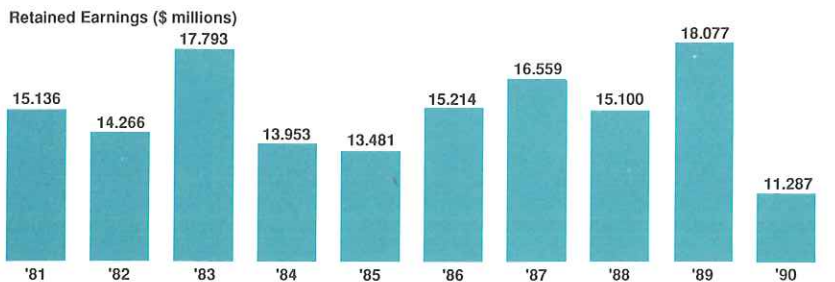
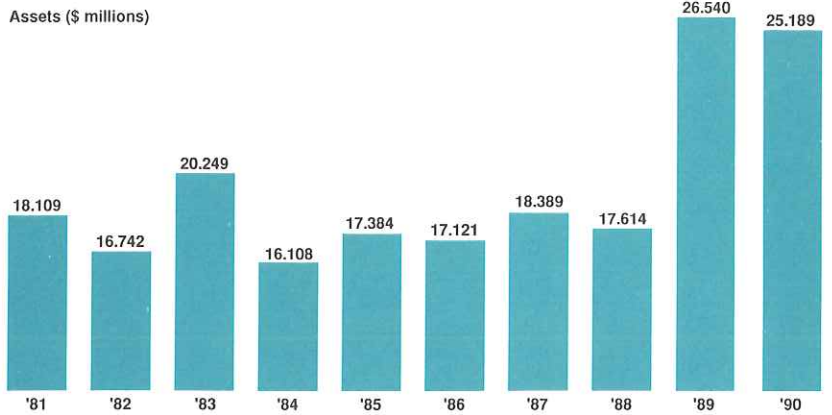
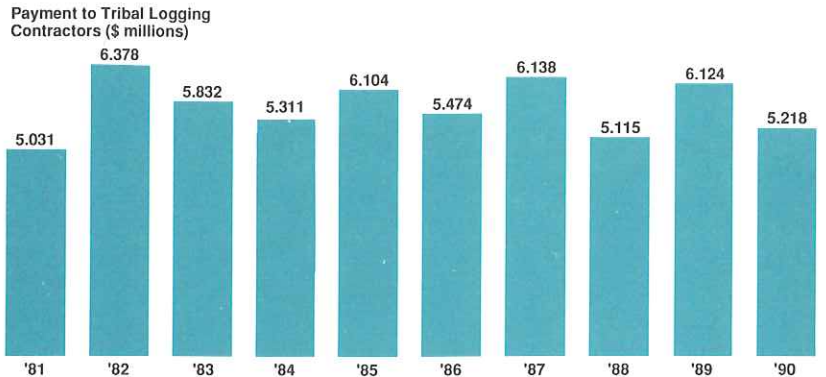
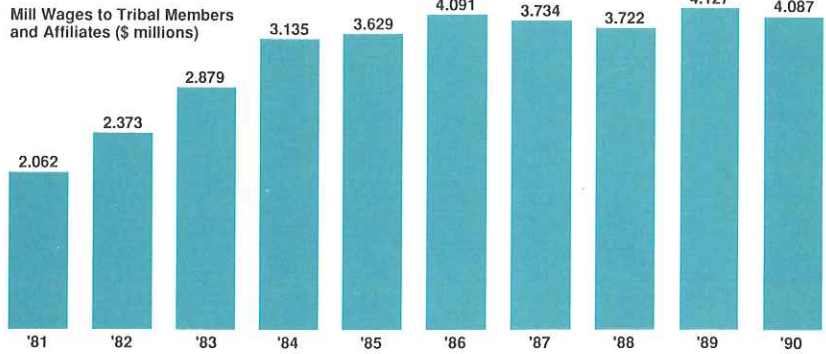
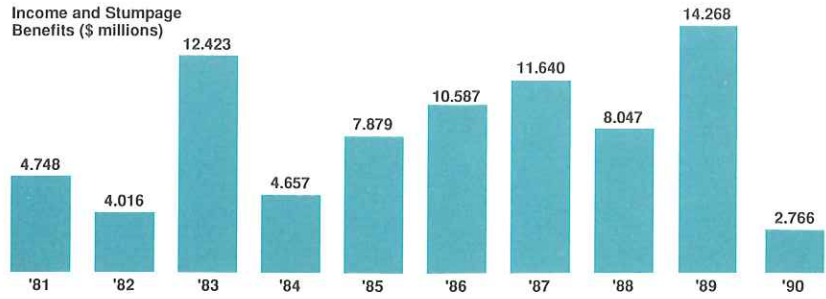




**Warm Springs Forest Products Industries  
1990 Annual Report**

# 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

Conveyor belt at Small Log Mill carries lumber to the trimmer.

## Financial Highlights

	1990	1989	1988	1987	1986
<b>Net Sales</b>	<b>\$32,027,932</b>	\$38,677,826	\$30,220,688	\$33,595,361	\$34,411,381
<b>Total Payroll</b>	<b>\$ 7,593,212</b>	\$ 7,518,156	\$ 7,242,858	\$ 7,762,046	\$ 9,030,443
<b>Benefits derived by Tribe and Tribal Members</b>					
Net Income (Loss)	<b>\$ (6,789,639)</b>	\$ 2,976,514	\$ (1,458,640)	\$ 1,344,876	\$ 1,732,783
Stumpage	<b>9,555,355</b>	11,291,681	9,505,954	10,295,403	8,854,518
Mill Wages to Tribal Members and Affiliates	<b>4,087,052</b>	4,127,048	3,722,218	3,733,579	4,090,867
<b>Total Benefits</b>	<b>\$ 6,852,768</b>	\$18,395,243	\$11,769,532	\$15,373,858	\$14,678,168
<b>Dividends Paid</b>	<b>0</b>	0	0	0	0
<b>Additions to Property, Plant and Equipment</b>	<b>\$ 2,550,163</b>	\$11,210,614	\$ 1,655,294	\$ 330,386	\$ 527,037
<b>Contract Logging</b>					
Tribal Contractors	<b>\$ 5,218,399</b>	\$ 6,124,042	\$ 5,115,032	\$ 6,138,246	\$ 5,473,986
Other	<b>3,142,206</b>	2,426,218	1,658,084	747,105	1,098,196
<b>Total</b>	<b>\$ 8,360,605</b>	\$ 8,550,260	\$ 6,773,116	\$ 6,885,351	\$ 6,572,182
<b>Logs Purchased Mbf</b>					
Chargeable to annual allowable cut	<b>66,733</b>	76,844	66,145	75,545	75,375
Not chargeable to annual allowable cut	<b>3,653</b>	2,613	1,961	3,223	2,657
<b>Total Mbf</b>	<b>70,386</b>	79,457	68,106	78,768	78,032
<b>Mill Employees</b>					
Tribal and Affiliates	<b>194</b>	199	189	177	173
Other	<b>125</b>	121	133	151	160
<b>Total</b>	<b>319</b>	320	322	328	333



**WARM SPRINGS FOREST PRODUCTS INDUSTRIES**

P.O. BOX 810 • WARM SPRINGS, OR 97761 • (503) 553-1131

***To the Tribal Council of the Warm Springs Reservation of Oregon:***

The word "change" means to pass from one state to another state, to shift, to undergo variation. Change is usually accepted with a certain amount of resistance. The effects of change in the national economy during 1990, along with changes in information WSFPI had to work with, created real challenges for the enterprise during the year.

Although the nation did not admit to a recession until the end of the year, the timber industry was rapidly approaching that condition by the end of the second quarter in June.

WSFPI entered the year with hopes of attaining at least a break-even position by year-end. Those hopes quickly faded as the market began its downward slide in the second quarter. By the end of the year, sales totaled \$32,027,932, down more than \$6.6 million from the level attained in 1989.

Construction and start-up of the new Small Log Mill was completed a full month ahead of schedule. Anticipated problems and "bugs" are being corrected along with increasing performance through improving operational experience and communications. Observations by others in the industry indicate our start-up went much smoother than most others have experienced with a project of this magnitude.

The other major capital improvement for the year was the replacement of the old lumber dry storage shed. When time and finances permit, the next step will be to extend this building to begin enclosing the rest of the lumber planer department.

As the year progressed, employees were shifted between operations as the problems of log inventory mix and market conditions dictated. The pine sawmill was reduced to a single shift operation shortly before the Small Log Mill came on line. At a later date, after the vacation shutdown, the veneer plant was reduced to a single shift operation. Doing so required that outside sources of veneer be purchased in order to maintain efficiency and employment at a two-shift level in plywood production. During November and December, the Small Log Mill was changed to a temporary two-shift schedule while the pine mill was shut down. All of these changes took place with minimal impact to overall employment.

The overall effect of changes during the year led to very disappointing financial results. However, the enterprise is well positioned to take advantage of future market conditions which hopefully will return in a positive manner during 1991. We want to thank the owners and employees for their help and assistance while struggling through a very difficult time.

**Robert W. Macy**  
General Manager

**Ted Brunoe**  
Chairman of the Board

## Markets and Employment

Lumber market prices, which peaked during the month of April, began their downward tumble through the end of the year. Pine prices tended to flatten out during the last quarter but industry-wide damage had already been sustained.

Housing starts for the year were the lowest experienced since 1982. Recovery is not expected to be a boom as a result of tighter credit control for real estate development lending. Some positive move is expected to occur during the spring of 1991.

Export log prices followed the domestic market in a downward trend during the course of the year but did yield some positive results for WSFPI.

Employment at year-end was at 319, which was one fewer than last year. The start-up of the small log mill and the elimination of single shifts at the pine mill and the veneer plant resulted in no major impact on total employment for the year. Tribal members and affiliates represented about 61 percent of the total employment at year-end.

## Logs and Logging

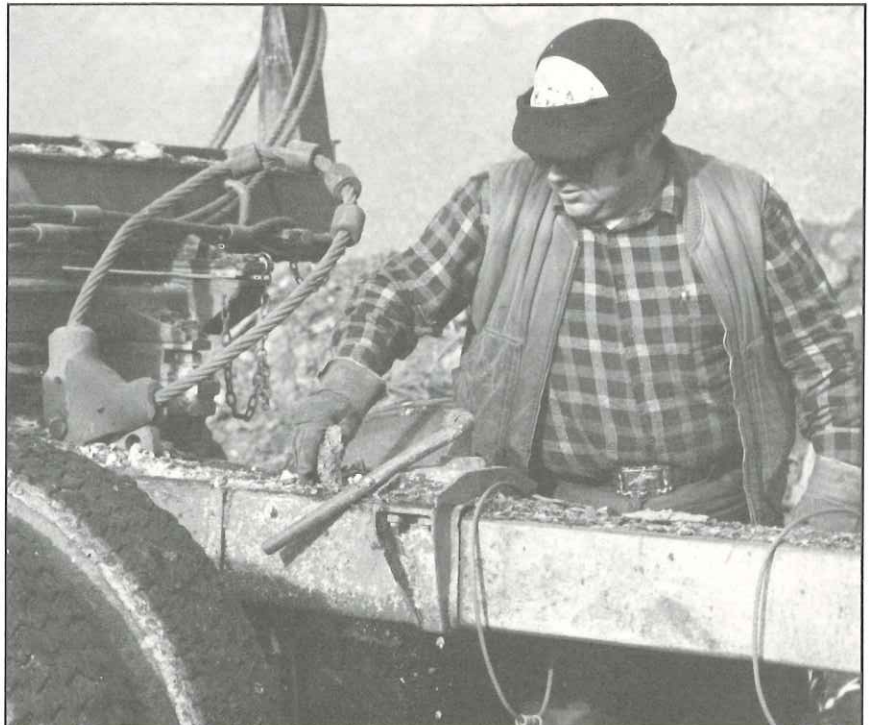
WSFPI harvested 70,386,210 board feet of timber during 1990 which was somewhat less than budgeted. Market conditions caused a financial crisis and required that reservation timber harvesting be stopped at the end of October.

The total harvest consisted of 34.9 percent ponderosa pine, 40.5 percent Douglas fir and larch, and 24.6 percent white fir and other species.

Logs from the Vantage timber sale continued to be sold into the export and domestic markets. In addition, export quality logs were high graded at the mill site and sold throughout the year.

Export log sales for the year totaled 7,584,980 board feet. Other log sales of utility material and incense cedar totaled to 2,028,000 board feet.

Tribal member logging contractors harvested approximately 45,680,000 board feet, or 65 percent, of the total.



**Kenny Lemley, driver for Brunoe Logging, transports logs from outlying yards to mill.**

## Lumber

The pine sawmill was reduced to a single shift operation in March. Most of the employees were transferred to the Small Log Mill which began operating on April 2, 1990. Production in the pine mill regained some of its former level but was still somewhat under expected results by year's end. The new Small Log Mill operated as best it could with some design flaws and the down time expected of a brand new installation. Operations problems continue to show up but are being addressed.

The volume of lumber sold from the pine mill totaled 21,780,807 board feet at an average net sales value of \$389.28 per thousand. This was a decrease of \$42.17 per thousand compared to the previous year. The price of logs charged into the pine mill was \$25.74 per thousand higher than last year.

The small log mill produced 13,915,427 board feet of lumber at an average net sale price of \$232.12 per thousand. The price was slightly higher than budgeted but the operating costs during the start-up period were extremely high. During 1991, the operational costs should be closer to what was forecast unless some major setback develops.

## Veneer and Plywood



Lay-up lineman Gilbert Yazzie spots sheets of veneer.

The veneer and plywood divisions were combined into a single profit center for the first time ever in 1990.

Total sales of green veneer and plywood were 86,127,171 square feet 3/8's measure. An average net plywood sales price of \$157.72 per thousand was \$14.85 per thousand less than the previous year although log costs charged to the plywood division were \$66.14 per thousand higher.

The veneer plant was cut back to a single shift operation at midyear which required WSFPI to purchase veneer from other producers in order to maintain two shifts of plywood production. Employees affected by the closure were eventually placed elsewhere in the enterprise.

Installation of additional plywood building space and a new veneer charger began at the end of the year.

## Chips and Power



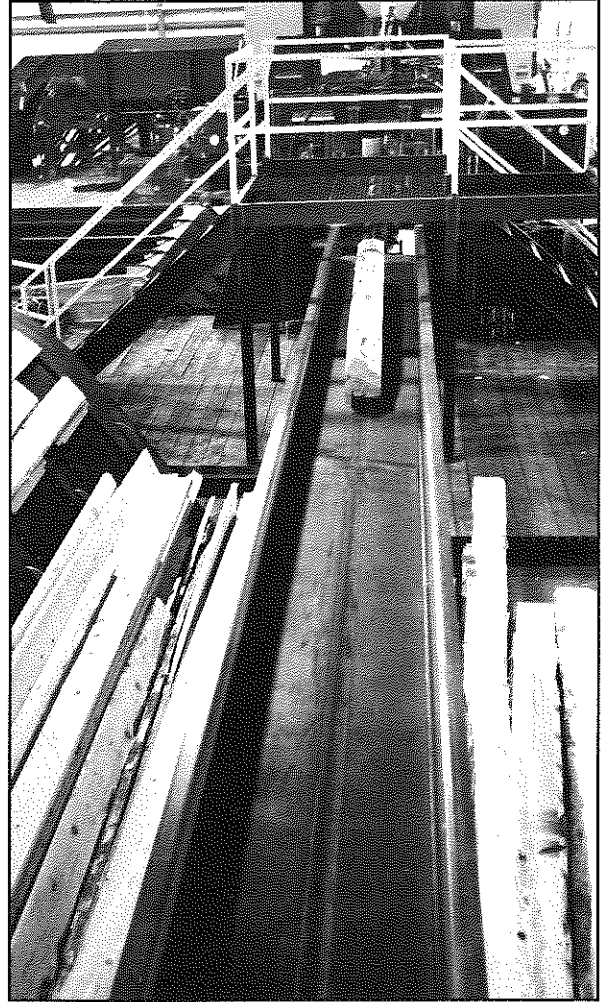
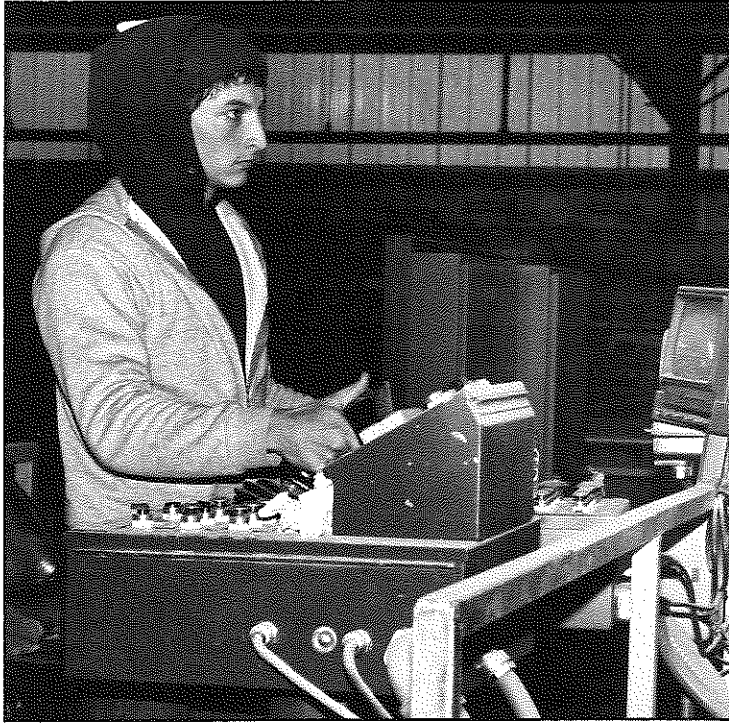
Dan Dickman pushes hog fuel onto conveyor at the powerhouse.

As the year progressed and more production throughout the industry was curtailed, chip supplies became questionable with a resulting stabilization of prices by mid-year. Chip prices fell in 1990 but not to the extent anticipated. Total chip sales of \$2,793,161 were 10.5 percent higher than last year as a result of additional volume being produced at the Small Log Mill.

The powerhouse operation produced 19,645,600 kilowatt hours which was six percent less than the previous year. WSFPI used 96 percent of the power produced and purchased an additional 2,400,000 kilowatt hours from Pacific Power. During the year, 825,000 kilowatt hours were sold to Pacific Power.

## Contributions by Division

	Net Sales and Transfers		Gross Profit (Loss)	
	1990	1989	1990	1989
Lumber	\$ 9,000,054	\$15,220,747	\$ (2,280,346)	\$ (791,400)
Small Log Sawmill	4,576,295	0	(1,564,443)	0
Plywood/Veneer	14,980,596	27,233,754	(1,986,507)	2,251,041
Studs	0	248,812	0	(7,583)
Export Logs	3,499,633	3,542,192	878,774	1,946,336
Log Sales	117,644	2,388,415	57,545	415,718
Power	897,819	1,001,739	(148,687)	(97,927)



**Small Log Mill operations begin—(Top left) Willie Bagley stands at the control center for the horizontal resaw. (Right) “Cant” comes down conveyor from the End Dogging Log Feed (EDLF) system. (Bottom) Logs destined for processing plant fill the yard.**





# 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, 1990 and 1989 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, 1990 and 1989 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Enterprise will continue as a going concern. Due to depressed economic conditions in the lumber industry during 1990, the Enterprise experienced a loss of \$6,789,639 and found it necessary to increase its bank borrowings to finance its operations and the construction of a new small log mill. These factors raise substantial doubt about the Enterprise's ability to continue as a going concern. The Enterprise's plans in regards to these matters are described in the "Operating Environment" footnote to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Portland, Oregon  
February 19, 1991

Coopers & Lybrand

### 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.
6. Income and expense items not classified elsewhere.
7. Interest on money lent to the Enterprise to finance operations and purchase of plant and equipment.
8. Current earnings (losses) which are available for dividends and reinvestments in operations or which used retained earnings.
9. Accumulated earnings of Enterprise (after dividends) reinvested in operations.

## Statements of Operations and Retained Earnings

	1990	1989
<b><sup>1</sup>Net Sales</b>	<b>\$32,027,932</b>	<b>\$38,677,826</b>
<b>Cost of goods sold:</b>		
<sup>2</sup> Raw material costs	23,407,716	22,834,963
<sup>3</sup> Manufacturing costs	13,663,880	12,126,678
<b>Gross Profit (Loss)</b>	<b>(5,043,664)</b>	<b>3,716,185</b>
<b>Other Operating Income (Expense):</b>		
<sup>4</sup> Selling, general and administrative	(1,150,759)	(973,572)
<sup>5</sup> Interest income	4,186	402,948
<sup>6</sup> Other expense, net	(26,303)	(126,631)
<sup>7</sup> Interest expense	(573,099)	(42,416)
<b><sup>8</sup>Net Income (Loss)</b>	<b>(6,789,639)</b>	<b>2,976,514</b>
<b><sup>9</sup>Retained earnings:</b>		
Beginning Balance	18,076,525	15,100,011
<b>Ending Balance</b>	<b>\$11,286,886</b>	<b>\$18,076,525</b>

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 operations and purchase of plant and equipment that will be paid within one year.
6. Borrowings from the bank, to finance operations and purchase of plant and equipment that will be paid after one year.
7. Accumulated earnings from Enterprise (after dividends) reinvested in operations.

December 31,	1990	1989
<b>Assets</b>		
<b><sup>1</sup>Current Assets:</b>		
<sup>2</sup> Cash and cash equivalents	\$ 23,246	\$ 150
<sup>3</sup> Accounts receivable, net	1,807,037	2,205,885
<sup>4</sup> Inventories	5,835,863	7,164,140
<sup>5</sup> Prepaid expenses	647,716	1,257,519
<b>Total Current Assets</b>	<b>8,313,862</b>	<b>10,627,694</b>
<b>Property, Plant and Equipment</b>		
<sup>6</sup> Land	8,690	8,690
<sup>6</sup> Buildings	3,582,346	3,123,146
<sup>6</sup> Machinery and equipment	31,470,773	19,537,390
<sup>6</sup> Construction in process	0	10,003,709
	<b>35,061,809</b>	<b>32,672,935</b>
<sup>7</sup> Less accumulated depreciation	18,186,891	16,760,453
	<b>16,874,918</b>	<b>15,912,482</b>
<b>Total Assets</b>	<b>\$25,188,780</b>	<b>\$26,540,176</b>
<b>Liabilities and Retained Earnings:</b>		
<b><sup>1</sup>Current Liabilities:</b>		
<sup>2</sup> Accounts payable	\$ 306,766	\$ 2,079,198
<sup>3</sup> Logging costs payable	1,444,455	1,871,056
<sup>4</sup> Accrued expenses	1,623,673	893,397
<sup>5</sup> Current portion—long-term debt	8,077,000	724,000
<b>Total Current Liabilities</b>	<b>11,451,894</b>	<b>5,567,651</b>
<sup>6</sup> Long-term debt	2,450,000	2,896,000
<b>Total Liabilities</b>	<b>13,901,894</b>	<b>8,463,651</b>
<sup>7</sup> Retained Earnings	11,286,886	18,076,525
<b>Total Liabilities and Retained Earnings</b>	<b>\$25,188,780</b>	<b>\$26,540,176</b>

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

## Statements of Cash Flows

### Increase (Decrease) in Cash and Cash Equivalents

	1990	1989
<b>Cash Flows from Operating Activities:</b>		
Net Income (Loss)	\$ (6,789,639)	\$ 2,976,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,587,071	1,461,855
Loss on sale of equipment	656	3,283
<b>Changes in Operating Assets and Liabilities:</b>		
(Increase) Decrease in accounts receivable	398,848	(507,742)
(Increase) Decrease in inventories	1,328,277	(578,676)
(Increase) Decrease in prepaid expenses	609,803	(627,872)
Increase (Decrease) in accounts payable	(1,772,432)	1,788,245
Increase (Decrease) in logging costs payable	(426,601)	629,601
Decrease (Increase) in accrued expenses	730,276	(88,637)
<b>Net Cash Provided by Operating Activities</b>	<u>(4,333,741)</u>	<u>5,056,571</u>
<b>Cash Used by Investing Activities:</b>		
Purchase of property, plant and equipment	(2,550,163)	(11,210,614)
<b>Net Cash Used by Investing Activities:</b>	<u>(2,550,163)</u>	<u>(11,210,614)</u>
<b>Cash Flow from Financing Activities:</b>		
Net borrowings under line-of-credit agreement	20,664,300	4,082,000
Payments of long-term debt	(13,757,300)	(462,000)
<b>Net Cash Provided by Financing Activities</b>	<u>6,907,000</u>	<u>3,620,000</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	23,096	(2,534,043)
<b>Cash and Cash Equivalents at Beginning of Year</b>	150	2,534,193
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 23,246</u>	<u>\$ 150</u>
<b>Interest Paid</b>	<u>\$ 643,040</u>	<u>\$ 49,007</u>

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

## Notes to Financial Statements (Continued)

### Pension Plan

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In December 1988, the Enterprise was named as a defendant in a lawsuit, filed by the Lumber Industry Pension Fund, which sought an accounting for and payment of certain contributions because of the Enterprise's withdrawal from the Fund. On January 2, 1990, this lawsuit was dismissed by a U.S. District Court judge. After reconsideration by the Court was denied, the Fund appealed the trial court's order of dismissal to the United States Court of Appeals for the Ninth Circuit. Parties to the case are currently awaiting notice of the date for oral argument. The amount of any potential liability is approximately \$140,000 to \$160,000, exclusive of penalties, interest, attorney's fees and costs.

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 Fund. 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, 1990, 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, 1990, 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 1990 and 1989 were \$235,000 and \$105,000, respectively.

### Income Taxes

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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.

### Operating Environment

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The Enterprise's financial statements have been prepared on the basis that the Enterprise is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Due to depressed economic conditions in the lumber industry during 1990, the Enterprise experienced a loss of \$6,789,639 and found it necessary to increase its bank borrowings to finance its operations and the construction of a new small log mill. The Enterprise and the Tribe have taken the following actions to strengthen the Enterprise's ability to continue operations and meet its obligations:

1. A \$1,000,000 dividend payable to the Tribe has been formally rescinded and the funds have been used to reduce the amount payable to the Tribe for stumpage.
2. The pricing terms for stumpage purchased from the Tribe have been amended to reduce the cost of logs purchased by the Enterprise.
3. The Enterprise has initiated a cost control and production efficiency program to reduce the manufacturing cost of converting logs to lumber products.
4. The Enterprise is seeking to amend the amount and payment of its term loan agreement with First Interstate Bank of Oregon, N.A.

If the Enterprise is unable to operate at a profit and generate cash from operations to meet its creditor obligations, it may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Enterprise be unable to continue as a going concern.

## Board of Directors

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

## General Manager

Robert W. Macy, Sr.



Board member Ed Cornwell (*left*) and WSFPI General Manager Bob Macy review financial figures from 1990.



Board of Directors include: (*Left to right*) Ralph DeMoisy, Walter Parks, Ellison David, Albert Comedown, Chairman Ted Brunoe, and Don Plummer.



**Warm Springs  
Forest Products  
Industries**

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