to fiscal year 2012 and 2011 are as follows:

| | 2012 |
|---|---|
| 2013 | 3,164,125 |
| 2014 | 1,275,751 |
| 2015 | 1,162,242 |
| 2016 | 279,764 |
| 2017 | 281,847 |
| Thereafter | 4,692,979 |
| Totals notes payable | 10,856,708 |
| Less: current portion | 3,164,125 |
| | $ 7,692,583 |

## IX. LONG-TERM RESERVES

At December 31, 2012, the Board designated $13,016,306 of unrestricted net assets for long-term reserves. All of this amount is held in investments. At December 31, 2011, the Board designated $12,017,826 of unrestricted net assets for long-term reserves. This entire amount is held in investments.

## X. GRANTS

APICDA provides financial assistance to organizations in southwestern Alaska for purposes of economic development and fisheries related development and protection. The amount of this financial assistance, which is classified as grants for scholarships and grants for projects on the statement of activities, for the years ended December 31, is comprised of the following:

| | | 2012 | 2011 |
|---|---|---|---|
| Community projects | $ | 323,542 | 324,417 |
| Fisherman's associations | | 120,000 | 140,000 |
| School districts | | 57,920 | 60,000 |
| College internships | | 3,041 | - |
| Scholarships | | 196,744 | 135,324 |
| Supplemental Education – Vocational Education | | 67,201 | 20,102 |
| Community dividends | | 600,000 | 600,000 |
| | $ | 1,368,448 | 1,279,843 |

## XI. LEASES

Pursuant to providing financial assistance for various infrastructure projects, APICDA has entered into four operating leases for undeveloped land. The first lease contains initial terms of twenty years and four additional five-year renewal options. The second lease contains an initial term of thirty years with one six-year, and up to four additional five-year renewal options. The third lease contains an initial term of thirty-five years.

APICDA has a ninety-nine year land lease with Isanotski Corporation in False Pass, Alaska. The lease was initiated in 2001, and requires annual payments of $40,000 until the sixth anniversary of the lease, after which time the payment will be adjusted annually to reflect changes in the consumer price index. Annual lease payments cannot go below the initial base amount or proceeding annual payment.

## XII. COMMITMENTS AND CONTINGENCIES

### Loan Guarantees

APICDA and APICDA Joint Ventures is a guarantor, jointly and severally liable with its various partners, on $37,706,000 in investments owned by APICDA, APICDA Joint Ventures and their harvesting partners.

## XIII. INCOME TAXES

APICDA is subject to income tax only on its income from the activities of its for-profit subsidiaries, AVI, AJV, BPS, Ugludax Lodge, L.L.C., and Atka Pride Seafoods, Inc.

The income for AVI, AJV, BPS LLC, and Ugludax Lodge, L.L.C. are reported on a consolidated tax return. Atka Pride Seafoods, Inc. files a separate return.

The provision for income taxes for Atka Pride Seafoods, Inc. consist of the following:

| | | 2012 | 2011 |
|---|---|---|---|
| Current taxes (expense) benefit | $ | - | - |
| Deferred taxes (expense) benefit | | 293,698 | 154,687 |
| Total provision for income taxes (expense) benefit | $ | 293,698 | 154,687 |

## XIV. LEASES

Operating Leases

AVI, a wholly owned subsidiary of AJV, as lessor, has operating leases for several fishing vessels and related equipment and gear to fishermen in the regional communities. The operating leases run for the fishing season and provide for AVI to receive as lease income a minimum of twenty-five percent of the fishermen's fish sales. Related lease income for the years ended December 31, 2012 and 2011 was $246,001 and $740,795, respectively. The property and equipment subject to these leases and included in Property and Equipment in the accompanying statements of financial position at December 31, are as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| Vessels and gear | $ | 1,171,198 | 1,813,223 |
| Electronic equipment | | 67,632 | 88,360 |
| Deck gear | | 146,800 | 201,989 |
| Safety gear | | 17,114 | 20,568 |
| | | 1,402,744 | 2,124,140 |
| Accumulated depreciation | | (734,302) | (1,062,836) |
| | $ | 668,442 | 1,061,304 |

## XV. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 26, 2013, the date which the financial statements became available for issue.

# BOARD OF DIRECTOR NOTES

In addition to the financial information provided in this annual report, the board of directors wishes to make known to the residents of APICDA communities the following information regarding corporate governance. The board exercises broad oversight of its management team through board and committee meetings. Generally the board meets four times a year to review the financial health of APICDA, to receive reports on current operations, and to review plans for future programmatic changes. The Executive Committee meets with top management, generally on a monthly basis, to monitor the corporation's business, provide recommendations, and to approve or disapprove planned actions by management that do not require action by the full board. In addition, the board appoints several committees (see inset) to oversee specific corporate functions. The Budget & Audit Committee reviews annual budgets prior to submission to the full board, and monitors management's performance against budget throughout the budget year. The other committees meet on a regular basis to review new proposals and management performance.  Reports are made to the full board.

APICDA compensates its directors $400 per day for meeting attendance fees. In addition, the directors receive a $300 a month honorarium as compensation for time expended on corporate affairs through emails, phone conversations, and correspondence review. The board, noting the extreme time demands placed on the chairs of APICDA and APICDA Joint Ventures, authorized each $3,000 per month in compensation. Travel and per diem for board members are paid at the published rates for federal employees. APICDA compensated its 9 directors a total of $133,200 in 2012.

In 2012, APICDA and its subsidiaries paid the following professional service fees: $138,997 in legal fees; $75,740 in consultant fees; $105,559 in accounting and auditing fees; $140,078 in reserve fund management fees; and APICDA Joint Ventures, Inc. paid $161,106 in lobby fees. (For lobbying activities in both Juneau and Washington D.C.)

Disclosures are made if any officers, directors, or key employees are related to any professional service providers the corporation utilizes. There were no such relationships in 2012. APICDA also discloses any pending litigation between the corporation and any former officers, directors, or key employees. No such litigation is pending.

The board is mindful of its responsibility to ensure its management team is professional, competent, responsive, and fully supportive of its goals and priorities. The board highly values its management team. Salaries are set based on those parameters and at levels comparable to other companies in the industry. Chief Executive Officer (CEO) Larry Cotter, Chief Financial Officer (CFO) Robert Smith, and Chief Operating Officer (COO) Don Beeson, and were paid $325,000, $149,999 and $148,057 respectively in salary during calendar year 2012. Rounding out the top five compensated employees for the year was Construction Manager, Shawn Hansen who received $119,176 and Vessel Manager, Jeff Kashevarof with a salary of $117,598. In addition, the board compensates top management with performance bonuses each year. These bonuses, which may vary in amount from year to year, serve to recognize meritorious performance and to provide further incentives for top management to strive for excellence as it pursues the corporation's goals and objectives. Bonuses awarded for 2012 were based, among other things, on the gross revenues received from our CDQ and investments, management improvements with our in region investments, performance improvements at operating entities, and major acquisitions completed. The CEO and CFO were awarded $50,000 and $25,000 respectively for their performance in 2012. The Construction Manager and Vessel Manager each received a performance bonus of $5,000 and $1,500 respectively.

# 2012 Committee Membership

## EXECUTIVE COMMITTEE
Gilda Shellikoff - False Pass
Hugh Pelkey -Akutan
Justine Gundersen – Nelson Lagoon

## FINANCIAL INVESTMENT COMMITTEE
Pete Crandall - Juneau
Hugh Pelkey - Akutan
Gilda Shellikoff – False Pass

## TRAINING & EDUCATION COMMITTEE
Hugh Pelkey –Akutan
Mark Snigaroff- Atka
Patrick Pletnikoff – St. George

## POLICY & PROCEDURES COMMITTEE
Rick Lauber - Juneau
Justine Gundersen - Nelson Lagoon
Gilda Shellikoff - False Pass

## BUDGET & AUDIT COMMITTEE
Justine Gundersen - Nelson Lagoon
Pete Crandall - Juneau
Gilda Shellikoff - False Pass
Rick Lauber - Juneau

## BUSINESS INVESTMENTS COMMITTEE
Rick Lauber - Juneau
Pete Crandall - Juneau
Gilda Shellikoff –False Pass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