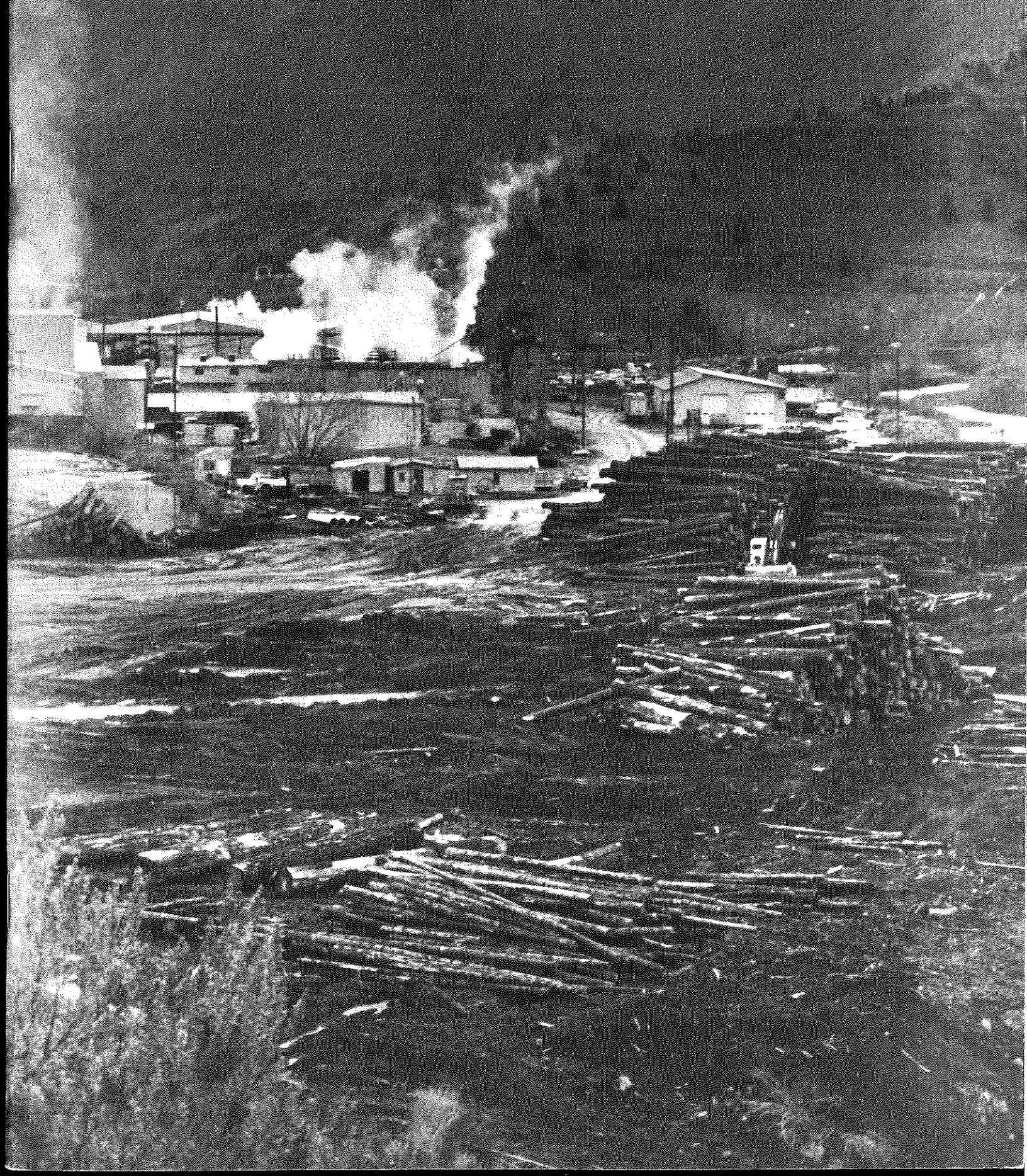


Warm Springs Forest Products Industries

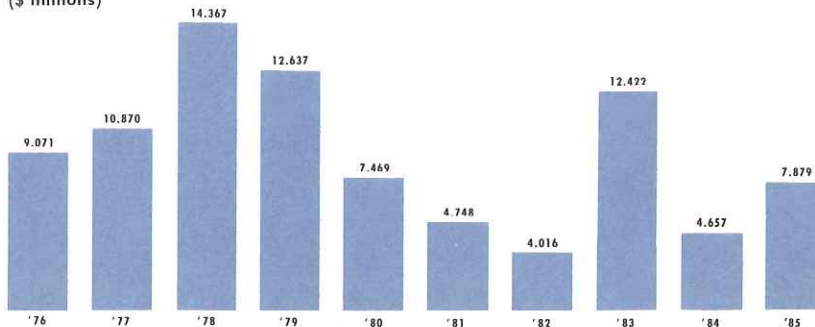
1985 Annual Report



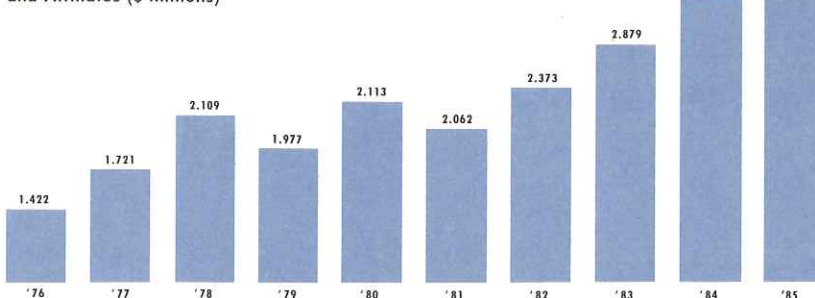
About the Company

Warm Springs Forest Products Industries is an enterprise of the Confederated Tribes of the Warm Springs Reservation of Oregon. It was created in 1967 to harvest the annual cut from the tribal timberlands and convert the raw resource into lumber, veneer and plywood. The manufacture and sale of forest products bring profits and employment to the members of the Confederated Tribes and top-quality products to our valued customers.

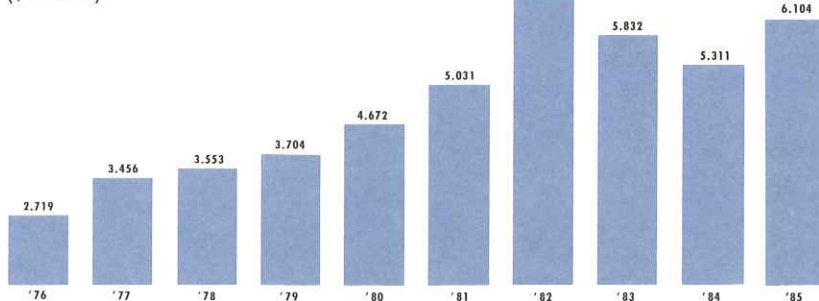
Income and Stumpage Benefits (\$ millions)



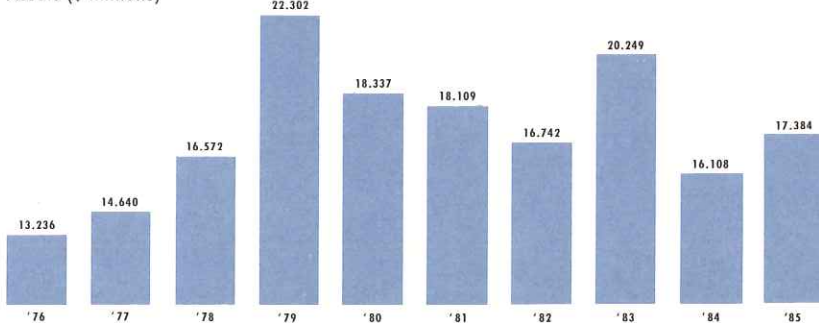
Mill Wages to Tribal Members and Affiliates (\$ millions)



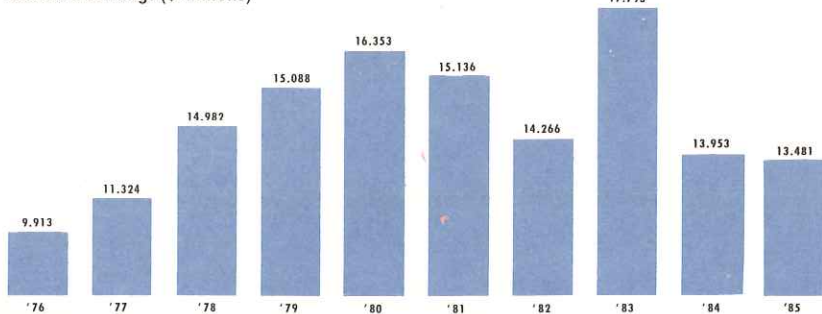
Payment to Tribal Logging Contractors (\$ millions)



Assets (\$ millions)



Retained Earnings (\$ millions)



Cover Photo

The cover photo of the WSFPI Annual Report depicts the number 1 log yard at the mill.

Financial Highlights

	1985	1984	1983	1982	1981
Net Sales	\$30,407,262	\$29,368,203	\$33,668,429	\$26,150,909	\$24,760,059
Total Payroll	\$ 8,932,479	\$ 8,605,920	\$ 8,336,715	\$ 7,572,663	\$ 7,058,285
Benefits derived by Tribe and Tribal Members					
Net Income (Loss)	\$ (471,627)	\$(1,840,874)	\$ 3,527,357	\$ (482,298)	\$ (216,454)
Stumpage	8,350,999	6,497,997	8,895,910	4,498,552	4,964,516
Mill Wages to Tribal Members and Affiliates	3,629,132	3,134,878	2,879,051	2,373,152	2,061,924
Total Benefits	\$11,508,504	\$ 7,792,001	\$15,302,318	\$ 6,389,406	\$ 6,809,986
Dividends Paid	-0-	\$ 2,000,000	-0-	\$ 387,070	\$ 1,000,000
Additions to Property Plant and Equipment	\$ 798,483	\$ 1,511,783	\$ 769,859	\$ 547,938	\$ 852,685
Contract Logging					
Tribal Contractors	\$ 6,103,882	\$ 5,311,413	\$ 5,832,373	\$ 6,377,940	\$ 5,031,494
Other	1,656,380	1,871,658	1,426,281	1,594,373	1,395,160
Total	\$ 7,760,262	\$ 7,183,071	\$ 7,258,654	\$ 7,972,313	\$ 6,426,654
Logs Purchased MBF					
Chargeable to annual allowable cut	83,929	74,554	80,909	90,689	76,830
Not chargeable to annual allowable cut	2,181	1,773	3,592	3,184	8,045
Total MBF	86,110	76,327	84,501	93,873	84,875
Mill Employees					
Tribal and Affiliates	167	158	139	120	98
Other	174	187	195	196	194
Total	341	345	334	316	292

Letter to the Tribal Council



General Manager Bob Macy, right, and Administrative Assistant Ralph Minnick review monthly production report.

To the Tribal Council of the Confederated Tribes of the Warm Springs Reservation of Oregon:

Warm Springs Forest Products Industries operated continuously through a year where markets were plagued by over-supply problems. Although more than 170 Western mills have closed their doors since 1979, the increased productivity of the surviving operations plus the influx of Canadian wood products continued to keep wood supplies at levels which tended to hold market prices down.

Total sales of \$30,407,262 were up 3.4 percent over 1984 figures. WSFPI ended the year in a loss position of \$(471,627), which was well below budgeted profits. Stumpage payments to the Confederated Tribes and wages paid to tribal members and affiliates amounted to \$11,980,131, an increase of 24 percent over the previous year.

As a result of market conditions and an in-depth study of current facilities, capital expenditures for 1985 were kept to a minimum. Selected projects were limited mainly to replacement of fixed and mobile equipment. Major changes occurred with the installation of a sawmill D-C carriage drive and a much needed resaw. Other projects included the replacement of a dry kiln roof, construction of a second fuel conveyor system for the powerhouse and changes to improve the studmill. These expenditures were directed toward maintaining product quality and operational efficiency.

Within the management staff, changes occurred with the retirement of longtime employee, Harold Bowman; and the addition of Ralph Minnick as Administrative Assistant and Rodger Holcomb as the new Powerhouse Superintendent. Total employment at year-end was 341 which included 167 tribal members and affiliates or 49 percent of the total.

The forest management activities, directed toward achieving a fully managed forest for the future, continue to produce within the annual allowable cut a growing number of small logs. The impact of small logs can most readily be noticed in the studmill although the pine sawmill is also being impacted. In working with the BIA, it becomes more evident that the small log supply will continue to grow at an increasing rate. WSFPI, in dealing with the small log situation, employed the engineering firm of Dubal, Beck, Harris & Humphries of Portland to do a small log feasibility study for WSFPI. The study points out a major change in WSFPI's facilities will need to be made if it is to continue to make viable contributions to the Confederated Tribes.

The overall performance for the year was a disappointment in terms of profit. However, the increased jobs and local wages help offset what could be viewed as a less than satisfactory year.

Safety was again the bright spot of WSFPI with a further reduction in the overall cost associated with accidents. We thank our employees, customers and owners for their support and cooperation through the year.

Robert W. Macy, Sr.
General Manager

Paul M. Sanders
Chairman of the Board

Markets and Employment

Prices for all of WSFPI's products tended to slip throughout the year as industry production met or exceeded market demand. The 1.73 million housing starts, a slight decline from the previous year, was considered a decent year and the third consecutive year that construction exceeded the 1.7 million mark.

For WSFPI, lumber prices for the year ended at a level slightly below 1984 results. Monthly average prices fluctuated widely due to grade mix.

Veneer and plywood markets tended to stabilize at less than ideal price levels throughout the year, mostly the result of more than adequate production throughout the industry. Average veneer prices for 1985, including transfers to the plywood department, settled at a price \$2.29 per thousand feet $\frac{3}{8}$ s less than 1984. Plywood ended the year at a price level that was \$1.85 per thousand feet $\frac{3}{8}$ s below 1984 results.

The stud market remained at, or near, bottom for the entire year. This product is one most affected by the large volume of Canadian lumber imports. Future markets, at least for a few years, do not appear very favorable.

The studmill, closed in August 1984, was reactivated in April of 1985 and continued to operate on and off through the remainder of the year. With a minimal investment of \$7,864, nine thousand to eleven thousand board feet of log production was gained per day.

WSFPI maintained full employment through most of the year. At year-end, total employment was 341, which was four less than last year.

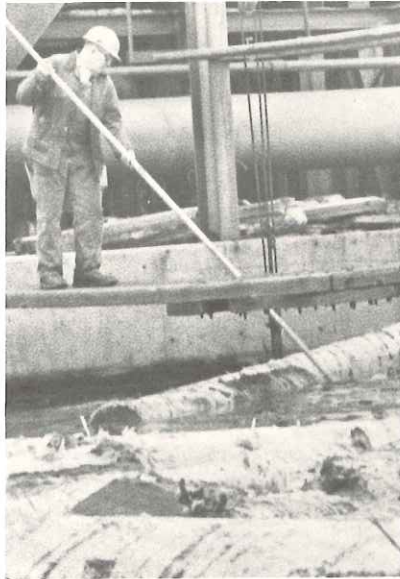


Eldred Frank stacking 2x4 studs.



Plywood inventory ready for shipment.

Logs and Logging



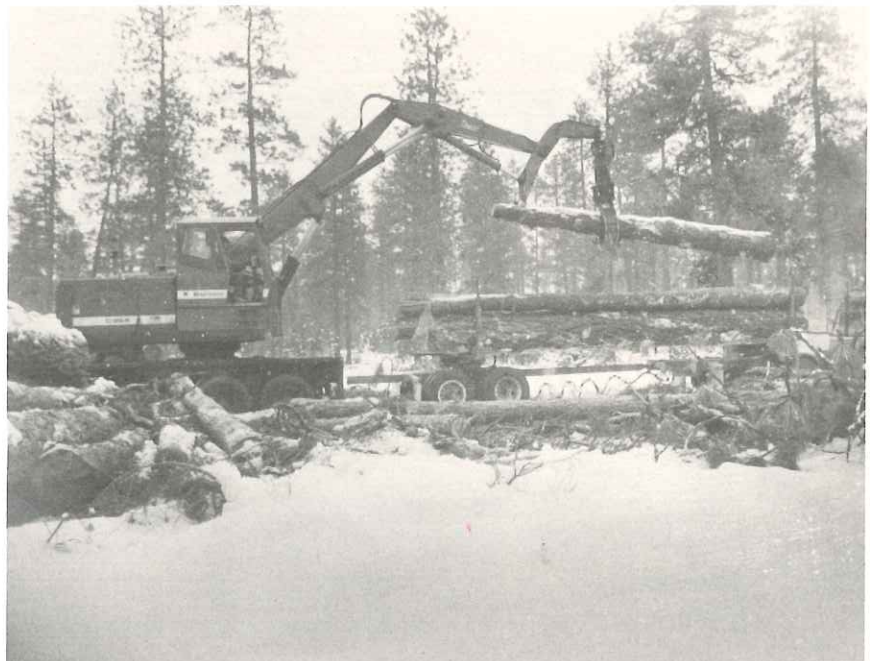
Long-time employee Jim Blankenship pushes logs for the sawmill.

The 1985 volume of timber harvested by WSFPI totaled 86,107,278 board feet, of which 50 percent was ponderosa pine, 35 percent Douglas fir and western larch and 15 percent white fir and other species. The total volume was 13.2 percent greater than the previous year.

Fourteen logging contractors were employed during 1985. Tribal member contractors harvested 73,800,860 board feet, or 86 percent of the total. Most of the contractors delivered the volumes allocated to them although some shortage was realized as a result of weather problems.

Electronic scaling, mentioned as a possibility last year, was initiated with the beginning of the 1985 logging season. Results were more than satisfactory from the standpoint of savings in cost and time through the increased use of the computer system.

Total volume of logs sold during 1985 was 2,865,573 board feet which consisted of 1,985,578 board feet of utility and incense cedar purchased directly from the woods and 879,995 board feet of small logs coming from the mill yard. Average sales price of \$60.05 per thousand was somewhat higher than 1984 prices for both categories of logs.



Alfred Smith, Jr. Logging is one of 14 tribal logging contractors responsible for supplying logs to WSFPI.

Lumber and Studs

The average diameter of logs being processed by the sawmill continued its downward trend. Equipment and operational changes are continually made to help maintain efficiency. During 1985, a D-C carriage drive was installed to reduce energy requirements while the resaw installation aimed at improving end product recovery.

The lumber volume sold totaled 39,370,807 board feet at an average net sales price of \$360.46 per thousand board feet, a decrease of \$11.57 per thousand from 1984 levels.

The studmill operated most of the year attempting to keep up with the increasing number of small logs. Changes made during the vacation shutdown helped increase shift production by over 40 percent.

Total stud volume sold during the year was 4,997,102 board feet with an average net sales price of \$138.87 per thousand board feet, down \$18.42 per thousand from the previous year.

Veneer and Plywood

Other than the replacement of a forklift, no major renovations were made in the veneer or plywood departments. Both departments operated at a steady pace although some disruption in normal schedules occurred during the last quarter's cold spell.

Total sales and transfers of green veneer was 87,724,262 square feet $\frac{3}{8}$ s measure with a value of \$6,420,713. Average net sales price of \$73.19 per thousand was \$2.29 per thousand below last year. Of the total volume produced, 84.5 percent was transferred to the plywood department which operated on a two-shift schedule the entire year.

Plywood sales volume of 78,033,348 square feet $\frac{3}{8}$ s measure was up 38 percent over 1984 results. Average net sales price for the year was \$146.83 per thousand which was \$1.85 per thousand under 1984 levels.



Joe Henry pulls green lumber.



Ken Taylor grades dry veneer.

Chips and Power



Rodger Holcomb checks powerhouse operations.

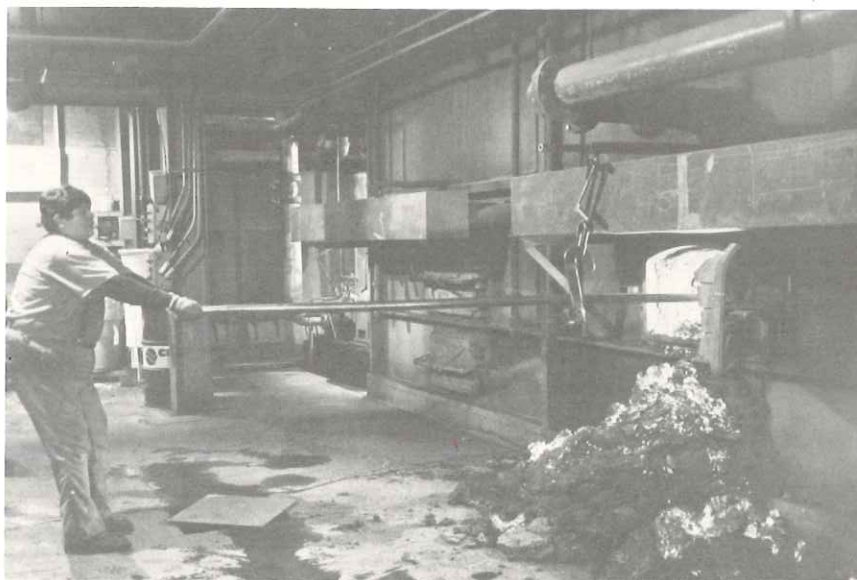
Some improvement in chip prices were realized which resulted in total sales amounting to \$1,830,882. Whole log chipping, begun in 1984, was completed during the first quarter of 1985 yielding total gross income of \$615,228.

The powerhouse operated steadily throughout the year supplying both steam and electricity for operations. On three separate occasions, the standby generator, purchased in 1983, was utilized to get the powerhouse back in operation after being shut down by electrical interruptions. Numerous other in-house improvements were completed during the year in the continuous effort to gain operational efficiency.

Total electricity generated by WSFPI during 1985 amounted to 21,189,600 kilowatt hours. WSFPI operations used 19,775,600 kilowatt hours or 93 percent, with the balance being purchased by Pacific Power and Light.

Contributions by Divisions

	Net Sales and Transfers		Net Income (Loss)	
	1985	1984	1985	1984
Lumber	\$14,866,428	\$16,597,609	470,292	\$ 400,331
Veneer	7,929,846	7,176,671	(434,332)	(551,060)
Plywood	11,541,954	8,425,963	559,610	52,816
Log Chipping	615,228	903,046	7,340	(1,100,671)
Studs	908,664	490,142	(470,796)	(355,400)
Log Sales	172,067	165,835	41,534	(38,859)
Power	1,077,277	983,023	10,538	95,577



Gale Lawrence, Sr. is in the process of cleaning powerhouse ovens.

Report of Independent Accountants

Tribal Council of the Confederated Tribes of the Warm Springs Reservation of Oregon and Board of Directors Warm Springs Forest Products Industries:

We have examined the balance sheets of Warm Springs Forest Products Industries as of December 31, 1985 and 1984 and the related statements of operations and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Warm Springs Forest Products Industries at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Portland, Oregon
January 23, 1986

Statements of Operations and Retained Earnings

Glossary of Financial Terms:

1. Total charges to customers for products shipped less discounts and allowances.
2. Costs to buy timber, log and haul to mill.
3. Costs of manufacturing our products including employee salaries, wages and benefits, utilities and various supplies and services.
4. That portion of the original cost of plant and equipment allocated to expense because of wear and tear and obsolescence.
5. Salaries of sales, management, administrative and support personnel and general and selling expenses.
6. Interest received on monies deposited with the BIA and bank.
7. Interest paid on monies borrowed.
8. Current earnings which are available for dividends and reinvestments in operations or (loss) which used retained earnings.
9. Accumulated earnings of Enterprise (after dividends) reinvested in operations.

Year ended December 31,	1985	1984
¹Net Sales	\$30,407,262	\$29,368,203
Cost and expenses:		
² Raw material costs	16,347,844	18,087,908
³ Manufacturing costs	12,589,179	11,568,632
⁴ Depreciation	1,286,053	1,216,115
⁵ Selling, general and administrative	801,646	689,918
⁶ Interest Income	(175,259)	(367,904)
⁷ Interest Expense	29,426	14,408
	30,878,889	31,209,077
⁸Net loss	(471,627)	(1,840,874)
⁹Retained earnings:		
Beginning balance	13,952,617	17,793,491
Cash dividends to Tribe		(2,000,000)
Ending Balance	\$13,480,990	\$13,952,617

The accompanying notes are an integral part of the financial statements.

Balance Sheets

Glossary of Financial Terms:

Assets:

1. Assets likely to be converted into cash or consumed in operations within one year.
2. Cash on hand, in bank accounts or BIA deposit.
3. Amounts owed to Enterprise by customers and the BIA.
4. Raw materials and supplies used in manufacturing products as well as finished products held for sale.
5. Payments in advance for services that will benefit the succeeding year.
6. The original amount paid (cost) for Enterprise property, plant and equipment.
7. The portion of the original cost of plant and equipment allocated to expense because of wear and tear and obsolescence.

Liabilities:

1. Amounts due to be paid to creditors within one year.
2. Borrowings from bank to finance operations.
3. Amounts due suppliers for goods and services.
4. Amounts owing for logging of timber.
5. Amounts charged to expense, payable after year-end.
6. Accumulated earnings of Enterprise (after dividends) reinvested in operations.

December 31,	1985	1984
Assets		
¹Current Assets:		
² Cash	\$ 385,984	\$ 441,368
³ Accounts receivable, net	1,163,885	1,585,272
⁴ Inventories	7,818,074	5,433,086
⁵ Prepaid Expenses	314,339	451,376
Total Current Assets	9,682,282	7,911,102
Property, Plant and Equipment		
⁶ Land	8,690	8,690
⁶ Buildings	2,583,804	2,583,804
⁶ Machinery and equipment	17,586,130	16,905,478
	20,178,624	19,497,972
⁷ Less accumulated depreciation	12,477,339	11,300,647
	7,701,285	8,197,325
Total Assets	\$17,383,567	\$16,108,427
Liabilities and Retained Earnings:		
¹Current Liabilities:		
² Notes payable	\$ 2,200,000	
³ Accounts payable	226,806	\$ 371,517
⁴ Logging cost payable	382,864	640,560
⁵ Accrued expenses	1,092,907	1,143,733
Total current liabilities	3,902,577	2,155,810
⁶Retained earnings	13,480,990	13,952,617
Total liabilities and retained earnings	\$17,383,567	\$16,108,427

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Financial Positions¹

Glossary of Financial Terms:

1. The statement shows how cash was provided and used.
2. As shown on the statement of operations and retained earnings.
3. Depreciation—That portion of the original cost of plant and equipment allocated to the year's expense because of wear and tear and obsolescence: it is added back since it was included in determining net income, but did not require use of funds in the current period.
4. Cash provided or (used) through activity in various current assets and current liabilities which was directly credited and charged to operations.
5. The total cash provided or used by normal operating activities.
6. Cash provided by short-term borrowings.
7. Amounts paid for property, plant and equipment additions, net of disposals.
8. Cash payments on notes payable.
9. Cash payments to Tribe, distributing a portion of the prior years earnings.

Year Ended December 31,	1985	1984
Sources of Funds from operations:		
² Net (loss)	\$ (471,627)	\$(1,840,874)
³ Add depreciation not requiring current outlay of funds	1,286,053	1,216,115
⁴ Decrease (increase) in:		
Accounts Receivable	421,387	242,185
Inventories	(2,384,988)	1,789,678
Prepaid expenses	137,037	(97,024)
⁴ Increase (decrease) in:		
Accounts payable	(144,711)	(553,872)
Logging cost payable	(257,696)	218,960
Accrued expenses	(50,831)	34,716
⁵ Funds provided by (used) by operations	(1,465,376)	1,009,884
⁶ Proceeds from notes payable	4,500,000	1,045,000
Total Sources of Funds	3,034,624	2,054,884
Other use of Funds:		
⁷ Additions to property, plant and equipment, net	790,008	1,476,575
⁸ Payments on notes payable	2,300,000	1,045,000
⁹ Cash dividends to Tribe		2,000,000
Total other use of funds	3,090,008	4,521,575
Decrease in cash	(55,384)	(2,466,691)
Cash at beginning of year	441,368	2,908,059
Cash at end of year	\$ 385,984	\$ 441,368

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

The Enterprise and Summary of Significant Accounting Policies:

The Confederated Tribes of the Warm Springs Reservation of Oregon (Tribe) is a body politically organized under Section 16, Chapter 576 of the Act of June 18, 1934 passed by the Congress of the United States. As authorized under Section 17 of that Act, Warm Springs Forest Products Industries (Enterprise) was created in 1967 to operate as an enterprise of the Tribe with the following purposes and objectives as set forth in the approved Plan of Operations, as modified, effective January 1, 1974.

- To promote the better and fuller development and utilization of Tribal timber resources on a sustained yield basis.
- To obtain and maintain an industrial complex for logging and manufacture of forest products from Tribe's forests.
- To operate the industrial complex and logging operations so as to secure the maximum economic return from the timber resources consistent with providing Tribe and its enrolled membership with education and training benefits, employment opportunities and such social benefits as may flow therefrom.

The following is a summary of significant accounting policies:

Method of Doing Business with Tribe

Enterprise plant facilities are primarily located on Tribal land for which no rental is currently charged. Under a timber cutting contract with Tribe, Tribal timber is transferred to Enterprise on a sustained yield basis at stumpage rates determined by the United States Department of the Interior, Bureau of Indian Affairs stumpage appraisal procedures as modified by the cutting contract. Payments for Tribal timber received by Enterprise are made monthly to the Bureau of Indian Affairs.

Retained earnings from Enterprise operations are kept by Enterprise to the extent they are required for operating capital or for the payment of indebtedness, maintenance, repair, replace or expansion of property, plant and equipment. Any excess funds are required by the approved Plan of Operations to be available to Tribe for such uses and purposes as Tribe shall consider appropriate. Distributions are made to Tribe in the form of dividends. Dividends cannot be paid directly to Tribal members.

Logging Road Construction Costs

Logging road construction costs are recorded as prepaid expense and amortized based on timber removed from the timber cutting sale to which the logging road relates. Because no title to the logging roads vests in Enterprise and the terms of the timber cutting sales are generally for a period of twelve to eighteen months, those costs are included in current assets as prepaid expense rather than recorded as a capital asset or deferred charge.

Inventories

Inventories are recorded at the lower of average cost or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Maintenance, repairs and routine replacements are charged to expense as incurred; improvements are capitalized. Upon retirement or sale, the cost and accumulated depreciation of the disposed assets are removed from the accounts and resulting gains or losses are recognized in income

Depreciation

Depreciation is provided on the straight-line basis using ten-year and twenty-year lives for buildings and improvements and five to fifteen years for machinery and equipment.

Notes to Financial Statements

Accounts Receivable

Accounts receivable at December 31, 1985 and 1984 consist of:	1985	1984
Trade accounts receivable	\$1,292,694	\$1,714,081
Allowance for doubtful accounts	(128,809)	(128,809)
	\$1,163,885	\$1,585,272

Inventories:

Inventories at December 31, 1985 and 1984 consist of:	1985	1984
Logs	\$6,643,596	\$4,001,068
Lumber	966,372	1,232,240
Plywood and Veneer	208,106	199,778
	\$7,818,074	\$5,433,086

Prepaid Expenses:

Prepaid expenses at December 31, 1985 and 1984 consist of:	1985	1984
Logging roads	\$ 119,901	\$ 212,095
Logging		92,995
Insurance	132,427	60,432
Consumable supplies	48,556	71,529
Other	13,455	14,325
	\$ 314,339	\$ 451,376

Notes Payable:

Notes payable at December 31, 1985 and 1984 consist of:	1985	1984
Unsecured notes payable to First Interstate Bank of Oregon: Interest at prime rate (9.5%) due through March 10, 1986	\$2,200,000	

Notes to Financial Statements (continued)

Stumpage

Stumpage purchased from Tribe totaled 86,110 MBF (thousand board feet) and \$8,350,999 in 1985 and 76,327 MBF and \$6,497,997 in 1984. Of stumpage purchased, approximately 83,929 MBF in 1985 and 74,554 MBF in 1984 was chargeable to the annual cut under the cutting contract. The new cutting contract, effective January 1, 1985, requires an annual cut of 80,600 MBF with an allowable annual variance of 10 percent and an allowable two percent variance for the five year period ending December 31, 1989. Enterprise's average annual chargeable cut for the four years of the previous contract is within the two percent allowable variance.

Accrued Expenses

Accrued expenses at December 31, 1985 and 1984 consist of:	1985	1984
Accrued vacation pay	\$ 329,965	\$ 330,913
Payroll, payroll taxes, withholdings and employee insurance	406,976	421,642
Pension plan contributions payable, including \$28,000 and \$27,782 payable to Tribe	71,104	71,173
Worker's compensation claims	185,451	317,000
Other	98,601	3,005
	\$1,092,097	\$1,143,733

Pension Plans

Enterprise contributes to a multi-employer trustee defined benefit pension plan for hourly employees. Contributions to this plan are based on specified rates per hour as provided by agreement with the union. Pension expenses amounted to \$525,294 in 1985 and \$493,616 in 1984. Contributions are funded by Enterprise on a current basis. Should Enterprise withdraw from the plan, a liability of approximately \$3,006,000 would be incurred, representing Enterprise's allocated portion of the plan's unfunded vested benefit liability as of December 31, 1984 as calculated by the plan administrator.

All full-time employees with one year of service and not covered under the union plan are included in the trustee defined benefit pension plan of the Tribe. There were no unfunded vested benefits as of January 1, 1985, the date of the most current actuarial valuation. The assumed rate of return was seven percent. The prior service costs are being funded over ten years and other costs are funded on a current basis resulting in a charge against operations of \$28,000 in 1985 and \$27,782 in 1984.

Actuarial information for the Enterprise component of the plans is not available.

Income Taxes

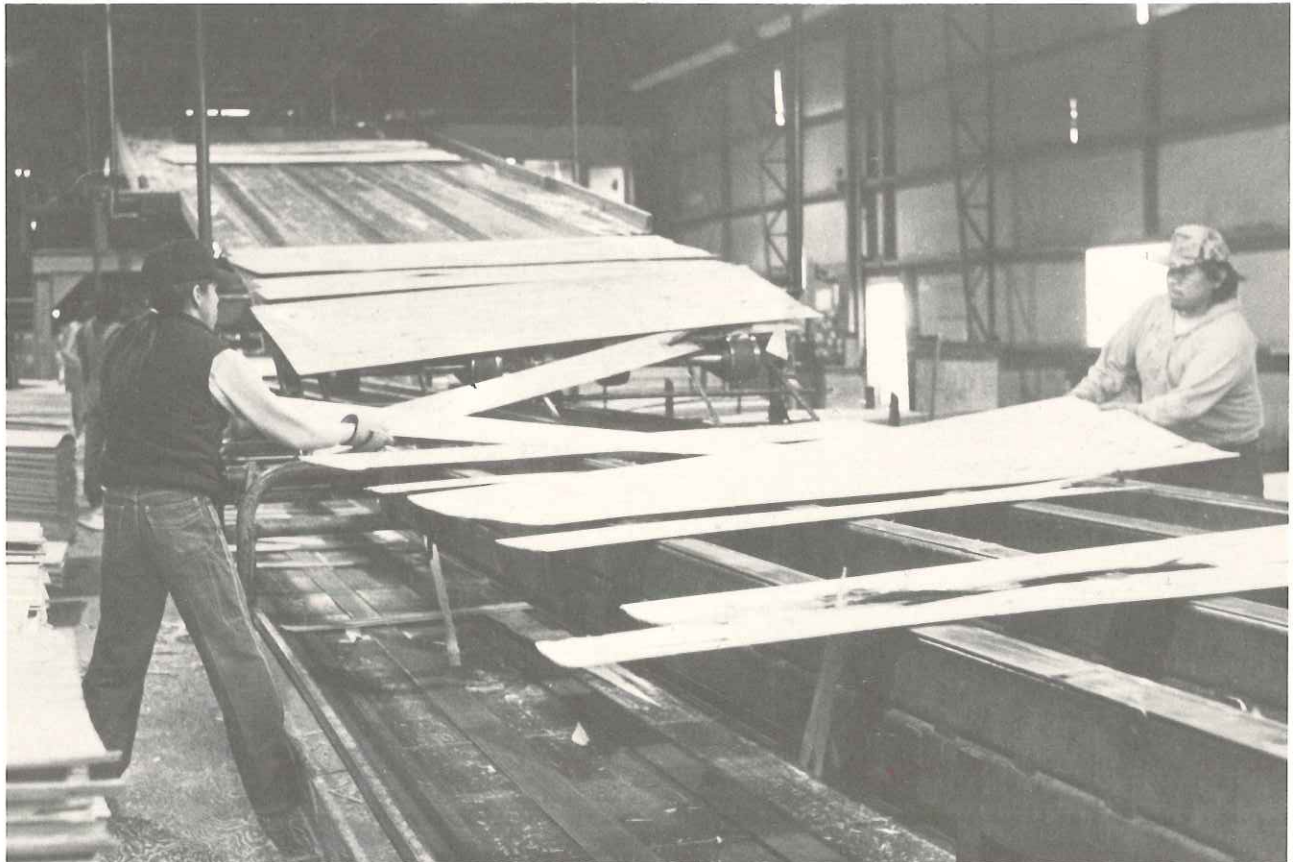
Legal opinions have been received indicating that Enterprise is not subject to federal or state income taxes. No rulings to this effect have been obtained from the Internal Revenue Service or the state.

Board of Directors

Paul M. Sanders, Chairman
Theodore Brunoe
Edwin T. Cornwell
Frank Joscelyn
Olney Patt, Sr.
D.I. Plummer
Sal Sahme

Management

Robert W. Macy, Sr.
General Manager



Alvin Charley, right, and Gifford Anderson, left, pull green veneer.



**Warm Springs
Forest Products
Industries**

Box F, Warm Springs, OR 97761
(503) 553-1131