



2012 Annual Report



Central Bering Sea Fishermen's Association



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Our Mission

To develop a viable, self-sustaining, independent fisheries development organization that, on behalf of the local fishermen, and the community of St. Paul as a whole, and in cooperation with other Bering Sea Coastal Communities and CDQ groups, will ensure key participation in fishery related development in the region while exercising proper resource stewardship.

Central Bering Sea Fishermen's Association

2012 Annual Report

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Chairman's Letter

Dear CBSFA Members,
CBSFA prides itself on our ability to efficiently manage our resources and investments, which allows for successfully achieving our mission – *to develop a viable, self-sustaining, independent fisheries development organization*, while providing various benefits to our community of St. Paul. I am pleased to report on our continuous efforts to our children, young adults, elders, community volunteers, and our local fishing fleet of St. Paul Island.

Healthy, well-educated youth are critical to our community and for that reason we uphold our ongoing support for the Montessori program, Scholarship and Training program, Bering Sea Days, Marine Science Camp, Alaska Native Science and Engineering Program, and various Pribilof School District extra-curricular programs. Tanadgusix Corporation provides employment opportunities, job-skill knowledge, and traditional cultural awareness to our young adults through the summer youth hire program. CBSFA is happy to contribute funding to such a program that instills local history and knowledge to our youth. Our Elders Residential Assistance Program and bi-annual subsistence donation to residents age 55 and older continues to relieve the high cost of living expenses and subsistence needs throughout our community.

During 2013, CBSFA made a substantial funding contribution to the Saint Paul Volunteer Fire Department. CBSFA understands the importance of safety and strongly believes in promoting safe practices throughout our community. This funding ensures the fire department has the necessary personal protective equipment, safety gear, and training tools. CBSFA greatly appreciates all the positive efforts from our community volunteers.

Our dedication to helping our local fleet is unending. Crane maintenance, small boat harbor safeguarding, and funding support for additional instruments to the quick response vessel reinforce a secure environment to our fishers and

community. With another progressing collaboration between local entities, our goal of constructing a vessel repair facility to aid our local fleet is closer to completion. CBSFA is delighted to collaborate with the Tribal Government on this joint venture project, as it will benefit our community for generations.

CBSFA continues its trend of growth with gross assets increasing to \$93.6 million as of December 31, 2012, and net assets growing to \$62.7 million.

It is an honor to serve as the Chairman as we deliver benefits to our community of St. Paul and I look forward to developing more opportunities that will provide for years to come.

Sincerely,
Myron Melovidov

A handwritten signature in black ink that reads "Myron Melovidov".



President's Letter

Dear CBSFA Members,

As we celebrated the twentieth anniversary of the creation of the CDQ program last year, we reported that CBSFA experienced steady growth in all respects during those first two decades. In 2012, CBSFA continued to be a major contributor to the social and economic development of Saint Paul. CBSFA's central mission is to successfully meet the intent and purpose of the CDQ program: to develop a fishery-related economy and to work toward enhancing the social and economic well-being of our community.

During 2012, the State of Alaska carried out the first Decennial Review of the CDQ program, as required by the 2006 amendment to the Federal Magnuson-Stevens Act that stabilized CDQ fisheries resource allocations and called for a review of the CDQ entities' performance every ten years. By statute, the review focused on progress in four major elements of the program: 1) socioeconomic conditions in the region, 2) financial performance, 3) workforce development, and 4) implementation of the Community Development Plan, which guides harvest of target species and bycatch.

We are happy to report that the results of the State's review affirmed the successes and accomplishments of CBSFA during the period from 2006 to 2010. The State team, which included the Commissioners of Fish and Game, Labor and Workforce Development and Commerce, Community and Economic Development, was very complimentary about CBSFA's achievements in both fishery related development and community improvements.

According to the review summary, "The State of Alaska evaluation team concurs with CBSFA's finding that overall performance has maintained or improved

for the 2006-2010 review period. CBSFA experienced positive growth in nearly all decennial review measurement items. CBSFA's report effectively summarized and supported performance findings across all required criteria."

A group of us from CBSFA recently held meetings with our Congressional delegation offices in Washington D.C., to reemphasize the importance of the CDQ program to Saint Paul and all of Western Alaska. We discussed testimony presented by CBSFA to Congress in 2005 during hearings regarding the CDQ program that listed our community development goals at that time. We were proud to be able to say that in the past seven years our community has realized those goals.

Our 2005 goals were:

1. Development of necessary infrastructure, including the construction of the small boat harbor, so that CBSFA and the community can upgrade its vessels and take advantage of the vast resource surrounding Saint Paul;
2. Individual fishermen's acquisition of larger vessels and additional fish quotas so they can expand and diversify;
3. Training and other educational programs and financial support to allow local residents to participate successfully in fishery development;
4. Continued harvest, and local processing of crab for the benefit of CBSFA and all the CDQ groups.

CBSFA is indeed proud of our contributions to these important achievements and thankful to the other local entities for their contributions. In the face of political challenges, we are optimistic that the Alaska delegation will continue to support the CDQ program, including CBSFA's CDQ allocations, so that the success of the Western Alaska Community Development Program will be preserved for the benefit of all generations to come.



CBSFA's management and support of the local CDQ halibut fishery continues to provide crucial fisheries-related employment and income to our community members and overall revenue support to the Saint Paul economy. Our crab and pollock investments continue to pay valuable dividends to CBSFA and our local fisheries economy, and revenue to support funding to our local development projects and community outreach programs.

Besides focusing on fishery and economic development investments, we have placed emphasis on creating and funding community outreach programs and supporting other organizations and their programs, which are directed at enhancing the well being of our community.

CBSFA continues to support an extensive educational program in the community: the Montessori Program for pre-kindergarten children; scholarships and training for interested youth and adults; Amix Education - Bering Sea Days and Marine Science Camp; and the Alaska Native Science and Engineering Program

through the University of Alaska. We also support Pribilof School District extracurricular activities, including Native Youth Olympics, 5th Grade trip, and High School Basketball, and also have provided funding for the much needed renovation of the school gym. We supported the Pribilof School District (PSD) and other organizations with funding to develop: "Laaquda{: The Northern Fur Seal", that created a seven lesson curriculum built around the life cycle and history of the northern fur seal for the PSD and other rural Alaska school districts.

In 2012, CBSFA continued to support the Elders Residential Assistance Program, the Elders/Community Seafood Donation Program and a volunteer tax preparation program. We also provided funding in times of bereavement and illness, substance abuse treatment and seafood donations to support numerous fundraising events. CBSFA also supported local job opportunities for our youth through continued funding of the Tanagudsix Corporation (TDX) Summer Youth Hire Program.

We are glad to report that CBSFA and other local entities continue to work together to help enhance the lives of our residents and support the development of our community. We would like to assure you that CBSFA is strong and financially stable, and we will continue to do our best to improve and develop our community.

On behalf of the CBSFA board of directors and staff, I want to thank you for your support and trust in us. I wish you all the best - good luck and good fishing to all the fishermen, now and into the future.

Sincerely,
Phillip Lestenkof



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CBSFA Board and Staff



CBSFA Board of Directors



Myron Melovidov
Chairman
Term expires 2013



Phillip Lestenkof
President
Term expires 2014



Jeffery P. Kauffman
Vice President
Term expires 2015



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Secretary/
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Director
Term expires 2013



Amos Philemonoff, Sr.
Director
Term expires 2015



Michael Baldwin
Director
Term expires 2014



Jason Bourdukofsky, Sr.
Director
Term expires 2013

CBSFA Employees



Phillip Lestenkof
President
President since 1999



Jonathan Thorpe
Chief Financial
Officer
Employee since 2003



Rena J. Kudrin
Office Manager
Employee since 1998



Ray Melovidov
Community Outreach
& Projects Coordinator
Employee since 2001



Robert Melovidov, Sr.
Traffic Coordinator
Employee since 2010



Marva Merculief
Administrative
Assistant
Employee since 2009



Myron Melovidov
Operations
Supervisor
Employee since 2011



William J. Dixon
Senior Accountant
Employee since 2011



Shiona Melovidov
Administrative
Manager
Employee since 2012

SPFC Employees



Jeffery P. Kauffman
Chief Executive
Officer
Employee since 2007



Jennifer L. Hausmann
Administrative Assistant/
Accountant
Employee since 2010



Decennial Review

During 2012, the State of Alaska carried out their first Decennial Review of the CDQ program, and gave Central Bering Sea Fishermen's Association an extremely positive review. The State team, which included the Commissioners of Fish and Game, Labor and Workforce Development and Commerce, Community and Economic Development, affirmed the successes and accomplishment of CBSFA during the period from 2006 to 2010 in both fishery-related development and community improvements.

The 2006 amendment to the Federal Magnuson-Stevens Act (MSA) that stabilized CDQ fisheries resource allocations also required a review of all six CDQ entities' performance every ten years to ensure they are fulfilling the program's objectives. This decennial review focuses on progress across four Magnuson Act criteria: 1) socioeconomic conditions in the region, 2) financial performance, 3) workforce development, and 4) implementation of the Community Development Plan, which guides harvest of target species and bycatch.

The review summary said, "The State of Alaska evaluation team concurs with CBSFA's finding that overall performance has maintained or improved for the 2006-2010 review period. CBSFA experienced positive growth in nearly all decennial review measurement items. CBSFA's report effectively summarized and supported performance findings across all required criteria."

The State of Alaska adopted regulations in August 2012 implementing the state's role in the evaluation process. These regulations placed the burden on the CDQ groups themselves to undertake a self-evaluation on all four criteria, using specific and objective data. Further,

the MSA required each CDQ group to weight each of the four criteria, to reflect the particular needs and circumstances of the entity and region. Each group submitted a lengthy report summarizing its performance in the four areas and provided the reference material used to support the findings, including financial statements, community development plans and other data.

The review team then made its determination as to whether the entity had or had not maintained or improved its overall performance with respect to the four criteria. The first review determined that each of the six groups had maintained or improved its performance. However, if the review team had judged that a group's performance was not maintained or improved, the State team could have recommended that the group's resource allocation be cut by up to 10%.

For criterion one, socioeconomic performance, CBSFA provided information and an evaluation on changes in population, poverty level and economic development in St. Paul. For population, census data showed a decline in population from 2000 to 2010, but the population reached a low point in 2007 and then began to recover.

Regarding poverty level, CBSFA and the reviewers concluded that it was not possible to objectively determine if the level had changed due to the unreliable data available, and the very large margins of error in the data.

To evaluate economic development, CBSFA considered median household income, per capita income, total wages and total employment. With the exception of median household income, all the above indicators increased during their evaluation periods. Total wages increased by \$961,000 and ten new jobs were added in St. Paul between 2006 and 2010.



For criterion two, financial performance, CBSFA increased its net assets by \$22.1 million and its total assets by \$35 million during the review period. CBSFA's total net assets increased by 74% over the review period, from \$29.6 million in 2006 to \$51.7 million in 2010.

The reviewers commented, "CBSFA maintained an average annual return on net assets of nearly 13%, which is notable considering the national recession and prolonged period of economic recovery."

Criterion three, workforce development, gave CBSFA an opportunity to show that employment increased during the review period from 138 jobs in 2006 to 179 jobs

in 2010. Wages for these jobs increased by \$2.4 million during this period, and 84% of those jobs went to St. Paul residents. In addition, total expenditures for scholarships and training increased during the review period.

Regarding criterion four, the community development plan, CBSFA achieved all the goals stated in the plan. Overall, CBSFA maintained a 100% harvest rate for pollock and cod, and for all crab species. CBSFA also harvested almost 100% of its halibut allocation over the review period. These harvests were accomplished while adhering to the annual specifications for bycatch avoidance.

Based on the review of data and information submitted, the State of Alaska concurred with CBSFA's findings that overall performance was maintained or improved in each of the four areas during the period from 2006 to 2010.





St. Paul Fishing Company, LLC

2012 was a busy and productive year for St. Paul Fishing Company (SPFC) and CBSFA’s vessels. All six boats – including the Saint Paul, Saint Peter, Fierce Allegiance, Early Dawn, Starward and Starlite – performed well, kept the crews safe and collectively made healthy distributions to SPFC.

The Saint Paul participated in the Pacific cod fishery from January through April, then headed to the shipyard at Fred Wahl Marine Construction in Reedsport, OR. The boat received new bottom and topside paint, a new 175KW generator, hydraulic work, an Orca Saver deployment system, and many other minor improvements and repairs. The major task while in the shipyard was to install a Mustad auto baiting system and modify the shelter deck to fully enclose the workspace. The new system utilizes 18,000 hooks and should help the vessel increase its sablefish and halibut production. Captains Ricardo Mercurief and Michael “YLE” Spokas did a great job getting the Saint Paul tuned up while in the shipyard and back to Alaska in time to harvest CDQ and IFQ halibut which closed out the 2012 season.

The Saint Peter was just one year old in 2012 and is in excellent shape. The crew worked hard during the A season and landed 3.6 million pounds between the federal season and CBSFA’s CDQ allocation. Combined, the Saint Paul and Saint Peter landed 7.8 million pounds in the winter A season with an average price

of \$0.37 per pound. The cod was sold to CBSFA subsidiary, Village Cove Seafoods, and custom processed by CBSFA/SPFC partner Unisea Seafoods. In addition to a productive cod season, the Saint Peter was also successful in harvesting most of CBSFA’s Bering Sea sablefish and a fair amount of halibut IFQ for our members and other quota holders.

The most major project undertaken in 2012 was a total reconstruction of our largest vessel, the Fierce Allegiance. Managing partner Rick Mezich spent approximately 4 months in the Pacific Fishermen shipyard in Ballard, WA where the vessel was dry docked and completely rebuilt. The pollock and crab vessel had its wheelhouse reconstructed and all new electronics installed, staterooms were rebuilt, bottom plating and bulkheads were replaced, ballast and fuel tanks were rebuilt, new deck machinery installed and a keel added. There were many other repairs and improvements made to the vessel as well and the vessel should be fit for operating in the tough Bering Sea conditions for many more years.

The Early Dawn is a very efficient vessel and had another outstanding year in 2012. Between the Opilio, Bristol Bay Red King, and Eastern Aleutian Golden King crab fisheries, the Early Dawn landed more than 3 million pounds. The vessel is scheduled to sail to Washington for fairly substantial shipyard work in 2013.

The Starward and Starlite, CBSFA’s shore side pollock catcher vessels, landed approximately 30 million pounds of pollock in 2012 with an average price of \$0.19 and \$0.15 per pound in the A

and B seasons, respectively. After the refinance of the Starward and Starlite with Wells Fargo and a productive fishing season, the Star Boats made a distribution of \$1.2 million to partners SPFC and Unisea Seafoods.

Saint Paul Fishing Company would like to recognize the CBSFA members who worked on its vessels during 2012 – they did a great job and worked hard to help the company harvest its allocations. Thank you to Captain Ricardo Mercurief, Travis Mercurief, Illarion Chapman, Juan Leon Guerro, and Shaun Lekanof. It remains a goal of CBSFA and SPFC to create employment for CBSFA members on its vessels. If you are interested in a professional fishing career, please stop by the CBSFA/SPFC office to pick up an application. Thank you also to all other hard working crewmembers and captains that made 2012 a success for CBSFA’s fleet.



57 Degrees North



Over the last year, we have had positive growth in 57 Degrees North

(57DN), driven by several factors including, more focused marketing efforts in traditionally strong seafood cities such as Chicago, more direct sales to retailers and improved export pricing due to the strength of the Japanese Yen to Dollar exchange rate. These factors have allowed for strong sales values, and have also allowed 57DN to work through inventories, in a timely and consistent manner. Factors that have qualified, or offset, these strengths are rising primary processing costs, flat or declining Total Allowable Catch (TAC), and inflated global supply due to illegal harvesting and trade of crab in foreign markets.

Over the last several years 57DN has continued to grow its marketing efforts and its outreach to retail customers on our king crab business, including Bristol Bay Red, St. Matthews Blue and Eastern Aleutian Golden King Crab. Given our current access to finished product via our ownership of Processor Quota Shares (PQS) and our allocations of CDQ's, we are one major city market away from selling all of our king crab out in value-added cut

production or in clusters to other retail customers. Over this time period we have met with and developed relationships with our customers so that we have a real name with a face relationship. There are a minimum of layers of separation from the time that our crab is harvested on our vessels to the time the end user is enjoying it for dinner.

The 2012/2013 opilio season marked the fifth successful year of our opilio program as well. Due to the nature of opilio being more of a commodity and less able to absorb additional value added production and holding costs, we have utilized sales and marketing agreements that have turned cash as the finished goods were sealed in containers and shipped out of St. Paul. This ability to turn cash at the dock has allowed 57DN to operate without the use of a line of credit and has kept the holding costs at a minimum while allowing us to achieve sales values near the high end of the sales market.

Crab fishing in the Bering Sea has always been risky and weather will always play a role in the success or failure of a harvesting and processing season. After the ice event that locked down much of the fishing grounds and brought the 2012 opilio season to a halt, all the North Region PQS holders, including 57DN, had to bare the additional costs incurred to operate the St. Paul plant in the current year. This additional expense was fair and warranted, as we all understand the multitude of challenges faced in order to operate in remote locations like St. Paul. Coping with increased production costs, due to unforeseen events, is just part of the business.

We are hopeful that over time we will see increases to the TAC's on all crab species, however, we are in a period of stable to declining TAC's. While there are many theories as to why any particular species is gaining or losing biomass, 57DN supports conservatism in the TAC setting process, as we want to see long-term stability in the fisheries we are invested in.

One more issue that continues to plague the Alaskan crab industry is the systematic illegal harvest and marketing of crab from Russia. The volumes of illegal crab from species to species and year to year can be as much, or more, than the legal harvest of crab. Efforts have been made by governmental agencies both home and abroad to curtail the illegal trade, however, it still exists and still depresses the market pricing for Alaskan crab, specifically the smaller sizes of our crab. Offsetting this downward pressure on the market price has been the strength of the Japanese Yen. The exchange rate has been very strong over the last couple of years. This high exchange rate looks to be normalizing as the Yen is currently trading near its five-year average. While the effect of this exchange impact has yet to be felt, we should see in the next few months what a normalized Yen to Dollar exchange rate will do to market pricing and profitability.

There are many factors outside of our control in the fishing business from the weather to world currency markets. However, we remain excited about our future in the crab business as crab is considered a premium seafood product and will always have a place in the market and on dinner tables around the world.



170 Degrees West



This past year has proven to be our most challenging since the CBSFA

Coop started in 2003. Overall the market price for halibut has been strong by historical standards, as the TAC for halibut has continued to fall. However, the fear of supply shortages continued to drive statewide fish ticket prices near all time highs, only to have consumer demand wane in the face of the prolonged high retail prices. This drop in consumer demand caused an inventory hangover for many processors, including 170 Degrees West (170DW).

Some of the excess inventory for many processors dated back to 2011 as many expected customer orders failed to materialize due to slow moving inventory across most user groups, including restaurants, retail stores and food service groups. Expected export orders failed to come through complicated by a weakened Euro to Dollar exchange rate and struggling economies across the European Union. All of these factors have caused a steep decline in market pricing and most producers of frozen halibut inventory have suffered losses and inventory write-downs.

While the market-based challenges have been faced by all processors, we have faced additional production cost issues more drastic than most others. As we are all aware, St. Paul Island is in the middle one of the richest marine life resources in the world, many reasons including political, regulatory, historical and weather driven, the only major TAC fishery that is processed on St. Paul is opilio crab. Due to the fact that the plant only has one major fishery to spread costs over the declining TAC for halibut has caused a sharp rise in the custom processing fees we have to pay to process our halibut. Since we started our own marketing programs in 2009 the all-inclusive custom processing fees and freight costs we are charged per pound have changed as follows:

H&G has risen 136% from \$.87 to \$2.06 a change of \$1.19
Fletches have risen 190% from \$1.11 to \$3.22 a change of \$2.11
Portions (since inception) has risen 28% from \$2.71 to \$3.49 a change of \$.78

These cost increases combined with the overall competitive fish ticket costs rising and declining market pricing has made it very difficult to maintain profit margins. They have negated any additional profitability gained by our continued efforts in the development of our value added programs producing retail ready products, including beer-battered pieces and vacuum packed portions.

The next unknown cost and processing management challenge we are starting to face is the impact of the new EPA outfall requirements on halibut production. The changes to the outfall permit will be phased in over the next couple of summers. We have yet to feel or perhaps even understand the full impact of the regulatory changes. CBSFA has commissioned a study, with Northern Economics, to look at processing and waste disposal alternatives. We should see the report and be able to start evaluating the findings later this fall.

Of course the biggest concern going forward for St. Paul, the CBSFA Coop fishermen and 170DW is the health of the halibut biomass, and impacts of by-catch on the directed target fishery. Halibut, due to its importance to the local economy is at the top of the priority list for the CBSFA Board, management team and staff. In addition to the product development and marketing programs, significant time and resources are allocated to the political, regulatory and scientific issues via CBSFA staff and consultant participation at the IPHC meetings and NPFMC meetings. As halibut is a major provider of household income in St. Paul we will have to continue facing these challenges and learning from them to become more effective and efficient going forward.



Village Cove Seafoods



2012/13 has been a solid but challenging year for Village Cove Seafoods (VCS).

While we have continued to develop our customer base, and retail product line, the overall market price for cod is in decline, as the global supply of cod is on the rise.

By the spring of 2013, cod prices had fallen to a level half of what they were at the high in 2008, greatly impacting the fish ticket price paid to the boats and profit margins earned by the processors. This overall market price softening is a direct result of supply vs. demand principals. The worldwide supply of cod is on the rise; in 2012 the supply increased about

15% due to higher catches specifically in the Barents Sea, the fertile fishing grounds shared mainly by Russia and Norway. Further hampering market price stability was the announcement in the fall of 2012 that Russia and Norway had agreed to a 1 million metric ton TAC for 2013.

Knowing that a healthy global biomass for cod is out there, and thankful that Mother Nature seems to be doing her part to help feed the world, we have continued to forge ahead in the development of valued added products with the ultimate goal - that someday many of the processes can be brought home to Alaska in order to reduce production and handling costs on our Made in the USA, Alaskan Seafood Products. We have produced two retail ready products this past year, vacuum-packed portions and breaded pieces. These products are in addition to

the higher volume products packed in the processing plants, Individual Quantity Frozen (IQF) fillets and shatterpack blocks, along with all of the various by-products like milt and roe.

This past year, all of the cod we produced was caught on our own vessels the *F/V Saint Paul* and *F/V Saint Peter*. We purchased both Federal Fishery and CDQ cod off of our vessels. Our primary production was done at both the UniSea plant in Dutch Harbor and at the Bering Fisheries plant in Dutch Harbor. The UniSea plant mainly produces our shatterpack block along with various by-products and the Bering Fisheries plant mainly produces IQF fillets and by-products. The secondary processing that is done for retail ready products is done in the Seattle area.





CBSFA Halibut Cooperative

The CBSFA Halibut Cooperative was created in 2003 with the goal of increasing ex-vessel prices paid to the local fleet. Since inception, the Coop has paid out \$27.6 million to the local fishermen in the form of ex-vessel prices.

CBSFA operates the Coop in conjunction with the local fishermen, Saint Boats LLC (*F/V Saint Paul* and *F/V Saint Peter*), Trident Seafoods and American Seafoods. CBSFA purchases the halibut from the local fleet, partners with Trident Seafoods to process the fish, and works with American Seafoods to market the fish. Any CDQ not able to be caught by the local fleet is leased to our own boats, the *F/V Saint Paul* and *F/V Saint Peter*. It is CBSFA's goal that the local fleet has as much CDQ halibut available to them

as they are able to catch. However, the Coop's ex-vessel price is lower when quota is left uncaught. At the same time, CDQ quota leased to Saint Boats LLC is very beneficial to the local fleet because it significantly raises the price the Coop is able to pay. With these considerations in mind, CBSFA carefully tracks its quota balance as the season progresses to deliver maximum benefit and value to the fishermen.

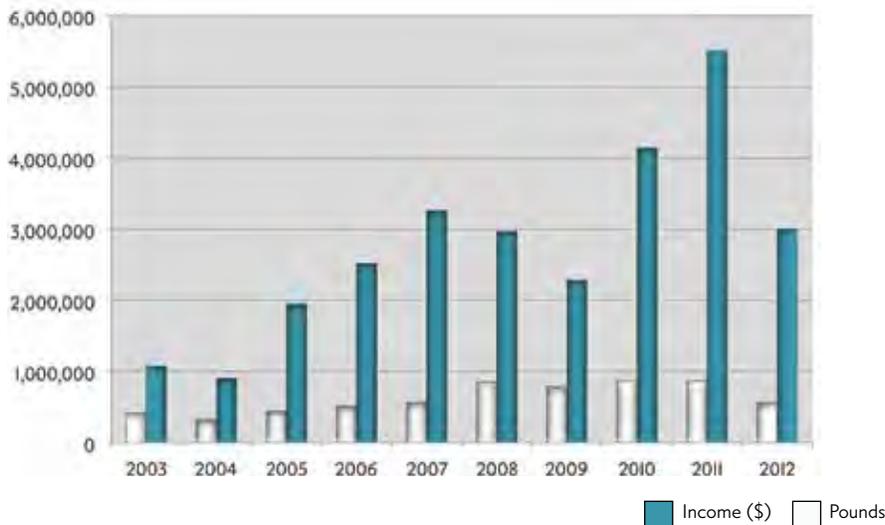
For 2012, local landings totaled 556,941 pounds, including 88,601 pounds of locally held IFQ caught on the *F/V Saint Paul*. In total, \$3 million was paid to the local fishermen. While lower than the 2011 season, it is the fourth highest amount paid out in a single season since the Coop was created. The base price was set at \$5.00 and a retroactive price adjustment was paid out following the close of the season and the final 2012 ex-vessel price was \$5.37.

The Area 4C catch limit for 2012 decreased by 34.5% from 2011. In 2011, 718,250 pounds of CDQ were available and for 2012, CBSFA's CDQ halibut allocation was 470,626 pounds. Locally held IFQ's were reduced as well. As a result of the reduction in available quota, the local fleet landed 304,017 pounds less in total than in 2011 (193,732 less pounds of CDQ and 110,285 less pounds of IFQ). Due to the reduction in the CDQ allocation, substantially less CDQ was leased to the *F/V Saint Paul* compared to prior years. 99.5% of the CDQ halibut was landed locally, compared to 92% in 2011. Approximately 2,200 pounds were leased to the *F/V Saint Paul*.

The 2013 fishing season began on June 27th with a posted price of \$4.40 / lb. CBSFA's CDQ allocation is 365,075 pounds, a decrease of 105,551 pounds from 2012. This reduction of 22.4% is significant for the local fleet and is largely attributed to changes in the assessment model used by the International Pacific Halibut Commission (IPHC). Changes to the assessment model have estimated recruitment into the fishery lower than previously thought. While these changes may pose an adverse affect to the fishery in the short-term, it is essential that halibut stocks remain viable for the future.

Halibut is the lifeblood of our community and a major contributor to the local economy. CBSFA is optimistic about the future of the Coop and broadening opportunities for the success of the local fishermen and the community will continue to be a priority.

CBSFA Halibut Fishery Harvest/Income Data 2003-2012





Community Outreach

Elders Residential Assistance Program

Provides annual payments of \$3,500 (per household) to energy suppliers or housing entities on behalf of community elders age 55 and over. Over the years, CBSFA has increased its contributions to help alleviate the increasing cost of living in rural Alaska.

Elders and Community Seafood Donations

Our residents continue to be affected by the rising cost of living in many ways. Subsistence resources have become increasingly important to offset these rising costs. CBSFA created the Elder Subsistence Halibut and Crab Donation Program which disburses halibut portions and crab to community elders twice a year. Efforts to expand the program were made possible through cooperation with the St. Paul Foodbank and SeaShare, an organization dedicated to providing seafood as a source of hunger relief. CBSFA worked with the Foodbank to acquire salmon for both the Foodbank program and the CBSFA Elder Subsistence Program.

Volunteer Tax Program

Contributions were made to provide free tax preparation services by Alaska Business Development Center.



Community Events and Programs

Funds and purchases are contributed to events such as Aleut Day and 4th of July celebrations, recreational center, and sporting events.

Bereavement

CBSFA provides contributions to funeral arrangements for families of CBSFA members.

Wellness

Payments are made to substance abuse treatment programs for CBSFA members.

Youth Employment

CBSFA helps create job opportunities, not only within the organization, but also through support of other entities within the community. In 2010, CBSFA began its support with a \$20,000 contribution to the Tanadgusix Corporation's Summer Youth Hire Program – a program that provides youth with opportunities and job-skill development. They also engage in our traditional and cultural ways through participating in the community subsistence fur seal harvests, learning the proper techniques involved with the collection of the subsistence product.

Since 2010, CBSFA has increased its funding support, making it possible for the employment of nine young adults between the ages of fourteen to eighteen during the summer months.

Church Donation

Our contribution helps the Sts. Peter and Paul Russian Orthodox Church with various costs.

Community Outreach	2012	<i>As of</i> 6.30.2013
Elders Residential Assistance Program	\$187,777	\$238,000
Elders and Community Seafood Donations	\$58,410	\$0
Volunteer Tax Program	\$6,850	\$6,850
Community Events and Programs	\$30,999	\$6,454
Bereavement	\$10,118	\$19,984
Wellness	\$9,340	\$19,808
Youth Employment	\$25,000	\$30,000
Church Donation	\$10,000	\$0
St. Paul Island Volunteer Fire Department	\$0	\$131,539
Tribal Government of St. Paul Island:		
Tribal Court	\$0	\$33,000
Marine Debris Cleanup Project	\$0	\$10,000
Job Training Center	\$0	\$30,755
Basic Hunter Education	\$0	\$2,000
Fuel Tanker	\$135,000	\$0
TOTAL	\$473,494	\$528,390



St. Paul Island Volunteer Fire Department

CBSFA funding contribution provides personal protection gear, equipment, tools, training and meeting supplies, and updated communication devices to our community volunteers.

Tribal Government of St. Paul Island

Tribal Court: Supports administration costs necessary for the continuance of tribal court functions.

Marine Debris Cleanup Project: Tribal Government's Ecosystem Conservation Office submitted a proposal for cleaning beach segments on St. Paul Island to the Alaska Marine Stewardship Foundation and was selected to receive a Coastal Impact Assistance grant. With matching funds from CBSFA, eight job opportunities were created for individuals - four adults and four youth. The cleanup crew worked seven eight-hour days. Two additional eight-hour days were needed to sort and weigh the debris. From the three beach segments, English Bay, Lukanin Catchall, and Northeast Point, the cleanup crew removed 19,448 pounds of debris.

Job Training Center: Provides necessary equipment to reinforce job preparation, enhance workforce development, and introduce and support online learning through the University of Alaska Fairbanks.

Basic Hunter Education: Funding helps provide a Mossberg IHEA 5-Gun Training Set with travel case and Walker's Sport Pack - Ear muffs and shooting glasses. The class provides training in firearms safety and wildlife conservation, as well as respect for our natural resources, landowners, and other hunters. The training class will be conducted by a certified instructor.

Fuel Tanker

CBSFA funded the purchase of a 2011 Nissan UD 3300 fuel tanker for the City of Saint Paul. This contribution provides multiple benefits; City compliance with ADEC regulations, continual delivery service to our fishermen, and a safe transport for the City Bulk Fuel department, its customers, and the community. We believe it is very important to invest in assets that benefit our fleet and support local entities.



Education

Montessori

CBSFA began its support for the St. Paul Montessori Preschool Program in the spring 2007 semester, and has continued it since. Fully funded by CBSFA, the program provides early education and activities for kids age two to four. The Montessori curriculum and structure provides a distinct advantage to kids as they enter kindergarten by developing social, reading, and communication skills.



Scholarships and Training Grants

In addition to local support for education, CBSFA continues to provide scholarships and training grants for post secondary education and vocational training.

Amix Program

A program designed to educate our youth about the history and culture of St. Paul. Bering Sea Days and Bering Sea Science Camp are included this important program.

Bering Sea Days: Promotes education for St. Paul's students related to marine ecology, GIS mapping, prehistoric mammoths and their remains, tides and currents, fur seal diets, and the collection of a variety of bird-related information.

Bering Sea Science Camp: Contributions assist with various costs associated with a two-week summer camp on the Pribilof Islands.

Alaska Native Science and Engineering Program (ANSEP)

Provides St. Paul's students an opportunity to participate in ANSEP's components that provide inspiration, guidance, and opportunity for students from the time they are in middle school up through and including PhD level studies. ANSEP students are fully prepared for BS degrees in science and engineering. More importantly, the program provides a positive impact on students, their families, and our community that will endure for generations.

Education	2012	As of 6.30.2013
Montessori	\$99,874	\$101,630
Scholarships	\$111,000	\$81,000
Training Grants	\$1,950	\$3,633
Amix Programs:		
Bering Sea Days & Science Camp	\$27,000	\$30,000
ANSEP	\$50,000	\$50,000
Extracurricular		
NYO, 5th Grade, Basketball, etc.	\$16,300	\$18,300
Gym Renovation	\$80,000	\$0
Fur Seal Curriculum	\$23,300	\$0
TOTAL	\$409,424	\$284,563





Extracurricular

Provides funding for sports team travel and other after school programs including Native Youth Olympics, high school basketball, and annual 5th grade trip.

Gym Renovation

The long anticipated St. Paul School gym renovation was successfully completed with the help of CBSFA and American Seafoods funding. Improvements included a new gym floor, safer bleachers, and more efficient lighting.



Fur Seal Curriculum

As part of the Northern Fur Seal Curriculum two students from the St. Paul School traveled to Seattle, WA and were hosted by Pam Goddard (Thalassa Education & Outreach) and colleague Lisa Hiruki-Raring (NOAA/Alaska Fisheries Science Center). Diamond Lestenkof attended one week of NOAA Science Camp and Dallas Roberts participated in a two-week Junior Leadership Program.

Diamond spent her week doing hands-on activities, learning about weather forecasting, marine mammals, watersheds, the NOAA SCUBA diving program, and how NOAA responds to oil spills and environmental emergencies. This experience presented Diamond an opportunity to interact with scientists from a wide variety of backgrounds. Additionally, Diamond was given a behind-the-scenes tour of the Seattle Aquarium's marine mammal exhibit. She learned about how food is prepared for the fur seals, harbor seals, sea otters, river otters, and marine birds at the Aquarium.

Dallas spent his first week learning how to lead activities with middle school students, collecting water samples from a kayak, and investigating different programs at the NOAA facility. During his second week he and his group of other participants designed an oceanographic data collecting buoy and deployed it in Lake Washington using a kayak. Dallas experienced in-depth tours of several NOAA offices and took part in a "Speed Networking" session with scientists, interviewing them about their backgrounds and jobs, and talking about possible career paths and opportunities.

Diamond and Dallas talked individually with NOAA scientists Tom Gelatt, Jim Thomason and Harriet Huber from the National Marine Mammal Laboratory, learning about the research conducted in the Pribilof Islands as well as in other areas of Alaska and Washington. In addition to the funding provided by CBSFA, Washington Sea Grant and NOAA/Alaska Fisheries Science Center provided 100% scholarship assistance for both students to travel outside of Alaska and learn about science career opportunities.



Central Bering Sea Fishermen's Association & Subsidiaries

Consolidated Statements of Financial Position | December 31, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 13,718,805	\$ 8,373,347
Investments (notes 3 and 4)	2,578,245	2,310,830
Accounts receivable, net	1,851,457	2,462,019
Inventory	10,871,764	8,611,900
Prepaid expenses	291,833	396,635
Total current assets	<u>29,312,104</u>	<u>22,154,731</u>
Investments (notes 3 and 4)	1,914,045	1,904,429
Prepaid expenses (note 5)	481,540	461,116
Loans receivable, net	587,690	545,991
Investment in unconsolidated affiliates (note 7)	5,379,547	5,115,611
Property and equipment, net (note 8)	13,586,222	13,969,694
Fishing rights	42,352,527	42,352,527
Total assets	<u>\$ 93,613,675</u>	<u>\$ 86,504,099</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,057,938	\$ 3,179,287
Due to related party	3,556	3,556
Current portion of long-term debt (note 9)	2,613,344	2,667,355
Advances on lines of credit (note 9)	1,525,000	----
Total current liabilities	<u>7,199,838</u>	<u>5,850,198</u>
Long-term debt, less current portion (note 9)	19,002,615	20,602,199
Interest rate swaps (notes 4 and 9)	903,693	1,290,741
Total liabilities	<u>27,106,146</u>	<u>27,743,138</u>
Net assets:		
Unrestricted net assets:		
CBSFA:		
Undesignated	60,820,729	53,171,298
Designated for small boat harbor	109,692	115,501
Designated for vessel repair center	1,804,353	1,788,928
Total net assets attributable to CBSFA	<u>62,734,774</u>	<u>55,075,727</u>
Noncontrolling interest in Star Partners, LLC	3,772,755	3,685,234
Total net assets	<u>66,507,529</u>	<u>58,760,961</u>
Commitments and contingencies (notes 7, 9, and 11)		
Total liabilities and net assets	<u>\$ 93,613,675</u>	<u>\$ 86,504,099</u>

Information in this annual report is compiled from audited financial statements.

Central Bering Sea Fishermen's Association & Subsidiaries

Consolidated Statements of Activities | Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in unrestricted net assets:		
Revenue and gains:		
Revenue from fishing operations	\$ 40,913,785	\$ 36,971,654
Program revenue	9,113,337	7,887,079
Investment and other income	855,701	268,401
Equity in income of unconsolidated affiliates (note 7)	548,935	587,357
Distribution from American Seafood, L.P. (note 7)	—	539,505
Total revenue and gains	<u>51,431,758</u>	<u>46,253,996</u>
Expenses and other:		
Program:		
Fishing operations	36,188,087	32,363,428
Education and outreach	951,004	606,336
Vehicle and equipment operations	542,750	632,724
Small boat harbor operations	295,652	182,403
EFH advocacy and research	283,049	290,580
Investment fund policies and procedures	47,621	47,462
Vessel launch and retrieval	—	38,882
Total program	<u>38,308,163</u>	<u>34,161,815</u>
Supporting services – general and administrative, including interest expense of \$1,002,248 and \$1,272,060 for 2012 and 2011, respectively	5,088,329	4,717,374
Total expenses	<u>43,396,492</u>	<u>38,879,189</u>
Change in the fair value of interest rate swap (note 9)	(11,302)	335,379
Total expenses and other	<u>43,385,190</u>	<u>39,214,568</u>
Change in unrestricted net assets	<u>\$ 8,046,568</u>	<u>\$ 7,039,428</u>

Information in this annual report is compiled from audited financial statements.

Central Bering Sea Fishermen's Association & Subsidiaries

Consolidated Statements of Changes in Net Assets | Years ended December 31, 2012 and 2011

	<u>CBSFA</u>	<u>Noncontrolling interest</u>	<u>Total</u>
Net assets, January 1, 2011	\$ 48,377,046	3,344,487	51,721,533
Change in unrestricted net assets	<u>6,698,681</u>	<u>340,747</u>	<u>7,039,428</u>
Net assets, December 31, 2011	55,075,727	3,685,234	58,760,961
Change in unrestricted net assets	7,659,047	387,521	8,046,568
Distributions	<u>—</u>	<u>(300,000)</u>	<u>(300,000)</u>
Net assets, December 31, 2012	<u>\$ 62,734,774</u>	<u>3,772,755</u>	<u>66,507,529</u>

Information in this annual report is compiled from audited financial statements.



Central Bering Sea Fishermen's Association & Subsidiaries

Consolidated Statements of Cash Flows | Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,046,568	7,039,428
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,287,660	1,053,016
Distributions in excess of earnings of unconsolidated affiliates	(263,935)	612,643
Realized and unrealized (gains) losses on investment securities	(258,573)	332,200
Realized losses on certain limited partnership investments	—	231,995
Change in fair value of interest rate swap	(11,302)	335,379
Impairment of inventory	500,596	—
Change in operating assets and liabilities that provided (used) cash:		
Accounts receivable	610,562	791,909
Prepaid expenses	84,378	(156,662)
Inventory	(2,760,260)	(3,471,683)
Due to related party	—	3,556
Accounts payable and accrued expenses	(121,349)	553,373
Interest rate swap payable	(375,746)	—
Net cash provided by operating activities	<u>6,738,399</u>	<u>7,325,154</u>
Cash flows from investing activities:		
Purchase of property and equipment	(851,353)	(3,687,898)
Issuance of loans receivable	(161,304)	(217,563)
Principal payments received on loans receivable	181,728	148,566
Distributions of capital from ASLP Acquisitions, LLC	—	703,183
Purchase of fishing rights	—	(513,283)
Purchase of investments	(1,238,553)	(1,573,422)
Sale of investments	1,163,653	1,471,506
Net cash used in investing activities	<u>(905,829)</u>	<u>(3,668,911)</u>
Cash flows from financing activities:		
Distributions to noncontrolling interest	(300,000)	—
Proceeds from advances on line of credit	2,275,000	—
Payments on advances on line of credit	(750,000)	—
Proceeds from issuance of long-term debt	7,699,640	2,911,327
Principal payments on long-term debt	(9,411,752)	(3,677,561)
Net cash used in financing activities	<u>(487,112)</u>	<u>(766,234)</u>
Net increase in cash and cash equivalents	5,345,458	2,890,009
Cash and cash equivalents at beginning of year	<u>8,373,347</u>	<u>5,483,338</u>
Cash and cash equivalents at end of year	<u>13,718,805</u>	<u>8,373,347</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 962,685	1,573,071
Supplemental disclosure of cash flow information:		
Distribution from ASLP contributed directly to investment in ASLP Acquisition, LLC	\$ —	74,435
Equipment obtained through installment purchase payable	52,835	83,495

Information in this annual report is compiled from audited financial statements.

Central Bering Sea Fishermen's Association & Subsidiaries

Schedule of General and Administrative Expenses | January 1, 2012 - December 31, 2012

All payroll, with the exception of the Saint Paul Fishing Company payroll, is paid by CBSFA. The Schedule of G & A below has allocated payroll from CBSFA to CBSFC, 57 Degrees North, LLC, Village Cove Seafoods, LLC and 170 Degrees West, LLC.

	CBSFA	CBSFC	57 Degrees North	170 Degrees West	Village Cove Seafoods	SPFC	Total
General and administrative expenses:							
Board expenses:							
Travel and per diem	35,260	-	-	-	-	24,615	59,875
Directors fees	34,650	-	-	-	-	6,750	41,400
Board training	100,334	-	-	-	-	-	100,334
Other	12,278	750	-	-	-	-	13,028
Total board expenses	<u>182,522</u>	<u>750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,365</u>	<u>214,637</u>
Staff:							
Payroll and taxes	500,144	14,785	108,877	95,153	72,585	194,552	986,096
Benefits - incl. medical, dental, vision	215,200	-	16,891	11,261	11,261	59,874	314,487
Benefits - retirement	38,942	-	8,740	5,827	5,827	17,977	77,313
Total staff	<u>754,286</u>	<u>14,785</u>	<u>134,508</u>	<u>112,241</u>	<u>72,585</u>	<u>272,403</u>	<u>1,377,896</u>
Travel and per diem:							
Staff	105,216	-	-	-	-	49,971	155,187
Total travel and per diem	<u>105,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,971</u>	<u>155,187</u>
Other:							
Vessel general and administrative expenses							
Accounting fees	-	-	-	-	-	51,201	51,201
Audit expense	129,211	-	-	-	-	-	129,211
Bank fees	-	-	6,035	125	-	2,315	8,475
Copying and printing	189	-	-	-	-	1,299	1,488
Depreciation and amortization	26,148	2,250	11,092	77,051	-	840,559	957,100
Dues, subscriptions and memberships	5,515	-	24,809	262	-	36,210	66,796
Harvest tracking	15,167	-	-	-	-	-	15,167
Insurance	116,290	-	66,617	15,317	18,941	295,431	512,596
Interest	-	-	586,263	8,479	23,700	395,108	1,013,550
Legal fees	44,296	-	-	-	2,432	912	47,640
Licenses and fees	1,401	300	125	3,271	125	10,835	16,057
Marketing Costs	10,583	-	2,549	100	1,938	5,714	20,884
Meals and entertainment	4,160	-	-	-	-	2,145	6,305
Medical	-	-	-	-	-	25,220	25,220
Miscellaneous	15,229	35	-	3,920	-	4,762	23,946
Office supplies	29,732	-	-	-	-	5,251	34,983
Postage and freight	1,222	-	1,365	4	167	23,252	26,010
Professional fees	1,746	-	-	5,046	1,560	125,000	133,352
Rent and storage	23,433	-	-	-	-	7,586	31,019
Repairs and maintenance	1,041	-	-	8,813	-	-	9,854
Small office equipment	3,246	-	-	-	-	-	3,246
Taxes	1,650	-	-	-	-	-	1,650
Telephone and internet fees	47,186	-	-	-	-	41,094	88,280
Training	6,356	-	-	-	-	-	6,356
Utilities	47,390	-	-	-	-	-	47,390
Vessel Towing Fund	2,600	-	-	-	-	-	2,600
WACDA membership fee	48,000	-	-	-	-	-	48,000
Total other	<u>581,791</u>	<u>2,585</u>	<u>698,855</u>	<u>122,388</u>	<u>48,863</u>	<u>1,873,894</u>	<u>3,328,376</u>
Total general and administrative expenses	<u>1,623,815</u>	<u>18,120</u>	<u>833,363</u>	<u>234,629</u>	<u>121,448</u>	<u>2,227,633</u>	<u>5,076,096</u>

Transparency Disclosures

Section 305(i)(1)(F)(ii) of the Magnuson-Stevens Fishery Conservation and Management Act, as amended by section 416 of Public Law 109-241 (the Coast Guard and Maritime Transportation Act of 2006), requires that each CDQ entity “comply with State of Alaska law requiring annual reports to the entity’s member villages summarizing financial operations for the previous calendar year, including general and administrative costs and compensation levels of the top five highest paid personnel.”

CBSFA remains in compliance with Section 305(i)(1)(F)(ii) of the Magnuson-Stevens Act and as the CDQ group for the village of Saint Paul, hereby submits the following disclosures for calendar year 2012.

Directors

CBSFA directors receive \$275 for each board meeting of less than two hours duration, \$425 for meetings of two to eight hours, and \$700 for meetings more than eight hours. Term life insurance policies are also provided. In 2012, CBSFA paid directors \$26,825 and \$12,771 for insurance policies.

Related Party Transactions

CBSFA’s wholly owned subsidiary Central Bering Sea Fishermen’s Corporation operates a vessel and gear loan program for member fishermen. Loan terms are between three and seven years at three percent interest. Loan Payments are withheld from ex-vessel payments. The CBSFC board of directors has appointed an independent loan committee to review and approve or disapprove loan applications. For 2012, Jeffery Kauffman, CBSFA director, received a vessel loan for \$100,000.

Legal Proceedings Involving Directors

There were no legal proceedings involving CBSFA and its directors during the year.

Auditor Relationship

CBSFA has not had any disagreements with its auditor, KPMG, for either 2012 or 2011. KPMG performed tax preparation and lobbying services, the fees for which represent 19% of 2012, and 25% of the 2011 total.

Committees

CBSFA maintains a compensation committee. In 2012, its membership was made up of directors Amos Philemonoff, Sr., Jason Bourdukofsky, Sr., and Roman Fratis, Sr. The committee’s function

is to review employee evaluations and make determinations regarding employee compensation. The committee did not meet in 2012.

Professional Fees

Legal	\$47,640
Consulting	\$125,690
Accounting	\$51,201
Lobbying	\$3,938
Auditing	\$104,691
Tax Prep	\$24,520

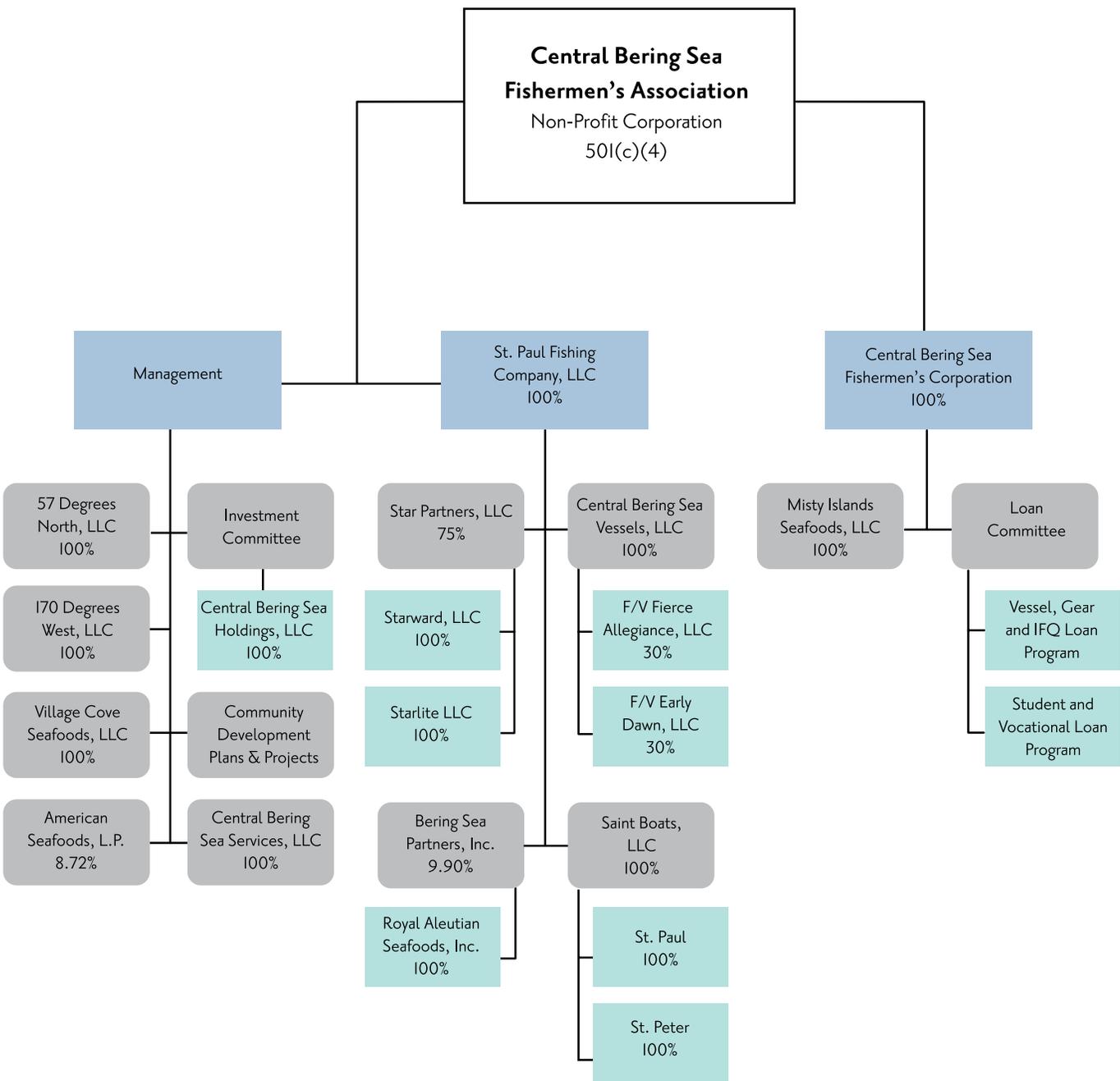


Employee Compensation

Company, position and salary information for the top five highest paid personnel within entity and majority owned subsidiaries:

Employee	Position	Company	Salary	Bonus	Total
Jonathan Thorpe	Chief Financial Officer	CBSFA	\$186,035	\$30,000	\$216,035
Phillip Lestenkof	President	CBSFA	\$169,820	\$0	\$169,820
William J. Dixon	Senior Accountant	CBSFA	\$97,062	\$30,000	\$127,062
Jeffery Kauffman	Chief Executive Officer	SPFC	\$125,765	\$0	\$125,765
Rena Kudrin	Office Manager	CBSFA	\$77,828	\$0	\$77,828

Organizational Chart





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