

THE
SHEE ATIKÁ
GROUP

2001 ANNUAL REPORT

CORPORATE INFORMATION

Managing Officer

Robert G. Loiselle
President & Chief Executive Officer

Staff

Faleene Sele
Operations Manager

Lillian Nielsen Young
Shareholder Services Manager

Gary Bernhardt
Maintenance Director

Kay D. Simmons
Executive Assistant

Carol Breece
Administrative Assistant

Ronald James
Maintenance Technician

Lauren Hamilton
Accounting Technician

Corporate Office

201 Katlian, Suite 200
Sitka, Alaska 99835

907-747-3534

800-478-3534 (in Alaska)

800-344-2128 (outside Alaska)

Independent Auditors

Peterson Sullivan P.L.L.C.
601 Union St., Suite 2300
Seattle, WA 98101

Corporate Counsel

Sorensen & Edwards, P.S.
1201 Third Avenue, Suite 2900
Seattle, WA 98101-3025

Stock Transfer Agent

Dapcevich Accounting Service
221 Lincoln Street
Sitka, Alaska 99835

Shee Atiká Benefits Trust Scholarship Committee

Phillip C. Nielsen, Chairman

Lavina Adams, Vice Chairman

Kathryn Eddy

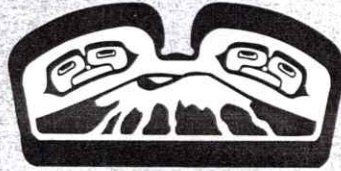
Gillian Havrilla

June Koval

Pamela Steffes

Cover Photo: The Sitka Airport with Alice and Charcoal Islands to the upper left of the runway. The islands were connected by causeways during World War II, and are now bordered on one side by Sitka's newest public harbor, Sealing Cove. Some of Shee Atiká's land on Charcoal Island was acquired by the State of Alaska to expand the airport, and on Alice Island Shee Atiká is building a housing development.

Thanks to Ralph Fenner for graciously letting us use his photo.



THE
SHEE ATIKÁ
GROUP

2001 ANNUAL REPORTS OF
SHEE ATIKÁ, INCORPORATED
SHEE ATIKÁ FUND ENDOWMENT
SHEE ATIKÁ BENEFITS TRUST

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BOARD OF DIRECTORS



Marion Williams Berry
Chairman



Loretta Ness
Vice Chairman



Harold Donnelly Jr.
Treasurer



Ethel Staton, Secretary



Gene Bartolaba



Kenneth M. Cameron



Francine Eddy Jones



Marta Ryman



Shirley Yocum

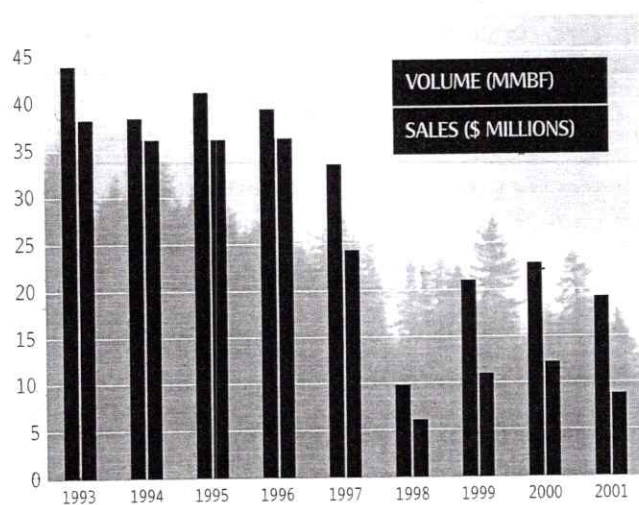
SHEE ATIKÁ, INCORPORATED MANAGEMENT REPORT

We are pleased to report the 14th consecutive profitable year for Shee Atiká, Incorporated (SAI). The audited financial statements for the year ended December 31, 2001 are set forth on the following pages.

OPERATIONS

SAI's net income was \$3,233,258, compared to \$3,172,441 in 2000. The largest single income item was the gain of \$3.65 million on the condemnation of the Charcoal Island property by the Alaska Department of Transportation and Public Facilities (DOT/PF). This long-awaited transaction at the end of December put an end to years of uncertainty over the fate of this property.

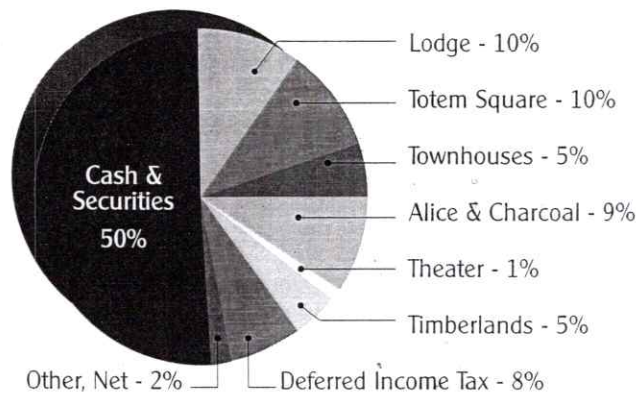
Offsetting this gain to a certain extent was the write-down of Shee Atiká's investment in Atikon Forest Products by \$890,000. This write-down was taken at the time that the Atikon stock was contributed by Shee Atiká, Incorporated to the Shee Atiká Fund Endowment. This write-down reflects the fact that there may be shutdown costs involved with the Cube Cove operation. The amount ultimately realized from this stock remains to be seen. The stock was transferred at its basis of \$1.176 million. It was transferred to the trust to increase its income producing capability.



ATIKON FOREST PRODUCTS

Income from operations included \$1.1 million from hotel operations, \$685,000 in investment income, \$330,000 from commercial buildings and \$92,000 from Atikon. General and administrative expense was \$1.57 million.

Atikon Forest Products, Inc. is our joint venture company with Koncor Forest Products. After 15 years of operation, Atikon finished timber harvesting at Cube Cove in November. Atikon built 190 miles of road and harvested close to 450 million board feet of timber. Profits in 2001 were barely above break even due to timber quality and very poor Far East markets. Atikon will



SHEE ATIKÁ, INCORPORATED
ASSET ALLOCATION
\$30.4 MILLION
December 31, 2001

conclude activities at Cube Cove this spring with demobilization of the camp and cleanup by contractor Silver Bay Logging of several areas of soil contaminated with diesel fuel. Once complete, the remaining cash will be distributed to the owners, Koncor Forest Products and Shee Atiká, and Atikon will be dissolved.

SAI's principal assets include investments of \$7.7 million in government agency securities and fixed income mutual funds; \$7.4 million in cash and cash equivalents; commercial properties that include the Shee Atiká Lodge, the Totem Square Building, the theater building in Sitka, about

15 acres on Alice and Charcoal Island along with one remaining commercial building; and about 26,000 acres of land—23,000 acres on Admiralty Island and 3,000 acres at Katlian Bay near Sitka.

ALICE AND CHARCOAL ISLANDS

As reported above, 14.85 acres of Charcoal Island were taken by DOT/PF for airport expansion purposes. The proceeds from this sale will be reinvested in other commercial real estate. By reinvesting we will put this capital back to work and also avoid taxation on the income. Under Section 1033 of the Internal Revenue Code we are allowed to defer taxes on gains if the money is reinvested in "like-kind" property (in this case, real estate). We have identified several investment opportunities and expect to close on one by the end of the first quarter of 2002.

In what we believe to be a first-of-its-kind transaction, Shee Atiká was able to trade land that we acquired at Flynn Cove on Chichagof Island for Sealaska's subsurface interests under the entirety of Alice and Charcoal Islands. As you may know, regional corporations received the subsurface estate to all lands transferred to village and urban corporations under the terms of the Alaska Native Claims Settlement Act (ANCSA). This simplified our transaction with DOT/PF, and removed an encumbrance to our title to the remainder of the Alice and Charcoal properties.

The first phase of our townhouse project, Shuka Hit (Ancestor House), is nearly complete, with three three-bedroom and two two-bedroom units constructed. Construction of the next phase will depend on sales of these initial units.



Shuka Hit (Ancestor House), Phase I of the townhouse project

CUBE COVE

As previously discussed, the U.S. Forest Service has expressed an interest in acquiring the Cube Cove lands in order to consolidate ownership within the Admiralty Island National Monument. We are working jointly with Sealaska Corporation, owner of the subsurface estate, in pursuing alternatives for the sale of those lands. A shareholder survey conducted in 2000 revealed that a majority of shareholders are willing to part with those lands if a satisfactory price could be obtained. Shareholder opinions were influenced by the fact that the timber will take seventy years or more to reach maturity, and until then there is little opportunity any income can be derived from the Cube Cove lands.

We are now working with The Nature Conservancy to see if federal funding for an acquisition can be obtained.

KATLIAN BAY

In December 2000, the corporation concluded a sale of the merchantable timber at Katlian Bay north of Sitka to Rayonier, Inc., a multinational forest products company with many years of experience in Alaska. The Katlian drainage was heavily logged by Alaska Pulp Corporation in the early 1960s.

Current plans call for Rayonier to log this sale during 2002. It is likely that their plan of operation will reduce or eliminate previously planned road construction and rely more heavily on helicopter logging, reducing what was to be an already light harvest in many areas of the sale.

TOTEM SQUARE COMPLEX

The first season of the Totem Square Inn was a success, with \$250,000 in operating profit generated from the newly revived hotel operation. We expect this season to be even better, as additional charter operators take advantage of the dock facilities to serve their clients.

We continue to provide housing to University of Alaska Southeast students in the winter months.

This January we lost a long-time tenant, the U.S. Forest Service Sitka Ranger District. Budget constraints forced the district to move to the regional headquarters. Replacing the Forest Service will be the Twin Dragon restaurant, USDA Rural Development and NOAA.



SHEE ATIKA
I N C O R P O R A T E D

THEATER PROPERTY

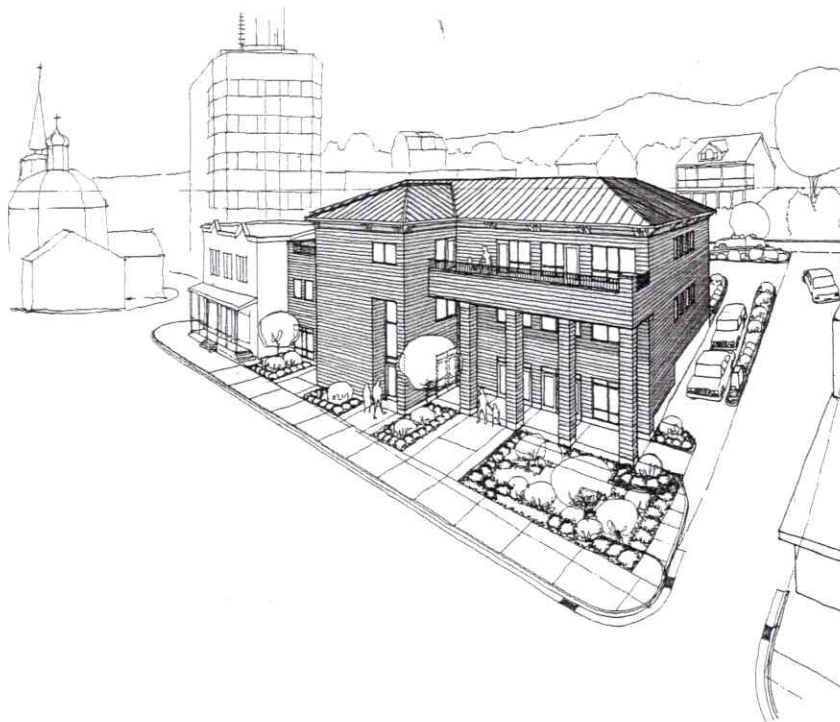
Lord of the Rings was the final performance at the Coliseum Theater in early January. Fortunately, the equipment has been purchased by Scott Bowen and the theater will be reestablished at the Dugout on Sawmill Creek Road.

Plans are proceeding for the demolition of the existing building and for the construction of a new, three-story office and commercial building. Anchor tenants for the building include Alaska Pacific Bank and Shee Atiká, Incorporated, where we will relocate our corporate office. Alaska Pacific is a current Shee Atiká tenant in the Shee Atiká Lodge building. Their move will free up much needed meeting space, as well as provide additional parking for Lodge customers.

Construction will begin later this year and be completed by the second quarter 2003.



The Coliseum Theater showed its last movie in January 2002. Fortunately for Sitka movie fans the projection equipment was purchased by a local entrepreneur who will show movies at a new venue. The theater building will be razed, and construction of a new three-story office building is expected to begin later this year with completion scheduled for mid-2003.



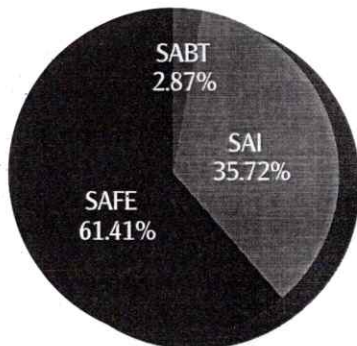
FINANCIAL CONDITION

The combined net worth of SAI, SAFE and SABT totaled \$84,656,799 as of December 31, 2001. This represents a decline of roughly \$500,000 from a year earlier after deducting cash distributions to shareholders of \$2.6 million.

As of December 31, 2001, SAI's net worth was \$30,015,381, SAFE's net worth was \$52,230,041, and SABT's net worth was \$2,411,377.

The audited financial statements for SAFE and SABT for the year ended December 31, 2001 are contained in separate sections of this report.

To keep administrative costs at a minimum and to maximize shareholder benefits, Shee Atiká continues to manage the three entities in the Shee Atiká Group: Shee Atiká, Incorporated, Shee Atiká Fund Endowment and the Shee Atiká Benefits Trust. We will continue to contribute income to the trusts over time (consistent with a healthy Shee Atiká, Incorporated) in order to provide the greatest after-tax benefit to our shareholders. In the SAFE section of this report, we discuss tax law changes that make SAFE the preferred vehicle for paying shareholder distributions.



COMBINED NET
WORTH
SAI, SAFE & SABT

CASH DISTRIBUTIONS

Shareholders receive cash distributions twice yearly. The payments are made on the third Monday in May and on the first Monday following Thanksgiving Day. During 2001, shareholders received cash distributions of \$14 per share from SAFE. We expect that SAFE will continue to provide most of the cash distributions in future years.

The board's policy regarding cash distributions is as follows:

1. To provide consistent, dependable cash distributions to shareholders twice each year. The Board intends to pay cash distributions on the same dates each year.
2. To provide cash distributions of the largest sustainable amount possible without jeopardizing the future of either SAI or SAFE. This means that the board not only wants to continue paying cash distributions, it wants to continue paying them without having to reduce the annual amount that is paid each year.
3. To gradually increase the amount shareholders receive. The board will not necessarily increase the amount of the annual cash distribution each year, but will increase the annual rate whenever it believes that the increased rate can be sustained over the long term.

SUPPORT OF NATIVE ORGANIZATIONS

SAI supports many local Native organizations through financial aid and "in-kind" donations. We believe this is part of our responsibility to our heritage and culture. The organizations we supported during 2001 included the Alaska Federation of Natives, ANB Camp #1, ANS Camp #4, Alaska Native Heritage Center, Sitka Native Education Program, Mt. Edgumbe High School activities, N.A.T.I.V.E. Program, Inc, Sitka Tribe of Alaska, SEARHC, Gajaa Heen Dancers, Noow Tlein Dancers, Sheetka Kwaan Dancers and Southeast Cultural Center.

SHAREHOLDER EDUCATION AND COMMUNICATION

We continued our tradition of shareholder information seminars in 2001. In conjunction with our regular September information meetings, the seminar featured a comprehensive review of the new Section 646 federal income tax election. This format remains popular with shareholders and we will continue it this year.

In addition, we will continue reporting to shareholders on a regular basis through the Shee Atika News and the publication of our quarterly and annual reports.

We are continuing to upgrade our Web site, <http://www.sheeatika.com> to provide both up-to-date information on corporate activities and forms for shareholder use.

We also plan to continue our enormously popular shareholder Christmas parties, which give shareholders, the board and management the opportunity to visit, renew old acquaintances and get to know each other in a festive and informal setting.

We encourage you to call, write, or visit whenever you have questions, comments, or when you just want to talk about the corporation or the trusts. Our door is always open.

On behalf of the Board of Directors and the entire staff, it continues to be a pleasure serving you.

Marion Williams Berry

Marion Williams Berry
Chairman of the Board

Robert G. Loiselle

Robert G. Loiselle
President and Chief Executive Officer



INDEPENDENT AUDITORS' REPORT

PETERSON SULLIVAN P.L.L.C.

601 UNION STREET SUITE 2300 SEATTLE WA 98101 (206) 382-7777 FAX 382-7700
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
Shee Atiká, Incorporated
Sitka, Alaska

We have audited the accompanying balance sheets of Shee Atiká, Incorporated as of December 31, 2001 and 2000, and the related statements of operations, capital, and cash flows for the years then ended. These financial statements are the responsibility of Shee Atiká, Incorporated'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. 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 Shee Atiká, Incorporated as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Peterson Sullivan PLLC

January 24, 2002

BALANCE SHEETS

December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,427,751	\$ 314,031
Receivables and other current assets	331,683	677,302
Total current assets	<u>7,759,434</u>	<u>991,333</u>
Other Assets		
Land, buildings and equipment	12,624,612	12,683,633
Investment in Atikon		3,689,718
Long-term investments	7,684,161	8,815,022
Deferred income tax benefit	2,330,000	2,158,000
	<u>22,638,773</u>	<u>27,346,373</u>
Total assets	<u>\$ 30,398,207</u>	<u>\$ 28,337,706</u>
 LIABILITIES AND CAPITAL		
Current Liabilities		
Accounts payable	\$ 382,826	\$ 379,583
Capital		
Common stock, no par or stated value, authorized 250,000 shares		
Class A, voting, issued and outstanding 182,223 shares in 2001 and 182,109 shares in 2000		
Class B, nonvoting, issued and outstanding 2,977 shares in 2001 and 2,991 shares in 2000		
Contributed capital	5,956,000	5,956,000
Retained earnings	24,059,381	22,002,123
Net worth	<u>30,015,381</u>	<u>27,958,123</u>
Total liabilities and capital	<u>\$ 30,398,207</u>	<u>\$ 28,337,706</u>

See Notes to Financial Statements

STATEMENTS OF OPERATIONS

Years Ended December 31, 2001 and 2000

	2001	2000
Revenue		
Hotel	\$ 4,302,887	\$ 3,941,386
Gain on Charcoal Island property sale	3,647,650	-
Share in Atikon net income	92,058	819,894
Writedown of Atikon investment (see Note 5)	(890,776)	-
Investment income	685,771	357,924
Rentals from commercial buildings	745,112	725,749
Other	73,100	369,402
	<u>8,655,802</u>	<u>6,214,355</u>
Costs and Expenses		
Hotel	3,203,911	2,948,288
General and administrative	1,568,901	1,376,992
Commercial buildings	414,149	282,183
Contributions	29,162	62,809
Depreciation	378,421	357,642
	<u>5,594,544</u>	<u>5,027,914</u>
	Income Before Income Tax Benefit	1,186,441
Income tax benefit	172,000	1,986,000
	Net Income	<u>\$ 3,172,441</u>
	<u>\$ 3,233,258</u>	<u>\$ 3,172,441</u>

STATEMENTS OF CAPITAL

Years Ended December 31, 2001 and 2000

	Shares of Common Stock		Contributed Capital	Retained Earnings	Total Net Worth
	Class A	Class B			
Balances, December 31, 1999	182,390	2,710	\$ 5,956,000	\$ 26,601,667	\$ 32,557,667
Net transfers from voting to nonvoting shares	(281)	281			
Net income for the year				3,172,441	3,172,441
Distributions					
Shareholders				(370,200)	(370,200)
Shee Atiká Fund Endowment				(5,967,517)	(5,967,517)
Shee Atiká Benefits Trust				(1,434,268)	(1,434,268)
Balances, December 31, 2000	<u>182,109</u>	<u>2,991</u>	<u>5,956,000</u>	<u>22,002,123</u>	<u>27,958,123</u>
Issuance of shares	100				
Net transfers from nonvoting to voting shares	14	(14)			
Net income for the year				3,233,258	3,233,258
Distribution of Atikon investment to Shee Atiká Fund Endowment				(1,176,000)	(1,176,000)
Balances, December 31, 2001	<u>182,223</u>	<u>2,977</u>	<u>\$ 5,956,000</u>	<u>\$ 24,059,381</u>	<u>\$ 30,015,381</u>

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2001 and 2000

	2001	2000
Cash Flows From Operating Activities		
Cash received from:		
Hotel operations	\$ 4,263,249	\$ 3,983,012
Dividends received from Atikon	1,715,000	-
Interest	763,664	368,150
Rentals from commercial buildings	707,093	744,069
Other	418,483	19,409
	<u>7,867,489</u>	<u>5,114,640</u>
Cash paid to:		
Contractor, suppliers and employees	5,212,880	4,545,472
Net cash provided by operating activities	<u>2,654,609</u>	<u>569,168</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(2,306,750)	(535,663)
Proceeds from sale of property and equipment	5,635,000	-
Long-term investments	1,130,861	(73,268)
Net cash provided by (used in) investing activities	<u>4,459,111</u>	<u>(608,931)</u>
Cash Flows From Financing Activity		
Distributions to shareholders	-	(370,200)
Net increase (decrease) in cash and cash equivalents	<u>7,113,720</u>	<u>(409,963)</u>
Cash and cash equivalents, beginning of year	314,031	723,994
Cash and cash equivalents, end of year	<u>\$ 7,427,751</u>	<u>\$ 314,031</u>

Reconciliation of net income to net cash provided by operating activities:

	2001	2000
Net income	\$ 3,233,258	\$ 3,172,441
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	378,421	357,642
Share of Atikon net income	(92,058)	(819,894)
Writedown of Atikon investment	890,776	-
Dividend received from Atikon	1,715,000	-
Gain on Charcoal Island property sale	(3,647,650)	-
Deferred income tax benefit	(172,000)	(1,988,000)
Change in operating assets and liabilities		
Receivables and other current assets	345,619	(279,821)
Accounts payable	3,243	126,800
Net cash provided by operating activities	<u>\$ 2,654,609</u>	<u>\$ 569,168</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Shee Atiká, Incorporated (“Shee Atiká”) is an urban corporation organized pursuant to the Alaska Native Claims Settlement Act (“ANCSA”). ANCSA, as amended, provides for the selection of 26,030 acres of land by Shee Atiká. It receives the surface estate in such land, and the regional corporation, Sealaska Corporation, receives the sub-surface estate. Shee Atiká has received conveyance to approximately 23,000 acres of timberland located on Admiralty Island, 3,000 acres at Katlian Bay and 30 acres on Alice and Charcoal Islands located near Sitka.

One hundred shares of Shee Atiká’s voting common stock were issued pursuant to ANCSA to each Native person enrolled. Under Alaska Statute, shareholders have certain voting rights including an ability to require a corporation to distribute assets in total liquidation of the corporation. Nonvoting common stock is issued to any person who acquires Shee Atiká’s stock and is not a “Native” or “Descendant of a Native” within the meaning of ANCSA. However, ANCSA generally prohibits transfers of stock.

SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY AND EQUIPMENT

The estimated value of the land, including structures, along with cash received under ANCSA (amounting to \$250,000) are recorded as contributed capital. All other land, buildings and equipment are stated at cost. As discussed in Note 2, certain properties are currently under construction that will eventually be held as real estate for development and sale. When construction is complete, real estate held for development and sale will be stated at cost unless the estimated future undiscounted cash flows expected to result from disposition is less than carrying value, in which case a loss will be recognized based on the fair value of similar real estate in the same geographic region.

Depreciation of buildings and equipment is provided on the straight-line method over the estimated lives of the assets.

Note 1 (Continued)

INVESTMENT IN ATIKON

Shee Atiká owned a 49% interest in an affiliate called Atikon Forest Products, Inc. ("Atikon"). In a prior year, Atikon acquired from Shee Atiká all of its timber located on Admiralty Island. Atikon has been harvesting the timber which has then been sold primarily as round logs. Substantially all of the timber has now been harvested.

Prior to its distributing Atikon to Shee Atiká Fund Endowment in 2001 (see Note 5), Shee Atiká's investment in Atikon was stated at cost adjusted for Shee Atiká's share of its undistributed profits or losses and dividends received. At the time of its distribution, Shee Atiká wrote down its investment in Atikon to its estimated fair value.

CASH/LONG-TERM INVESTMENTS

Shee Atiká considers all highly liquid securities purchased with a maturity of three months or less to be cash equivalents for purposes of the statements of cash flows.

Shee Atiká regularly has cash and cash equivalents in excess of federally insured limits.

Long-term investments represent assets reserved for future investment and consist of debt securities and a bond mutual fund. Debt securities are stated at amortized cost because management has classified them as held-to-maturity investments. Amortized cost approximates market value. The bond mutual fund is classified as an available-for-sale security and is stated at market value (which approximates cost). When determining realized gains or losses on investment transactions, Shee Atiká uses the specific identification method.

INCOME TAXES

Shee Atiká accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in Shee Atiká's financial statements or income tax returns. In estimating future tax consequences, Shee Atiká generally considers all expected future events other than enactments of changes in income tax laws or rates.

NOTE 2 BUILDINGS AND EQUIPMENT

	2001	2000
Hotel building and equipment	\$ 8,372,623	\$ 7,952,456
Commercial buildings and equipment	4,491,870	5,481,063
Land	4,723,983	5,940,902
Other	331,573	308,239
	<u>17,920,049</u>	<u>19,682,660</u>
Less accumulated depreciation	(6,876,286)	(7,164,463)
	<u>11,043,763</u>	<u>12,518,197</u>
Construction in progress	1,580,849	165,436
	<u>\$ 12,624,612</u>	<u>\$ 12,683,633</u>

The commercial buildings and equipment are leased under operating leases expiring in various years through 2012 and have accumulated depreciation of \$1,001,185 and \$1,550,609 as of December 31, 2001 and 2000, respectively.

Construction in progress represents costs incurred to develop parts of Alice Island and related costs incurred to start construction of residential homes there. Profit or loss on the eventual sale of residential homes will be recognized when the amount of revenue is determinable, certain down payment requirements are met, and no significant further involvement remains with respect to the property sold. Costs will be allocated to property sold using a method that considers elements of area, relative selling prices, and specifically identified costs.

NOTE 3 LONG-TERM INVESTMENTS

Shee Atika's long-term investments consist of mortgage-backed debt securities guaranteed by agencies of the U.S. Government (\$4,997,535) and a bond mutual fund (\$2,686,626).

Mortgage-backed securities held at December 31, 2001, mature as follows:

2010	\$ 240,551
2020	675,654
2029	1,264,732
2030	1,433,610
2031	1,382,988
	<u>\$ 4,997,535</u>

Mortgage-backed securities represent an interest in an underlying pool of mortgages. As these mortgages are paid down or refinanced, the holder of the security receives a proportionate share of the principal repayment as well as regular interest payments. The rate of repayment of the principal depends on the movement of interest rates, among other factors. The estimated average life of these securities is generally significantly shorter than the stated maturity dates shown above.

NOTE 4 INCOME TAXES

The income tax benefit consists of (amounts in these tables are stated in thousands of dollars):

	<u>2001</u>	<u>2000</u>
Current (provision)	\$ -	\$ (2)
Deferred benefit	172	1,988
Income tax benefit	<u>\$ 172</u>	<u>\$ 1,986</u>

The actual income tax benefit for income taxes differs from the amount computed by applying a 40% effective tax rate to pretax income because of the following:

	<u>2001</u>	<u>2000</u>
Expected tax expense	\$ (1,226)	\$ (475)
Tax loss on sale of timber	1,819	2,141
Use of net operating loss carryforwards	230	-
Writedown of Atikon investment	(356)	-
Change in valuation allowance	(136)	195
Other	(159)	125
Income tax benefit	<u>\$ 172</u>	<u>\$ 1,986</u>

The significant components of the deferred income tax asset for years ended December 31 are as follows:

	<u>2001</u>	<u>2000</u>
Deferred Tax Assets		
Excess of tax basis in buildings and equipment	\$ 1,092	\$ 1,078
Net operating loss carryforwards	3,540	1,978
Alternative minimum tax credit carryforwards	180	180
Other	(11)	(202)
Deferred tax asset	<u>4,801</u>	<u>3,034</u>
Deferred Tax Liability		
Deferred gain on Charcoal Island property sale	(1,459)	-
Deferred tax asset before valuation allowance	3,342	3,034
Valuation allowance	(1,012)	(876)
Net deferred tax asset	<u>\$ 2,330</u>	<u>\$ 2,158</u>

As of December 31, 2001, Shee Atiká has net operating tax loss carryforwards of approximately \$8,850,000 and alternative minimum tax credit carryforwards of \$180,000. The tax loss carryforwards expire in 2020 and 2021, while the alternative minimum tax credit carryforwards do not expire. Management believes that it is more likely than not that the net deferred tax asset will be realized.

NOTE 5 SETTLEMENT TRUSTS

Shee Atiká established two settlement trusts which are entities authorized by ANCSA and organized under the laws of Alaska to provide certain benefits to Shee Atiká's shareholders. However, the trusts are separate from Shee Atiká even though the trustees are the same people who are members of Shee Atiká's Board of Directors. The trustees are responsible for investing the assets of the trusts, use of income to accomplish the trusts' primary purpose, and making distributions to unit holders who are also Shee Atiká shareholders. Further, the trusts are prohibited by ANCSA from operating a business.

The first settlement trust, the Shee Atiká Fund Endowment ("SAFE"), was established to maintain assets and pay distributions from its income to SAFE's beneficiaries. SAFE has net assets of approximately \$52,200,000 at December 31, 2001.

The second settlement trust, Shee Atiká Benefits Trust ("SABT") was established to provide scholarships and funeral benefits to Shee Atiká's shareholders who are also beneficiaries of the trust. SABT has net assets of approximately \$2,400,000 at December 31, 2001.

During 2001, Shee Atiká distributed its investment in Atikon with a fair value of \$1,176,000 to Shee Atiká Fund Endowment. During 2000, Shee Atiká distributed long-term investments with a fair value of \$7,333,651 and related accrued interest receivable of \$68,134 to Shee Atiká Fund Endowment and Shee Atiká Benefits Trust.

NOTE 6 RENTALS OF COMMERCIAL BUILDINGS

The approximate minimum future rentals to be received on non-cancelable operating leases for the next five years are:

2002	\$ 328,289
2003	\$ 226,955
2004	\$ 128,001
2005	\$ 56,571
2006	\$ 51,970

NOTE 7 CHARCOAL ISLAND PROPERTY SALE

In December of 2001, Shee Atiká sold approximately 15 acres of land, along with the buildings, to the State of Alaska under a court-ordered condemnation sale. Shee Atiká received cash of \$5,635,000 from this sale resulting in a gain of \$3,647,650. As this was a court-ordered sale, Shee Atiká expects to reinvest the proceeds into other real estate in the next three years. If invested in the required time period, Shee Atiká can defer any income taxes on the sale.

NOTE 8 CONTINGENCY

The U.S. Environmental Protection Agency has proposed changes in its regulations relating to log transfer facilities. These changes include the possible requirement for remediation of underwater bark deposits. Shee Atiká's log transfer facility at Cube Cove on Admiralty Island, which was used by Atikon, may fall within the guidelines for facilities requiring remediation. It is not known at this time what measures might be required or any related cost.

SHEE ATIKÁ FUND ENDOWMENT (SAFE)

MANAGEMENT REPORT

DEAR UNIT HOLDER:

2001 was another disappointing year for stocks. Fortunately, our fixed income investments had positive returns. Overall, the return for the portfolio was -3.9%.

The financial markets had been in a general decline since mid-2000, and went into a steep plunge following the tragic events of September 11. Many institutions sold heavily immediately after the terrorist attacks on the United States. SAFE stayed the course, did not sell off securities, and has since benefited by not deviating from its long term investment plan. The market recovered strongly from a low point on September 21, and the SAFE portfolio is up by 1.5% so far in the first quarter of 2002.

The results for the year 2001 are set forth on the following pages. We have tried to make this report as easy to read as possible, but it is somewhat technical in nature. You may want to refer to some of the definitions on the back page to help you.

SECTION 646 ELECTION

The Economic Growth and Tax Reconciliation Act of 2001, the same act that brought most U.S. taxpayers \$600 tax rebates, presented Settlement Trusts established under the Alaska Native Claims Settlement Act with an opportunity to radically change their tax structure by making an election under Section 646 of the Tax Code.

This election essentially shifts the federal income tax burden from the beneficiaries (shareholders) to the trust. Previously, the trust paid federal income tax at the 39.6% rate on all undistributed income. Since distributions to beneficiaries were deductible, it was possible to reduce federal income tax the trust paid to a relatively small amount, despite the steep tax rate. Beneficiaries, however, had to include distributions in income and pay at their individual rate.

Under Section 646 a trust is subject to a 10% tax rate for ordinary income and capital gains. The catch is that distributions to beneficiaries are no longer deductible to the trust, so the trust pays more tax under the election. However, beneficiaries will no longer pay have to pay tax on their distributions as long as the trust's after-tax income equals or exceeds the amount of the distributions. This results in a net gain in after-tax dollars to the beneficiaries, since the average shareholder rate is well above the 10% paid by the trust.

The Shee Atiká Fund Endowment (SAFE) has made the Section 646 election (which is now permanent). SAFE beneficiaries realized the benefits of this change in the 2001 tax year, since after-tax income exceeded distributions. Thus, not only were there no taxes to pay, there were no Form K-1s sent out and nothing for beneficiaries to report on their tax returns.

It is important to note that this tax benefit is not guaranteed. Each year we must insure that the trust earns enough realized income to cover distributions made. Unrealized gains do not count in this regard. This caused us to realize a number of unrealized gains at year-end to make certain there would be adequate income.

We have also changed our method of accounting to make our financial statement consistent with our tax reporting. Previously, numerous adjustments had to be made between the tax books and the financial accounting books. With taxable income (as defined by the IRS Code) now the primary item of interest, this change makes it much easier to monitor this important number.

We still report the unrealized change in market value in the portfolio below after-tax income. This allows you to see how the portfolio has done overall.

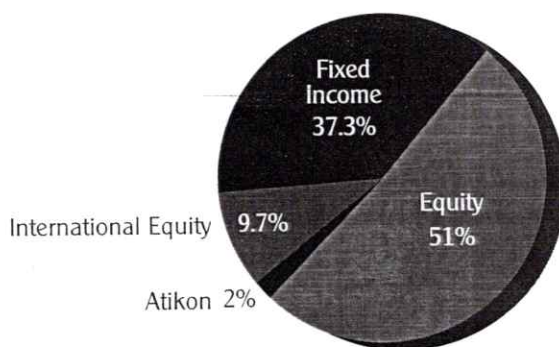
INVESTING ACTIVITIES

The change in SAFE's net asset as a result of operations was -\$2,219,153. The components of this decrease are: dividends received of \$1,691,725; interest earned of \$1,149,859, other income of \$3,636, gains on sales of securities (stocks and bonds) of \$1,022,286; decrease in value of securities not sold during the year (unrealized decrease in value) of \$5,478,723; less expenses of \$250,599 and income taxes of \$357,337.

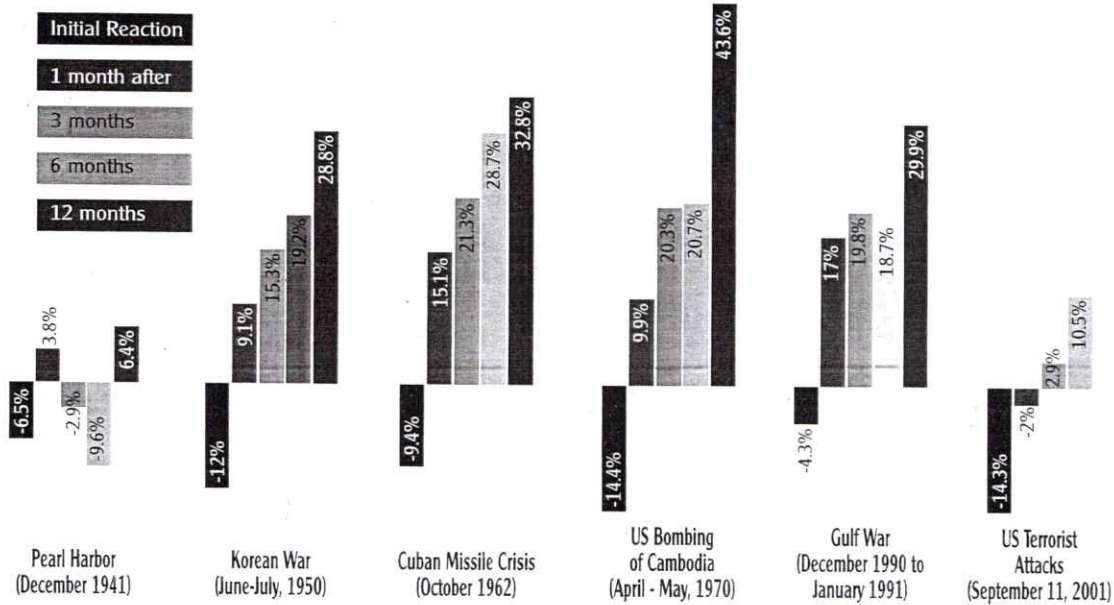
The investment return for the portfolio as calculated by the trust's investment advisor, Wurts and Associates, was -3.9%. This compares to a 2000 investment return of -0.4%. Our fixed income portfolio had total return of 6.7%, offsetting the poor returns from the stock portfolio. By comparison, the S&P 500 (entirely stocks) return for 2001 and 2000 was -11.9% and -9.1% and respectively.

The asset allocation at year-end was roughly 51% in the stocks of U.S. corporations, 39% in bonds, and 10% in stocks of foreign corporations. The board revised the investment policy in 2001 to reduce exposure to technology and achieve better diversification. For the short term, we will have roughly 50% of the portfolio in fixed-income securities to help insure adequate current income to meet our income goal described above.

In that regard, we have recently terminated our long-term relationship with Rainier Investment Management (RIM), our last active equity manager. The RIM portfolio is being liquidated and put into fixed income investments.



SHEE ATIKÁ FUND
ENDOWMENT
ASSET ALLOCATION



US MARKET RECOVERY AFTER TRAGEDY
Reaction of the Dow Jones Industrial Average to Crisis Events

ADDITIONAL CONTRIBUTION

On October 24, 2001 the Shee Atiká, Incorporated Board of Directors passed a resolution contributing the stock of Shee Atiká, Incorporated's 49% subsidiary, Atikon Forest Products, Inc., to SAFE. This contribution is consistent with the board's policy to make additional contributions to SAFE over time. The stock was valued at its basis of \$1,176,000 at the time of transfer and paid a dividend of \$980,000 in December. SAFE's ownership of this stock does not affect the ownership of the land at Cube Cove, which remains with Shee Atiká, Incorporated.

CASH DISTRIBUTIONS

Unit Holders received cash distributions from SAFE of \$2,592,800 during 2001. If you owned 100 units you received \$1,400, or \$14 per unit.

The board reviewed its distribution policy in 2001 and changed the formula for distributions to 5.5% of the five-year rolling average of the net asset value of the trust. Previously, the policy had been 6% of the three-year rolling average. This new policy reflects the new

Net Assets



SAFE Distributions



SHEE ATIKÁ FUND ENDOWMENT
NET ASSETS AND DISTRIBUTIONS

economic realities as well as the increased tax burden of the trust. The goal is to allow the trust to grow at least at the rate of inflation.

This formula is used by the board as a guideline. It is free to make adjustments based on its assessment of current circumstances. Finally, the trust document requires that distributions must be at least 75% and no more than 100% of net cash income, as defined by the trust.

We expect that SAFE will continue to provide most of the cash distributions in future years.

NET ASSET VALUE

The net asset value of SAFE at December 31, 2001 was \$51,608,010 compared to a net asset value of \$54,416,076 at the end of the previous year. The decrease in net assets resulting from operations of \$2,219,153 is composed of the following: interest and dividends contributed \$2,841,584, realized gain on the sale of investments contributed of \$1,022,286 and other income added \$3,636, offset by expenses of \$250,599, taxes of \$357,337 and an unrealized loss of \$5,478,723.

Net assets were also decreased by distributions to shareholders of \$2,600,750, but this decrease was offset by \$1,176,000 resulting from Shee Atiká's transfer of its Atikon investment to SAFE.

OUTLOOK

Economists seem to concur that we are in a recovery, though disagreement exists concerning its strength. We have positioned the fund more heavily in fixed income to insure adequate income to protect the tax-free character of our distributions, but we also expect equities to show positive gains for the year.

We have set forth a considerable amount of detail in the following financial statements and footnotes for those who desire to gain a better understanding of SAFE. We are here to help you in any way possible. Please call, write or visit if you have questions or comments. The door is always open.



Marion Williams Berry
Chairman of the Board



Robert G. Loiselle
President and Chief Executive Officer



SHEE ATIKÁ FUND
E N D O W M E N T

INDEPENDENT AUDITORS' REPORT

PETERSON SULLIVAN PLLC

601 UNION STREET SUITE 2300 SEATTLE WA 98101 (206) 382-7777 FAX 382-7700
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Shee Atiká Fund Endowment
Sitka, Alaska

We have audited the accompanying statement of net assets - modified income tax basis of Shee Atika Fund Endowment as of December 31, 2001, and the related statements of revenues and expenses - modified income tax basis and changes in net assets - modified income tax basis for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting the Trust uses for income tax purposes, except that it accounts for investments at market value (investments are valued at cost on the basis of accounting the Trust uses for income tax purposes) ("the modified income tax basis"). The purpose of using the income tax basis of accounting is to make the statements easier to use for the Trust unit holders. The income tax basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of Shee Atika Fund Endowment as of December 31, 2001, and its revenues and expenses and changes in net assets for the year then ended, on the modified income tax basis of accounting as described in Note 1.

Peterson Sullivan PLLC

February 25, 2002

STATEMENT OF NET ASSETS - MODIFIED INCOME TAX BASIS

December 31, 2001

ASSETS

Investments, at market value (cost \$53,328,970)	\$ 50,749,652
Cash and cash equivalents	1,112,359
Receivables	<u>3,336</u>
Total assets	\$ 51,865,347

LIABILITIES

Income taxes payable	<u>257,337</u>
Net assets	<u>\$ 51,608,010</u>

STATEMENT OF REVENUES AND EXPENSES - MODIFIED INCOME TAX BASIS

For the Year Ended December 31, 2001

Revenues	
Interest	\$ 1,149,859
Dividends	1,691,725
Net realized gain on sales of investments	1,022,286
Other revenue	3,636
	<hr/>
	3,867,506
Expenses	
Management and professional fees	190,010
Custodian fees	44,033
Other expenses	16,556
	<hr/>
	250,599
	<hr/>
	3,616,907
Income tax expense	357,337
	<hr/>
Realized investment income in excess of expenses	3,259,570
Change in unrealized loss on investments	(5,478,723)
	<hr/>
Change in net assets resulting from operations	\$ (2,219,153)
	<hr/>

See Notes to Financial Statements

STATEMENT OF CHANGES IN NET ASSETS - MODIFIED INCOME TAX BASIS

For the Year Ended December 31, 2001

Change in net assets resulting from operations	\$ (2,219,153)
Transfer of Atikon investment from Shee Atiká, Incorporated	1,176,000
Distributions to beneficiaries	
Current year distributions	(2,592,800)
Cumulative distributions to new unit holder	<u>(7,950)</u>
Total decrease	(3,643,903)
Net assets, beginning of year	<u>55,251,913</u>
Net assets, end of year	<u>\$ 51,608,010</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1

ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Shee Atika Fund Endowment ("SAFE") is an irrevocable settlement trust, formed in 1992 by Shee Atika, Incorporated ("SAI"), to establish a fund to maintain assets and pay distributions from trust income to beneficiaries (unit holders) who are also shareholders of SAI. Members of the Board of SAI act as the trustees.

SAI is an Urban Corporation organized pursuant to the Alaska Native Claims Settlement Act ("ANCSA"). ANCSA, as amended, authorizes the conveyance of assets by a Native corporation to a settlement trust.

SAFE's voting trust units were issued to SAI's shareholders in direct proportion to their shares of voting common stock. Nonvoting trust units were issued to any person who had acquired SAI's shares and who is not a "Native" or a "Descendant of a Native" within the meaning of ANCSA, in direct proportion to their shares of nonvoting common stock. The trust units are not generally transferable. At December 31, 2001, there were 185,200 trust units (of which 182,223 were voting and 2,977 were nonvoting) held by over 2,500 beneficiaries.

The Settlement Trust Agreement requires that a minimum of 75% and a maximum of 100% of annual net cash income, as defined, is to be distributed to beneficiaries, semiannually. The amount of distributions (\$14 per unit in 2001) are determined by the Board of Trustees, but must be between the minimum and maximum amounts. Distributions are pro rata based on the number of trust units owned.

After the fifteenth anniversary of SAFE, the trustees may modify the terms of the trust agreement. The modifications may include changing the percentage of net cash income that is distributed, modifying the principal distribution provisions, or even terminating SAFE and distributing all principal and accrued income to the beneficiaries.

BASIS OF ACCOUNTING

SAFE's policy is to prepare its financial statements on the income tax basis of accounting, except that it recognizes its investments at market value rather than cost ("the modified income tax basis"). Consequently, certain revenues are recognized when received (rather than when earned) and certain expenses are recognized when paid (rather than when the expense is incurred).

CASH AND CASH EQUIVALENTS

SAFE considers money market funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. SAFE has cash and investments in excess of government sponsored insurance limits.

Note 1 (Continued)

INVESTMENTS

- Investments in common stocks (other than the Atikon investment) and corporate bonds are carried at a value based on the applicable price on an exchange, or the bid price on the last trading day of the year. These investment securities are traded on various U.S. exchanges and are therefore subject to the market volatility in those exchanges.
- Investments in mutual funds are based on redemption prices quoted by the fund on the last day of the year. The international mutual funds invest in securities of various entities in many different countries to mitigate risk.
- Investments in Unit Trusts (Standard & Poor's 500, Standard & Poor's Mid-Cap, NASDAQ 100, and Russell 1000 Value Index) are also carried at a value based on the applicable price on a U.S. exchange.
- Investments in mortgage-backed and other asset-backed securities are traded by market-makers and are carried at values determined by brokerage houses on the last day of the year.
- Real estate mortgage investment conduits ("remics") are carried at a value determined by a recognized investment valuation service because no organized trading market exists for these securities. The values, as determined, are based on various assumptions at a point in time and, therefore, the actual results may differ significantly when the securities are sold. Additionally, since no organized trading market exists, liquidity may be impaired under certain market conditions.
- The investment in Atikon represents 4,900 shares (a 49% interest) in Atikon Forest Products, Inc. ("Atikon"). In a prior year, Atikon acquired from SAI all of SAI's timber located on Admiralty Island. Substantially all of this timber has now been harvested. In 2001, SAI transferred this investment to SAFE and the investment is stated at management's estimate of fair market value at the date of transfer less any return of original capital.

The difference between cost and market value of securities held at year-end represents unrealized gains or losses on investments. Realized gains or losses from securities transactions are determined on the basis of the cost of the specific securities sold and are recorded on the trade date.

INCOME TAXES

Effective January 1, 2001, SAFE elected to be taxed at approximately a 10% rate under the Internal Revenue Code.

ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 INVESTMENT EXPENSES

SAFE pays custodial fees to U.S. Bank at an annual rate of 0.05% of SAFE's average daily net assets at market value, and \$25 for each security transaction. SAFE pays management fees to its investment managers computed at an annual rate varying from 0.35% to 0.60% of the SAFE's average daily net assets under their management at market value.

NOTE 3 INVESTMENTS

Investments are summarized as follows:

	- 2001 -	
	Market Value	Cost
Common stocks	\$ 13,650,580	\$ 13,115,710
Corporate bonds	3,260,903	3,353,539
Mutual funds		
American Euro Pacific Growth International Fund	4,938,174	5,247,959
Pimco Total Return Bond Fund	5,309,421	5,608,834
Unit Trust holding shares in all companies in the Standard & Poor's 500 companies	8,025,413	9,664,610
Unit Trust holding shares in all companies in the Standard & Poor's Mid-Cap companies	2,831,170	2,804,446
Unit Trust holding shares in all companies in the NASDAQ 100 companies	39,571	100,480
Unit Trust holding shares in the Russell 1000 Value Index	1,352,647	1,396,123
Remics and mortgage-backed debt securities guaranteed by an agency of the U.S. Government	6,160,971	6,111,990
Mortgage-backed and other asset-backed debt securities	4,135,264	4,879,741
Investment in Atikon	1,045,538	1,045,538
	<u>\$ 50,749,652</u>	<u>\$ 53,328,970</u>

Note 3 (Continued)

Remics are debt securities that are repaid from cash flows from property mortgages. Remics have many different interest rates, average lives, prepayment sensitivities, and final maturities. Mortgage-backed debt securities are issued by a trust that holds a fixed pool of property mortgages.

Generally, remics and mortgage-backed debt securities guaranteed by an agency of the U.S. Government are guaranteed only by that agency and are not obligations nor are they guaranteed by the full faith and credit of the U.S. Government.

Mortgage-backed and other asset-backed debt securities are issued by a variety of companies generally headquartered in the United States.

SHEE ATIKÁ BENEFITS TRUST MANAGEMENT REPORT

DEAR UNIT HOLDER:

We are pleased to set forth the results of operations of the trust for the year ending December 31, 2001. We have tried to make this report as easy to read as possible, but it is somewhat technical in nature. You may want to refer to some of the definitions on the back page to help you.

SECTION 646 ELECTION

The SAFE management discussion in this report gives a detailed account of the decision made by your trustees to change the tax status of SAFE, so we will not repeat it here. The Shee Atiká Benefits Trust Board of Trustees made this election for the Shee Atiká Benefits Trust as well.

While we were able to generate enough after-tax income at SAFE to make the SAFE distributions non-taxable to beneficiaries, we were not able to achieve this at SABT. This means that a portion of the benefits received (though not all) was taxable. The election did away with the Form K-1 (previously used to report trust income to beneficiaries) and specified that distributions in excess of income be reported on a Form 1099 from Shee Atiká, Incorporated, even though the benefits were paid by the trust.

Thus, beneficiaries received a 1099 for a portion of the benefit received. We hope that with improved investment performance we will generate enough income in the future to avoid this situation.

SABT, like SAFE, changed its method of accounting to make its financial statements consistent with its tax reporting.

INVESTING ACTIVITIES

The decrease in net assets of \$141,009 is composed of the following: interest, dividends and capital gains distributions contributed \$76,808, other income added \$10,003, offset by a net realized loss on the sale of assets of \$1,023, expenses of \$21,799 and an unrealized loss of \$204,998.

The asset allocation at year-end was roughly two-thirds equity (stock) investments and one-third fixed income (bond) investments. The two equity funds employed are the Rainier Investment Management Core Equity Fund and S&P 500 Depository Receipts (SPDRs). The fixed income investments are U.S. government agency mortgage-backed securities.

As was the case with the Shee Atiká Fund Endowment, our equity funds performed poorly in 2001, while our bonds performed well.



SHEE ATIKÁ BENEFITS TRUST
ASSET ALLOCATION
December 31, 2001

SCHOLARSHIPS

Shareholders have repeatedly emphasized the importance of education. Accordingly, we have continued to place great importance on our scholarship program. During the 2001 fiscal year we gave scholarships to 148 shareholders totaling \$217,439, up from \$202,198 in 2000.

All Class A and Class B shareholders are eligible for scholarships in the amount of up to \$2,000 per academic year per shareholder for undergraduate and vocational technical training. The maximum benefit for graduate studies (MA, MS, MBA, Ph.D., law school, medical school, dental school and the like) is \$4,000 per year.

It is the intent of the scholarship program to encourage attendance at college, trade or vocational school, or for other training reasonably designed to help a shareholder with job preparation or job enhancement. Scholarships are also available to encourage training in the traditional arts, crafts and customs of a shareholder's culture or heritage.

The Scholarship Committee continues its excellent work in reviewing applications and making awards. The committee is composed of Phil Nielson, Chairman; Lavina Adams; Kathryn "Kitty" Eddy; Gillian Havrilla; June Koval and Pamela Steffes. Opal Olsen also served until moving from Sitka, at which time her seat was filled by Pamela Steffes. Lillian Young, Shee Atiká's Shareholder Services Manager, serves as administrator for the program.

As always, we are sincerely grateful for the hard work of the committee and our administrator.

FUNERAL BENEFITS

The funeral benefit program makes a one-time cash payment to the family of any deceased Shee Atiká shareholder. The benefit is an amount up to \$1,000 to cover funeral and related expenses, plus an additional \$250 to cover the tax liability associated with the benefit. The program is available to the families of all shareholders, and continues to be an important and welcome benefit at a time of grief.

We paid funeral benefits totaling \$21,631 in 2001, down from \$23,165 in 2000.

OUTLOOK

The outlook for SABB is similar as that described for SAFE. An improving economy should give us better investment results after two down years. Your board and management will continue to monitor the situation and take appropriate action to safeguard the trust.

SABB is the simplest of the three entities owned by Shee Atiká shareholders. Nonetheless, this report contains financial and technical data that may give rise to questions, of which we would be pleased to answer. We are here to help you in any way possible. Please call, write or visit if you have questions or comments. The door is always open.



Marion Williams Berry
Chairman of the Board



Robert G. Loiselle
President and Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

PETERSON SULLIVAN PLLC

601 UNION STREET SUITE 2300 SEATTLE WA 98101 (206) 382-7777 FAX 382-7700
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
Shee Atiká Benefits Trust
Sitka, Alaska

We have audited the accompanying statement of net assets - modified income tax basis of Shee Atiká Benefits Trust as of December 31, 2001, and the related statements of revenues and expenses - modified income tax basis and changes in net assets - modified income tax basis for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting the Trust uses for income tax purposes, except that it accounts for investments at market value (investments are valued at cost on the basis of accounting the Trust uses for income tax purposes) ("the modified income tax basis"). The purpose of using the income tax basis of accounting is to make the statements easier to use for the Trust unit holders. The income tax basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of Shee Atiká Benefits Trust as of December 31, 2001, and its revenues and expenses and changes in net assets for the year then ended, on the modified income tax basis of accounting as described in Note 1.

Peterson Sullivan PLLC

January 25, 2002

STATEMENT OF NET ASSETS - MODIFIED INCOME TAX BASIS

December 31, 2001

ASSETS

Investments, at market value (cost \$ 2,493,705)	\$ 2,294,954
Cash and cash equivalents	123,559
Total assets	<u>2,418,513</u>

LIABILITIES

Income taxes payable	7,136
Net assets	<u>\$ 2,411,377</u>

STATEMENT OF REVENUE AND EXPENSES - MODIFIED INCOME TAX BASIS

For the Year Ended December 31, 2001

Investment income	
Interest, dividends, and capital gain distributions	\$ 76,808
Net realized loss on sale of investments	(1,023)
Other income	10,003
	<u>85,788</u>
Administrative expenses	14,663
	<u>71,125</u>
Income tax expense	7,136
	<u>63,989</u>
Realized investment income in excess of expenses	63,989
Change in unrealized loss on investments	(204,998)
Change in net assets resulting from operations	<u>\$ (141,009)</u>

STATEMENT OF CHANGES IN NET ASSETS - MODIFIED INCOME TAX BASIS

For the Year Ended December 31, 2001

Change in net assets resulting from operations	\$ (141,009)
Distributions to beneficiaries	
Scholarships	(217,439)
Funeral benefits	(21,631)
Total distributions	<u>(239,070)</u>
Total decrease	(380,079)
Net assets, beginning of year	<u>2,791,456</u>
Net assets, end of year	<u>\$ 2,411,377</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Shee Atiká Benefits Trust ("SABT") is an irrevocable settlement trust formed in 1997 by Shee Atiká, Incorporated ("SAI"). SABT was established to provide educational and funeral benefits to beneficiaries (unit holders) who are also shareholders of SAI. Members of the Board of SAI act as the trustees.

SAI is an Urban Corporation, organized pursuant to the Alaska Native Claims Settlement Act ("ANCSA"). ANCSA, as amended, authorizes the conveyance of assets by a Native corporation to a settlement trust.

SABT's voting trust units were issued to SAI's shareholders in direct proportion to their shares of voting common stock. Nonvoting trust units were issued to any person who had acquired SAI's shares and who is not a "Native" or a "Descendant of a Native" within the meaning of ANCSA, in direct proportion to their shares of nonvoting common stock. The trust units are not generally transferable. At December 31, 2001, there were 185,200 trust units (of which 182,223 were voting and 2,977 were nonvoting) held by over 2,500 beneficiaries.

The Settlement Trust Agreement allows annual distributions up to 100% of net cash income, as defined, and up to 20% of principal, to provide educational and funeral benefits. There is no minimum required distribution.

After the tenth anniversary of SABT, the trustees may modify the terms of the trust agreement. The modifications may include changing the percent of net cash income that may be used to provide benefits, modifying the principal distribution provisions, or terminating SABT and distributing all principal and accrued income to the beneficiaries.

SIGNIFICANT ACCOUNTING POLICIES

SABT's policy is to prepare its financial statements on the income tax basis of accounting, except it recognizes its investments at market value rather than cost ("the modified tax basis"). Consequently, certain revenues are recognized when received (rather than when earned) and certain expenses are recognized when paid (rather than when the expense is incurred).

Investments in mutual funds are stated at redemption prices quoted by the fund on the last day of the year. The investment in the Unit Trust (Standard & Poor's 500) is stated at a value based on the applicable price on a U.S. stock exchange. Investments in mortgage-backed debt securities are guaranteed by U.S. Government agencies and are stated at the closing bid price on the last day of the year. Each of these investments is subject to market volatility.

Note 1 (Continued)

The difference between cost and market value of securities held at year-end represents unrealized gains or losses on investments. Realized gains and losses from securities transactions are determined on the basis of the cost of the specific securities sold and are recorded at trade date.

SABT considers money market funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. SABT regularly has cash and investment balances in excess of government sponsored insurance limits.

Effective January 1, 2001, SABT elected to be taxed at a 10% rate under the Internal Revenue Code.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 INVESTMENTS

Investments are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>
Rainier Core Equity Mutual Fund	\$ 943,531	\$ 876,041
Unit Trust holding shares in all companies in Standard & Poor's 500 companies	753,726	580,936
Mortgage-backed debt securities guaranteed by U.S. Government agencies	796,448	837,977
	<u>\$ 2,493,705</u>	<u>\$ 2,294,954</u>

Mortgage-backed securities guaranteed by an agency of the U.S. Government are guaranteed only by that agency and are not obligations nor are they guaranteed by the full faith and credit of the United States Government.

DEFINITIONS

Class A Shareholder - a shareholder who is Alaska Native, as defined by the Alaska Native Claims Settlement Act, or their legal descendants. Only Class A shareholders can vote in ANCSA corporate elections.

Class B Shareholder - a non-Native who has inherited shares. While Class B shareholders cannot vote in ANCSA corporate elections, they receive the same benefits as Class A shareholders.

Equity Investment - Any investment that gives the investor an ownership position in something. A share of stock is our primary example. When we purchase stock we buy an ownership share in a corporation. We buy it because we believe that its value will increase. Some stocks pay dividends and some do not.

Fixed Income Investment - Usually called a bond, which is the most common type of fixed income investment. A fixed income investment is any investment that is in the form of a loan. When a bond is purchased, the investor is loaning his money. A Treasury note, bill, or bond is a loan to the U.S. Government. A corporate bond is a loan to the corporation issuing the bond.

Federal Reserve - The central banking system of the U.S., composed of the Federal Reserve Board, the 12 Federal Reserve Banks, and the national and state member banks. Its primary purpose is to regulate the flow of money and credit in the country. The Federal Reserve's monetary policies have a powerful effect on interest rates.

Gifting Shares - an option provided through the so-called "1991 Amendments" to ANCSA that allows a shareholder to give shares to legal descendants. An amendment was necessary to allow such a transaction since shares cannot be sold, and prior to the 1991 amendments, the only way shares could be passed on to descendants was through inheritance following a death.

Index Funds - investments in a pool of stocks (equities) that mirror an index such as the S&P 500 or the Dow Jones Industrials. By indexing, an investor usually buys the stocks of the same companies that comprise an index (through a mutual fund or index shares), and remains invested, thereby minimizing stock transactions and taxable short-term gains. The value of such investments will grow at the same rate as the index. In other words, if the S&P 500 gains 10% in value in a given period of time, the index funds will grow at the same rate.

Net Asset Value - This is the "net worth" or the "equity value" of a trust. The net asset value is equal to the market value of all assets less the liabilities of the trust.

SAFE - Shee Atiká Fund Endowment. SAFE is a trust fund, often referred to as the "settlement trust" or the "permanent fund." All of these terms mean the same thing and will be referred to as SAFE.

SABT - Shee Atiká Benefits Trust. Established by shareholder vote in 1997, and funded in 1998 following receipt of a satisfactory IRS ruling. The earnings of this trust provide shareholder education and funeral benefits. Like SAFE, SABT is a settlement trust.

SAI - Shee Atiká Incorporated, the for-profit Alaska Native Claims Settlement Act (ANCSA) urban corporation of Sitka, Alaska. SAI is a separate legal entity, operating under different rules and tax regulations than the two settlement trusts, SAFE and SABT.

Security or Investment Security - These terms can mean either stocks or bonds, or both.

SPDRs - Standard & Poors Depository Receipts, nicknamed "spiders," is an index fund that mirrors the composition of the S&P 500, an assortment of 500 publicly traded companies.

Deferred Tax Assets - Deferred tax assets are tax benefits (such as unused net operating tax losses, or NOLs) that are expected to be used in the future. Deferred tax liabilities are the result of income being recognized in the financial statements, but not yet in the tax return (such as increases in the market value of investments, where income taxes aren't paid until the investment is sold). The changes in deferred tax assets and liabilities between years are reflected in the income statement as a deferred tax benefit or a deferred tax provision.

Trust - A legal entity created by a person or organization. SAFE and SABT are settlement trusts created by SAI under the terms of the Alaska Native Claims Settlement Act. A trust is governed by different principles and rules than a corporation.

Trust Agreement - Rules that govern the trust. The trust agreement takes the place of Articles of Incorporation and Bylaws that govern the activities of a corporation.

Trustee - A member of the board of trustees. Like a corporation, trusts are managed by a board. In trust law a board member is a "trustee." In corporate law a board member is a "director." Therefore, a trust board is called a "board of trustees" and a corporate board is called a "board of directors." The persons who serve on the board of trustees of SAFE and SABT are the same persons who serve on the board of directors of SAI.

Unit - An ownership share in a trust, and means the same as "share" when referring to a corporation.

Unit Holder - A part owner of a trust, and means the same as "shareholder" when referring to a corporation. Sometimes, "unit holders" are referred to as "beneficiaries" because they mean the same thing. All SAI shareholders are also unit holders of SAFE and SABT.



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