

2003 ANNUAL REPORT



COOK INLET

AQUACULTURE ASSOCIATION

Drew Sparlin, Sr., President

Steve Vanek, First Vice-President

Buddy Harris, Second Vice-President

David Martin, Secretary

Douglas F. Blossom, Treasurer

Howard Davis & Paul Shadura, Additional Executive Committee Members

Cook Inlet Aquaculture Association is a private non-profit corporation organized under the laws of the State of Alaska for the purpose of engaging in salmon enhancement work throughout the Cook Inlet Region. The Cook Inlet Region includes all waters of Alaska in Cook Inlet and Resurrection Bay north of Cape Douglas and west of Cape Fairfield including the Barren Islands, and all the region's freshwater drainages.

COOK INLET AQUACULTURE ASSOCIATION

40610 KALIFORNSKY BEACH ROAD

KENAI, ALASKA 99611

Phone: (907) 283-5761

www.ciaanet.org

A Message from the President

After returning to the presidency of the CIAA's board of directors, following over a decade of absence from this position, I would like to thank all of the board members who felt confident in allowing me to once again lead the Association and to uphold the mission written by our fore founders. Having the opportunity to be surrounded by a diverse staff and a board made of such knowledgeable individuals, the challenge of holding this position and accomplishing the goals of the Association are enhanced.

As we all know, the Association has struggled financially in the past five years, which has paralleled the economic difficulties of the commercial fishing industry. As the president of the board, I would like to thank our Congressional leaders in Washington, D.C., especially Senator Ted Stevens, by the appropriation of much needed funds. Our congressional delegation has allowed the Association to continue the enhancement and rehabilitation efforts in the Cook Inlet Basin – the most populated district of all regional aquaculture associations. None of this could have happened without the undivided support from the Kenai Peninsula Borough, and other local governments and organizations.

Our industry has faced many challenges in the past decade, and it has become obvious that we as an organization, which represents the Cook Inlet fishing community, have found it necessary to accompany change within our structure. For this to be accomplished, the board has elected to utilize the expertise of the Foraker Group to begin the process of developing a Strategic Plan. This Strategic Plan will benefit the Association by allowing us to carry out our mission and goals in an ever changing environment. As the demand becomes greater from all users of the natural resource in Cook Inlet, the importance for the Association to function effectively as a protector and provider of the salmon resource has never been more in demand.

Never has one person been able to lead without the support and interaction of a nucleus of talented and dedicated people. I feel very fortunate to be this person, surrounded by such capable colleagues. I will always be open to any advice or criticism, which will help all of us achieve our goal. We all must work as a team, to allow new ideas to be expressed, for these expressions may be the tributaries that lead to new rivers. We as an industry require change, and the beneficiaries will be all who use this great salmon resource.

Drew Sparlin



President

MISSION

The Cook Inlet Aquaculture Association is a non-profit regional association which exists to: (1) protect self-perpetuating salmon stocks and the habitats upon which they depend; (2) rehabilitate self-perpetuating salmon stocks; (3) rehabilitate salmon habitat; and (4) maximize the value of the Cook Inlet (Area H) common property salmon resource by applying science and enhancement technology to supplement the value attained from protection and rehabilitation of self-perpetuating salmon stocks.

GOALS

To accomplish this mission the Board of Directors of the Cook Inlet Aquaculture Association will:

Seek protection of salmon habitat through active participation (testimony, committee work, data input, etc.) in planning, permitting and enforcement processes.

Conduct salmon rehabilitation and enhancement projects, which can be expected to significantly contribute to common property fishery harvests. A 66% harvest rate in commercial fisheries is the acceptable standard for "significant contribution". That standard can be adjusted (raised or lowered) from project to project if the project offers terminal harvest opportunities, presents special mixed-stock harvest concerns, or benefits users whose harvest methods are less efficient than the commercial fishery.

Conduct evaluation activities, which increase the effectiveness of project implementation.

Engage in research, which advances the state of enhancement/rehabilitation technology.

Be sensitive to the interests of those harvesting the Cook Inlet common property salmon resource.

Educate the public about the salmon resource and the mission, goals, and projects of the Association.

Maintain the highest standards of financial responsibility and accountability for the funds entrusted to it.

Maintain facilities, administrative practices and personnel policies, which require and encourage its staff to perform in a safe, professional, and cost-effective manner.

Comply with all statutes and regulations governing private non-profit aquaculture association activities in the State of Alaska.

Participate, within the limits for tax-exempt corporations, in the development of legislation and regulation relevant to attainment of the mission.

BOARD OF DIRECTORS OF COOK INLET AQUACULTURE ASSOCIATION

A Board of Directors that meets monthly controls the affairs of the association. Twenty three of the twenty eight seats on the Board are currently filled. None of the Directors receives any compensation, per diem, or expense reimbursements from the Association for serving on the board. The Directors commitment and time to the Association's mission must not go unnoticed.

Commercial Fishermen of Cook's Inlet

DIRECTORS: VACANT
VACANT

Alternates

None
None

Cook Inlet Fishermen's Fund:

DIRECTORS: DOUGLAS F. BLOSSOM
DAVID MARTIN

Chris Garcia
Chris Garcia

Cook Inlet Seiners Association:

DIRECTORS: CHARLES WALKDEN
NATHAN WISE

John Wise
None

Inlet Wide Commercial Fishermen Representatives:

DIRECTORS: JAMES BUTLER III
BUDDY HARRIS
DREW SPARLIN, SR.
STEVE TVENSTRUP
DYER VAN DEVERE

Phillip Squires
Steven Perrizo
Dennis Crandall
Dan Thompson
Roland Maw

Kenai Peninsula Fishermen's Association:

DIRECTORS: HOWARD DAVIS
VACANT

Rory Rorrison
None

North Pacific Fisheries Association:

DIRECTORS: JESSIE NELSON
VACANT

Dan Winn
None

Northern District Set Netters of Cook Inlet:

DIRECTORS: JEAN RING
VANCANT

Stephen Braund
None

United Cook Inlet Drifters Association

DIRECTORS: JOHN EFTA
FRANCIS DEROSSITT

Leonard Efta
Ron Rust

City of Homer:

DIRECTOR: LEONARD MILLER

Al Ray Carroll

City of Kachemak:

DIRECTOR: PAUL JONES

Emil Nelson

City of Seward:

DIRECTOR: JOHN FRENCH

None

Cook Inlet Region, Inc.:

DIRECTOR: PAUL SHADURA

None

Kenai Peninsula Borough:

DIRECTOR: CHRISTOPHER MOSS

Ron Long

Matanuska-Susitna Borough:

DIRECTOR: JAMES CHESBRO

None

Municipality of Anchorage:

DIRECTOR: DICK TREMAINE

Dan Kendall

Ninilchik Village Council:

DIRECTOR: STEPHEN VANEK

None

Processor Representative:

DIRECTOR: TIMOTHY SCHMIDT

Duff Hoyt

COMMITTEES

EXECUTIVE COMMITTEE:

Drew Sparlin, Sr., President
Steve Vanek, First Vice-President
Buddy Harris, Second Vice-President
Dave Martin, Secretary
Douglas F. Blossom, Treasurer
Howard Davis & Paul Shadura, Additional Members

PLANNING COMMITTEE:

Chairman: Drew Sparlin, Sr.

Douglas Blossom
Buddy Harris
Tim Schmidt

Howard Davis
Dave Martin
Dyer Van Devere

John Efta
Paul Shadura
Steve Vanek

MARKETING COMMITTEE:

Chairman: Drew Sparlin, Sr.

Douglas Blossom
Tim Schmidt

Howard Davis
Paul Shadura
John Wise

Dave Martin
Nathan Wise

PAINT RIVER COMMITTEE:

Douglas Blossom

David Martin
John Wise

Jessie Nelson

TUTKA HATCHERY COMMITTEE:

Chairman: Nathan Wise

Douglas Blossom
Jesse Nelson
Drew Sparlin

Howard Davis
Paul Shadura
Steve Vanek

David Martin
Tim Schmidt
John Wise

EKULTNA HATCHERY COMMITTEE

Chairman : Drew Sparlin, Sr.

Douglas Blossom
Paul Shadura
John Wise

Howard Davis
Dyer Van Devere

Francis Derossitt
Steve Vanek
Nathan Wise

LEGISLATIVE COMMITTEE

Chairman: Drew Sparlin, Sr.

Doug Blossom
Paul Shadura

Howard Davis

Tim Schmidt
Steve Vanek

Special Mention

REGIONAL PLANNING TEAM:

Douglas Blossom

David Martin

Steve Vanek

Selected Historical Highlights

- 1976:** ☞ The Cook Inlet Aquaculture Association (CIAA) was organized and incorporated.
- 1977:** ☞ CIAA was found to be a "Qualified Regional Aquaculture Association" by the Commissioner of the Alaska Department of Fish and Game (ADF&G). Cook Inlet fishermen voted for a 2 percent mandatory assessment to fund CIAA.
☞ The Cook Inlet Regional Planning Team (CIRPT) was formed.
- 1978:** ☞ The "mandatory assessment" was challenged, and CIAA placed assessment funds in trust until the legal challenge was settled.
☞ CIAA began its first field project.
- 1979:** ☞ CIAA expanded enhancement activities and initiated hatchery feasibility studies at Eklutna.
- 1980:** ☞ Some fishermen volunteered the expenditure of approximately \$100,000 of "mandatory assessment" funds on habitat improvement projects. The 2 percent tax replaced the 2 percent assessment approved in 1978.
☞ Habitat surveys and improvement work began over a wide area of Cook Inlet.
- 1981:** ☞ The Salmon Enhancement Tax (2 percent) was collected in Cook Inlet for the first time.
- 1982:** ☞ The Alaska Supreme Court found mandatory assessment laws unconstitutional.
☞ Board membership of the five charter commercial fishermen's organizations was reduced from 3 to 2 seats each. The five seats so vacated were filled by an at-large election first held this year.
☞ The Commissioner of ADF&G approved the "Cook Inlet Regional Salmon Enhancement Plan 1981 - 2000".
- 1983:** ☞ The Eklutna Salmon Hatchery permit was issued, and construction begun in 1982 was completed.
☞ CIAA secured a court order setting the conditions under which "mandatory assessments" would be returned to fishermen.
- 1984:** ☞ More than half of the assessments were returned, and a plan was set for distribution of the remaining trust funds.
- 1985:** ☞ The Board of Directors built a headquarters for the Association's activities.
☞ CIAA implemented the plan for distribution of the remaining assessment trust funds.
- 1986:** ☞ The "mandatory assessment" refund program drew closer to completion.
☞ The first significant numbers of adult chum salmon returned to the Eklutna Salmon Hatchery.
☞ The Chenik Creek fish pass was built, and a flow control structure was built at Daniels Lake.
- 1987:** ☞ A spawning channel was built at Scurvy Creek.
☞ The first egg collection was conducted at Packers Lake.
- 1988:** ☞ The remaining two State loans totaling about 1.4 million dollars for the Eklutna Salmon Hatchery in 1982 were repaid.
☞ CIAA took over operation of the State owned Trail Lakes Hatchery near Moose Pass under a twenty-year contract.
- 1989:** ☞ The first egg collections occurred to stock Chelatna Lake and to re-introduce sockeye salmon to Bear Lake near Seward.
- 1990:** ☞ CIAA's first cost recovery harvest occurred at Packers Lake. Research was conducted on the production of age-zero sockeye salmon smolts.
☞ The CIAA Board adopted its first Mission/Goals Statement. The funding was secured for the Paint River Inter-tidal Fish Ladder.
☞ CIAA underwrote the cost of the sockeye salmon production program at Crooked Creek Hatchery.
- 1991:** ☞ CIAA took over operation of the State owned Tutka Bay Lagoon Hatchery.
☞ The construction of the Paint River fish ladder was started and completed.
☞ Abundant returns of adult sockeye salmon to the Hidden Lake project were cause for the opening of an extraordinarily popular personal use dip net fishery, which harvested over 72,000 sockeye salmon.
☞ The Board voted to designate two seats each for the Cook Inlet
- Seiners Association (CISA) and the United Cook Inlet Drift Association (UCIDA).
- 1992:** ☞ The Eklutna Salmon Hatchery was converted from chum to sockeye salmon production.
☞ There were the first returns of sockeye salmon resulting from the reintroduction of sockeye salmon to Bear Lake near Seward.
☞ Nine agencies and organizations including CIAA began an erosion control project at Soldotna Creek Park on the Kenai River.
☞ CIAA assisted ADF&G with part of a larger study of Kenai River system coho salmon populations.
- 1993:** ☞ ADF&G's Big Lake Hatchery was closed, and the sockeye salmon program was transferred to CIAA's Eklutna Salmon Hatchery.
☞ CIAA contracted with the State of Alaska to staff and operate the Crooked Creek Hatchery.
☞ CIAA conducts ongoing project evaluation work. The first otolith-sampling program to assess the hatchery contributions to smolt out migrations at Hidden Lake and Packers Lake was done.
- 1994:** ☞ Tutka Bay Lagoon Hatchery had the first return of pink salmon large enough to provide sufficient cost recovery revenues for a full year's operation of the facility.
- 1995:** ☞ Commercial fishermen conducted the first notable harvest of sockeye salmon in Resurrection Bay as a result of the Association's project at Bear Lake.
☞ Both the Eklutna Salmon Hatchery and the Trail Lakes Hatchery experienced operational problems and the loss of some fish as a result of flooding.
- 1996:** ☞ CIAA decided to stop operating Crooked Creek Hatchery, transfer the programs from that facility to the Trail Lakes Hatchery and the Eklutna Salmon Hatchery and return the facility to State control effective at the end of the fiscal year.
☞ CIAA notified the State it would no longer be providing staff support for the Cook Inlet Regional Planning Team and requested that the State assume that role as it had in other areas.
- 1997:** ☞ Trail Lakes Hatchery and Eklutna Salmon Hatchery incorporated the programs they assumed with the closure of the Crooked Creek Hatchery.
☞ Tutka Bay Lagoon Hatchery had a record return, and the cost recovery effort met its goal.
☞ Crooked Creek Hatchery was returned to State control on July 1, 1997.
☞ The Planning Committee was re-established to formulate a program, which would identify the program reductions necessary to bring the budget into balance.
- 1998:** ☞ Effective July 1, 1998, CIAA suspended sockeye salmon stocking projects at Paint River, Ursus Lake, Bruin Lake, Chenik Lake and sockeye salmon and coho salmon stocking at the Eklutna Salmon Hatchery tailrace.
☞ Effective August 1, 1998, CIAA suspended operations at the Eklutna Salmon Hatchery.
☞ A new manager was named for the Tutka Bay Lagoon Hatchery, and the hatchery had a return large enough to provide broodstock, and support cost recovery.
- 1999:** ☞ The Grouse Lake Project, located north of Seward, produced its first substantial return of sockeye salmon.
☞ A quality control plan was created and implemented at the Trail Lakes Hatchery to enhance the hatchery's production.
☞ Delayed egg fertilization technique, a process used to increase the survival of fertilized eggs, was introduced at Tutka Bay Hatchery.
☞ Three loans secured by the State of Alaska were restructured by extending the maturity date and deferring interest.
☞ Trail Lakes Hatchery's water wells were reengineered to control the contamination of process water by surface water.
- 2000:** ☞ CIAA secured an additional \$250,000 dollar loan from the State of Alaska's revolving loan fund for supplementation to shortfalls in operational budgets.
☞ A fire destroyed a transformer supplying electrical power to the Eklutna Salmon Hatchery.
☞ A thorough review of the Hidden Lake Project was completed and an Environmental Assessment Draft was prepared in compliance with a U.S. Fish and Wildlife Service "Special Use Permit".
- 2001:** See "2001 Historical Highlights" on page 6.

Selected Historical Highlights

Continued from page 5

2001: 📖 CIAA develops an assistance program offering aide for the users of the declining salmon resource in the Cook Inlet Drainage. The Kenai Peninsula Borough endorsed the program and elevated it to their priority list for federal grant consideration

📖 CIAA secures federal grant money with the help of the Alaska delegation in Washington D.C. The distribution of money funded current programs operated by CIAA, capital improvements to Trail Lakes Hatchery, and a feasibility study for the development of a visitor's center at Bear Creek Weir and Trail Lakes Hatchery.

📖 Trail Lakes Hatchery experienced its largest outbreak of the IHN virus, which virtually eliminated three out of the four sockeye stocks being reared at this facility.

📖 CIAA secured an additional \$350,000 loan from the State of Alaska's revolving loan fund to cover shortfalls in operational budgets.

2002: 📖 Trail Lakes Hatchery produces just under 21 million sockeye, the largest number of production on record to date.

📖 The Kenai Peninsula Borough authorized the conveyance of property where the corporate office is located, to CIAA. Prior to ordinance passage, this property was leased to CIAA by the borough.

📖 CIAA received a Saltonstall-Kennedy grant valued at \$113,000 for the review of the existing Cook Inlet Salmon Enhancement Plan, and the initial updating process for the next twenty year plan.

📖 CIAA receives an additional rider of \$35,000 dollars from the federal grant that was secured in FY 2001. The issuing agency was the U.S. Fish and Wildlife Service.

2003 Historical Highlights

CIAA secures three additional grants from the U.S. Fish and Wildlife Service, thanks to the help of Senator Ted Stevens and various other groups and individuals, totaling 1.721 million dollars. Also, a grant to the Association for 1 million dollars from the Southeast Sustainable Salmon Fund was awarded.

The Paint River Lakes project reappeared on the radar. In October, .5 million 3.6 gram sockeye presmolt were stocked in Upper Paint River Lake by the use of a agriculture plane owned and operated by Glen Air out of Palmer, Alaska.

Tutka Hatchery suffered a devastating loss to the eggs from brood year 2002, when 36 million eggs died from suffocation due to heavy sedimentation entering the incubators caused by extreme flooding conditions during the fall of the year.

Tustumena Lake



Project had a record smolt survival during the spring smolt out. The 38.5 % survival from fry to smolt for brood year 2001 probably can be attributed to the first time in recent history that Tustumena Lake had no ice during the winter months, amongst other environmental factors. The component of hatchery smolt exiting the river totaled 2.329 million smolt from a total of 12.9 million smolt out.

Alaska Department of Fish and Game asked the Association to provide coho smolt for stocking at the "fishing hole" on the spit in Homer, Alaska. CIAA sold to the department .1 million 13 gram coho smolt, and will consider to propagate this venture in the future.

Top: The F/V Little Star, skippered by Robert Roth seen moored up to the net pens in Tutka Lagoon.

Middle: Justin Evans, the Assistant Manager at Tutka Hatchery poses in deep thought.

Bottom: Aaron (Hatchery Manager) and Christi VanArnum relax after a hard day on the job.



during August. CIAA continues to operate the ADF&G built Packers Lake flow control structure. Three trips were made to Packer's Lake to monitor and adjust the flow in 2002. Operation of the Packers Lake flow control structure is currently being reviewed by ADF&G.

Project Development

Annually, CIAA staff undertakes tasks designed to gather important biological information about specific stocks of fish, investigate the limnology of various lakes, pursue new cost recovery opportunities and identify, redesign, or decommission specific salmon rehabilitation or enhancement projects. This work is defined as project development because it describes both the potential of existing projects and the implementation of newly discovered projects.

Markets have stabilized for the sale of the unusable pink salmon eggs (due to their immaturity for hatchery use) from the Tutka Bay broodstock. There continues to be a growing interest in the acquisition of mature eggs from pink hatchery stocks by foreign importers, but due to legal constraints, efforts of expanding into these markets have stalled.

In October of 2003, CIAA released .500 million, 3.6 gram sockeye salmon pre-smolts of Tustumena Lake origin into Upper Paint Lake. A smolt migration enumeration was conducted in the spring of 2003 which yielded some unusual results. During the migration approximately 7,000 sockeye smolts were counted. A hydro-acoustic survey followed the initial count and demonstrated that the lakes were void of any sockeye salmon smolts. Though several hypotheses exist concerning the fate of these fish, an optimistic approach postulates that an early migration of these smolt bypassed the set up of the smolt counting station. If this is the case, it will be revealed when the first of these fish return to the Paint River Falls in 2005. Future funds to further study and enhance the Paint Lakes System could help shed some light on its potential to be a viable sockeye salmon system.

Eklutna Salmon Hatchery

The Eklutna Salmon Hatchery is owned by CIAA which is located on the Old Glen Highway near Palmer. The Board suspended hatchery operations on August 1, 1998. Although operations remain suspended, the hatchery is maintained and kept in a state of readiness as a

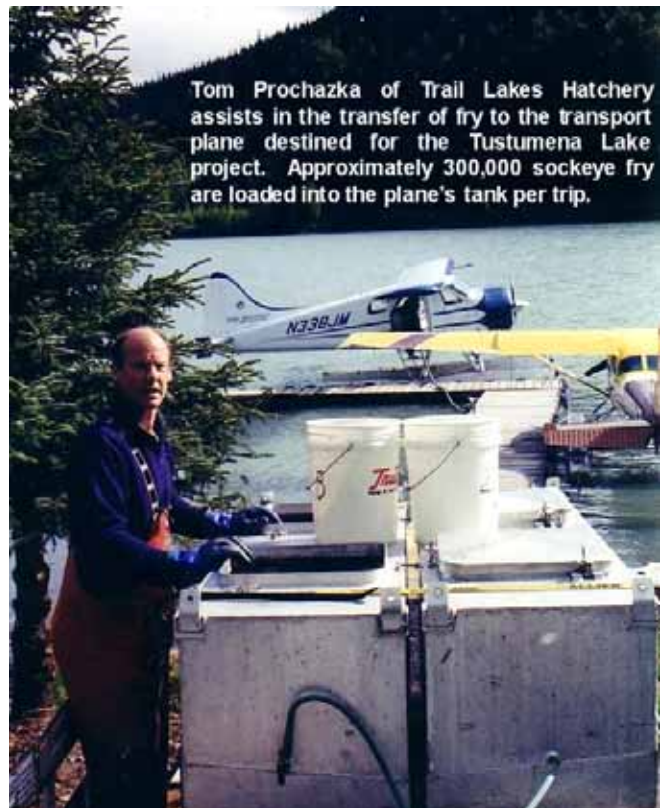
reserve facility. In 2003, ADF&G continued to use the site to collect coho eggs for a sport fish enhancement project, and also used the raceways to temporarily pond king salmon smolt.

Trail Lakes Hatchery



Trail Lakes Hatchery is a State owned and CIAA operated facility, located north of Moose Pass, Alaska on the Seward Highway. The hatchery supports two coho

salmon projects and several sockeye salmon projects. Over the past two years, the 5 main wells at the hatchery have been redeveloped. The amount of available process water has increased substantially, due to the extensive maintenance performed. Currently there are three full time employees responsible for the operation and maintenance of this facility, Hatchery Manager Robert Blankenship and two Assistant Hatchery Managers Tom Prochazka and Mark Thomas.



Tom Prochazka of Trail Lakes Hatchery assists in the transfer of fry to the transport plane destined for the Tustumena Lake project. Approximately 300,000 sockeye fry are loaded into the plane's tank per trip.

During the 2003 fiscal year (July 2002 through June 2003), Trail Lakes Hatchery collected 25.185 million sockeye eggs and released a combined 17.389 million fry and smolts in Cook Inlet Lakes. In the fall of 2002, sockeye

Lake Fertilization

Lake fertilization is a method to increase the production of food resources utilized by juvenile salmon. CIAA currently conducts two lake fertilization programs in an effort to stimulate added growth to smolts produced from enhancement projects at Bear and Leisure Lakes. ADF&G limnologists closely monitor CIAA fertilization projects to ensure the natural trophic status of a lake is not altered.



Ron Carlson, CIAA's Project Technician prepares to disperse liquid fertilizer in Leisure Lake. The fertilizer helps propagate plankton growth – a main food requirement for juvenile salmon.

Fishways

The Paint River fish ladder was not opened for operation during 2003 and only a small return of approximately 520 fish was observed in the pool below the ladder. The Chenik Creek “pool and jump” fish ladder continued to facilitate a small adult migration of 13,825 fish into Chenik Lake.

Habitat

HDR Environmental Engineering has been contracted by CIAA for channel modification work at the outlet of Big Lake. All permits for construction are now in place, and work will commence in the spring of 2004.

CIAA annually surveys key streams for beaver dam activity that jeopardizes upstream

migration for spawning adult salmon. Additionally, CIAA is assisting the Kenai River Watershed Forum in a project to monitor water quality in the Kenai River. CIAA granted the Forum \$15,000 for the rehabilitation of Silver Salmon Creek located east of Ninilchik. This creek suffered severe damage during the floods in the fall of 2003.

An aerial survey conducted over the outlet of Cannery Creek on the west side of Cook Inlet reaffirmed the concern of losing the coho run into these waters. Due to channel relocation from the Redoubt volcanic eruptions in the last decade, the falls created at the mouth of the creek have heightened to a point where passage beyond the falls is unattainable. CIAA has committed to work with the Cook Inlet Pipeline Company, and with federal agencies in trying to rectify the tribulations affecting fish passage to the spawning grounds.

Water Flow Control

During 2003, CIAA operated flow control structures to ensure adequate water was available for salmon migration into Daniels and Marten Lakes. The flow control structure at the outlet of Daniels Lake was checked three times to adjust flows, monitor road bank erosion into the creek, check on the progress of the bank restoration project, and observe fish migration. The Marten Lake flow control structure in the Big River Lakes area was checked three times during 2003. Adjustments to this structure provided the water necessary for sockeye



The waterfall at Cannery Creek, located on the west side of Cook Inlet, has become an impassable obstruction to coho salmon. CIAA is currently designing a fish passage allowing for the salmon to migrate to their spawning grounds.



The P/V Snopac is tied up to a trawler, with a harvester of Tutka Bay pinks docked along side the Snowpac. Snopac Products Inc, based out of Seattle, own and operate this processor in various statewide fisheries.

salmon eggs for Trail Lakes Hatchery stocking projects were collected at Hidden Lake (1.118 million eggs), Tustumena Lake (11.721 million eggs), Bear Lake (6.004 million eggs), and Big Lake (6.342 million eggs). Coho salmon eggs were also collected from Bear Lake (1.238 million). In the fall of 2002, 500 thousand sockeye salmon pre-smolts were released into Upper Paint Lake. In the spring of 2003, sockeye salmon fry were released at: ➤Bear Lake 1.467 million fry, ➤Hidden Lake 629 thousand fry, ➤ Bear Creek at Tustumena Lake, 6.024 million fry ➤Leisure Lake 2.240 million fry, ➤ Hazel Lake 1.547 million fry ➤ Kirschner Lake 298 thousand fry, and ➤Big Lake 3.589 million fry, In addition, 334 thousand sockeye salmon smolts were released into Bear Lake. Four hundred five thousand coho salmon fry and 253 thousand coho salmon smolts were released into the Bear Lake (Resurrection Bay) system for the recreational fishery. Additional coho salmon smolts (103 thousand) were released into the fishing hole at the Homer Spit.



The weir at Bear Creek on Tustumena Lake is now surrounded by a barren landscape, due to the severe flooding during the fall of 2002.

Tutka Bay Lagoon Hatchery

Tutka Bay Lagoon Hatchery is a State owned and CIAA operated facility. Currently, three full time employees are responsible for the operation and maintenance of this facility Aaron VanArnum, Hatchery Manager, Justin Evens, Assistant Hatchery Manager, and Ron Carlson Project Technician. Ron rotates between the corporate office in the summer and the hatchery in the winter and spring.

Tutka Bay Hatchery experienced a yet another disappointing fiscal year (July 2002 – June 2003). In 2002, 967 thousand pink salmon adults returned to Tutka Bay. 124 million pink salmon eggs were successfully collected and 103.786 million survived to the eyed egg stage. However, during incubation flooding in Tutka Creek caused hatchery intakes to disperse sediment into the incubators. The sedimentation suffocated and destroyed over 40 percent of the eggs, resulting in a spring 2003 release of 67.967 million pink salmon fry. On the bright side, our target release size of .5 grams per fry was again met for the third consecutive year, with some fry exceeding .9 grams.

Cook Inlet Regional Planning Team

CIAA no longer provides staff for the Cook Inlet Regional Planning Team (CIRPT), but CIAA board members, David Martin, Steve Vanek, and Douglas Blossom, continue to serve as the association's three representatives to the CIRPT.

Public Education

Cook Inlet Aquaculture Association continues to develop educational programs revolving around the salmon resource. The Association realizes that education is an important asset in sustaining quality fish habitat, and strong salmon adult returns. CIAA promulgate education by the following: 1). Trail Lakes Hatchery continues to administer tours of the hatchery to Kenai Peninsula Schools during the year's production cycle, 2). Numerous other tours were given to visiting officials, tourists, and professionals, 3). Staff members speak to organizations around the state on the goals and mission of the Association, and 4). Board Members participate in various committees dealing with fishery related agendas.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cook Inlet Aquaculture Association, Inc.
Kenai, Alaska

We have audited the accompanying statements of financial position of Cook Inlet Aquaculture Association, Inc. (a nonprofit organization) as of June 30, 2003 and 2002, and the related statements of activities, statements of functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cook Inlet Aquaculture Association, Inc. as of June 30, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lambe, Tuttle & Wagner CPAs

October 20th, 2003

COOK INLET AQUACULTURE ASSOCIATION, INC. STATEMENTS OF FINANCIAL POSITION June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 541,915	\$ 343,932
Grants receivable	158,582	236,366
Accounts receivable	25,000	10,000
Prepaid expenses	<u>51,252</u>	<u>34,360</u>
Total current assets	<u>776,749</u>	<u>624,658</u>
PROPERTY AND EQUIPMENT	3,708,074	3,685,776
Less accumulated depreciation	<u>(2,272,132)</u>	<u>(2,179,371)</u>
	<u>1,435,942</u>	<u>1,506,405</u>
	<u>\$ 2,212,691</u>	<u>\$ 2,131,063</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 41,421	\$ 33,172
Accrued personnel expenses	96,354	73,111
Deposits advanced	75,000	-
Accrued interest	23,051	57,789
Current portion of notes payable	<u>99,563</u>	<u>44,065</u>
Total current liabilities	<u>335,389</u>	<u>208,137</u>
NOTES PAYABLE, less portion classified as current	<u>2,964,244</u>	<u>2,264,161</u>
	<u>3,299,633</u>	<u>2,472,298</u>
NET ASSETS		
Unrestricted	(1,249,262)	(694,889)
Temporarily restricted	<u>162,320</u>	<u>353,654</u>
	<u>(1,086,942)</u>	<u>(341,235)</u>
	<u>\$ 2,212,691</u>	<u>\$ 2,131,063</u>

See notes to financial statements.

COOK INLET AQUACULTURE ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Grants	\$ -	\$ 182,025	\$ 182,025
Enhancement tax proceeds	-	191,778	191,778
Terminal fish revenues	324,160	-	324,160
Lawsuit settlement	429,241	-	429,241
Interest	3,871	-	3,871
Other	<u>1,702</u>	<u>-</u>	<u>1,702</u>
	758,974	373,803	1,132,777
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions	<u>565,137</u>	<u>(565,137)</u>	<u>-</u>
Total revenue and other support	<u>1,324,111</u>	<u>(191,334)</u>	<u>1,132,777</u>
PROJECT EXPENSES			
Tutka Hatchery	489,731	-	489,731
Trail Lakes Hatchery	604,078	-	604,078
Eklutna Hatchery	87,010	-	87,010
Field projects	213,637	-	213,637
Special projects	<u>89,231</u>	<u>-</u>	<u>89,231</u>
	1,483,687	-	1,483,687
GENERAL AND ADMINISTRATIVE EXPENSES			
	<u>394,797</u>	<u>-</u>	<u>394,797</u>
Total expenses	<u>1,878,484</u>	<u>-</u>	<u>1,878,484</u>
CHANGE IN NET ASSETS	(554,373)	(191,334)	(745,707)
NET ASSETS AT JUNE 30, 2002	<u>(694,889)</u>	<u>353,654</u>	<u>(341,235)</u>
NET ASSETS AT JUNE 30, 2003	<u>\$ (1,249,262)</u>	<u>\$ 162,320</u>	<u>\$ (1,086,942)</u>

COOK INLET AQUACULTURE ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Grants	\$ -	\$ 1,015,000	\$ 1,015,000
Enhancement tax proceeds	-	244,555	244,555
Terminal fish revenues	339,676	-	339,676
Interest	12,719	-	12,719
Other	<u>57</u>	<u>-</u>	<u>57</u>
	352,452	1,259,555	1,612,007
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions	<u>905,901</u>	<u>(905,901)</u>	<u>-</u>
Total revenue and other support	<u>1,258,353</u>	<u>353,654</u>	<u>1,612,007</u>
PROJECT EXPENSES			
Tutka Hatchery	376,247	-	376,247
Trail Lakes Hatchery	655,558	-	655,558
Eklutna Hatchery	80,853	-	80,853
Field projects	211,865	-	211,865
Special projects	<u>8,383</u>	<u>-</u>	<u>8,383</u>
	1,332,906	-	1,332,906
GENERAL AND ADMINISTRATIVE EXPENSES			
	<u>347,395</u>	<u>-</u>	<u>347,395</u>
Total expenses	<u>1,680,301</u>	<u>-</u>	<u>1,680,301</u>
CHANGE IN NET ASSETS	(421,948)	353,654	(68,294)
NET ASSETS AT JUNE 30, 2001	<u>(272,941)</u>	<u>-</u>	<u>(272,941)</u>
NET ASSETS AT JUNE 30, 2002	<u>\$ (694,889)</u>	<u>\$ 353,654</u>	<u>\$ (341,235)</u>

See notes to financial statements.

COOK INLET AQUACULTURE ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2003

	Tutka Hatchery Operations	Trail Lakes Hatchery Operations	Eklutna Hatchery Operations	Field Projects	Special Projects	General and Administrative Expenses	Total
Wages	\$ 165,980	\$ 173,019	\$ 180	\$ 85,225	\$ 37,900	\$ 226,966	\$ 689,270
Supplies	38,276	54,995	40	24,894	2,029	13,476	133,710
Payroll taxes and benefits	30,684	35,567	17	8,459	6,168	49,647	130,542
Equipment operation/maintenance	28,618	73,368	-	9,441	1,423	10,141	122,991
Utilities	36,135	70,908	3,433	3,845	-	4,217	118,538
Insurance/workers compensation	29,727	25,899	15,709	2,678	927	25,172	100,112
Fish food	60,282	28,611	-	6,490	-	-	95,383
Depreciation	7,641	8,418	65,178	-	-	11,525	92,762
Interest	-	80,054	-	-	-	-	80,054
Professional services	770	21,111	-	38,865	-	13,216	73,962
Fish harvesting	59,582	-	-	-	12,126	-	71,708
Aircraft and boat charters	2,145	-	-	24,708	24,544	340	51,737
Postage and freight	16,386	11,814	-	3,895	-	3,895	35,990
Telephone	2,049	2,651	528	2,286	186	7,939	15,639
Medication and disinfectants	1,575	9,852	-	-	-	-	11,427
Travel, lodging and meals	3,968	795	-	531	1,574	4,257	11,125
Building and land maintenance	4,897	4,303	-	452	-	392	10,044
Rent	-	-	1,500	500	150	100	2,250
Safety program	219	835	-	721	20	229	2,024
Other	797	1,878	425	647	2,184	23,285	29,216
	<u>\$ 489,731</u>	<u>\$ 604,078</u>	<u>\$ 87,010</u>	<u>\$ 213,637</u>	<u>\$ 89,231</u>	<u>\$ 394,797</u>	<u>\$ 1,878,484</u>

COOK INLET AQUACULTURE ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2002

	Tutka Hatchery Operations	Trail Lakes Hatchery Operations	Eklutna Hatchery Operations	Field Projects	Special Projects	General and Administrative Expenses	Total
Wages	\$ 122,568	\$ 168,295	\$ 2,340	\$ 98,638	\$ -	\$ 188,939	\$ 580,780
Supplies	25,159	72,938	573	20,994	-	18,289	137,953
Payroll taxes and benefits	17,856	47,811	1,642	17,719	-	37,804	122,832
Equipment operation/maintenance	19,948	20,311	345	2,264	-	8,984	51,852
Utilities	41,024	72,812	(515)	1,620	-	5,188	120,129
Insurance/workers compensation	26,330	16,589	6,920	488	-	28,789	79,116
Fish food	53,145	12,683	-	10,113	-	-	75,941
Depreciation	6,961	5,497	66,605	-	-	12,060	91,123
Interest	-	116,178	-	637	-	29	116,844
Professional services	-	400	-	18,240	-	9,992	28,632
Fish harvesting	42,713	1,500	-	-	-	-	44,213
Aircraft and boat charters	3,622	-	-	31,442	8,033	539	43,636
Postage and freight	3,203	10,190	-	90	-	3,616	17,099
Telephone	1,604	2,309	1,012	1,655	-	5,301	11,881
Medication and disinfectants	7,630	7,655	-	-	-	-	15,285
Travel, lodging and meals	1,004	355	46	131	-	10,472	12,008
Building and land maintenance	2,277	95,548	-	120	-	225	98,170
Rent	-	-	1,500	270	-	-	1,770
Safety program	104	669	-	-	-	1,525	2,298
Other	1,099	3,818	385	7,444	350	15,643	28,739
	<u>\$ 376,247</u>	<u>\$ 655,558</u>	<u>\$ 80,853</u>	<u>\$ 211,865</u>	<u>\$ 8,383</u>	<u>\$ 347,395</u>	<u>\$ 1,680,301</u>

See notes to financial statements.

COOK INLET AQUACULTURE ASSOCIATION, INC.

STATEMENT OF CASH FLOWS
Year Ended June 30, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants and contracts	\$ 259,809	\$ 778,634
Cash received from terminal fish revenue	384,160	229,676
Cash received from enhancement tax proceeds	191,778	244,555
Cash received from other sources	430,943	57
Interest received	3,871	12,719
Interest paid	(114,792)	(116,615)
Cash paid to suppliers and employees	<u>(1,691,068)</u>	<u>(1,467,237)</u>
Net cash used by operating activities	<u>(535,299)</u>	<u>(318,211)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(22,299)</u>	<u>(52,035)</u>
Net cash used for investing activities	<u>(22,299)</u>	<u>(52,035)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term financing	800,000	-
Principal payments on long-term financing	<u>(44,419)</u>	<u>(42,752)</u>
Net cash provided/(used) by financing activities	<u>755,581</u>	<u>(42,752)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	197,983	(412,998)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>343,932</u>	<u>756,930</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 541,915</u>	<u>\$ 343,932</u>

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
CHANGES IN NET ASSETS	\$ <u>(745,707)</u>	\$ <u>(68,294)</u>
ADJUSTMENTS TO RECONCILE CHANGES IN NET ASSETS TO NET CASH USED BY OPERATIONS		
Depreciation	92,762	91,123
(Decrease)/increase in accrued interest	(34,738)	229
Increase in accounts receivable	(15,000)	(10,000)
Increase in prepaid expenses	(16,892)	(12,018)
Increase in accounts payable	8,249	26,451
Increase/(decrease) in accrued personnel expenses	23,243	(9,336)
Increase/(decrease) in deposits payable	75,000	(100,000)
Decrease/(increase) in grant receivable	<u>77,784</u>	<u>(236,366)</u>
	<u>210,408</u>	<u>(249,917)</u>
	<u>\$ (535,299)</u>	<u>\$ (318,211)</u>

SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:

During the year ended June 30, 2002, the Association financed the purchase of property as follows:

Bear Lake property	\$ 137,500
Down payment	<u>(1,000)</u>
Note payable to State of Alaska	<u>\$ 136,500</u>

See notes to financial statements.

COOK INLET AQUACULTURE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cook Inlet Aquaculture Association, Inc. is an Alaskan regional nonprofit corporation established under Alaska Statutes and operated for the enhancement of salmon in Alaska.

The accounting policies that affect the more significant elements of the financial statements of the Association are summarized as follows:

a. Method of Accounting

The Association reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted amounts are those currently available at the discretion of the Board for use in the Association's operations.

Temporarily restricted amounts are those that are stipulated by donors or grantors for specific operating purposes.

Permanently restricted amounts are those for which the principal is stipulated by donors or grantors to be invested in perpetuity.

b. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Amounts received that are designated for future periods or restricted by the donor or grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

c. Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful life. Depreciation is computed using the straight line method.

d. Income Tax

The Internal Revenue Service has determined that the Association is exempt from federal and applicable state income tax under Section 501(c)(3) of the Internal Revenue Code.

e. Enhancement Tax

Cook Inlet commercial fishermen voted in 1981 to assess a 2% tax on gross value of the salmon harvest from Cook Inlet. The tax is collected by the State of Alaska from salmon processors and then paid to the Association by the state in the form of a grant. The proceeds are to be used for enhancement and development of the salmon fishery with a goal of stabilizing the salmon runs and producing sufficient fish to meet the needs of all user groups. The enhancement tax revenue is a major source of funding for the Association.

f. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

g. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

COOK INLET AQUACULTURE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONT.)

June 30, 2003 AND 2002

2. GRANT RECEIVABLE

Grant receivable consists of the following:

	<u>Total Award Amount</u>	<u>Receivable at June 30</u>	
		<u>2003</u>	<u>2002</u>
U.S. Fish and Wildlife Service	\$ 1,000,000	\$ 86,503	\$ 236,366
U.S. Department of National Oceanic and Atmospheric Administration	<u>112,878</u>	<u>72,079</u>	<u>-</u>
	<u>\$ 1,112,878</u>	<u>\$ 158,582</u>	<u>\$ 236,366</u>

3. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2003 and 2002, is as follows:

	<u>2003</u>	<u>2002</u>
Tutka Lagoon Hatchery	\$ 143,801	\$ 129,871
Eklutna Hatchery and equipment	2,636,555	2,636,555
Trail Lakes Hatchery and equipment	232,821	232,822
Bear Lake property	137,500	137,500
Headquarters building	314,951	314,951
Field equipment	167,873	165,056
Office equipment	64,937	59,385
Warehouse equipment	<u>9,636</u>	<u>9,636</u>
	3,708,074	3,685,776
Less accumulated depreciation	<u>(2,272,132)</u>	<u>(2,179,371)</u>
	<u>\$ 1,435,942</u>	<u>\$ 1,506,405</u>

The Association operates the facilities owned by the State of Alaska at Tutka Lagoon and Trail Lakes. Title of the physical properties is retained by the State of Alaska and the costs of the physical plants are not reflected in the financial statements of the Association.

The Association provides minimal operations at its Eklutna Hatchery to ensure the safekeeping of hatchery property owned by the Association until such time as the Board of Directors determine to reopen the hatchery.

During the year ended June 30, 2002, the Kenai Peninsula Borough transferred the land formerly under lease that is the site of the headquarters complex to the Association with the special restriction that the complex property be used solely for the operation of Association authorized purposes. The Association may remove the restriction by paying the Borough fair market value for the land.

4. DEPOSITS ADVANCED

Deposits advanced of \$75,000 at June 30, 2003, consist of cash received from processors for the acquisition of surplus fish from planned terminal recovery harvests.

5. NOTES PAYABLE

Notes payable at June 30, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Note payable including deferred interest to the Dept. of Commerce and Economic Development, State of Alaska, Division of Investments, secured by an assignment of future revenues and proceeds of sales of surplus fish and eggs, with interest at 5.5%, payable in equal annual installments of \$36,874 including principal, interest and deferred interest.	\$ 346,344	\$ 361,111

COOK INLET AQUACULTURE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONT.)

June 30, 2003 AND 2002

5. NOTES PAYABLE (CONT.)	<u>2003</u>	<u>2002</u>
Note payable including deferred interest to the Dept. of Commerce and Economic Development, State of Alaska, Division of Investments, secured by all property now owned or hereafter acquired and an assignment of future revenues and proceeds of sales of surplus fish and eggs, with interest at 5.5%, payable in equal annual installments of \$107,918 including principal, interest and deferred interest.	1,051,541	1,075,182
 Note payable to the Dept. of Commerce and Economic Development, State of Alaska, Division of Investments, secured by all property now owned or hereafter acquired and an assignment of future revenues and proceeds of sales of surplus fish and eggs, with interest at 5% beginning April 4, 2006, and payable in equal annual installments of \$28,904 including interest beginning January 1, 2007.	 249,981	 249,981
 Note payable to the Dept. of Commerce and Economic Development, State of Alaska, Division of Investments, secured by all property now owned or hereafter acquired and an assignment of future revenues and proceeds of sales of surplus fish and eggs, with interest at 5% beginning May 7, 2007, and payable in equal annual installments of \$40,465 including interest beginning January 1, 2008	 349,250	 349,250
 Note payable to the Dept. of Commerce and Economic Development, State of Alaska, Division of Investments, secured by real property and by all property now owned or hereafter acquired and an assignment of future revenues and proceeds of surplus fish and eggs, with interest at 5% beginning June 19, 2008, and payable in equal annual installments of \$12,333 including interest beginning January 1, 2009.	 136,500	 136,500
 Note payable to the Dept. of Commerce and Economic Development, State of Alaska, Division of Investments, secured by real property and by all property now owned or hereafter acquired and an assignment of future revenues and proceeds of surplus fish and eggs, with interest at 5% beginning April 9, 2009, and payable in equal annual installments of \$60,829 including interest beginning January 1, 2010.	 799,500	 -
	<u>3,063,807</u>	<u>2,308,226</u>
Less current portion	(99,563)	(44,065)
	<u>\$ 2,964,244</u>	<u>\$ 2,264,161</u>

Following are maturities of long-term debt for each of the next five years:

2004	\$ 99,563
2005	103,538
2006	107,711
2007	112,094
2008	160,884

COOK INLET AQUACULTURE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONT.)

June 30, 2003 AND 2002

6. ANNUAL LEASES

The Association entered into a long-term lease with the federal government on July 22, 1982, for lease of approximately two acres for the Eklutna Hatchery. The lease is for a period of 30 years with right of renewal. Lease payments are \$1,500 per year and can be adjusted every five years to reflect current market value. The annual lease payments were \$1,500 for years ended June 30, 2003 and 2002. This amount is included with Eklutna Hatchery expenses.

On February 15, 1991, the Association entered into a lease with the State of Alaska on 4.68 acres of land, which is the site of the Paint River fish ladder. The lease is for a period of 55 years with right to renewal. Annual lease payments are \$200. Total lease payments for the years ended June 30, 2003 and 2002, were \$200. This amount is included with special projects expenses.

Future minimum rental payments in aggregate for all leases:

2004	\$	1,700
2005		1,700
2006		1,700
2007		1,700
2008		1,700

7. COMMITMENTS AND CONTINGENCIES

On December 8, 1994, the Association entered into a memorandum of agreement with the Seward Silver Salmon Derby-Fish Restoration Fund whereby the Association agreed to produce and stock 150,000 or more silver salmon smolt yearly for a ten-year period for a fee of \$15,000 per year. The Association received \$30,000 in 2003 and \$15,000 in 2002.

8. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2002, the Association paid \$43,127 to a board member under a contract to harvest fish for the Association's Hatchery Cost Recovery program.

9. FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Association to concentration of credit risk consist principally of temporary cash investments. The Association places its temporary cash investments with money market funds through McDonald Investments, Inc.

10. RETIREMENT COSTS

The Association sponsors a defined contribution retirement plan that covers all regular employees. Contributions to the plan are based on a percentage of the employee's base salary that is established from time to time by the Board. There is no retirement expense for 2003 and 2002.

COOK INLET AQUACULTURE ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
June 30, 2003 AND 2002

11. MAJOR FUNDING SOURCES

The Association receives a substantial portion of its annual funding through a U.S. Fish and Wildlife Service grant and the State of Alaska Enhancement Tax proceeds. The funding received from these two sources totaled \$227,428 and \$1,244,555 for the years ended June 30, 2003 and 2002, respectively.

12. SUBSEQUENT EVENT

The U.S. Fish and Wildlife Service grant has been modified to include an additional \$685,515 to fund capital improvement and habitat restoration projects through November 20, 2004.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Cook Inlet Aquaculture Association, Inc.
Kenai, Alaska

Our report on our audits of the basic financial statements of Cook Inlet Aquaculture Association, Inc. (a nonprofit corporation) at and for the years ended June 30, 2003 and 2002, appears on page 10. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The following schedule on field and special projects expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lambe, Tuttle & Wagner CPA's

October 20th, 2003

COOK INLET AQUACULTURE ASSOCIATION, INC.
SCHEDULE OF FIELD AND SPECIAL PROJECTS EXPENSES
Years ended June 30, 2003 AND 2002
See Auditor's Report on Supplementary Information

	<u>2003</u>	<u>2002</u>
FIELD PROJECTS		
Bear Lake	\$ 85,976	\$ 56,034
Big Lake	39,499	27,229
Tustumena Lake	35,869	52,261
Hidden Lake	29,971	30,847
Leisure Lake	10,871	14,616
Lower Cook Inlet Lakes	8,283	14,340
Grouse Lake	2,229	13,900
Packers Lake	939	2,638
	<u>213,637</u>	<u>211,865</u>
SPECIAL PROJECTS		
Enhancement Planning	38,965	-
Paint River	33,911	350
Habitat Survey	16,355	8,033
	<u>89,231</u>	<u>8,383</u>
	<u>\$ 302,868</u>	<u>\$ 220,248</u>

COOK INLET AQUACULTURE ASSOCIATION PERSONNEL

FULL-TIME EMPLOYEES January 1, 2004

HEADQUARTERS:

Executive Director	Gary Fandrei
Field Biologist	Trenten Dodson
Grant Biologist	Lois Bettini
Special Project Manager	Lani Eggertsen-Goff
Special Projects Manager	Mark Matarrese
Project Technician	Ron Carlson
Administrative Assistant	Carol Jones

TRAIL LAKES:

Hatchery Manager	Robert Blankenship
Assistant Hatchery Manager	Thomas Prochazka
Assistant Hatchery Manager	Mark Thomas

TUTKA BAY LAGOON HATCHERY:

Hatchery Manager	Aaron VanArnum
Assistant Hatchery Manager	Justin Evans

SEASONAL / TEMPORARY EMPLOYEES

Alger M. Aleck	Daniel B. Hand	Melanie M Overy
James A. Bartholomew	Jeriel R. Hillman	Jeff J. Pike
Justin A. Bartolini	Timothy J. Holdforth	Andy Sheets
David D. Beasley	Mitchell W. Johnson	Carol Smith
Michael J. Christian	Craig A. King	Joey L. Smith-Howard
Cathy L. Cline	Erin J. Knotek	Tyler P. Staples
Jonah D. Dart-McLean	Daniel M. LaVoie	Christian Starkweather
Robert Z. Edwards	Terry M. Magee	Michael W. Stracco
Aaron D. Fergola	Judy A. Miller	Susan U. Swartz
Eric M. Gallant		Steffani Tuck
Ann E. Gaule		Christy VanArnum

CIAA Headquarters is located at mile 16.5 Kalifornsky Beach Road, between Kenai and Soldotna

Trail Lakes Hatchery is located at Mile 32.5 Seward Highway, just north of Moose Pass.

Tutka Bay Hatchery is located on the southwest side of Kachemak Bay, in Tutka Bay

Bear Creek Weir is located east of mile 10 on the Seward Highway.

A message from the Executive Director

In 2001, the Cook Inlet Aquaculture Association began in earnest to secure additional funding through a variety of grant programs. As a result of these efforts, and with the support of Senator Ted Stevens, the Kenai Peninsula Borough and numerous local communities and organizations we have secured 3 U.S. Fish and Wildlife Service grants totaling \$1,721,165, a National Marine Fisheries Service (NMFS) Saltonstall/Kennedy grant of \$112,878 and a \$1 million grant from the Southeast Sustainable Salmon Fund. These grants played a significant role in our 2003 operations and helped us stretch the dollars we received from the Salmon Enhancement Tax and cost recovery harvests.

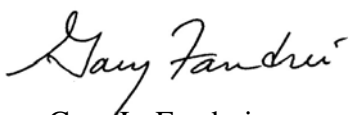
Trail Lakes Hatchery released a total of 15.8 million sockeye fry, 334,000 sockeye smolt, 405,000 coho fry and 353,000 coho smolt. These releases represent the second highest production from this facility since CIAA operations began in 1988. We also saw 1.3 million sockeye smolt migrate from Bear Lake in Seward – the largest number ever recorded - and nearly 13 million sockeye smolt migrate from Tustumena Lake. Unfortunately, our 2002 experimental fall fry sockeye release to Upper Paint Lake appears to have failed. In 2003, only 7,000 smolt migrated from the lake. We had hoped a successful fall fry release would provide the strategy needed to develop this project to its full potential.

At the Tutka Bay Lagoon Hatchery our fry release program goal was not met, but we did achieve our goal of a larger fry size at release. In 2003 the fry averaged 0.66 grams and were 18% larger than any previous release. For the third year in a row, the Tutka Hatchery adult pink salmon return was less than expected. The Board of Directors has now begun a review of the Tutka Hatchery program and is looking for ways to make this hatchery successful in 2004 and beyond.

In any organization staff is important and in 2003 the Association saw the arrival of 3 new staff members. Justin Evans, the Assistant Hatchery Manager at Tutka, began employment in January. He has proven to be very reliable and has worked diligently to improve the Tutka program. Lois Bettini, our Grants Biologist, began employment in June. She brought to the Association a new perspective on enhancement programs and has played a significant role in managing our grants and in applying for additional grants. Carol Jones is the new Administrative Assistant. She began employment in July and brought to the Association a strong background in accounting. These people and the rest of the staff all played a part in the Association's successes in 2003.

We are continuing our work to improve salmon habitat, update our facilities, develop new programs and maintain our existing operations. Our goal for 2004 is to be even better.

Sincerely,



Gary L. Fandrei