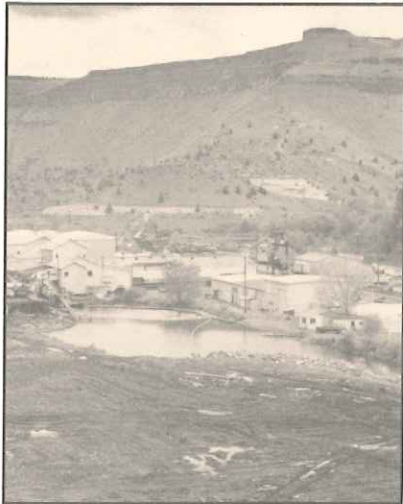


Warm Springs Forest Products Industries
1989 Annual Report



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 tribal timberlands and convert the raw resources 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.

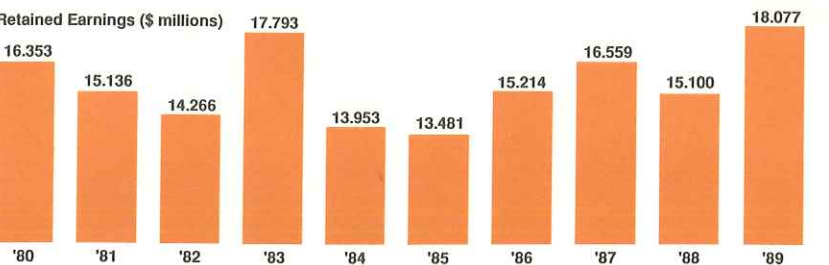
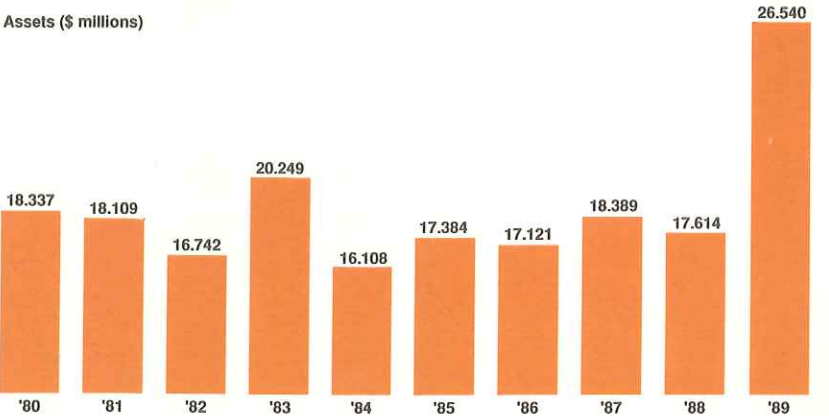
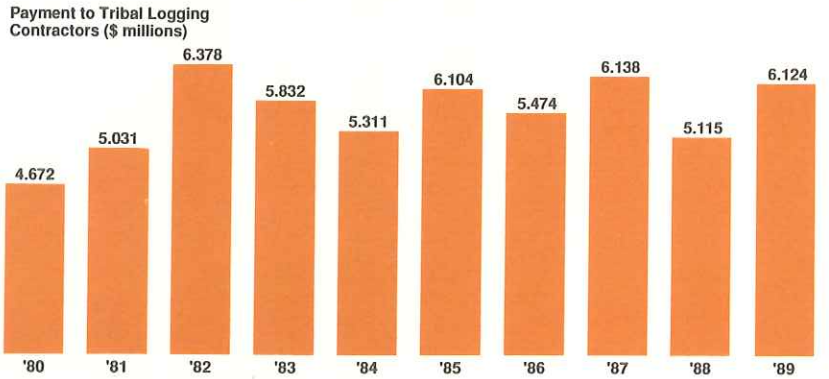
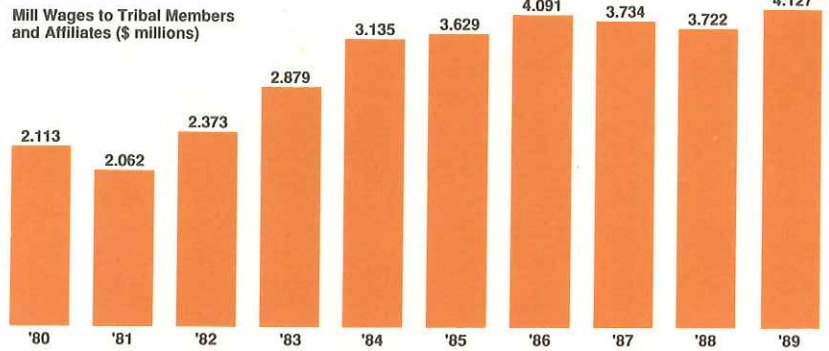
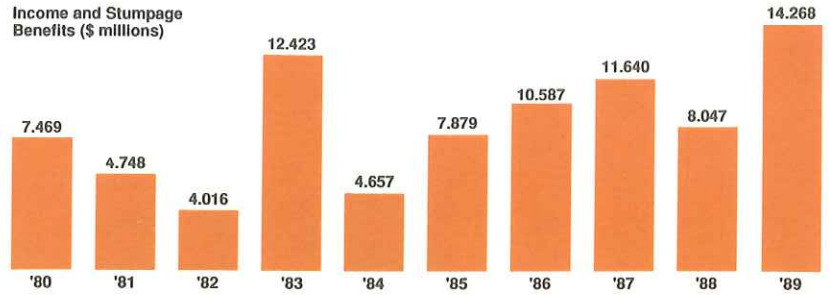


Cover Photo

Construction of the small log sawmill began in the spring of 1989. The operation is expected to be on-line by May, 1990.

Inside Cover Photo

The new sawmill occupies much of the former log yard and log pond.



Financial Highlights

	1989	1988	1987	1986	1985
Net Sales	\$38,677,826	\$30,220,688	\$33,595,361	\$34,411,381	\$30,407,262
Total Payroll	\$ 7,518,156	\$ 7,242,858	\$ 7,762,046	\$ 9,030,443	\$ 8,932,479
Benefits derived by Tribe and Tribal Members					
Net Income (Loss)	\$ 2,976,514	\$(1,458,640)	\$ 1,344,876	\$ 1,732,783	\$ (471,627)
Stumpage	11,291,681	9,505,954	10,295,403	8,854,518	8,350,999
Mill Wages to Tribal Members and Affiliates	4,127,048	3,722,218	3,733,579	4,090,867	3,629,132
Total Benefits	\$18,395,243	\$11,769,532	\$15,373,858	\$14,678,168	\$11,508,504
Dividends Paid	0	0	0	0	0
Additions to Property, Plant and Equipment	\$11,210,614	\$ 1,655,294	\$ 330,386	\$ 527,037	\$ 798,483
Contract Logging					
Tribal Contractors	\$ 6,124,042	\$ 5,115,032	\$ 6,138,246	\$ 5,473,986	\$ 6,103,882
Other	2,426,218	1,658,084	747,105	1,098,196	1,656,380
Total	\$ 8,550,260	\$ 6,773,116	\$ 6,885,351	\$ 6,572,182	\$ 7,760,262
Logs Purchased MBF					
Chargeable to annual allowable cut	76,844	66,145	75,545	75,375	83,929
Not chargeable to annual allowable cut	2,613	1,961	3,223	2,657	2,181
Total MBF	79,457	68,106	78,768	78,032	86,110
Mill Employees					
Tribal and Affiliates	199	189	177	173	167
Other	121	133	151	160	174
Total	320	322	328	333	341

Veneer and Plywood

Veneer and plywood were pushed to increase production for the year. Veneer markets helped attain our highest veneer profit in over a decade. However, high transfer prices prevented the plywood department from showing a profit. The combined results for the division were very satisfactory and helped greatly in achieving our overall profit.

Total sales and transfers of green veneer was 91,029,665 square feet 3/8s measure. An average net sales price of \$109.44 per thousand was \$21.87 per thousand higher than last year. Plywood sales averaged \$172.57 per thousand which was \$21.48 per thousand higher than the previous year. The total volume of plywood sold amounted to 85,963,258 square feet 3/8s measure which was about six million feet more than the previous year.

Lumber and Studs

The sawmill continued to experience low production levels brought about by having to process additional smaller logs. Although the previous year had a number of days lost due to the work



Henry Stwyer works in the sawmill as a lumber off-bearer.

stoppage, the volume of lumber sold in 1989 was still slightly less. Once the new sawmill starts operating we expect the older pine sawmill to regain a substantial portion of its production capability.

The total volume of lumber sold was 33,165,044 board feet with an average net price of \$431.45 per thousand board feet. Although this average was \$10.86 per thousand higher than last year, the timing of the stumpage adjustments, coupled with the small log problem, eliminated any possibility of showing a profit by year's end.

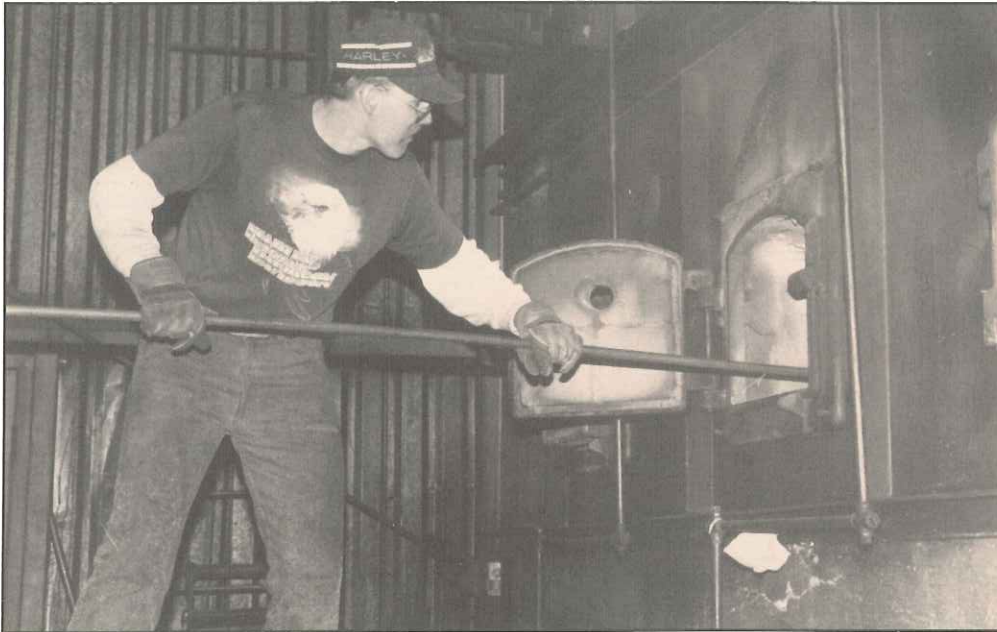
The volume of stud lumber sold was 918,024 board feet at an average net price of \$193.54 per thousand. The volume was well below last year's level as a result of the stud mill being closed early in the year. The stud mill chip bunkers and

some other equipment located at the stud mill were rebuilt for use in the new small log sawmill.

Another change in the lumber division was the replacement of the old wood lumber shed. A new metal storage shed with over 38,000 square feet of inside covered space and 4,000 square feet of outside covered space was installed during the year.

Chips and Power

Chip prices began a major climb in the first quarter ending up at almost record levels for WSFPI. Total chip sales of \$2,528,626 were 52 percent higher than last year. A softening of the market started in the last quarter of the year with major drops anticipated in 1990. Additional chip volumes should be



Keith Day cleans boiler in the powerhouse.

available for sale once the small log mill gets into production.

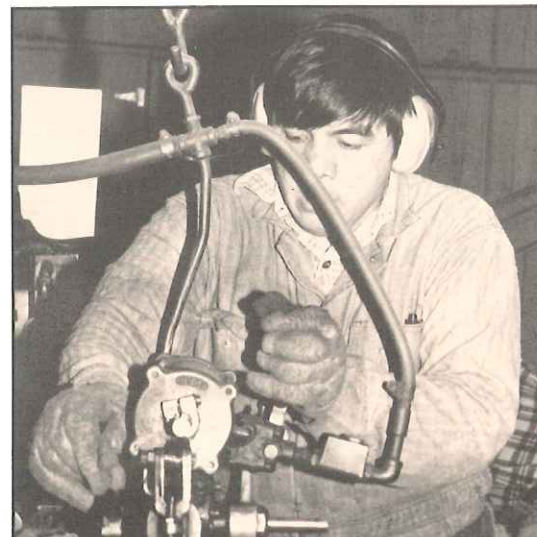
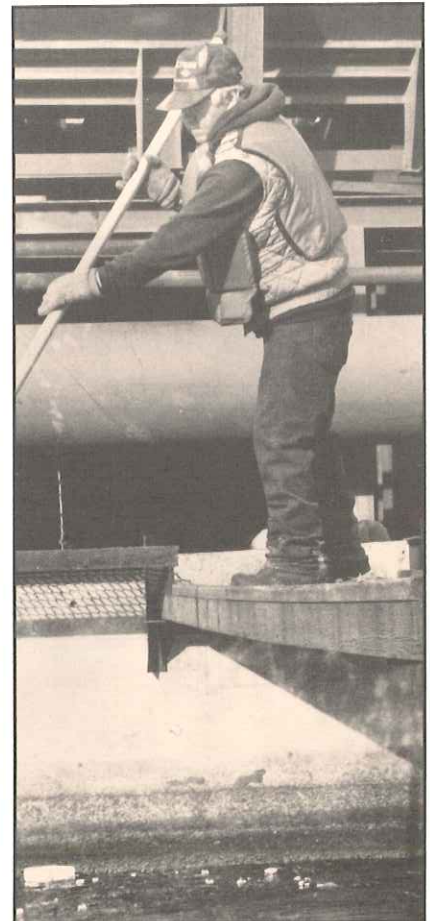
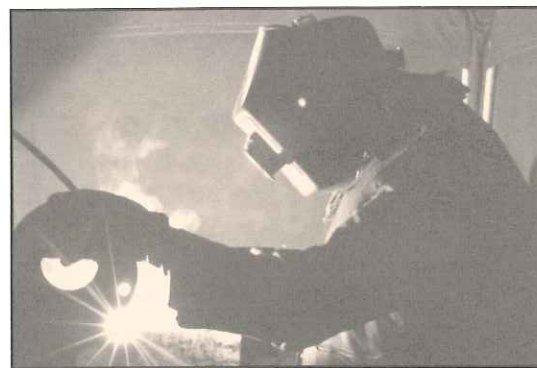
Two new chip trucks were purchased during the year in our continued effort to maintain a safe, reliable fleet. One of the older trucks was converted to a water truck with some features to make it much more versatile. Two other units were traded in.

The powerhouse continued to operate as normal, producing 20,870,400 kilowatt hours, which was eight percent more than last year. Of the amount produced, WSFPI operations consumed 96 percent, or 20,036,400 kilo-

watt hours. We purchased 3,536,000 kilowatt hours from Pacific Power and Light and sold them 834,000 kilowatt hours. As a matter of record, the small log mill will be totally powered by purchases from PP&L.

Contributions by Division

	Net Sales and Transfers		Gross Profit (Loss)	
	1989	1988	1989	1988
Lumber	\$15,220,747	\$14,737,925	\$ (791,400)	\$ (766,255)
Veneer	12,314,815	8,904,430	2,363,782	32,111
Plywood	14,918,939	12,172,354	(112,741)	(91,800)
Studs	248,812	732,879	(7,583)	(188,238)
Export Logs	3,542,192	-0-	1,946,336	0
Log Sales	2,388,415	635,717	415,718	(76,090)
Power	1,001,739	1,013,543	(97,927)	31,238



Employees at WSFPI helped produce consistently high-quality products throughout 1989. (Top) Easton Aguilar watches logs as they near the bucking saw. (Center) Welder Ron Kalama maintains WSFPI machinery. (Right) Everett Miller positions logs in pond to enter conveyor. (Lower left) Emerson Smith swages saw blades.

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 audited the balance sheets of Warm Springs Forest Products Industries as of December 31, 1989 and 1988 and the related statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Enterprise's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 aspects, the financial position of Warm Springs Forest Products Industries at December 31, 1989 and 1988 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand

Portland, Oregon
January 19, 1990

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. Salaries of sales, management, administrative and support personnel and general and selling expenses.
5. Interest received on monies invested, net of interest paid.
6. Income and expense items not classified elsewhere.
7. Current earnings which are available for dividends and reinvestments in operations or which used retained earnings.
8. Accumulated earnings of Enterprise (after dividends) reinvested in operations.

Statements of Operations and Retained Earnings

	1989	1988
¹ Net Sales	\$38,677,826	\$30,220,688
Cost of goods sold:		
² Raw material costs	22,834,963	19,465,024
³ Manufacturing costs	12,126,678	11,814,697
Gross Profit	3,716,185	(1,059,033)
Other Operating Income (Expense):		
⁴ Selling, general and administrative	(973,572)	(926,119)
⁵ Interest Income, net	360,532	484,489
⁶ Other Income, net	(126,631)	42,023
⁷ Net Income (loss)	2,976,514	(1,458,640)
⁸ Retained earnings:		
Beginning balance	15,100,011	16,558,651
Ending Balance	\$18,076,525	\$15,100,011

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 and highly liquid commercial paper and bankers acceptances carried at cost which approximates market.
3. Amounts owed to Enterprise by customers.
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. Amounts due suppliers for goods and services.
3. Amounts owing for logging of timber.
4. Amounts charged to expense, payable after year end.
5. Borrowings from the bank, to finance construction in process, that will be paid within one year.
6. Borrowings from the bank, to finance construction in process, that will be paid after one year.
7. Accumulated earnings from Enterprise (after dividends) reinvested in operations.

December 31,	1989	1988
Assets		
¹Current Assets:		
² Cash and cash equivalents	\$ 150	\$ 2,534,193
³ Accounts receivable, net	2,205,885	1,698,143
⁴ Inventories	7,164,140	6,585,464
⁵ Prepaid Expenses	1,257,519	629,647
Total Current Assets	10,627,694	11,447,447
Property, Plant and Equipment		
⁶ Land	8,690	8,690
⁶ Buildings	3,123,146	2,651,822
⁶ Machinery and equipment	19,537,390	19,214,775
⁶ Construction in Process	10,003,709	0
	32,672,935	21,875,287
⁷ Less accumulated depreciation	16,760,453	15,708,281
	15,912,482	6,167,006
Total Assets	\$26,540,176	\$17,614,453
Liabilities and Retained Earnings:		
¹Current Liabilities:		
² Accounts payable	\$2,079,198	\$ 290,953
³ Logging costs payable	1,871,056	1,241,455
⁴ Accrued expenses	893,397	982,034
⁵ Current Portion—Long-term debt	724,000	0
Total Current Liabilities	5,567,651	2,514,442
⁶ Long-term debt	2,896,000	0
Total Liabilities	8,463,651	2,514,442
⁷ Retained Earnings	18,076,525	15,100,011
Total Liabilities and Retained Earnings	\$26,540,176	\$17,614,453

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

Statement of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	1989	1988
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 2,976,514	\$ (1,458,640)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,461,855	1,340,827
Gain on Sale of Equipment	3,283	29,245
(Increase) decrease in accounts receivable	(507,742)	298,897
(Increase) decrease in inventories	(578,676)	1,082,163
(Increase) in prepaid expenses	(627,872)	(313,343)
Increase in accounts payable	1,788,245	15,902
Increase in logging costs payable	629,601	754,405
Decrease in accrued expenses	(88,637)	(86,569)
Net Cash Provided by Operating Activities	5,056,571	1,662,887
Cash Used by Investing Activities:		
Purchase of property, plant and equipment	(11,210,614)	(1,655,294)
Net Cash Used by Investing Activities	(11,210,614)	(1,655,294)
Cash Flow from Financing Activities:		
Net Borrowings Under Line-of-Credit Agreement	3,620,000	0
Net Cash Provided by Financing Activities	3,620,000	0
Increase (Decrease) In Cash and Cash Equivalents	(2,534,043)	7,593
Cash and Cash Equivalents at Beginning of Year	2,534,193	2,526,600
Cash and Cash Equivalents at End of Year	\$ 150	\$ 2,534,193
Interest Paid	49,007	0

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

Notes to Financial Statements

The Enterprise

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 and replacement 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. Interest is capitalized as a part of assets that are constructed and is amortized over the estimated useful life of the asset. 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.

Stumpage

Stumpage purchased from Tribe totaled 79,457 Mbf (thousand board feet) and \$11,291,681 in 1989 and 68,106 Mbf and \$9,505,954 in 1988. Of stumpage purchased, approximately 76,844 Mbf in 1989 and 66,145 Mbf in 1988 was chargeable to the annual cut under the cutting contract. The cutting contract, effective January 1, 1987, requires an annual cut of 75,356 Mbf with an allowable annual variance of 10 percent and an allowable two percent variance for the five year period ending December 31, 1991.

Notes to Financial Statements (Continued)

	1989	1988
Accounts Receivable		
Accounts receivable consist of:		
Trade accounts receivable	\$2,401,582	\$1,698,143
Allowance for doubtful accounts	(195,697)	0
	\$2,205,885	\$1,698,143
Inventories		
Inventories consist of:		
Logs	\$5,140,560	\$5,168,737
Lumber	1,183,589	1,177,942
Plywood and Veneer	839,991	238,785
	\$7,164,140	\$6,585,464
Prepaid Expenses		
Prepaid expenses consist of:		
Logging roads	\$ 773,111	\$ 320,332
Logging	306,102	127,629
Insurance	87,743	102,572
Consumable supplies	78,581	68,481
Other	11,982	10,633
	\$1,257,519	\$ 629,647
Accrued Expenses		
Accrued expenses consist of:		
	1989	1988
Accrued vacation pay	\$ 238,456	\$ 250,031
Payroll, payroll taxes, withholdings and employee insurance	272,954	279,624
Pension plan contributions payable	105,000	285,010
Worker's compensation claims	101,822	97,332
Other	175,165	70,037
	\$ 893,397	\$ 982,034

Long-term Debt

At December 31, 1989, the Enterprise has borrowed, \$3,620,000 pursuant to a \$8,500,000 revolving line of credit agreement with First Interstate Bank of Oregon, N.A. The debt is due on June 1, 1990 unless, pursuant to the loan agreement, it is converted to a term loan; term loan borrowings are due in ten equal semi-annual installments commencing June 30, 1990. Interest on the existing line of credit borrowings is based on the bank's prime rate (10.5 percent at December 31, 1989). Borrowings are collateralized by the Enterprise's accounts receivable, inventories and machinery and equipment. Significant restrictive covenants included in the loan agreement 1) place limits on additional borrowings by the Enterprise, 2) restrict defined annual capital expenditures, and 3) limit the amount of dividends that may be paid by the Enterprise. Because the Enterprise intends to convert its line of credit borrowings to a term loan prior to June 1, 1990, \$2,896,000 of the outstanding December 31, 1989 debt has been classified as long term debt in the accompanying balance sheet.

Notes to Financial Statements (Continued)

Pension Plan

Prior to 1987, the Enterprise made pension plan contributions for all of its hourly employees to The Lumber Industry Pension Fund, a multi-employer trustee defined benefit pension plan (Industry Pension Plan). Contributions were based on specified rates per hour as provided by agreement with the Union and were funded by the Enterprise on a current basis. All new tribal member employees hired after January 1, 1987 have been enrolled in the Tribal Pension Plan. Additionally, in December 1987, the Enterprise notified the Industry Pension Plan that under Tribal law it would discontinue making contributions for all other enrolled tribal members effective November, 1987 and would commence making contributions on behalf of the employee to the Tribal Pension Plan. In September 1988, the Enterprise also stopped making payments to the Industry Pension Plan for all non-tribal members who were then transferred to the Tribal Pension Plan. In December 1988, the Enterprise was named as a defendant in a lawsuit, filed by the Industry Pension Plan, which sought an accounting for unpaid employee contributions because of the aforementioned withdrawal. On January 2, 1990 this lawsuit was dismissed by a U.S. District Court judge. The Industry Pension Plan may appeal the dismissal within a thirty day period following the date on which the dismissal was made. As of January 19, 1990 no such appeal had been filed.

In June 1989, the Lumber Industry Pension Fund notified the Enterprise that it was obligated to pay \$1,447,434 to the Industry Pension Plan, as a result of its withdrawal therefrom, in 38 monthly installments. In November 1989, a request for review of this withdrawal liability was filed with the Industry Pension Plan. The request challenged the assessment of a withdrawal liability on the basis that the Enterprise is not an employer subject to the Employee Retirement Income Security Act (ERISA) and the actuarial assumptions used to calculate the amount of the withdrawal liability are unreasonable. The ultimate outcome of the Enterprise's request for review cannot presently be determined. Accordingly, no provision for any liability that may result upon arbitration has been made in the accompanying financial statements.

As of December 31, 1989, all full-time employees with one year of service are included in the multi-employer Tribal Pension Plan. There were no unfunded vested benefits as of January 1, 1989, the date of the most current actuarial valuation. The assumed rate of return was 7.25 percent. The prior service costs are being funded over ten years and other costs are funded on a current basis. Pension costs for 1989 and 1988 are composed of the following elements:

	1989	1988
Tribal Pension Plan Contribution	\$105,000	\$219,519
Industry Pension Plan	0	145,632
	<u>\$105,000</u>	<u>\$365,251</u>

The 1988 Tribal Pension Plan charge included a one-time accrual of approximately \$160,000 for the nonvested benefits for employees who were formerly participants of the Industry Pension Plan.

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

Ted Brunoe, Chairman
Albert Comedown
Ed Cornwell
Ellison David
Ralph DeMoisy
Walter Parks
Don Plummer



General Manager

Robert W. Macy, Sr.

Construction of the new sawmill will enable WSFPI to better handle the increasing supply of small logs. *(Top left)* Three men prepare to weld support beams on the lumber stacker. *(Top right)* Tons of earth were removed to prepare the site. *(Center right)* Clem Deister, project monitor, and operations manager Bob Brown discuss a spare parts list for the new mill. *(Right)* Log processing center includes modern operating console.



Building for the future





Warm Springs Forest Products Industries

Box 810, Warm Springs, Oregon 97761
(503) 553-1131