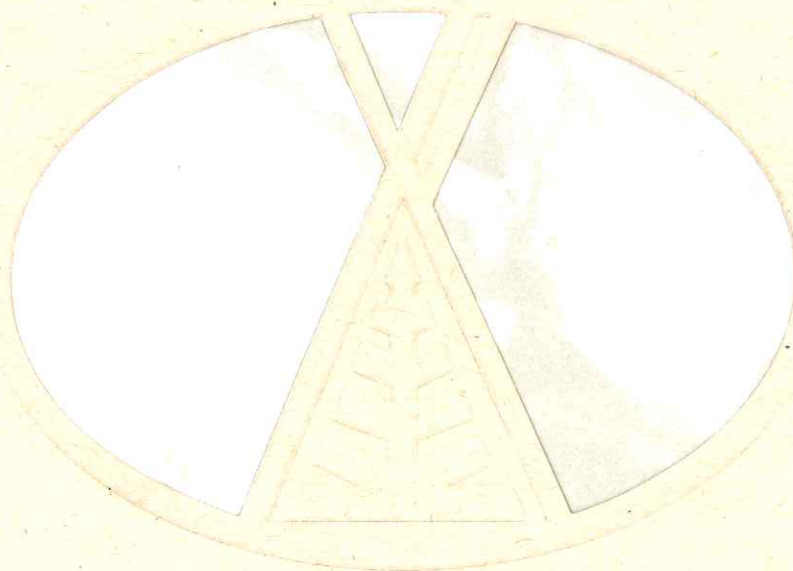


WARM SPRINGS'  
FOREST PRODUCTS  
INDUSTRIES

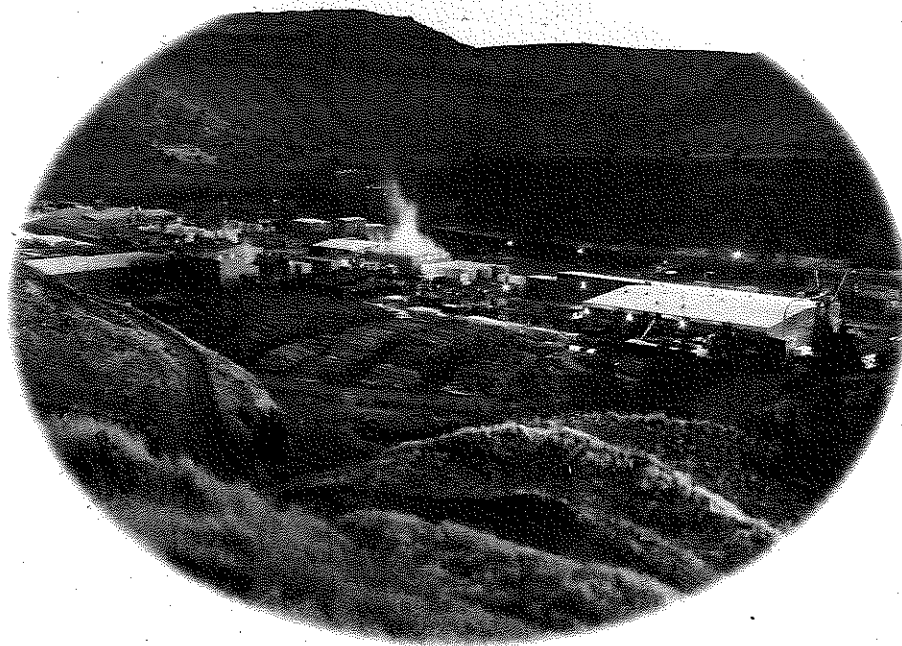


1 9 9 7

ANNUAL  
REPORT



WARM SPRINGS  
FOREST PRODUCTS  
INDUSTRIES



1 9 9 7

ANNUAL  
REPORT



## TO OUR TRIBAL MEMBERS

1 9 9 7 proved to be one of the most challenging of years for Warm Springs Forest Products: Log and lumber prices fell steadily throughout the year, down 30-35% by year-end, forcing us to search deeply for ways to remain profitable.

Log Export markets were impacted by the rapidly changing international economic standards and devalued currencies. Today's Japanese Yen for instance, will buy only about 85% of what it did in 1996. Domestic markets have suffered from the abundance of logs now available due to the entry of formerly export logs. In 1997 the Simnasho Fire Salvage, Jefferson Burn Salvage, and Green Salvage programs contributed 28.9 mm board feet to the harvest program, 40% of the total harvest. Smaller timber and declining log prices contributed to less revenue than anticipated for the year for the Timber Division. Logging the salvage material before it deteriorated, however, was a significant feat that saved the Tribe a lot of money.

Lumber markets adversely affected the Sawmill Division also. Though we have no influence over the market, we have worked hard at controlling costs. WSFPI has taken steps to mitigate the downside to some extent. Improvements in the Dry Kilns, Planer, and Sawmill have, and will continue, to improve our competitiveness. Productivity increased and manufacturing costs were down compared to previous years. However, our employees have been awarded pay increases in each of the last five years. WSFPI manufactured and shipped more lumber than ever before, with less people than ever before. Many mills have passed away in the night, and still more are falling away. But WSFPI stands more solid and secure as an operating entity.

As always our workforce remains our most valuable resource. The people are what make everything work in this equation, and the Tribal Owners are the benefactors of their hard work.

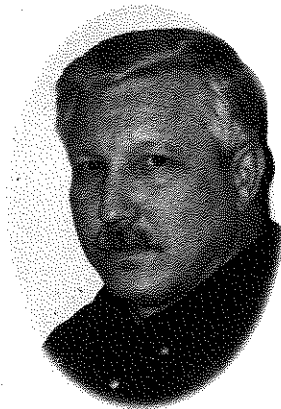
### OUR GOALS FOR 1998 INCLUDE:

- Redefining and developing a strategic plan for the next five years
- Finding and cultivating new log markets
- Developing new lumber products and market niches
- Reducing overall costs
- Develop, educate and retain good employees

We are thankful to put another successful year behind us, and look forward to the challenges facing us in the future. WSFPI's best days are still ahead.



Michael Clements  
CHAIRMAN OF THE BOARD



Rick Saunders  
GENERAL MANAGER

*Michael A. Clements*

CHAIRMAN OF THE BOARD

*Rick Saunders*

GENERAL MANAGER



BOARD OF DIRECTORS



Michael Clements  
CHAIRMAN



Enos Herkshan  
VICE CAIRMAN



Ralph Minnick  
SEC.-TREAS.



Jim Manion



John Katchia



Walt Parks



Randy Smith



MANAGEMENT

(l-r) Mark Jackson,  
Lou Torgeson,  
Dan Larson,  
Ralph Minnick,  
Jim Hardman,  
Mike Mackin,  
Rick Saunders,  
Theresa Van Pelt.

ADMINISTRATIVE

(l-r) Jodel Johnson, Jim Shields,  
Lori Courtney-Smith,  
Norm Nathan, Robyn Mitchell

(not pictured: Nettie Dickson,  
Donna Torres, Val Squiemphen)



## ACHIEVEMENTS FOR 1997

- ▶ \$1,500,000 Dividend Declared and Paid to Tribe
- ▶ \$17,542,136 Paid to Tribe for Timber
- ▶ \$1,130,066 Enterprise Net Profit
- ▶ 40% of Total Harvest from Salvage Logging
- ▶ 68,174,000 Board Feet — Record Sawmill Production
- ▶ 58,345,000 Board Feet — Record Planer Production
- ▶ 63,103,000 Board Feet — Record Lumber Shipments
- ▶ 73% — Record Highest Tribal Member/MIT Employment Rate
- ▶ 3% — Approximate Employee Pay Rate Increase
- ▶ \$20,000+ Donations to the Community
- ▶ New Dry Kilns, Planer Infeed, Mechanic and Machine Shops

*The new kiln was added in the fall of 1997 and now produces more volume and higher quality lumber.*

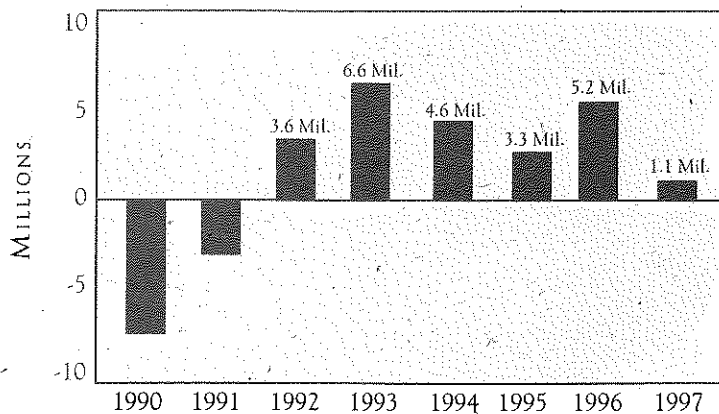


## FINANCIAL HIGHLIGHTS

	1997	1996	1995	1994	1993
NET SALES	\$53,514,197	\$53,286,747	\$52,354,445	\$61,732,265	\$57,364,480
OPERATING INCOME	\$2,029,257	\$6,644,385	\$3,713,008	\$5,264,003	\$6,787,050
NET INCOME	\$1,130,066	\$4,991,791	\$3,342,555	\$4,568,163	\$6,622,012
CURRENT RATIO	3.48	5.63	4.56	3.20	2.47
LOGS HARVESTED (MBF) Chargeable to annual allowable cut	53,186	60,039	54,629	62,630	60,126
Not chargeable to annual allowable cut	18,869	4,984	6,906	7,544	12,485
TOTAL MBF	72,055	65,023	61,535	70,174	72,611
STUMPAGE	\$17,542,137	\$19,320,495	\$19,436,736	\$26,412,309	\$19,830,143
CONTRACT LOGGING					
Tribal	\$7,579,600	\$7,541,995	\$7,725,680	\$8,325,630	\$7,085,315
Other	5,073,519	4,022,134	3,020,291	2,701,443	3,391,427
TOTAL	\$12,653,119*	\$11,564,129	\$10,745,971	\$11,027,073	\$10,476,742

\*\$3,560,075 Cost of Helicopter Logging Simnasho Burn

### WSFPI PROFIT/LOSS (IN DOLLARS) (1990-1997)



## HUMAN RESOURCES

During 1997 WSFPI achieved a record employment level of 73% for Tribal Member and Affiliates, with 96 Tribal Members, 39 Married Into the Tribe, 5 Indians Not Affiliated and 44 Non-Indians. Overall, within a five year period, WSFPI has increased its Tribal Member and Affiliates employment level as follows: 68% in 1993, 70% in 1994, 72% in 1995, 72.6% in 1996 and 73% in 1997. Another indicator of how this increase was made possible is by WSFPI's yearly hiring statistics.

	TM	MIT	INA	O	Total	TM/MIT%
1993	67	10	0	9	86	89.5
1994	67	12	2	5	86	91.8
1995	40	13	0	1	54	98.1
1996	33	6	0	2	41	95.1
1997	33	5	0	4	42	90.4

In summary, WSFPI has increased its Tribal Member and Affiliate employment level by 5% in five years and accomplished a 93% hiring average of Tribal Members and Affiliates.

WSFPI's training program continues to provide opportunities for employees to move into technical skilled positions. Three employees were added to the program in 1997; Peter Brunoe, Apprentice Millwright; and Bobby Thurby and Chico Holiday-Colazo, Sawfiler Trainees. Four completed their training; Lewis Selam, Quality Control; Daniel Dickman, Boiler Operator; Leroy Titus, Turbine Operator; and Dennis Thompson, Timber Sales Officer. This brings the program total to: Current Participants, 14; Program Completions, 15; Non-Completions, 11; bringing the Total Program Participants to 40.

The EAC/ Safety Representatives and their respective departments all gave forth a lot of time and effort in 1997 to the development of Departmental Safety Action Plans. These plans will be utilized as an on-going

tool for each department to help identify and correct safety issues. These

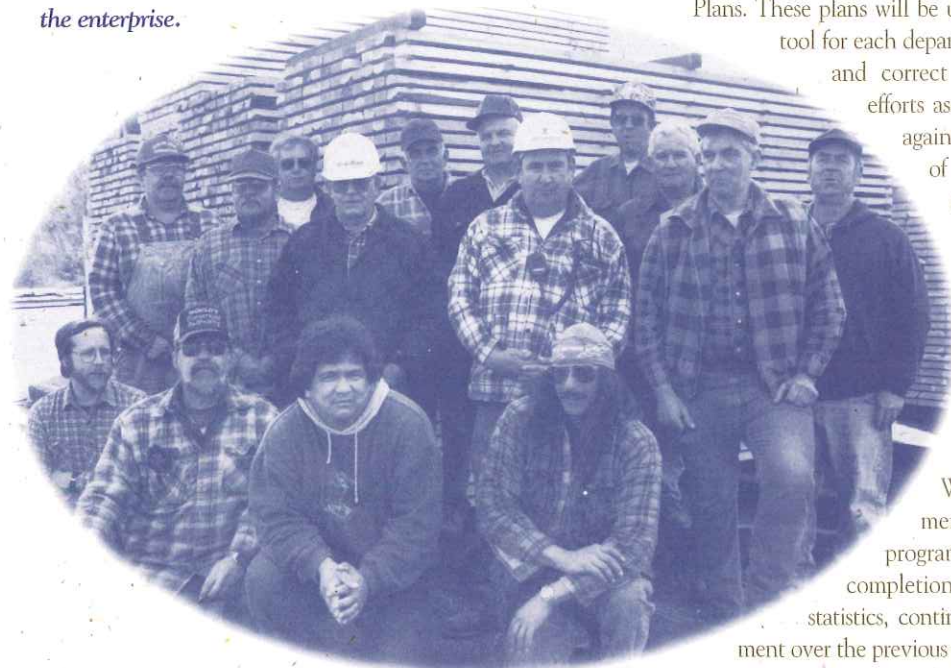
efforts assisted in WSFPI once again lowering the number

of compensable worker's comp claims recorded for 1997 to 35 compared to 40 in 1996.

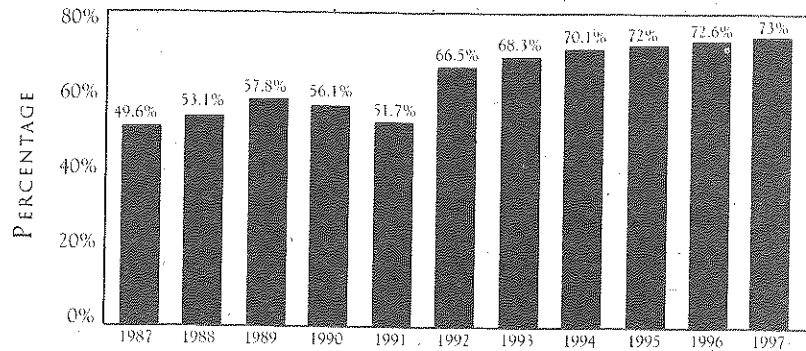
11 of these claims were time-loss related, which is four less than the previous year.

By comparison, WSFPI's 1997 employment levels, training program participation, and completions, along with safety statistics, continue to show improvement over the previous year.

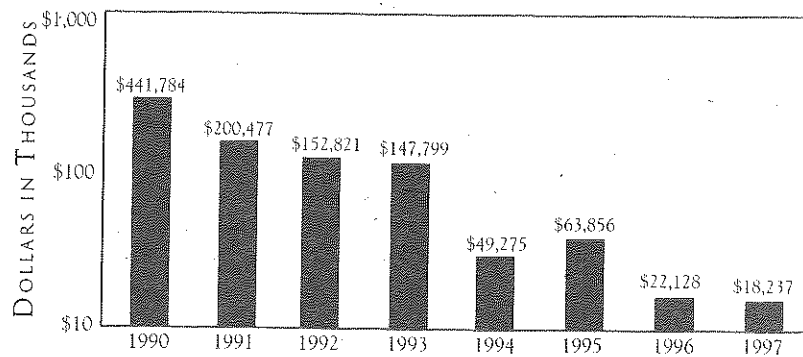
*Employees are WSFPI's most valuable resource. These 15 employees represent over 350 years of experience at the enterprise.*



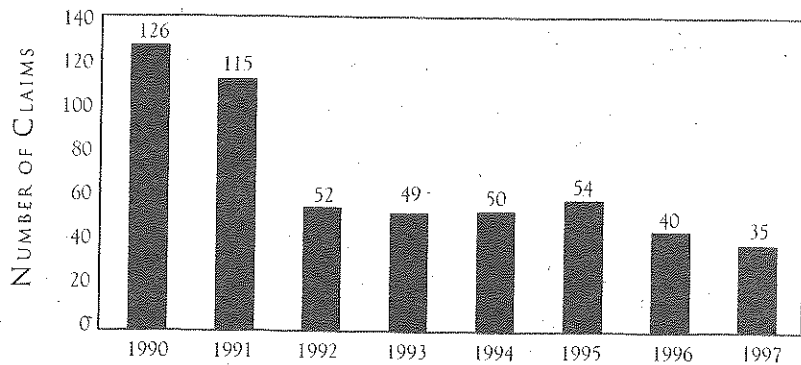
YEARLY  
TRIBAL  
MEMBER  
EMPLOYMENT



WORKERS COM-  
PENSATION  
CLAIM COSTS



WORKERS COM-  
PENSATION  
CLAIMS





# TIMBER DIVISION

The salvage of the Simnasho Fire was a major accomplishment in 1997. Most of the conditional use area was harvested by helicopter, which resulted in a lot of activity in the area. There were more than 30 cutters, new shovel operators, fair amount of turnover, allotments and significant roadwork. Tom Kathrein did an exceptional job administering the Simnasho Burn. Guerin Logging did an outstanding job on the Tribal Allotments. Everyone involved—residents, Tribal Council, BIA, Natural Resources, WSFPI, etc.—gave an outstanding effort to get the job done effectively and in a timely manner.

## LOG MARKETS

**Export**—Doug Fir log prices peaked in January and continued to fall for the balance of the year. Most buyers were off the market in August and did not purchase logs for the rest of the year. Whitewood continues to be under pressure because of substitute specie and lumber replacement. Some Whitewood was exported but the price was nearly the same as domestic logs.

**Domestic**—Prices held up relatively well on large Ponderosa Pine for most of the year. Other specie were fairly strong until September when prices started falling particularly for large Doug Fir and Whitewood. Currently, prices for large Doug Fir is down nearly \$150/M from early in the year. A depressed log export market forced logs into the domestic market which forced prices down. Also, increased volumes of lumber, especially Doug Fir (export lumber went to domestic), depressed lumber prices at the same time. Mill shutdowns have occurred and are continuing due to the high raw material costs in inventory and the depressed lumber prices. Unfortunately, 1998 is not projected to be much better due to world financial and economic problems.

**Pulp/Utility**—Pulp log prices were flat until late September when they increased \$8/ton. Mill shutdowns and slower logging due to depressed log and lumber prices were responsible for the increase. Pulp log prices should be stable to slightly up in 1998.

### HARVEST VOLUME OF 72.1MM

(67.2 MM MERCH 4.9 MM PULP)

#### SPECIE MIX VOLUME (MM) %

Specie	VOLUME (MM)	%
Doug Fir/Larch	38.2	53
Ponderosa Pine	11.2	16
Whitewood	13.0	18
Noble/ White Pine	5.0	5
Lodgepole	8	1
Pulp (All Specie)	4.9	7
<b>TOTAL</b>	<b>72.1</b>	<b>100%</b>

#### SORT SUMMARY VOLUME (MM) %

Sort	VOLUME (MM)	%
Export	15.1	21.0
Ponderosa Pine Large	8.3	11.5
Other Oversize Domestic	8.7	12.0
WSFPI	35.1	48.7
Pulp	4.9	6.8
<b>TOTAL</b>	<b>72.1</b>	<b>100%</b>

#### HARVEST VOLUME BY TYPE VOLUME (MM) %

Type	VOLUME (MM)	%
Simnasho Fire C Use	14.2	19.7
Simnasho Fire Commercial	5.6	7.8
Jefferson Burn	3.6	5.0
Salvage	5.5	7.6
Sub-Merch	5.3	7.3
Green Merch	33.0	45.7
Pulp	4.9	6.9
<b>TOTAL</b>	<b>72.1</b>	<b>100%</b>

## 1997 HIGHLIGHTS

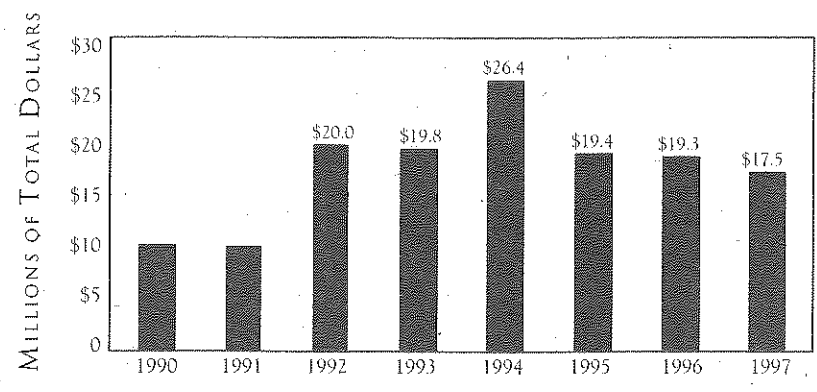
- ▶ 88% of timber harvest done by tribal loggers, C Use excluded
- ▶ Harvested 5.3 mm board feet sub merch 3"+ pulp; until late 1994 this volume was left in woods
- ▶ Excellent execution to log sorts and rapid response to destination changes by loggers improved stumpage value
- ▶ Implementing new log accounting systems.

## GOALS & OBJECTIVES FOR 1998

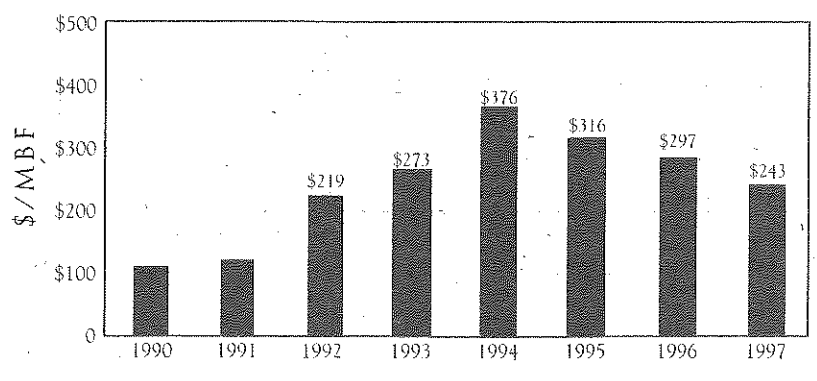
In addition to our standard objectives to maximize timber value, etc., WSFPI will focus on the following in 1998:

- ▶ Continue to aggressively pursue high value salvage timber
- ▶ Aggressively source additional outside purchase logs with the addition of the large log mill
- ▶ Question costs as relates to mandates and other projects to assure a positive contribution for the tribes
- ▶ Continue to try to find niche markets for logs given the current state of uncertainty in the log markets

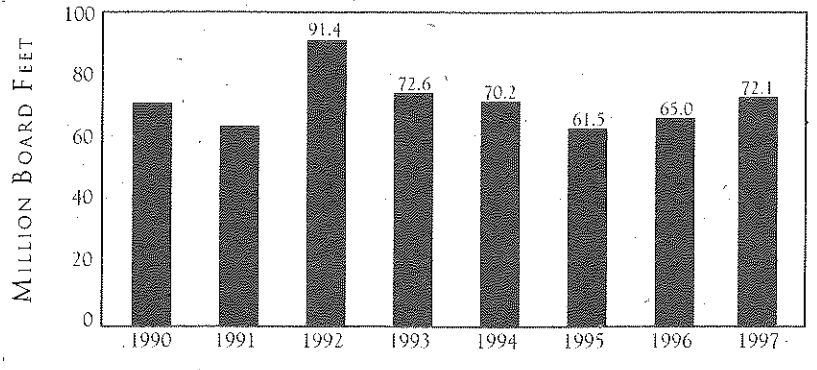
TOTAL DOLLARS PAID FOR TRIBAL STUMPAGE



PRICE PAID FOR TRIBAL STUMPAGE



TOTAL LOGS HARVESTED



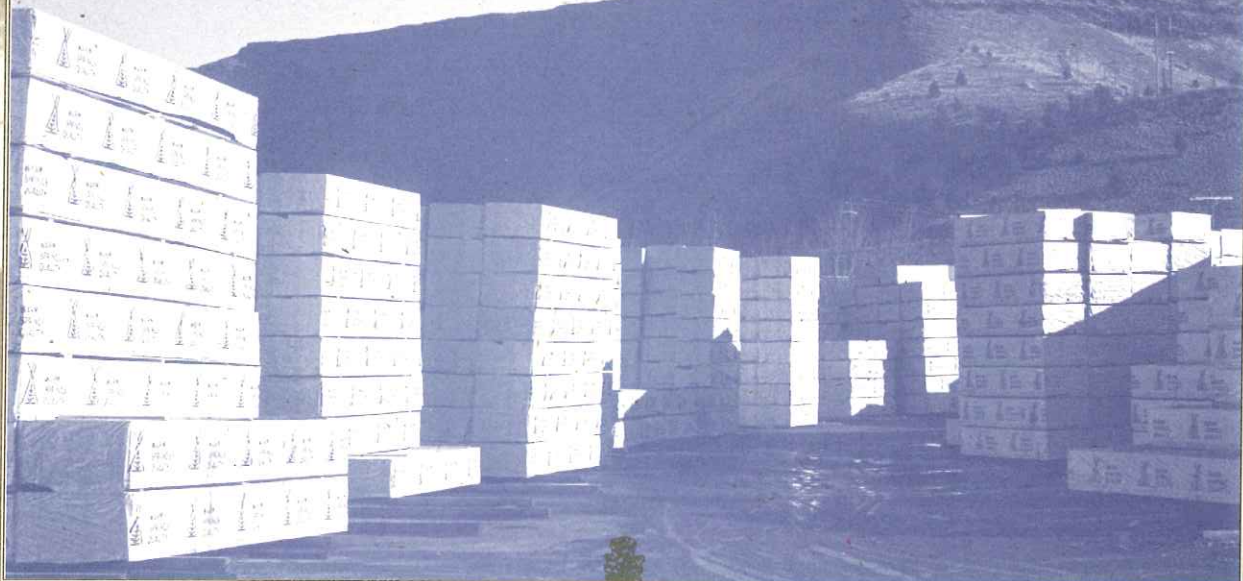
## LUMBER DIVISION

The Sawmill and Planer produced more lumber than in any previous year. Numerous daily and monthly production records were set throughout 1997. Larger logs, less down time, less trimming, and larger boards contributed to the increase. The mill produced 44% Douglas Fir & Larch, 46% Whitewood, and 10% Ponderosa Pine. Approximately 95% of all stock was kiln dried. New Dry Kilns installed in October are forecast to increase production, raise grade recovery and reduce trim loss. Improvements to the Planer infeed line should increase capacity to accommodate the additional lumber to be produced in the Big Log Addition to the Small Log Mill. Lumber shipments increased 21% over last year, another record.

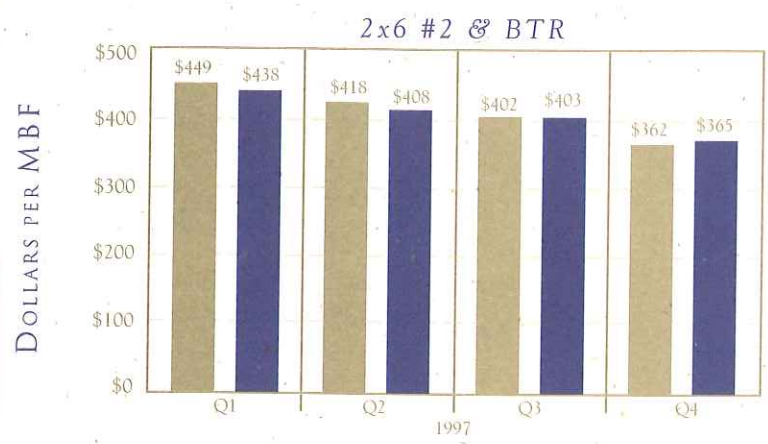
Lumber prices started out reasonably high in the beginning of the year. By the end of the year prices had fallen by \$100/mbf, a 30% drop in some items. World wide lumber production was near peak capacity while economic turmoil in our Asian markets reduced lumber demand. By April export lumber sales had all but dried up. Export lumber and lumber from other countries found its way into the U.S. market. Though U.S. housing starts remained strong, an oversupply of lumber forced prices down. WSFPI was able to maintain a strong order file for its products at prices slightly above published market levels. The problem then became one of shipping. WSFPI had the orders in hand, but could not obtain enough trucks and especially rail cars to keep the flow of lumber moving out the door. In some cases freight car delays were as much as 45 days. Freight constraints began to ease in December and the wood started moving again. By year end over 63 million board feet of lumber had been shipped, 21% by railroad.

Customers, suppliers, competitors and transportation factors have created a constantly changing environment. It is our goal to be flexible and reactive to changing market conditions and to be partners with our customers by understanding their business needs so that Warm Springs Forest Products can supply their needs in a manner that will be mutually beneficial.

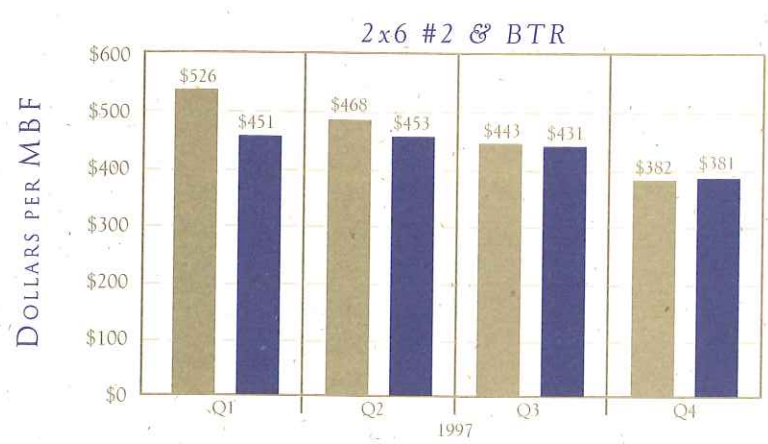
*It is our goal to  
be flexible and  
reactive to  
changing market  
conditions and to  
be partners with  
our customers  
by understanding  
their business needs.*



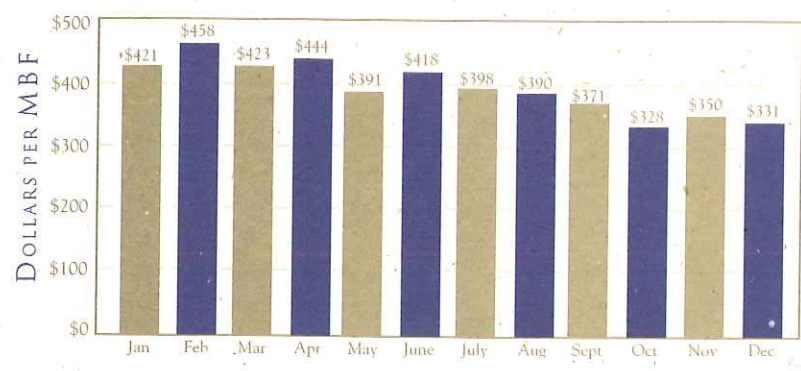
INLAND  
HEM FIR  
DRY  
DIMENSION  
(D/S)



INLAND  
DOUG  
FIR/LARCH  
DRY  
DIMENSION  
(D/S)



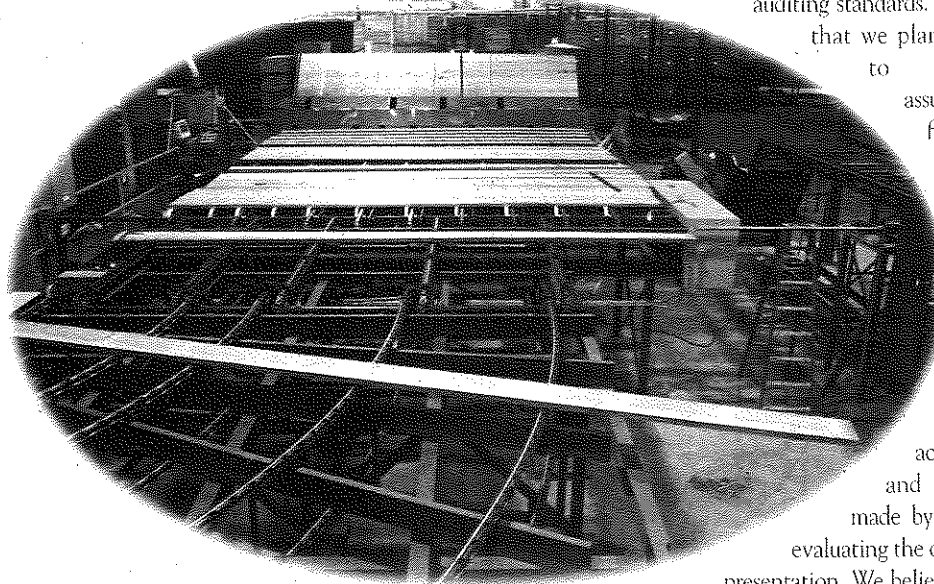
1997  
WSFPI  
LUMBER  
SALES  
AVERAGE



## REPORT OF INDEPENDENT ACCOUNTANTS

*To the Tribal Council of the Confederated Tribes of Warm Springs and Board of Directors of Warm Springs Forest Products Industries:*

We have audited the accompanying balance sheets of Warm Springs Forest Products Industries (the Enterprise) as of December 31, 1997 and 1996, and the related statements of income 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 respects, the financial position of Warm Springs Forest Products Industries at December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As described in Note 11 to the financial statements, the 1996 financial statements have been restated to reflect the accrual of sales rebates for log sales made in 1996.

Portland, Oregon  
January 30, 1998

Coopers and Lybrand, L.L.P



## BALANCE SHEETS

ASSETS	December 31,	
	1997	1996
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 123,211	\$ 2,430,302
Investments	3,340,976	5,351,637
Accounts receivable, net	1,361,490	621,054
Inventories	9,679,189	10,038,625
Prepaid expenses	181,334	235,549
Total current assets	14,686,200	18,677,167
<b>Property, Plant and Equipment:</b>		
Land	8,690	8,690
Buildings	8,136,955	5,309,662
Machinery and equipment	26,532,847	31,782,854
Construction in progress	3,666,050	1,717,625
	38,344,542	38,818,831
Less accumulated depreciation	(18,259,985)	(23,253,830)
Property, plant and equipment, net	20,084,557	15,565,001
<b>TOTAL ASSETS</b>	<b>\$34,770,757</b>	<b>\$34,242,168</b>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,393,033	\$ 1,512,092
Stumpage and logging costs payable	1,735,636	481,606
Accrued expenses	1,085,899	1,322,347
Total current liabilities	4,214,568	3,316,045
<b>Retained Earnings (Note 11)</b>	<b>30,556,189</b>	<b>30,926,123</b>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<b>\$34,770,757</b>	<b>\$34,242,168</b>

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

## STATEMENTS OF INCOME AND RETAINED EARNINGS

	<i>Year ended December 31,</i>	
	<u>1997</u>	<u>1996</u>
NET SALES	\$53,514,197	\$53,286,747
COST OF GOODS SOLD:		
Raw material costs	(40,987,530)	(36,400,525)
Manufacturing costs	<u>(10,497,410)</u>	<u>(10,241,837)</u>
Gross profit	2,029,257	6,644,385
Selling, general and administrative expenses	<u>(1,444,427)</u>	<u>(1,275,482)</u>
OPERATING INCOME	584,830	5,368,903
Other income (expense):		
Interest and dividend income	287,647	228,319
Realized gains on investments, net	758,096	157,657
Interest expense	(151,711)	
Other expenses, net	<u>(348,796)</u>	<u>(763,088)</u>
NET INCOME	1,130,066	4,991,791
<b>Retained Earnings:</b>		
Beginning of year	30,926,123	26,184,332
Dividends paid	<u>(1,500,000)</u>	<u>(250,000)</u>
End of year	<u>\$30,556,189</u>	<u>\$30,926,123</u>

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

## STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	1 9 9 7	1 9 9 6
<b>Cash flows from operating activities:</b>		
Operating income	\$ 584,830	\$5,368,903
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	1,471,297	1,304,749
Gain on sale of equipment	(210,730)	(2,125)
<b>Changes in current assets and liabilities:</b>		
Accounts receivable	(740,436)	901,719
Inventories	359,436	(4,367,967)
Prepaid expenses	54,215	(62,876)
Accounts payable	(119,059)	439,018
Stumpage and logging costs payable	1,254,030	(637,383)
Accrued expenses	(236,448)	288,897
Net cash provided by operating activities	<u>2,417,135</u>	<u>3,232,935</u>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(6,640,606)	(12,211,610)
Purchase of property, plant and equipment	(6,012,386)	(2,154,997)
Proceeds from sale of equipment	232,263	2,125
Proceeds from sale of investments	9,409,363	9,067,591
Interest and dividend income	287,647	228,319
Net cash used in investing activities	<u>(2,723,719)</u>	<u>(5,068,572)</u>
<b>Cash flows from financing activities:</b>		
Dividends paid	(1,500,000)	(250,000)
Interest expense	(151,711)	
Other expense, net	(348,796)	(763,088)
Net cash used in financing activities	<u>(2,000,507)</u>	<u>(1,013,088)</u>
Decrease in cash and cash equivalents	(2,307,091)	(2,848,725)
Cash and cash equivalents, beginning of year	<u>2,430,302</u>	<u>5,279,027</u>
Cash and cash equivalents, end of year	<u>\$ 123,211</u>	<u>\$2,430,302</u>

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



# NOTES TO FINANCIAL STATEMENTS

## 1. THE ENTERPRISE AND 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 fund of the Tribe with the following purposes, objectives and priorities, as modified, effective April 20, 1992:

- ▶ The first priority is to earn a level of profit and economic return for the Tribe and its members consistent with that which an efficient and well-run forest products operation would earn under similar economic conditions so the Enterprise can fund long-term growth and increase tribal wealth.
- ▶ The second priority is to provide the Tribe and its members with employment opportunities and such social benefits as may flow therefrom.
- ▶ The third priority is to provide the Tribe and its members with education and training benefits and such social benefits as may flow therefrom.

The following is a summary of significant accounting policies:

### ***Measurement Focus and Basis of Accounting***

The Enterprise is a proprietary fund of the Tribe. The Enterprise utilizes the flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of the Enterprise are included in the balance sheet. The Enterprise is accounted for utilizing the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded at the time they are earned. Expenses are recorded at the time liabilities are incurred. The Enterprise has applied all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board pronouncements.

### ***Method of Doing Business with The Tribe***

Enterprise plant facilities are primarily located on Tribal land for which no rent is currently charged. Under a timber cutting contract with the Tribe, the Enterprise has the exclusive right to purchase timber on the Warm Springs Reservation (See Note 2).

Retained earnings from Enterprise operations are maintained by the 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 the Tribe for such uses and purposes as the Tribe shall consider appropriate. Distributions are made to the 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 expenses 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 the Enterprise and the terms of the timber cutting sales are generally for a period of 12 to 18 months, these costs are included in current assets rather than recorded as a capital asset or deferred charge.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### 1. THE ENTERPRISE AND ACCOUNTING POLICIES, CONTINUED

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of balances invested in federally insured depository institutions and money market funds.

#### **Investments**

Investments consist of U.S. treasury bonds and notes, corporate bonds, and equity securities held in mutual funds. Investments are stated at cost, which approximates market.

#### **Inventories**

Inventories are stated at the lower of average cost or estimated net realizable value.

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at the lower of cost less accumulated depreciation or estimated realizable value. 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 related 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 twenty years for machinery and equipment.

#### **Concentration of Credit Risk**

Financial instruments that potentially subject the Enterprise to concentrations of credit risk consist of cash and cash equivalents and trade accounts receivable. The Enterprise places its cash and temporary cash investments with high quality institutions. At times, such investments may be in excess of the FDIC insurance limit. A majority of the Enterprise's trade receivables are derived from sales to lumber and log wholesalers. The Enterprise performs ongoing credit evaluations of its customers' financial condition and may require collateral for certain receivables whenever deemed necessary.

### 2. STUMPAGE

Substantially all of the Enterprise's stumpage is to be purchased from the Tribe pursuant to a cutting contract that was signed on March 17, 1992. This contract which became effective as of April 1, 1992, required in 1992, a cut of 75 million board feet, declining to a cut of 50.3 million board feet in 1996 and later years with an allowable annual variance of ten percent and an allowable five percent variance from defined volumes for any successive five-year period. Prices for stumpage purchased after April 1, 1992, are to be based on negotiated log market values less defined deductions. Stumpage purchased from the Tribe totaled 72.055 million board feet and \$17,542,137 in 1997, and 65.023 million board feet and \$19,320,495 in 1996. Of stumpage purchased, approximately 53.186 million board feet in 1997 and 60.039 million board feet in 1996, was chargeable to the annual cut under the cutting contract.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### 2. STUMPAGE, CONTINUED

Additional stumpage of 14.226 million board feet was harvested from the Simnasho fire during 1997. A Tribal resolution, passed in June 1997, allows for fire damaged timber to be harvested immediately and charged against the allowable cut over a five-year period. At December 31, 1997 and 1996, the Enterprise had accrued stumpage payable to the Tribe of \$1,178,388 and \$6,835, respectively.

### 3. INVESTMENTS

	1997	1996
Investments in Mutual Funds managed by Copper Mountain Trust Corporation, at carrying value:		
Cash and cash equivalents	\$1,272,768	\$479,004
Stocks	1,061,550	2,868,697
U.S. treasury bonds and notes	608,536	1,651,569
Corporate bonds	398,122	352,367
	<u>\$3,340,976</u>	<u>\$5,351,637</u>

### 4. ACCOUNTS RECEIVABLE

	1997	1996
Accounts receivable consist of:		
Trade accounts receivable	\$1,341,123	\$609,464
Related party receivable	203,568	194,791
	1,544,691	804,255
Less allowance for uncollectible accounts	<u>(183,201)</u>	<u>(183,201)</u>
	<u>\$1,361,490</u>	<u>\$621,054</u>

### 5. INVENTORIES

	1997	1996
Inventories consist of:		
Logs	\$5,394,888	\$4,646,461
Lumber	4,284,301	5,392,164
	<u>\$9,679,189</u>	<u>\$10,038,625</u>

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

### 6 . P R E P A I D E X P E N S E S

	<u>1997</u>	<u>1996</u>
Prepaid expenses consist of:		
Logging roads	\$ 68,000	\$139,339
Supplies	21,752	48,717
Other	3,828	6,639
Advances	87,754	40,854
	<u>\$181,334</u>	<u>\$235,549</u>

### 7 . A C C R U E D E X P E N S E S

	<u>1997</u>	<u>1996</u>
Accrued expenses consist of:		
Accrued vacation pay	\$ 429,312	\$412,257
Payroll, payroll taxes, withholdings and employee insurance	190,962	210,864
Pension plan contributions payable	17,818	13,623
Workers' compensation claims	387,007	385,790
Other	60,800	299,813
	<u>\$1,085,899</u>	<u>\$1,322,334</u>

### 8 . L O N G - T E R M D E B T

The Enterprise maintains a \$4,000,000 revolving credit facility with Wells Fargo Bank N.A. which terminates on April 1, 1998. The revolving credit facility bears interest ranging from the bank's prime rate to the bank's prime rate plus 1.25 percent, depending on the Enterprise's debt to worth ratio; with payments due monthly. Borrowings are collateralized by substantially all of the Enterprise's assets. There were no outstanding borrowings against this credit agreement at December 31, 1997 or 1996.

### 9 . P E N S I O N P L A N S

The Enterprise participates in a defined contribution plan (the Plan) maintained by the Tribe. The employer contribution set by the Plan is presently 2.59% of the employee's gross payroll. The defined contribution plan does not include provisions for employee contributions to the plan. Pension expense was \$173,107 and \$171,469 in 1997 and 1996, respectively.



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

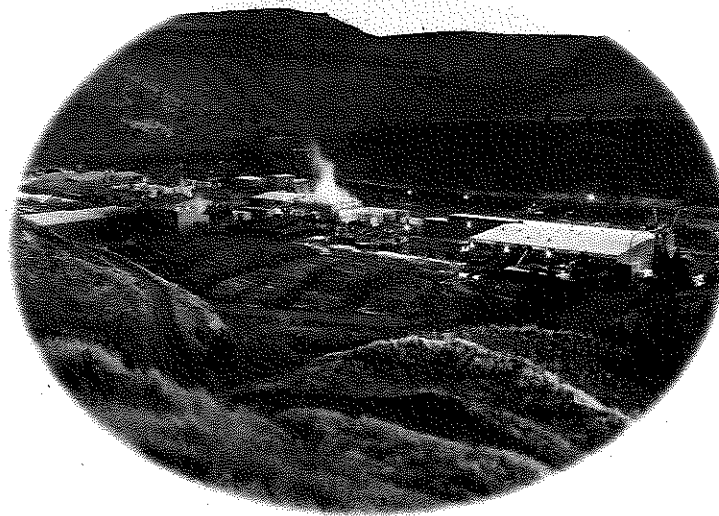
### 10. INCOME TAXES

Legal opinions have been received indicating that the 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 of Oregon.

### 11. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

The 1996 financial statements have been restated to reflect a refund of log sales pursuant to a contract with Weyerhaeuser, Inc. under which sales to Weyerhaeuser are adjusted to market value at the end of each quarter and any increase or decrease in market value is paid to the Enterprise or refunded to Weyerhaeuser.

In 1997, a refund of \$239,188 was paid to Weyerhaeuser related to 1996 sales activity as a result of a decline in the market values of logs in the fourth quarter of 1996. The amount has been included as a decrease in net sales in the 1996 statement of income and retained earnings and as an increase in accrued expenses in the 1996 balance sheet.



≈ A competent work force,  
proven management staff and supportive  
Board of Directors has enabled  
Warm Springs Forest Products to continue its  
march toward being the best it can be ≈

WARM SPRINGS  
FOREST PRODUCTS  
INDUSTRIES



P.O. Box 810  
Warm Springs, Oregon 97761  
541-553-1131  
fax 541-553-1561

