

2001



UNICOR 2001 ANNUAL REPORT

making a
★ SECURING THE FUTURE
★ difference



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Fiscal Year 2001 at a Glance

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BUSINESS GROUP NET SALES
(inside)

FISCAL YEAR 2001 AT A GLANCE		
<i>Millions of dollars</i>	<i>2000 (Restated)</i>	<i>2001</i>
Net Sales	\$546.3	\$583.5
Net Income	-\$12.8	\$4.9
Sales Dollars Spent on Purchases from Private Sector	\$393.3	\$425.9
Inmates Employed	21,688	22,560

FY 2001 NET SALES*

CLOTHING & TEXTILES BUSINESS GROUP—\$157.4

- Law Enforcement, Medical, and Military Apparel and Paraphernalia
- Mattresses, Bedding, and Linens
- Embroidery and Screenprinting on Textiles
- Custom-Made Draperies and Curtains

ELECTRONICS BUSINESS GROUP—\$116.8

- Exterior and Interior Task Lighting Systems
- Wire Harness Assemblies and Circuit Boards
- Repair Services for Engines and Electrical Components
- Electrical Cables (Both Braided and Cord Assemblies)

FLEET MANAGEMENT/VEHICULAR COMPONENTS BUSINESS GROUP—\$31.3

- Rebuild and Refurbish Vehicle Components
- New Vehicle Retrofit Services
- Fleet Management Customized Services and Programs/Turnkey

GRAPHICS BUSINESS GROUP—\$29.1

- Custom Engraving and Printing on Awards, Promotional Gifts, and License Plates
- Interior and Exterior Architectural, Safety, and Recreational Signs
- Printing and Creative Design Services
- Remanufacturing of Toner Cartridges

INDUSTRIAL PRODUCTS BUSINESS GROUP—\$59.9

- Dorm and Quarters Furnishings and Packaged Room Solutions/Turnkey
- Industrial Racking Catwalks, Mezzanines, Warehouse/Office Shelving
- Custom Fabricated Industrial Products
- Optical Eyewear (Safety and Prescription)
- Security Fencing
- Replacement Filters

OFFICE FURNITURE BUSINESS GROUP—\$174.9

- Office Furnishings and Accessories
- Seating Products
- Casegoods and Training Table Products
- Office System Products
- Filing and Storage Products
- Packaged Office Solutions/Turnkey

RECYCLING (COMPUTER/ELECTRONICS) BUSINESS GROUP—\$5.5

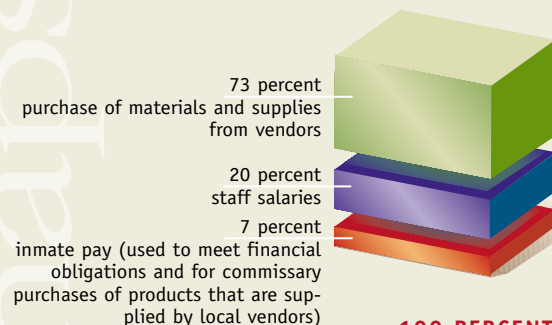
- Recycling of Electronic Components
- Reuse and Recovery of Usable Components for Resale

SERVICES BUSINESS GROUP—\$8.6

- Distribution and Mailing Services
- Assembly, Packing, and Shipping Services
- Document Conversion
- Call Center and Order Fulfillment Services
- Laundry Services

FPI SNAPSHOT

- Inmate Workers: 22,560
- Percent of Total Bureau of Prisons Inmate Population Employed: 18 percent
- Percent of *Eligible* (medically able/sentenced) Population Employed: 25 percent
- Employment Goal: 25 percent of eligible inmates
- Inmate Pay Rates: 23 cents to \$1.15 per hour
- Net Sales: \$583.5 million
- Net Income: \$4.9 million
- Distribution of FPI's Revenues:



**100 PERCENT
RETURNED TO
THE PRIVATE SECTOR**

* Dollars in Millions

★ MISSION STATEMENT ★

*It is the mission of Federal
Prison Industries, Inc. (FPI) to
employ and provide job skills
training to the greatest
practicable number of
inmates confined within the
Federal Bureau of Prisons;
contribute to the safety and
security of our Nation's
Federal correctional facilities
by keeping inmates
constructively occupied;
produce market-priced quality
goods for sale to the Federal
Government; operate in a
self-sustaining manner; and
minimize FPI's impact on
private business and labor.*

“UNICOR *means responsibility...*
...to work in a clean, safe environment...to work at
a job that is fulfilling...to earn a living and provide
for my family while not being a burden.”

FEMALE INMATE
*Computer Recycling Factory,
FCI Marianna, Florida*



introduction

BY THE ATTORNEY GENERAL

If one were to ask America's top Chief Executive Officers to identify the factors that led to their present success, "hard work" undoubtedly would place high on their lists. A strong work ethic always has been an essential part of our culture. It is a virtue we extoll and that we try to instill in our children. It is one of the things that defines us as Americans.

We value hard work for many reasons. In addition to the essential force it plays in the vitality of our economy, work improves those who do it. Work develops individual qualities like responsibility, respect, and self-confidence. Work also gives people a tangible way to recognize that they are an important part of a larger community. For thousands of incarcerated men and women, that basic human desire to be associated with something positive did not cease to exist when they entered prison.

Part of the Federal Bureau of Prisons' stated mission is to "provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens." One government program that helps inmates acquire many of the critical life skills they need to succeed upon release is Federal Prison Industries (frequently referred to as FPI, or by its trade name, UNICOR).

Federal Prison Industries is a wholly-owned government corporation which employs 25 percent of the Federal Bureau of Prisons' sentenced inmate population. For many inmates, working in Federal Prison Industries represents a chance to acquire a marketable skill and gain valuable work experience that will enhance substantially their ability to reintegrate successfully into society upon release from prison. The program teaches inmates the value of work, responsibility, and the need to respect and work with others. Many gain a sense of dignity and self-worth that they had lost, or perhaps never before experienced. In fact, for the greatest percentage of inmates working in FPI, it is their first real job.

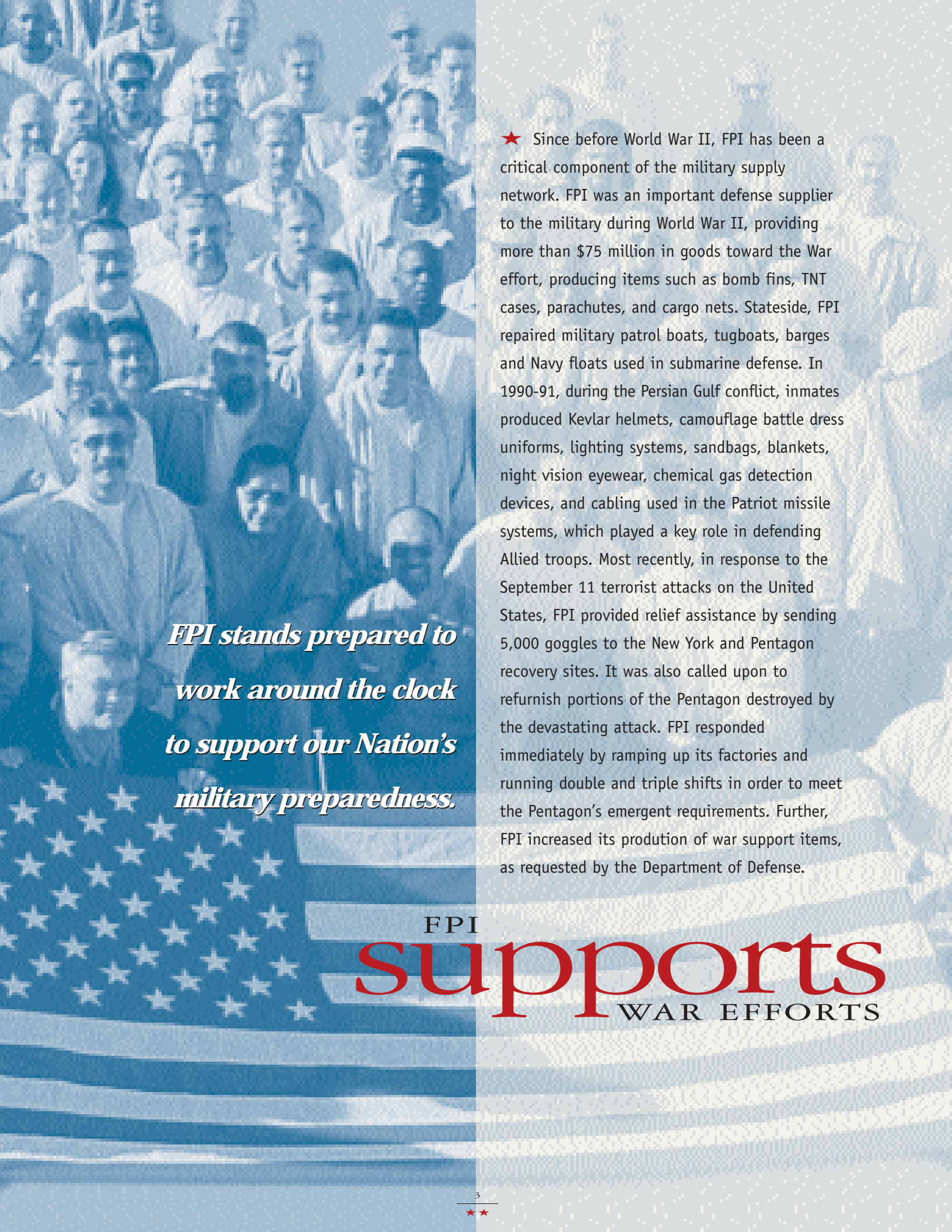
FPI is an example of the good that government can do. FPI provides those who have taken wrong turns in life with a second chance. It enables those who take full advantage of its possibilities to return to society with better prospects for a secure and brighter future.



JOHN ASHCROFT
UNITED STATES ATTORNEY GENERAL

John Ashcroft
Attorney General





***FPI stands prepared to
work around the clock
to support our Nation's
military preparedness.***

★ Since before World War II, FPI has been a critical component of the military supply network. FPI was an important defense supplier to the military during World War II, providing more than \$75 million in goods toward the War effort, producing items such as bomb fins, TNT cases, parachutes, and cargo nets. Stateside, FPI repaired military patrol boats, tugboats, barges and Navy floats used in submarine defense. In 1990-91, during the Persian Gulf conflict, inmates produced Kevlar helmets, camouflage battle dress uniforms, lighting systems, sandbags, blankets, night vision eyewear, chemical gas detection devices, and cabling used in the Patriot missile systems, which played a key role in defending Allied troops. Most recently, in response to the September 11 terrorist attacks on the United States, FPI provided relief assistance by sending 5,000 goggles to the New York and Pentagon recovery sites. It was also called upon to refurbish portions of the Pentagon destroyed by the devastating attack. FPI responded immediately by ramping up its factories and running double and triple shifts in order to meet the Pentagon's emergent requirements. Further, FPI increased its production of war support items, as requested by the Department of Defense.

FPI
supports
WAR EFFORTS

BOARD OF DIRECTOR'S

message

A Joint Message from Federal Prison Industries' Board of Directors and CEO

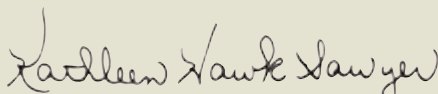



★ Federal Prison Industries' (FPI) Board of Directors and Chief Executive Officer are pleased to present FPI's Fiscal Year 2001 Annual Report to the Congress of the United States. This year's report, titled "Securing the Future," focuses on the inherent value of work.

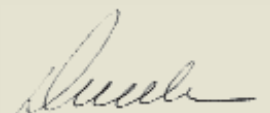
Our country places great emphasis on work; it is considered the "key to success." In fact, so ingrained is the work ethic, criminal defendants are often sentenced to other forms of incarceration such as home confinement, electronic monitoring, and shorter alternatives, such as weekend service, to preclude removing them from the work force altogether. Likewise, if released through a halfway house, inmates are required to find work within a few weeks and use a portion of their earnings toward the payment of room and board. What perplexes this Board is why our society places such great importance on work force participation before and after imprisonment, yet often opposes inmates engaging in meaningful work opportunities while incarcerated?

The typical profile of an inmate entering the prison system is "a 37-year-old high school dropout, serving a 10-year sentence for a drug-related offense, having never held a steady job."

If nothing were done to improve the offender's profile during incarceration, the prospect of becoming legally and gainfully employed


Kathleen Hawk Sawyer


Joseph M. Aragon


Deidre A. Lee

FPI RECEIVES UNQUALIFIED AUDIT OPINION

The Board is very pleased to announce that Federal Prison Industries, Inc. has received an unqualified audit opinion from its independent auditors on its fiscal year (FY) 2001 and restated FY 2000 financial statements. FY 2001 marks the first full year that FPI has operated under a new management information system. Launched in May 2000, the new enterprise resource planning system replaced the corporation's 10-year-old manufacturing database.



upon completion of his/her sentence would be dim.

FPI teaches inmates the most marketable skill of all—how to work. No matter what the job, employers seek candidates who possess a basic work ethic, and FPI's program fosters a work environment in which inmate workers learn to be dependable, responsible team players, who take direction from their supervisors and have pride in their accomplishments.

The success of FPI's program is evident by the vignettes you will read throughout this year's Annual Report—unedited and provided voluntarily by inmates currently incarcerated and by those who have obtained employment after release from custody. The hope and realization of securing a real future is heartwarming, not only for the inmates themselves, but for their families, who are often devastated financially and must rely on public assistance when a household member is incarcerated. Providing inmates a source of income while working in prison helps lessen these family burdens while helping inmates accept responsibility for their actions.

FPI is not really about the business of manufacturing products or providing services; instead, FPI is an integral component of the Federal criminal justice system, with the express mission to provide job training and work skills to improve inmates' prospects for success upon release from prison. The production of items and provision of services are merely by-products of those efforts. The bottom line is that FPI increases the odds that ex-offenders will find worthwhile employment and become law-abiding, tax-paying citizens.


The extent to which future criminal activity is prevented and the impact of lower crime on potential crime victims, families, and our neighborhoods cannot be precisely quantified. The benefits to society, however, are immeasurable when ex-offenders make a successful reintegration and when "securing the future" not only holds promise for them, but for all of us as well.

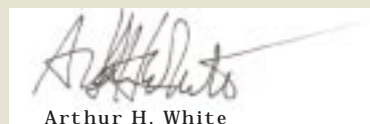
WHAT UNICOR MEANS TO ME

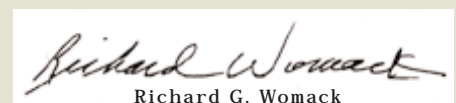
"Working in UNICOR has been the best way to keep my mind focused in a positive way. I have learned that there are opportunities to improve myself as a person, regardless of the environment."

MALE INMATE

UNICOR Business Office, Cut & Sew Factory,
FCI Yazoo City, Mississippi


Susan A. Loewenberg

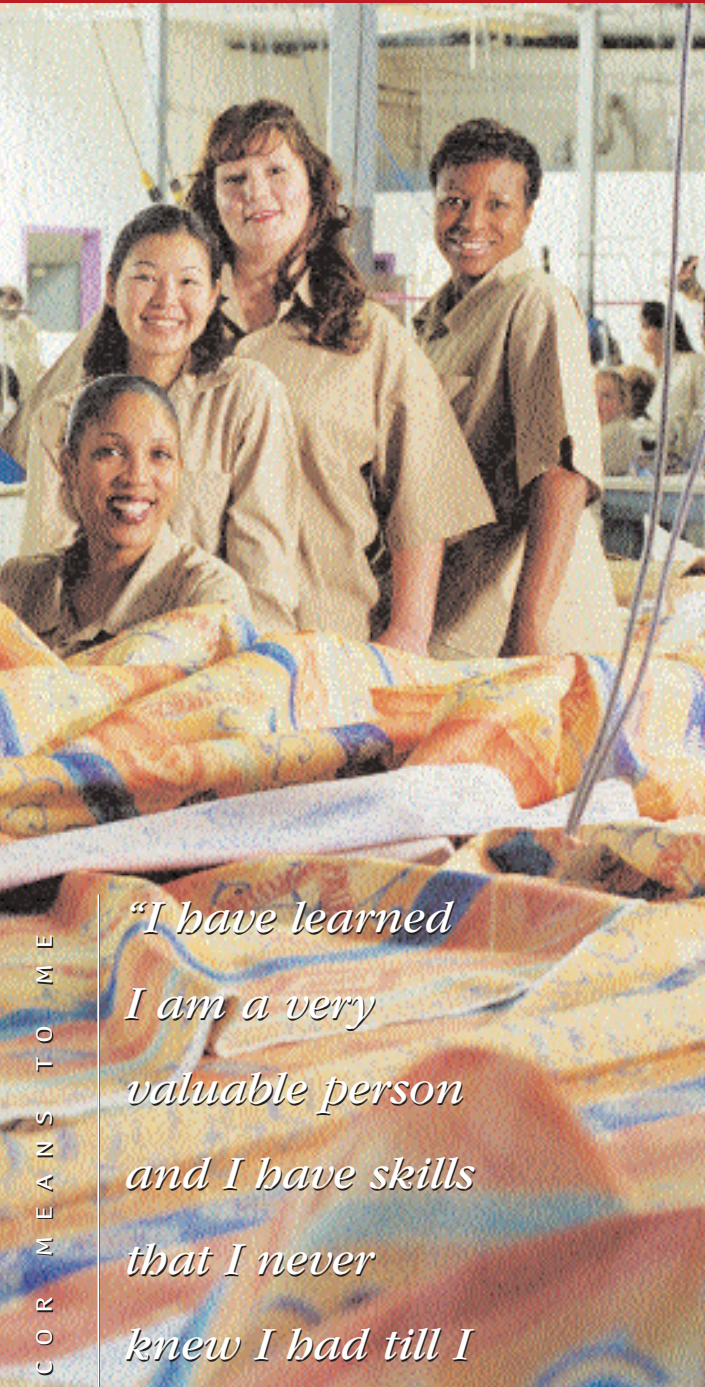

Arthur H. White


Richard G. Womack



PROGRAM **benefits**





*“I have learned
I am a very
valuable person
and I have skills
that I never
knew I had till I
came to work at
UNICOR.”*

FEMALE INMATE
Cut & Sew Factory,
FCI Dublin, California

WHAT UNICOR MEANS TO ME

- *to society*—Rigorous research demonstrates that participation in prison industries/vocational training programs has a positive effect on post-release employment and recidivism for up to 12 years following release. Inmates who worked in prison industries or completed vocational and apprenticeship programs were 24 percent less likely to recidivate than non-program participants and 14 percent more likely to be gainfully employed. These programs had an even greater positive impact on minority offenders, who are at the greatest risk of recidivism. FPI is entirely self-sustaining and operates at no cost to the taxpayer.
- *to the courts, crime victims, and inmate families*—In FY 2001, inmates who worked in FPI factories contributed approximately \$2.9 million of their earnings toward meeting their financial obligations, e.g., court-ordered fines, child support, and/or restitution. Many inmates also contributed to the support and welfare of their families by sending home a portion of their earnings.
- *to thousands of incarcerated men and women in Federal prisons*—For many inmates, working in Federal Prison Industries represents an opportunity to learn a marketable skill and gain valuable work experience that will substantially enhance their ability to successfully reintegrate into society following release from prison. The program teaches inmates pro-social values including the value of work, responsibility, and the need to respect and work with others. Many inmates gain a sense of dignity and self-worth that they had lost or never before experienced.
- *to private sector businesses*—During FY 2001, FPI purchased approximately \$426 million of raw materials, supplies, equipment, and services from private sector businesses. Over 66 percent of FPI’s purchases were from small businesses, including businesses owned by women, minorities, and those who are disadvantaged.
- *to the Bureau of Prisons*—FPI contributes significantly to the safety and security of Federal correctional facilities by keeping inmates constructively occupied. Inmates who participate in work programs and vocational training are less likely to engage in institutional misconduct, thereby enhancing the safety of staff and other inmates.

INDUSTRIAL PROGRAMS, LOCATIONS, INMATE EMPLOYMENT, AND NET SALES AS OF SEPTEMBER 30,

CLOTHING & TEXTILES

Alderson, WV
Atlanta, GA
Beaumont, TX
Butner, NC
Dublin, CA
Edgefield, SC
Fort Dix, NJ
Greenville, IL
Jesup, GA
Leavenworth, KS
Manchester, KY
Miami, FL
Oakdale, LA
Pollock, LA
Ray Brook, NY
Safford, AZ
Sandstone, MN
Seagoville, TX
Terre Haute, IN
Tucson, AZ
Waseca, MN
Yazoo City, MS

ELECTRONICS

Beaumont, TX
Big Spring, TX
Danbury, CT
Fairton, NJ
Lexington, KY
Lompoc, CA
Loretto, PA
Marion, IL
Memphis, TN
Oxford, WI
Petersburg, VA
Phoenix, AZ
Rochester, MN

FLEET MANAGEMENT/ VEHICULAR COMPONENTS

Bastrop, TX
Beaumont, TX
Estill, SC
Three Rivers, TX
Victorville, CA

GRAPHICS

Cumberland, MD
Fort Dix, NJ
Fort Worth, TX
Leavenworth, KS
Lexington, KY
Lompoc, CA
Petersburg, VA
Sandstone, MN
Taft, CA

INDUSTRIAL PRODUCTS

Butner, NC
El Reno, OK
La Tuna, TX
Leavenworth, KS
Marianna, FL
Pekin, IL
Talladega, AL
Terminal Island, CA

OFFICE FURNITURE

Allenwood, PA
Ashland, KY
Beckley, WV
Coleman, FL
Dublin, CA
Florence, CO
Forrest City, AR
Lewisburg, PA
Lompoc, CA
Marianna, FL
McKean, PA
Milan, MI
Morgantown, WV
Schuylkill, PA
Sheridan, OR
Taft, CA
Tallahassee, FL
Texarkana, TX

INMATES EMPLOYED:†

6,818

3,269

1,635

1,038

2,308

5,933

NET SALES:*

\$157.4

\$116.8

\$31.3

\$29.1

\$59.9

\$174.9

Some locations have multiple plants.

† There are an additional **165** inmates working in Customer Service and **183** employed in Product Support. The total number of inmates who worked for Federal Prison Industries as of **September 30, 2001**, was **22,560** (this includes **2,512** inmates employed in support positions).

* Dollars in millions

2001

**RECYCLING
COMPUTER/
ELECTRONICS**

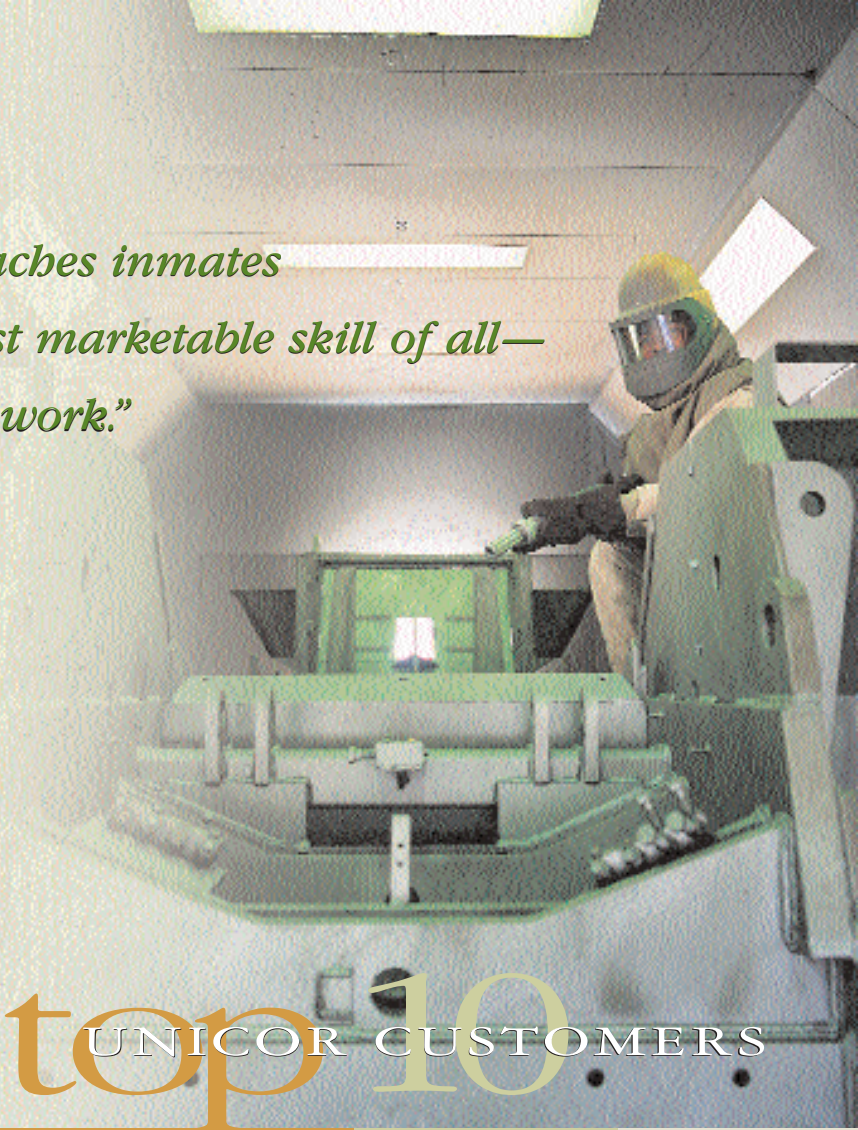
Elkton, OH
Fort Dix, NJ
Marianna, FL
Texarkana, TX

SERVICES

Bryan, TX
Carswell, TX
Dublin, CA
Eglin, FL
Elkton, OH
El Paso, TX
Fort Dix, NJ
Fort Worth, TX
La Tuna, TX
Marianna, FL
Montgomery, AL
Tallahassee, FL

*“FPI teaches inmates
the most marketable skill of all—
how to work.”*

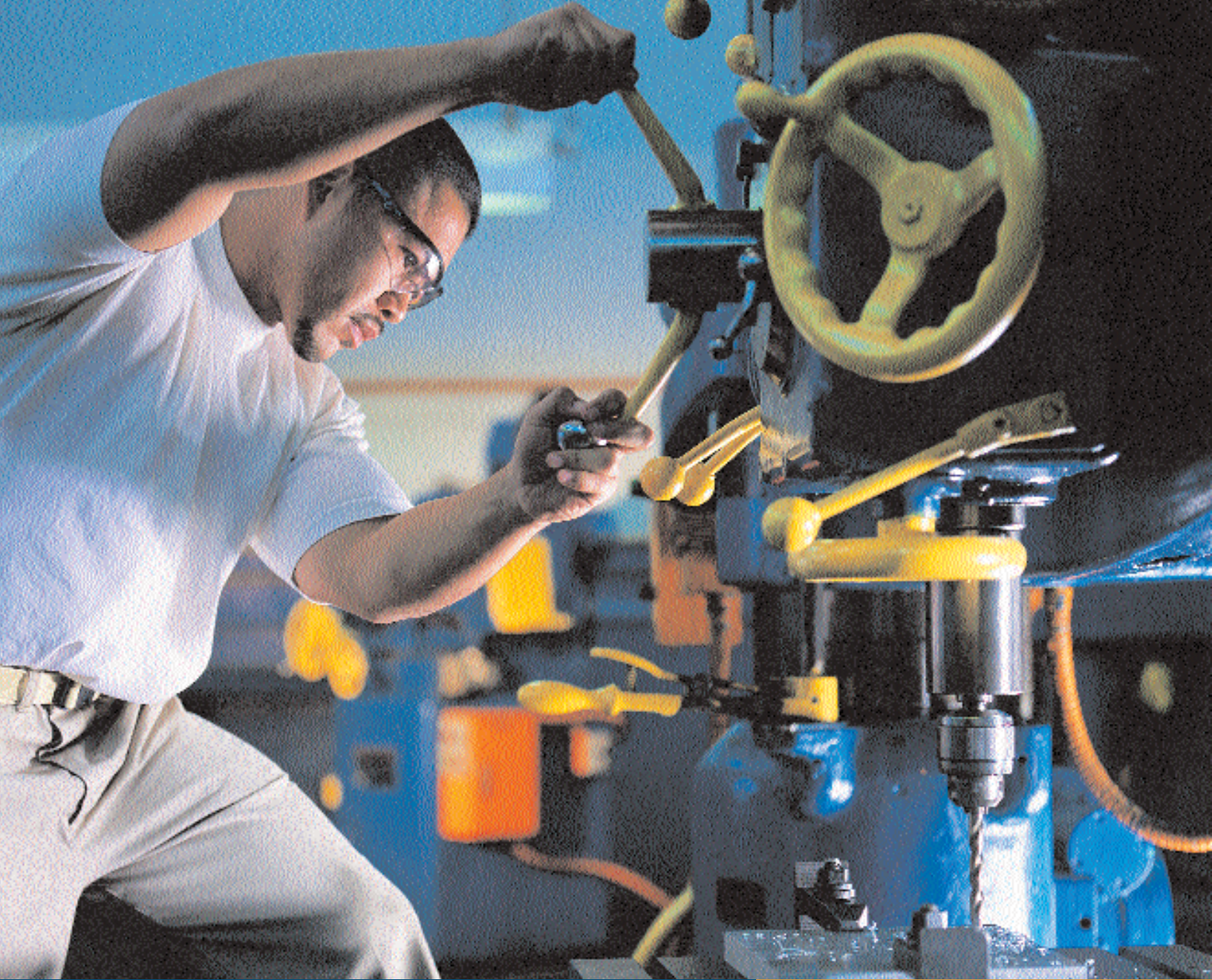
top 10 UNICOR CUSTOMERS



ent
329 882

\$5.5 \$8.6

<i>FY 2001</i>	<i>Product Purchases</i>
Department of Defense	\$387,543,800
General Services Administration	36,225,593
Bureau of Prisons	33,792,075
Social Security Administration	25,176,625
Department of Justice	23,803,004
U.S. Postal Service	21,136,317
Department of Transportation	8,311,149
Department of the Treasury	6,743,931
Department of Agriculture	6,677,465
Department of Veterans Affairs	5,402,140



“Without UNICOR, I would be forced to ask my family for financial support, which means I would be taking from my children. With UNICOR, I am able to take care of myself and sometimes do special things for my children.”

MALE INMATE
Textile Factory, FCI Edgefield, South Carolina

“I am one of the few disabled persons on the compound who has been given the opportunity of employment through simple adaptations. I am grateful for the confidence and encouragement I have received from staff.”

FEMALE INMATE
Data Services Factory, FCI Dublin, California

WHAT UNICOR MEANS TO ME

“UNICOR has prepared me for the future.... I feel good about doing something constructive with my time.”

MALE INMATE
*Automated Data Processing (ADP) Factory,
FCI Fort Dix, New Jersey*

employment

AS A HUMAN RIGHT

★ Contemplating work as a human right certainly lends a different perspective to the continuing debate about prison industries.

We must remember that individuals are sent to prison AS punishment and not FOR punishment. Punishment in the form of a prison term includes the elements of deterrence, retribution, incapacitation, and rehabilitation. Forcing prisoners to perform harsh, strenuous, and meaningless labor does not meet the goals of a modern correctional system. A civilized society sees prison work for its rehabilitative potential and its importance in a broader correctional management program that includes education, vocational training, and substance abuse treatment.

Nowhere in Federal statute is it written that offenders should be restricted from meaningful, productive work opportunities as part of their sentence. In fact, our Federal statute specifically requires all able-bodied inmates to work in some capacity.

When inmates perform productive work, they acquire marketable skills, ranging from a basic work ethic to trade-specific expertise. These skills improve self-esteem and enhance the prospect for post-release success. Further, prison idleness and the inherent safety and security risks it breeds are reduced when inmates are constructively occupied.

Next year alone, 600,000 inmates (about 1,600 daily) will be released from State and Federal prisons and return to their, primarily, inner-city communities. If they are overwhelmed with uphill challenges to re-integrate without sufficient preparation and marketable job skills, the likelihood that these individuals will violate their conditions of release and commit new crimes is very real.

Sadly, there are factions in our society which continue to resist the idea of providing inmates the ability to perform meaningful work while incarcerated. Some view “work” as part of the punishment and thus believe it should be menial, demoralizing, and perhaps even debilitating.

On a more encouraging note, rigorous professional research has validated that inmates who participate in vocational training and prison industries work programs while incarcerated are 24 percent less likely to return to criminal behavior and 14 percent more likely to be employed. The data also revealed that minorities, who are at greatest risk for recidivism, benefitted more from programs such as UNICOR.



“UNICOR is an equal employment business, there is no discrimination or prejudice involved. If a person wants to work, then the opportunity is available to all incarcerated individuals. UNICOR allows anyone who never had the opportunity to work to be more responsible, and more aware of what it takes to survive in the outside world. UNICOR should be a mandatory requirement once you are sentenced to do time in prison. You learn things you never thought you could do.

I learned that it takes hard work to survive on the outside. Easy money is good, but earned money makes you appreciate what you have achieved. UNICOR makes my time here a little less stressful, and a lot more dedicated to want to be someone important when I get out. So if you have a chance to work for UNICOR, check it out, it may change your life forever.”

MALE INMATE
*UNICOR Business Office
USP Leavenworth, Kansas*

positive

OUTLOOK

Productive inmate work also contributes to the U.S. economy by generating private sector demand. Of the sales revenue generated by FPI, every cent goes into the economy. Seventy-three cents on the dollar is spent buying raw materials, supplies, services, and equipment from commercial companies, thereby creating private sector jobs. Twenty cents is spent on salaries and benefits of the civil service staff who train and supervise inmate workers. Seven cents is paid to inmates, and those working for FPI are required to pay at least 50 percent of their earnings toward satisfying their financial obligations, including fines, family support, and victim restitution. The balance of their pay may be spent in prison commissaries, which sell items supplied exclusively by private sector vendors within the local communities.

To truly achieve the full potential of FPI's work skills development program, our way of thinking must be changed. Under the appropriate terms and conditions, providing as many inmates as possible the chance to engage in productive, meaningful work is sound public policy. It is a responsible course of action which will achieve benefits for inmates and their families, the taxpaying public, businesses of all types and sizes, labor organizations, and the criminal justice system. ★

securing the future

The fourth-grade class of a local elementary school received a special holiday gift from the Federal Correctional Institution (FCI), Marianna, Florida, Computer Recycling Factory. Five computers were donated to the school and are being put to good use in their classroom. The children will be able to use the computers to learn important math and language skills. The donation was made in accordance with Executive Order 12999, The Computers for Learning Program.

Forty-three months ago I was sentenced to Federal prison. Only the worst of thoughts ran through my mind. At the time I did not know how anyone could survive being incarcerated. I thought "God, if I ever really survive prison, how will I support my two young children as a single mother without the ability to practice nursing again?"

In 1998, I started working for the UNICOR in Coleman, Florida. The money I made working in the UNICOR Warehouse greatly helped me earn my financial independence while being incarcerated. But I knew at this time I had not learned any new skills to help with "life after prison." In 1999, I transferred to the prison camp in Marianna, Florida.

This transfer has truly changed how I look at the future. I no longer fear being released with no career opportunities, thanks to UNICOR Recycle and the Education Department at FPC Marianna.

Over the last twenty-one months, I have been fortunate to work in the laptop department at UNICOR Recycle. My future career was developed by working with professional officers who are highly skilled in many areas of the computer industry. Some of my daily duties involve salvaging parts from damaged laptops, to refurbishing complete computer systems to perfect performance. The position I hold at UNICOR had given me a newfound self-confidence, but I was still unsure if I could build a career in the computer field with my experience alone.

FEMALE INMATE
Cut & Sew Factory,
FCI Dublin, California

I am no longer concerned with that thought. As I understand it, the Education Department, in a joint effort with UNICOR, at the A+ Certification program available to FPC Marianna. I am proud to say I completed the course and I now hold the A+ Certification. My release date is five weeks away, and I have already received many job offers in the computer field. Therefore, when I leave FPC Marianna on November 7, 2001, I will not be troubled over not having a career. I will contemplate which potential employer will best suit my needs. Or perhaps I will even consider the possibilities of becoming self-employed.

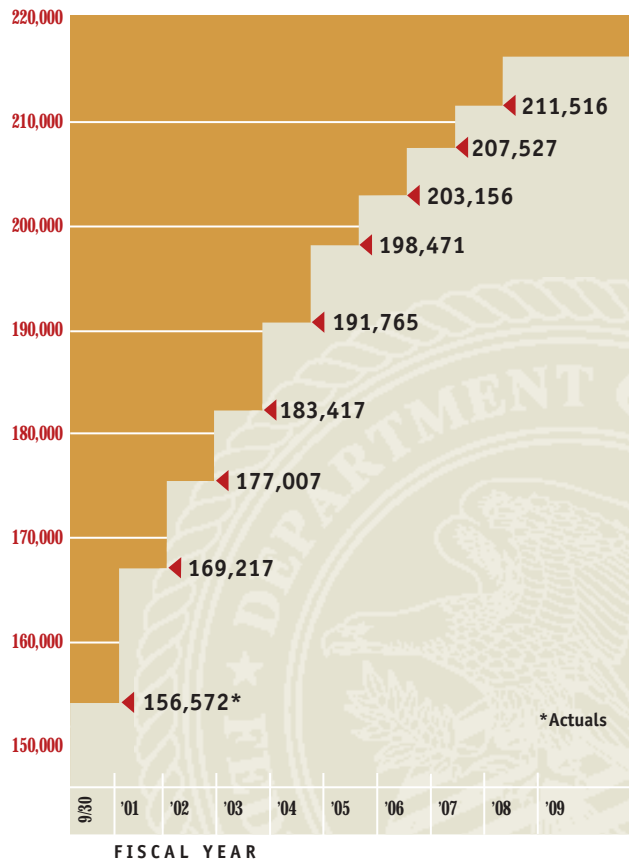
My many thanks will forever be extended to the Education Department and UNICOR at FPC Marianna for providing such professional courses as the A+ Certification program to inmates. The course was a strenuous twelve weeks. If I had not been privileged enough to receive this additional training, I would have never taken the time to learn so many important aspects and details about computers. If given the chance, I would highly recommend the A+ Certification to anyone with the desire of starting a new career.

FEMALE INMATE

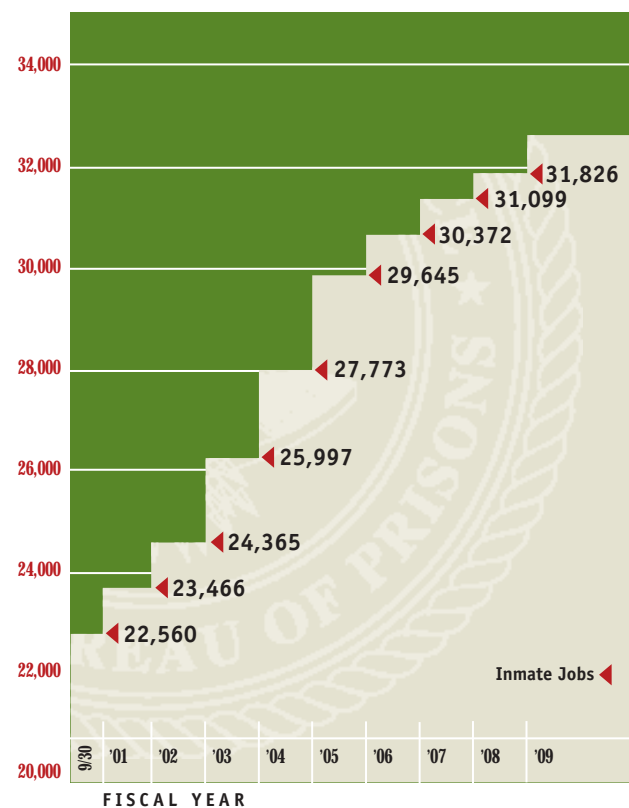
Computer Recycling Factory, FCI Marianna, Florida



**Federal Bureau of Prisons
Population Projections
FY 2001-2009**



**UNICOR (Federal Prison Industries)
Projected Inmate Job Requirements
FY 2001-2009**



Total jobs required through FY 2009 = 9,266
Total institutions activated through FY 2009 = 31

a winning combination

★ Federal Prison Industries (FPI) believes that growing small business opportunities and returning inmates to society with job skills can and should be complementary, not mutually exclusive objectives. To this end, we have established a website that will provide those interested in partnering with FPI information about:

- FPI's Business Development Program
- How the acquisition process works
- How to contact contracting personnel within each business group
- Upcoming and current solicitations/business opportunities
- Sample joint venture agreements
- Quarterly updates of total procurement dollars awarded to small businesses

In addition, to help small businesses better understand FPI's manufacturing and service capabilities, we plan on developing a "capability statement." FPI staff are also willing to offer consultation to small businesses to critique, assess, and recommend best approaches for facilitating teaming arrangements and partnerships with FPI.

FPI's leadership, procurement, and product managers are strongly committed to expanding its outreach to small businesses as either direct vendors, subcontractors to FPI vendors, or prime vendors with FPI fulfilling a subcontracting role.

DID YOU KNOW... that in FY 2001, FPI awarded 66 percent of its contracts to small businesses. This is in addition to credit card purchases, which generate significant sales for small businesses as well.



ATTORNEY GENERAL SMALL BUSINESS AWARDS

*Recognizing FPI's support
for small business*

FY 2000

- Awards to Small Businesses (Best Percentage)
- Awards to Small Disadvantaged Businesses (Exceeded Goal)
- Awards to Women-Owned Businesses (Exceeded Goal)

FY 1999

- No Attorney General Awards Presented During This Year

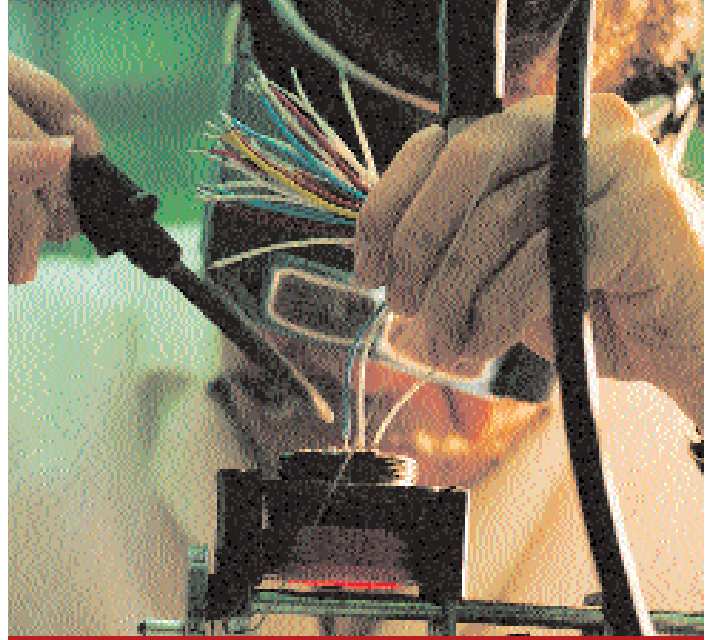
DID YOU KNOW... that each year procurement preference agency goals are established by the Small Business Administration and FPI's aim is to not only meet the statutory requirements, but to exceed them? We are proud of the fact that for the past 5 years, FPI has been recognized by the Department of Justice for its support of small businesses.

DID YOU KNOW... that all new product proposals or significant expansion recommendations are reviewed by FPI's Board of Directors? The Board welcomes and takes into consideration comments from private industry, to include small businesses and has on several occasions denied or limited production of products that could have had an adverse impact on the small business community (e.g., electric portable/hand lighting equipment; aluminum and steel shipping/storage containers; and gloves).

DID YOU KNOW... that FPI is willing to consider waiving its mandatory source preference when Federal customers want to contract directly with a specific small business?

DID YOU KNOW... that FPI has an active Business Development Program that has produced numerous teaming agreements and partnerships with small businesses? Examples include partnerships for interior/exterior signs, dorm and quarters furniture, print services, cut fabric, customer services and sales support for promotional items, industrial filters, glass recycling, and task lights.

In one of the most recent examples, FPI entered into a partnership to produce perimeter security systems with a network of small businesses. To maintain maximum customer discretion and minimize impact on other private sector providers, this product was added without making it a mandatory source item. Design, testing, installation, and



customer services will be provided by small businesses and FPI will manufacture the systems. Together, the partnership will provide turnkey solutions to meet the Federal Government's needs.

To learn more about FPI procurement and growing jobs to support both the small business community and FPI's mission, log onto www.unicor.gov/procurement/procure.htm

FY 1998

- Awards to Small Businesses (Best Percentage)
- Awards to Women-Owned Businesses (Exceeded Goal)
- Small Subcontracting Awards (Exceeded Goal)
- Women-Owned Subcontracting Awards (Exceeded Goal)

FY 1997

- Awards to Small Disadvantaged Businesses
- Awards to Women-Owned Businesses

FY 1996

- Awards to Small Businesses (Best Percentage)

FY 1995

- Awards to Small Businesses (Best Percentage)
- Awards to Small Disadvantaged Businesses

MAKING A DIFFERENCE

profile

★ Opportunities sometimes arise in surprising places. When confronted with a prison term in excess of 10 years, I knew that my life was going to change dramatically. Ironically, change has been in the form of increased employability, better communication skills, and a confidence that even I can make a meaningful, productive contribution to the world—a totally new concept for me!

The thought of wasting an entire decade can erode the soul and transform the will to survive into a secret negativity, which if left unchecked can destroy. UNICOR provided not only the opportunity



to learn many things, but a chance for me to beat the oppressiveness of isolation from a world which threatened to pass me by. I got the chance to develop a professional knowledge of Sheet Metal Product manufacturing and knowledge of various clerical and managerial functions. Typing, organizational skills, computer skills, and Spanish learned through hands-on training have combined with formal business courses to transform me into a working professional. Through my employment at UNICOR, productivity has become reality, not fantasy. Skills perfected here are a metamorphosis to a better, meaningful and productive “free-life”; something I never thought possible. “Success” is now a word I ponder subjectively; not objectively. My fears of becoming just an animal trying to survive, have been gradually replaced by confidence.

Staff here have provided encouragement, showing patience and understanding, making this factory an escape from everyday yard pressures and protocols. Anybody wishing to, can excel and learn virtually every aspect of sheet metal product manufacturing; provided of course that they are willing to work. I have seen many inmates start with menial jobs and become skilled

tradesmen through experience—there is still hope. Many who are released seek employment in areas learned here. There is no ceiling at Terminal Island UNICOR; through apprenticeships and continuing education, people who used to be burdens on society have become productive and useful. I, myself will be one of the first Powder Coating Journeymen in the United States, because of opportunities here in UNICOR. Not only did I complete this apprenticeship program, but I mastered it. A monumental accomplishment in a life having none.

My independence has unburdened my family and friends. Where they were once embarrassed by my incarceration, they are now proud of my accomplishments, and are happy—rather than reluctant—to discuss them with myself and others. Not a single conversation between us passes without confirmation of this. I no longer call home for assistance. And, pre-paid calls are gladly accepted.

My fear of confinement and rejection from society has gradually been replaced by an eagerness for the chance to begin life anew; a chance that few normal people ever get. UNICOR has become the best medicine for me. I pray that others can receive the same prescription. In a system that has been scaling back on luxuries and programs, UNICOR is the best thing we have going for rehabilitation. For those who want change, it is still available, although it takes work—UNICOR. UNICOR is making the difference for me!

“UNICOR has become the best medicine for me. I pray that others can receive the same prescription.”



learned

INMATE JOB SKILLS

Clothing & Textiles

- Sewing
- Cutting Fabric
- Reading Specifications
- Reading Contracts
- Basic Garment Construction

Electronics

- Soldering
- Electronic Testing
- Wire Stripping
- Tinning
- Rubber Molding

Fleet Management

- Engine Repair
- Forklift Repair
- Vehicle Component Repair

Graphics

- Printing Equipment Operation
- Screenprinting
- Artwork Development
- Graphic Arts Design
- Pre-press Design

Industrial Products

- Welding
- Eyeglass Grinding
- Metal Finishing
- Cabinetry
- Production Coordinating
- Painting
- Punch Press Operation
- Tool & Die Fabrication

Office Furniture

- Carpentry
- Woodworking
- Milling
- Wood Finishing
- Upholstery

Recycled Electronic Products

- Sorting
- Computer Identification
- Hazardous Material Processing
- Technical Computer Skills
- Computer Component Identification

Services

- Laundry
- Word Processing
- Data Entry
- Packaging
- Sorting
- Customer Service

General

- Clerical (typing/filing)
- Basic Accounting
- Quality Control Inspection and Testing
- Forklift Operation
- Building & Equipment Maintenance & Repair
- Computer Aided Drafting
- Test Lab Functions
- Warehouse Operations



THE ROAD TO SUCCESS

profile

★ In 1988 Atlas Phillips was dealing drugs in Beaumont, Texas. “The money was easy and it was easier than working,” says Phillips. But it ended when he was convicted of drug trafficking and sentenced to nearly 13 years in the Federal prison system.

Today, newly released from prison and back in the community, Phillips is a changed man. He recently formed his own company, AP Computers, in Cleveland, Ohio. The company sells computers and provides system upgrades, repairs, and training to

local schools, churches, and area residents.

Deciding to start a business was a major adjustment for Phillips, especially after spending years in an isolated environment where most of his decisions were made for him. He was also afraid—especially of the rejection that

typically awaits many ex-offenders from society, friends, and even family.

Phillips has been lucky. “My family has been different. Besides never giving up on me, they encouraged me while I was away, which helped me to

stay focused on preparing to come home.” He credits his sisters, his brother, and his “significant other” as those who have truly supported him over the years.

Phillips’ interest in computers began while in prison. He wanted to go home after release, to start his own business. He attributes his success to positive feedback given him by the Assistant Factory Manager at the Federal Correctional Institution (FCI), Elkton, Ohio. “He was very inspirational in giving me the opportunity to learn how to troubleshoot and repair computers,” says Phillips. “He was impressed by my desire to learn and my persistence. I would not

have half of the knowledge that I have today if it wasn’t for the time UNICOR staff took to work with me.” The positive influence they have had on a number of inmates who have come through the recycling factory at Elkton has been significant.

It has not been easy, but Phillips remains optimistic about his new life. “I still have a long way to go in building my business,” he says, “because I don’t have the capital I need to get some of the equipment and merchandise to take AP

“I would not have half of the knowledge I have today if it were not for the staff taking the time to work with me and other inmates.”

Computers to the next level for myself and the community.”

Phillips is determined, however, to rebuild his life, and “with God’s blessing and the support of my family and friends,” he has laid the foundation for a new beginning for himself, for his business, and for the community he serves.



MALE INMATE
*Product Support Center,
FCI Englewood, Colorado*



FRESH START

MALE INMATE
Computer Recycling Factory,
FCI Elktion, Ohio

★ Demetrio “Dino” Ricciardone was a typical youth until he reached the age of 18. Then his world collapsed when he was arrested for assault and battery and attempting to murder his father. Why? “I was defending my mother from a severe beating by my father,” he says.

Ricciardone was convicted and served nearly 2 years in the state penal system. Yet, his time in prison only hardened him and left him bitter. As a young inmate, he was often forced to defend himself against sexual “predators.” This fact, along with a chip on his shoulder that “clouded my judgment and gave me delusions of invincibility,” led to more trouble. He was later convicted of two Federal crimes that sent him into the Federal prison system for 17 years.

In 1995, while drawn to the prison chapel at the Federal Correctional Institution (FCI) in Fairton, New Jersey, to pray for his ill sister, Ricciardone had a spiritual conversion that “changed his life completely.”

During his incarceration, Ricciardone spent time at the following Federal institutions, each of which had UNICOR cable factory operations: FCI Memphis, Tennessee; FCI Oxford, Wisconsin; and FCI Fairton, New Jersey. Ricciardone credits staff in each of the UNICOR factories, especially Fairton, for teaching

him meaningful skills in the cable manufacturing process, enabling him to take a project from the drawing board to the customer. “I found that I had a knack for reading and understanding

blueprints and military specifications, and I enjoyed troubleshooting.”

While working at FCI Fairton, Ricciardone was interviewed for a job by the owner of a cable manufacturing company called Power Connector, Inc., in Bohemia, New York. Up until this point, “I did not think a private employer in the cable assembly field would hire an ex-convict.” The employer, however, had no such concerns. Within a week of release from prison, Ricciardone was hired as a Product Development Manager. Today Ricciardone is responsible for analyzing, costing and defining the bill of materials for cable and box assemblies and other company products. He is also directly involved in material procurement and quality assurance for the company.

“It is clear to us,” says the company owner, “that the skills and methods Mr. Ricciardone is utilizing on the job were developed and acquired while he was working for UNICOR. It is a distinct advantage that Mr. Ricciardone brought these skills with him to the job rather than first having to acquire them upon his arrival. The range of skills he possessed, and their appropriateness, made ‘Dino’ a desirable candidate for our firm.”

Ricciardone agrees. “UNICOR was able to teach me training skills in order to think outside the box, plan a career, and thereby open up a niche for me. I knew I could hold my own and not embarrass myself.”



“...the skills and methods Mr. Ricciardone is utilizing on the job were developed and acquired while he was working for UNICOR.”

profile

report

FROM THE OMBUDSMAN



JAN I. HYNSON
OMBUDSMAN

“What lies behind us and what lies ahead of us are small matters compared to what lies within us.” How fitting are the words of Ralph Waldo Emerson relative to this year’s Report.

The Ombudsman’s annual message typically provides a statistical perspective of FPI waiver activities. Little emphasis is placed on the real message that lies within the reported numbers. During Fiscal Year 2001, we received 23,892 waiver requests and 334 appeals from Federal agencies. I couldn’t help but wonder if they knew the power their purchase dollars wielded in impacting another human being’s life. Approximately 22,000 inmates worked in FPI factories during FY 2001, all looking to acquire marketable job skills to eventually help them make a “fresh start” in life. Every dollar relinquished to the private sector through waiver approval, however, diminished FPI’s ability to meet its mandate.

Fiscal Year 2001 waiver requests represented approximately \$328 million in potential sales to FPI. For various reasons, FPI approved \$237.3 million, and another \$23.4 million through the appeal process, leaving \$260.7 million in relinquished potential business to the private sector. Only \$67.3 million in denied waivers remained to help support FPI’s programmatic mission.

But, rather than focus on lost opportunities, I believe it apropos to recognize those who have remained avid supporters.

We sincerely thank our loyal customers who continue to satisfy their product and services requirements through FPI, be it by using their government purchase cards “on line,” establishing memoranda of understanding/agreement, submitting military interdepartmental purchase requests, etc. These “investors,” as I like to think of them, contribute to the immediate success of FPI’s mission, by creating inmate training and employment opportunities, while reaping tomorrow’s “dividends,” as former offenders return to society, better equipped to lead self-supporting, productive lives.

I urge you to read and re-read the words of current and former inmates throughout this Report which explain how FPI’s program has personally touched them. Just think: the skilled upholsterer in town who expertly refurbished the cherished heirloom you inherited may have been trained in Allenwood, Pennsylvania; the repair technician who spotted that cracked engine block before you were about to drive to the little league game may have acquired his skills in Beaumont, Texas; the thoughtful customer service associate who jumped through hoops to expedite delivery of the anniversary present which almost slipped your mind may have once been employed in Lexington, Kentucky...all, of course, being FPI factory locations. Could there be any better way to put Federal procurement dollars to work?

A handwritten signature in black ink, appearing to read 'Jan I. Hynson', written in a cursive style.

Jan I. Hynson



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**Retired from Federal Government
service March 2001.*



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Washington, DC 20006
REPRESENTS LABOR

HOW TO CONTACT FPI'S BOARD OF DIRECTORS

If you have a question or concern you would like addressed by FPI's Board of Directors, you may contact any one of the members at his/her respective business address listed here or you may direct your inquiries to Federal Prison Industries, Inc., 320 First St., NW, Washington, DC 20534, Attention: Joseph M. Aragon, Chairman, Board of Directors, Federal Prison Industries, Inc.

For current information pertaining to FPI's business practices and/or operations, please visit FPI's website at www.unicor.gov. FPI's website has been expanded to include links to information concerning future Board and Public Access meetings, Public Notices, Board Decisions, and Small Business Development.

DEPARTURE FROM THE BOARD

The Board expresses its appreciation to former Assistant Attorney General for Administration (Department of Justice) Stephen Colgate for his many years of service and contributions to the Federal Prison Industries' Board of Directors. Mr. Colgate was appointed by President Clinton to FPI's Board on August 8, 1994, to represent the Attorney General. He retired from the Federal Government in March 2001 and vacated his seat on FPI's Board. We wish Mr. Colgate all the best in his retirement from Federal service and in his future endeavors.

financials

REPORT OF MANAGEMENT

Responsibility for the integrity and objectivity of the financial information in this report rests with the management of Federal Prison Industries, Inc. The accompanying financial statements have been prepared to conform with United States generally accepted accounting principles (U.S. GAAP).

To ensure the integrity of financial data, FPI management maintains a system of internal accounting controls. The system provides reasonable assurance that transactions have management authorization and are properly recorded. It also safeguards, verifies, and maintains accountability of assets and permits preparation of financial statements that conform with U.S. GAAP. This system of internal controls is subject to periodic reviews by both management and FPI's independent auditors.

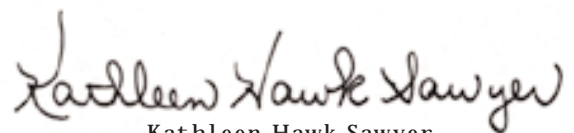
Internal accounting and administrative control systems have been reviewed and tested. Accordingly, FPI management provides the following assurances:

1. There are sufficient controls and security measures to compensate for any identified risks associated with the program/system and/or its environment,
2. The program/system is being operated in an effective manner and complies with applicable laws and regulations,
3. There is proper management of the program/system information, and
4. The program/system complies with management, financial, information resources management, accounting, budget and other appropriate standards.

The independent public accounting firm of Urbach Kahn & Werlin LLP is retained to audit FPI's financial statements. The role of independent auditors is to provide an objective review of management's responsibilities to fairly report operating results, cash flows and financial position. The independent auditor's reports are presented on the following pages. The report on the fairness of the presentation of the financial statements is unqualified.

The independent auditor obtains an understanding of FPI's internal control sufficient to plan the audit and to determine the nature, timing, and extent of tests to be performed to form an opinion on the fairness of the presentation of the financial statements.

Although management may periodically adopt certain cost-effective recommendations made by the independent auditors to further strengthen FPI's system of internal control, management believes that FPI's internal and accounting control system is accomplishing its objectives.



Kathleen Hawk Sawyer

Director, Federal Bureau of Prisons

Chief Executive Officer, Federal Prison Industries

INDEPENDENT AUDITOR'S REPORT

ON THE FINANCIAL STATEMENTS

Office of the Inspector General
United States Department of Justice

Board of Directors
Federal Prison Industries, Inc.

We have audited the accompanying balance sheets of the Federal Prison Industries, Inc. (FPI), a component of the United States Department of Justice (DOJ), as of September 30, 2001 and 2000, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of the management of the FPI. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. 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 report dated January 5, 2001, we noted that because of costing errors identified in certain inventory records, we were unable to sufficiently extend our auditing procedures to the work-in-process and finished sub-assembly components of inventories at September 30, 2000, stated at \$19.8 million and \$11.7 million, respectively. Accordingly, we were unable to form an opinion regarding the amounts at which these components were carried in the balance sheet as of that date, or the related effect on cost of sales for the year then ended. As a result, our report on the fiscal year 2000 financial statements was qualified because of the effects on those financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to sufficiently extend our auditing procedures as discussed above. During our audit of the financial statements as of and for the year ended September 30, 2001, we were able, however, to sufficiently extend our auditing procedures to the work-in-process and finished sub-assembly components of inventories at September 30, 2000, as restated (Note 3). Accordingly, our present opinion on the 2000 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the FPI as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 2, 2002 on our consideration of FPI's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and in considering the results of the audit, these reports should be read in conjunction with this report.



Washington, DC
January 2, 2002

INDEPENDENT AUDITOR'S REPORT

ON INTERNAL CONTROL

Office of the Inspector General
United States Department of Justice

Board of Directors
Federal Prison Industries, Inc.

We have audited the financial statements of the Federal Prison Industries, Inc. (FPI), a component of the United States Department of Justice (DOJ), as of and for the year ended September 30, 2001, and have issued our report thereon, dated January 2, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered FPI's internal control over financial reporting by obtaining an understanding of FPI's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect FPI's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions, and, with respect to the first two items below, material weaknesses.

INDEPENDENT AUDITOR'S REPORT

ON INTERNAL CONTROL

CONTINUED

The conditions, detailed on the following pages, are summarized as follows:

1. The FPI does not have adequate controls over inventories. (Updated finding)
2. The FPI does not have adequate controls over accounts receivable. (Updated finding)
3. The FPI requires improvement in the financial statement preparation process. (Updated finding)
4. The FPI information security program management and controls require improvement. (Updated finding)

In addition, with respect to internal controls related to performance measures reported in Management's Discussion and Analysis contained within accompanying information, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other less significant matters involving the internal control and its operation, which we have reported to the management of the FPI in a separate letter, dated January 2, 2002.

This report is intended solely for the information and use of the Office of the Inspector General, the management of the FPI and the DOJ, the FPI Board of Directors, the OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.



Washington, DC
January 2, 2002

Detailed information concerning the reportable conditions noted in Federal Prison Industries, Inc., internal control report can be obtained from the Department of Justice, Office of Inspector General for Audit, Office of Policy and Planning, 1425 New York Avenue, NW, Suite 5000, Washington, DC 20530 and from the Internet site at www.unicor.gov.

INDEPENDENT AUDITOR'S REPORT

ON COMPLIANCE WITH
LAWS AND REGULATIONS

Office of the Inspector General
United States Department of Justice

Board of Directors
Federal Prison Industries, Inc.

We have audited the financial statements of the Federal Prison Industries, Inc. (FPI), a component of the United States Department of Justice, as of and for the year ended September 30, 2001, and have issued our report thereon dated January 2, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The Management of the FPI is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether FPI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FPI.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, which are described below.

During fiscal year 2001, the FPI did not report past-due debt with the public to the United States Treasury in accordance with FPI's policy and the Debt Collection Improvement Act of 1996.

Under FFMIA, we are required to report whether FPI's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements.

The results of our tests disclosed instances, described below, where FPI's financial management systems did not substantially comply with federal financial management systems requirements and applicable federal accounting standards.

The results of our tests disclosed no instances in which FPI's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

Federal Financial Management Systems Requirements

During fiscal year 2001, the FPI did not have adequate internal control surrounding its inventory and accounts receivable operations, as reported in our Independent Auditor's Report on Internal Control, dated January 2, 2002, which contains our findings and recommended remedial actions. Although the FPI attempted to mitigate the effect of these internal control weaknesses with the implementation of manual processes and procedures (workarounds) these workarounds did not satisfy the provisions of OMB Circular A-127, *Financial Management Systems*, Section 7(b) which requires that consistent internal controls exist in integrated financial management systems. Accordingly, FPI was not in compliance with this authoritative OMB guidance as of and for the year ended September 30, 2001.

INDEPENDENT AUDITOR'S REPORT

ON COMPLIANCE WITH
LAWS AND REGULATIONS

CONTINUED

Federal Accounting Standards

During fiscal year 2001, the FPI did not have adequate internal control surrounding its financial reporting processes, as reported in our Independent Auditor's Report on Internal Control, dated January 2, 2002, which contains our findings and recommended remedial actions. Specifically, the FPI does not have adequate external financial statement reporting functionality within its accounting system of record, SAP, to meet the financial reporting requirements of OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. Although the FPI attempted to mitigate the effect of these internal control weaknesses with the implementation of manual processes and procedures (workarounds), these workarounds did not satisfy the provisions of OMB Circular A-127, *Financial Management Systems*, Section 7(d), which requires that agency financial management systems maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of the OMB, and reporting requirements issued by the Director of the OMB and/or the Secretary of the Treasury, and Section 7(e), which requires that the agency financial management system provide financial information in a timely and useful fashion to "comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury." Accordingly, the FPI was not in compliance with this authoritative OMB guidance as of and for the year ended September 30, 2001.

FPI's Financial Management Branch and Management Information Systems Branch are responsible for FPI's financial management systems.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Office of the Inspector General, the management of the FPI and the DOJ, the FPI Board of Directors, the OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Washington, DC
January 2, 2002

BALANCE SHEETS

September 30*(DOLLARS IN THOUSANDS)*

	2001	2000 (Restated)
Assets		
Current:		
Cash and cash equivalents	\$ 54,397	\$ 37,354
Accounts receivable, net	88,364	103,279
Inventories, net	140,767	117,063
Other assets	1,835	3,298
Total current assets	285,363	260,994
Property, plant and equipment, net	132,094	141,784
Total Assets	\$ 417,457	\$ 402,778
Liabilities and United States Government Equity		
Current:		
Accounts payable	\$ 40,806	\$ 54,760
Deferred revenue	45,177	21,842
Accrued salaries and wages	11,408	10,829
Accrued annual leave	7,537	7,387
Other accrued expenses	5,751	8,396
Total current liabilities	110,679	103,214
FECA actuarial liability	7,979	5,710
Note payable to United States Treasury	20,000	20,000
Total Liabilities	138,658	128,924
United States Government Equity		
Initial capital	4,176	4,176
Donated property	143	143
Cumulative results of operations	274,480	269,535
Total United States Government Equity	278,799	273,854
Total Liabilities and United States Government Equity	\$ 417,457	\$ 402,778

The accompanying notes are an integral part of these financial statements

FEDERAL PRISON INDUSTRIES, INC.**STATEMENTS OF OPERATIONS AND CUMULATIVE
RESULTS OF OPERATIONS*****Fiscal years ended September 30****(DOLLARS IN THOUSANDS)*

	2001	2000 (Restated)
Net sales	\$ 583,500	\$ 546,347
Cost of sales	518,807	509,592
Gross profit	64,693	36,755
Operating expenses:		
Sales and marketing	6,520	4,447
General and administrative	61,086	62,696
Total operating expenses	67,606	67,143
Loss from operations	(2,913)	(30,388)
Interest income	1,424	3,108
Interest expense	(987)	(292)
Other income, net	7,421	14,769
Net income (loss)	4,945	(12,803)
Cumulative results of operations, beginning of fiscal year	269,535	282,338
Cumulative results of operations, end of fiscal year	\$ 274,480	\$ 269,535

The accompanying notes are an integral part of these financial statements

STATEMENTS OF CASH FLOWS

*Fiscal years ended September 30**(DOLLARS IN THOUSANDS)*

	2001	2000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 4,945	\$ (12,803)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,887	12,515
Bad debt expense	10,417	6,259
Loss on disposal of property, plant and equipment	260	30
Changes in:		
Accounts receivable	4,499	(23,415)
Inventories	(23,704)	(24,690)
Other assets	1,463	(2,864)
Accounts payable	(13,954)	17,460
Deferred revenue	23,335	(9,470)
Other liabilities	353	(7,024)
Net cash provided by (used in) operating activities	19,501	(44,002)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(2,811)	(7,118)
Construction-in-progress of plant facilities	(889)	(835)
Construction reimbursement from Bureau of Prisons	1,242	—
Net cash used in investing activities	(2,458)	(7,953)
Net increase (decrease) in cash	17,043	(51,955)
Cash and cash equivalents, beginning of fiscal year	37,354	89,309
Cash and cash equivalents, end of fiscal year	\$ 54,397	\$ 37,354

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

Note 1**ORGANIZATION
AND MISSION**

Federal Prison Industries, Inc. (FPI) was established in 1934 by an act of the United States Congress. FPI operates under the trade name UNICOR, as a wholly owned federal government corporation within the Department of Justice, and functions under the direction and control of a Board of Directors, ("the Board"). Members of the Board are appointed by the President and represent retailers and consumers, agriculture, industry, labor, the Attorney General, and the Secretary of Defense. FPI's statutory mandate is to provide employment and training for inmates in the Federal Prison System while remaining self-sufficient through the sale of its products and services.

FPI's federal government customers include departments, agencies and bureaus such as the Department of Justice, the Department of Defense, the Postal Service, the Veterans Administration, and the General Services Administration. These and other federal organizations are required to purchase products from FPI, if its products meet the customer's price, quality, and delivery standards, under a mandatory source preference specified in FPI's enabling statute and the Federal Acquisition Regulation.

As of September 30, 2001, FPI had industrial operations at 106 factories located at 69 facilities within the Federal Prison System; these factories employed 22,560 inmates representing approximately 17% of the total federal inmate population.

Note 2**SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES****Basis of Presentation**

FPI has historically prepared its external financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) has been designated as the standards-setting body for federal financial reporting entities with respect to the establishment of US GAAP. FASAB has indicated, however, that accounting standards published by FASB may also be in accordance with US GAAP for those federal entities, including FPI, that have issued such financial statements in the past.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

FPI considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. FPI limits its investment activities and cash equivalents to short-term overnight repurchase agreements with the United States Department of the Treasury, and does not have any foreign currency investments, nor does it accept payment from customers in foreign currency. The market value of these overnight repurchase agreements is equivalent to cost. Certain portions of FPI's cash balance have been internally restricted to provide for future debt repayment (Note 8) and to fund future purchases of raw materials for its manufacturing operations.

**Accounts Receivable/Concentration
of Credit Risk**

Financial instruments that potentially subject FPI to concentrations of credit risk consist primarily of accounts receivable. FPI sells products and services to various federal government departments, agencies and bureaus, as well as certain private sector companies, without requiring collateral. Accounts receivable consists of amounts due from those entities and is stated net of an allowance for doubtful accounts.

NOTES TO FINANCIAL STATEMENTS

Note 2**CONTINUED**

At September 30, 2001 and 2000, FPI billings to various entities within the United States Department of Defense (DOD) represented approximately 83% and 68% of outstanding accounts receivable, respectively. For the fiscal year ended September 30, 2001, sales to various entities within DOD and the United States Department of Justice represented approximately 63% and 11% of revenue, respectively. For the fiscal year ended September 30, 2000, sales to the various entities within DOD represented approximately 51% of revenue.

FPI routinely assesses the payment histories of its federal customers and the financial strength of its private sector customers and maintains allowances for anticipated losses as they become evident. In this regard, a significant amount of accounts receivable remained past due at September 30, 2001 and 2000. A majority of these past due items related to billings to various entities within DOD who rely on the Defense Finance and Accounting Service (DFAS) to process vendor payments. Historically, customer payments processed through DFAS have generally taken longer to receive than payments from other federal and private sector customers. Additionally, the September 11, 2001 terrorist attack on the United States of America, including the Pentagon building, resulted in the destruction of vendor payment records related to FPI; subsequently, FPI has been assisting Pentagon personnel in the reconstruction of their data files in order to process past-due FPI billings for payment. FPI believes that ultimately, a majority of its past-due accounts receivable are fully collectable.

However, although federal accounts receivable are deemed fully collectible in accordance with federal

law, FPI has established a general provision for future losses against its federal accounts receivable to account for potential billing errors related to pricing and customer discounts, as well as, instances of expired or cancelled funding from its federally appropriated customers. At September 30, 2001 and 2000, FPI's allowance for doubtful accounts is stated at approximately \$5,778,000 and \$6,674,000, respectively, of which approximately \$4,781,000 and \$6,074,000, respectively, represents the amounts allocated against federal accounts receivable.

Inventories

Inventories are valued at the lower of average cost or market value (LCM) and include materials, labor and manufacturing overhead. Market value is calculated on the basis of the contractual or anticipated selling price, less allowances, to maintain a target gross margin for each product. FPI values its finished good and sub-assembly items at a standard cost that is periodically adjusted to approximate actual cost. Standard costs approximate actual costs.

FPI has established inventory allowances to account for LCM adjustments and excess and/or obsolete items that may not be utilized in future periods.

Other Assets

Other assets include advances to suppliers, other receivables and prepayments.

Revenue Recognition

FPI sells a wide range of products and services to a diversified base of customers, primarily governmental departments, agencies and bureaus. Revenue is generally recognized upon shipment of goods to customers and upon performance of services. Revenue from long-term or fixed price contracts is recognized using generally accepted contract accounting methods. Revenue from contracts that specify a customer acceptance criteria is not recognized until either customer acceptance is obtained or upon completion of the contract. Provisions for anticipated contract losses are recognized at the time that they become evident.

NOTES TO FINANCIAL STATEMENTS

Note 2**CONTINUED**

Cost of sales is comprised primarily of inventory cost, consisting of raw materials, labor and manufacturing overhead, and labor costs for services performed and provisions for anticipated contract losses.

Deferred revenue is comprised of customer cash advances, which have been paid to FPI prior to the manufacturing of goods, delivery of goods, or performance of services.

Other income is comprised primarily of imputed financing for retirement, health benefits and life insurance (Note 10) and miscellaneous sales net of the associated cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of an allowance for accumulated depreciation. Donated property and equipment, which is recorded at its appraised value at the date of donation, principally relates to property and equipment transferred from other federal government agencies and bureaus. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which generally range between 5 and 40 years. Upon retirement or disposition of property and equipment, the related gain or loss is reflected in the statement of operations. Repairs and maintenance costs are expensed as incurred.

FPI adopted the provisions of SFFAS No. 10, Accounting for Internal Use Software, for the fiscal year ended September 30, 2001.

Taxes

As a wholly-owned corporation of the federal government, FPI is exempt from federal and state income taxes, gross receipts tax, and property taxes.

Reclassifications

Certain fiscal year 2000 financial statement line items have been reclassified to conform with the current year presentation.

procedures, the amount of its reported fiscal year 2000 inventory and cost of sales required revision.

These revisions addressed the costing method of FPI's finished sub-assembly and work-in-process components of inventory. At September 30, 2000, FPI was aware that costing errors of an undetermined amount existed in its inventory accounts, and initially recorded a provision of approximately \$3,878,000 as part of its inventory allowance to account for such errors. However, upon execution of the CAP, FPI determined that an additional provision of \$1,011,000 was needed to account for additional errors identified. Accordingly, the net loss previously reported has been adjusted by this amount, and the related financial statements have been restated.

Also, during FPI's cost of sales analysis, it determined that certain reimbursable revenue accounts were improperly included within cost of sales. Accordingly, FPI has reclassified those revenue accounts for presentation and consistency purposes. The amount of the reclassification was approximately \$3,440,000, which decreased cost of sales and decreased other income, net. This reclassification had no effect on total net loss.

Note 3**RESTATEMENT OF FINANCIAL STATEMENTS**

During fiscal year 2001, FPI initiated a corrective action plan (CAP) to identify the factors that contributed to inventory costing errors in its fiscal year 2000 financial statements. As a result of executing the CAP, FPI became aware that because of inaccurate data within its recently implemented financial accounting system, SAP, as well as inconsistently applied inventory costing

NOTES TO FINANCIAL STATEMENTS

Note 4

Accounts receivable, net consists of the following:

**ACCOUNTS
RECEIVABLE,
NET**

September 30 (DOLLARS IN THOUSANDS)	2001	2000
Intragovernmental billed receivables	\$ 80,168	\$ 97,844
Intragovernmental credit card receivables	4,613	6,098
Private sector billed receivables	9,361	6,011
	94,142	109,953
Less allowance for doubtful accounts	5,778	6,674
Accounts receivable, net	\$ 88,364	\$103,279

Note 5

Inventories, net consist of the following:

**INVENTORIES,
NET**

September 30 (DOLLARS IN THOUSANDS)	2001	2000 (Restated)
Raw materials	\$ 54,462	\$ 65,984
Raw materials – vehicles	17,510	–
Work-in-process	22,148	18,155
Finished sub-assemblies	6,686	8,527
Finished goods	30,801	38,348
Finished goods – acceptance contracts	22,421	954
	154,028	131,968
Less inventory allowance	13,261	14,905
Inventories, net	\$140,767	\$ 117,063

Approximately \$17.5 million of FPI's fiscal year 2001 raw materials balance represents vehicles that have been purchased on behalf of the Immigration and Naturalization Service (INS) for retrofit services that are performed by FPI. As part of an interagency agreement, INS provides funding to FPI to procure these vehicles. Revenue is recognized by FPI at the time of shipment of retrofitted vehicles to INS.

Approximately \$22.4 million of FPI's fiscal year 2001 finished goods balance represents goods that have been shipped to customers or their agents, but for which revenue has not been recognized because of acceptance criteria within the customer contract. A majority of this amount consists of systems furniture installations in progress at September 30, 2001.

NOTES TO FINANCIAL STATEMENTS

Note 6

Property, plant and equipment, net consists of the following:

PROPERTY, PLANT AND EQUIPMENT, NET	September 30	
	<i>(DOLLARS IN THOUSANDS)</i>	
	2001	2000
Machinery and equipment	\$ 93,033	\$ 94,111
Computer hardware	2,504	2,409
Computer software	1,259	1,259
Buildings and improvements	166,250	165,959
	263,046	263,738
Less accumulated depreciation	131,044	122,789
	132,002	140,949
Factory construction-in-progress	92	835
Property, plant and equipment, net	\$132,094	\$141,784

Depreciation and amortization expense approximated \$11,887,000 and \$12,515,000 for the fiscal years ended September 30, 2001 and 2000, respectively.

Note 7

Other accrued expenses consist of the following:

OTHER ACCRUED EXPENSES	September 30	
	<i>(DOLLARS IN THOUSANDS)</i>	
	2001	2000
Permanent change of station	\$ 1,536	\$ 3,033
Information systems	1,076	2,994
FECA liability – current portion	799	684
Other expense	2,340	1,685
Other accrued expenses	\$ 5,751	\$ 8,396

Note 8**NOTE PAYABLE
TO UNITED
STATES
TREASURY**

Congress has granted FPI borrowing authority pursuant to Public Law 100-690. Under this authority, FPI has borrowed \$20,000,000 from the United States Treasury (the Treasury) with an extended lump-sum maturity date of September 30, 2008. The funds received under this note have been internally restricted for use in the construction of plant facilities and the purchase of equipment. The note accrues interest, payable March 31 and September 30 of each fiscal year at 5.5% (the rate equivalent to the yield of United States Treasury obligations of comparable maturities which existed on the date of a note maturity extension, granted in fiscal year 1998). Accrued interest payable under the note is either fully or partially offset to the extent FPI maintains non-interest bearing cash deposits with the Treasury. In this regard, there is no accrual of interest unless FPI's daily cash balance on deposit with the Treasury is less than the unpaid principal balance of all note advances received, as determined by a monthly calculation performed by the Treasury. When FPI's daily cash balance is less than the unpaid principal balance of all note advances received, interest is calculated by the Treasury on the difference between these two amounts. The note agreement provides for certain restrictive covenants and a prepayment penalty for debt retirements prior to 2008. Additionally, the agreement limits authorized borrowing in an aggregate amount not to exceed 25% of FPI's net equity.

There was no interest expense for the fiscal years ended September 30, 2001 and 2000.

NOTES TO FINANCIAL STATEMENTS

Note 9**BUSINESS
SEGMENTS**

Commencing in 2001, FPI's businesses are organized, managed and internally reported as eight operating segments based on products and services. These segments are Clothing and Textiles; Electronics; Fleet Management and Vehicular; Graphics; Industrial Products; Office Furniture; Recycling; and Services and Product Distribution. These segments have responsibility for virtually all of FPI's product lines. FPI is not dependent on any single product as a primary revenue source, however, it is dependent on the federal government market for the sale of its products. FPI previously reported its business segments in five categories. These categories are presented in the following tables for comparative purposes with amounts previously reported:

Net Sales***Fiscal year ended September 30****(DOLLARS IN THOUSANDS)*

	2001	2000
<u>Business Segment</u>		
Metals and Systems	\$100,714	\$109,139
Furniture	129,314	118,995
Electronics and Plastics	148,063	133,930
Graphics and Services	48,018	51,757
Clothing and Textiles	157,391	132,526
Net sales	\$583,500	\$546,347

FPI's net sales for the fiscal year ended September 30, 2001 for each of its current business segments is presented for comparative purposes:

Net Sales***Fiscal year ended September 30, 2001****(DOLLARS IN THOUSANDS)*

	2001
<u>Business Segment</u>	
Clothing and Textiles	\$157,391
Electronics	116,732
Fleet Management and Vehicular	31,334
Graphics	29,044
Industrial Products	59,946
Office Furniture	174,918
Recycling	5,499
Services and Product Distribution	8,636
Net sales	\$583,500

Regulatory Compliance

FPI's ability to add or to expand production of a specified product is regulated by the Federal Prison Industries Reform Act ("the Act"). The Act provides specific guidelines to FPI regarding its methodology for evaluating and reporting new or expanded products, including requiring FPI to provide direct notice to trade associations and interested parties of such actions. Finally,

NOTES TO FINANCIAL STATEMENTS

publication of annual decisions of the FPI Board of Directors and semi-annual sales disclosures are mandated under the Act.

Note 10**INTRA-
DEPARTMENT
OF JUSTICE
(DOJ)/
INTRAGOVERN-
MENTAL
FINANCIAL
ACTIVITIES**

FPI's financial activities interact with and are dependent upon those of DOJ and the federal government as a whole. The following is a discussion of certain intra-DOJ and intragovernmental activities and their relationship with FPI:

Relationship with the Federal Bureau of Prisons

FPI and the Federal Bureau of Prisons (BOP) have a unique relationship in that the nature of their respective missions requires the sharing of facilities and responsibilities relative to the custody, training and employment of federal inmates. The Director of the BOP serves as the Chief Executive Officer of FPI and the Chief Operating Officer of FPI serves as an Assistant Director of the BOP. The BOP provides land to FPI for the construction of its manufacturing facilities and both FPI and BOP share certain facilities, generally at no cost to FPI.

Self Insurance

In accordance with federal government policy, FPI is uninsured with respect to property damage, product liability, and other customary business loss exposures. Losses incurred are absorbed as a current operating expense or, if they are induced by factors related to FPI's relationship with the Federal Prison System, may be reimbursed by BOP. Certain other costs, principally relating to personal injury claims, are paid directly by the federal government.

Federal Employees Compensation Act

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The United States Department of Labor (DOL), which administers FECA, annually charges each federal agency and department for its applicable portion of claims and benefits paid in the preceding year. During the fiscal years ended September 30, 2001 and 2000, such claims and benefits, as charged to FPI, approximated \$ 799,000 and \$ 684,000 respectively, for which the related current liability is disbursed in the subsequent period.

DOL also calculates the liability of the federal government for future claims and benefits, which includes the estimated liability of death, disability, medical, and other approved costs. Future claims and benefits are determined from an actuarial extrapolation, utilizing historical benefit payment patterns and calculations of projected future benefit payments discounted to current value over a 23.5 year period. FPI's estimated future liability approximated \$7,979,000 and \$5,710,000 at September 30, 2001 and 2000, respectively.

Retirement

Substantially all of FPI's civilian employees are covered under either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered under CSRS (those employees hired prior to January 1, 1984), FPI withholds approximately 7 percent (for normal retirement) or 7.5 percent (for hazardous duty retirement) of each employee's salary and contributes a matching amount to the fund. CSRS covered employees do not have Federal Insurance Contributions Act (FICA) withholdings and, thus, are not fully eligible to receive Social Security benefits. For employees covered under FERS (generally those employees hired on or after January 1, 1984), FPI withholds, in addition to FICA withholdings, approximately 1.3 percent of employee gross earnings, and matches such withholdings with a 7.0 percent contribution.

NOTES TO FINANCIAL STATEMENTS

Note 10**INTRA-
DEPARTMENT OF
JUSTICE (DOJ)/
INTRAGOVERN-
MENTAL
FINANCIAL
ACTIVITIES
CONTINUED**

Under FERS, employees also receive retirement benefits from Social Security and, if applicable, benefits from a defined contribution plan (thrift). Under the thrift plan, an employee may contribute (tax deferred) up to 10 percent of salary to an investment fund. FPI then matches this amount up to 5 percent. Those employees which elected to remain under CSRS after January 1, 1984 continue to receive benefits in place, and may also contribute (tax deferred) up to 6 percent of their salary to the thrift plan, but with no matching amount contributed by FPI.

CSRS and FERS are multi-employer plans. Although FPI funds a portion of pension benefits relating to its employees, and provides for the necessary payroll withholdings, it does not maintain or report information with respect to the assets of the plans, nor does it report actuarial data with respect to accumulated plan benefits or the pension liability relative to its employees. The reporting of such amounts is the responsibility of the U.S. Office of Personnel Management.

FPI's contribution to both plans was approximately \$20,580,000 and \$16,615,000 for the years ended September 30, 2001 and 2000, respectively.

In addition, based on the requirements of Statement of Federal Financial Accounting Standard No. 5, *Accounting for Liabilities of the Federal Government (SFFAS No. 5)*, FPI must recognize its share of the cost of providing pension benefits to eligible employees utilizing cost factors determined by the Office of Personnel Management. The effect of the implementation of SFFAS No. 5 guidance resulted in the increase of

pension expense, a component of general and administrative expense by approximately \$3,217,000 and \$3,349,000 in the fiscal years ended September 30, 2001 and 2000, respectively, with an offsetting credit to other income in each respective year. However, because of the offsetting credit, the recording of these costs have no impact on reported net income (loss).

Health Benefits and Life Insurance

FPI, through the Office of Personnel Management (OPM), offers health and life insurance plans under which premium costs for health care are shared between FPI and the employees. A substantial portion of life insurance premiums are paid for by employees. Amounts paid by FPI for health benefits approximated \$5,869,000 and \$4,023,000 for the fiscal years ended September 30, 2001 and 2000, respectively.

OPM also provides health care and life insurance benefits for FPI's retired employees. Based on the requirements of SFFAS No. 5, FPI must recognize an expense related to its share of the cost of such post-retirement health benefits and life insurance on a current basis (while its employees are still working), with an offsetting credit to other income. Costs in this regard, which approximated \$4,406,000 and \$4,038,000 during the fiscal years ended September 30, 2001 and 2000, respectively, were determined by OPM utilizing cost factors which estimate the cost of providing post-retirement benefits to current employees. However, because of the offsetting credit, the recording of these costs have no impact on reported net income (loss).

Future post-retirement health care and life insurance benefit costs are not reflected as a liability on FPI's financial statements, as such costs are expected to be funded in future periods by OPM.

NOTES TO FINANCIAL STATEMENTS

Note 11**SELLING,
GENERAL AND
ADMINISTRATIVE
EXPENSES**

Selling, general and administrative expenses consist of the following:

Selling, general and administrative expenses**Fiscal years ended September 30***(DOLLARS IN THOUSANDS)*

	2001	2000
Salaries, wages and benefits	\$ 26,913	\$ 27,465
Permanent change of station expense	414	3,095
Purchases of minor equipment	758	3,679
Contract services	3,102	5,596
Bad debt expense	10,417	6,259
Credit card services	2,193	1,294
Travel	1,842	2,776
Other Expense	14,344	9,592
Imputed pension costs (Note 10)	3,217	3,349
Imputed post-retirement health care and life insurance cost (Note 10)	4,406	4,038
	\$ 67,606	\$ 67,143

Other expense is comprised primarily of imputed financing expenses, inmate wages (Customer Service Center, Centralized Accounts Receivable, Product Support Center), depreciation and certain sales and marketing expenses. Contract services consist primarily of consulting and sales and marketing fees. Salaries, wages and benefits are shown net of the imputed financing offsetting credit (Note 10).

Note 12**COMMITMENTS
AND
CONTINGENCIES****Legal Contingencies**

FPI is a party in legal proceedings related to contract termination and other legal matters and in this connection, FPI has recorded on its balance sheet a contingent liability in the amount of \$1.3 million arising from litigation. Management believes a loss with respect to this sum is probable. In addition to the contingent liability recorded, management estimates that the range for reasonably possible losses related to other legal matters is between \$10 and \$11 million as of September 30, 2001.

Lease Commitments

FPI leases certain facilities, machinery, vehicles and office equipment under noncancelable operating lease agreements that expire over future periods. Many of these lease agreements provide FPI with the option (after initial lease term) to either purchase the leased item at the then fair value or to renew the lease for additional periods of time. Future commitments under these lease agreements approximate \$2,400,000 at September 30, 2001.

Planned Construction

As of September 30, 2001, various projects were in progress for the construction of new industrial facilities and the renovation of existing facilities. In this regard, BOP, on behalf of FPI, is planning to invest approximately \$9.3 million during the next fiscal year for the construction of buildings and improvements. In addition, during the next fiscal year, FPI is planning to invest approximately \$9.1 million for the purchase of machinery and equipment.

NOTES TO FINANCIAL STATEMENTS

Note 12

**COMMITMENTS
AND
CONTINGENCIES
CONTINUED**

Congressional Limitation on Administrative Expenses

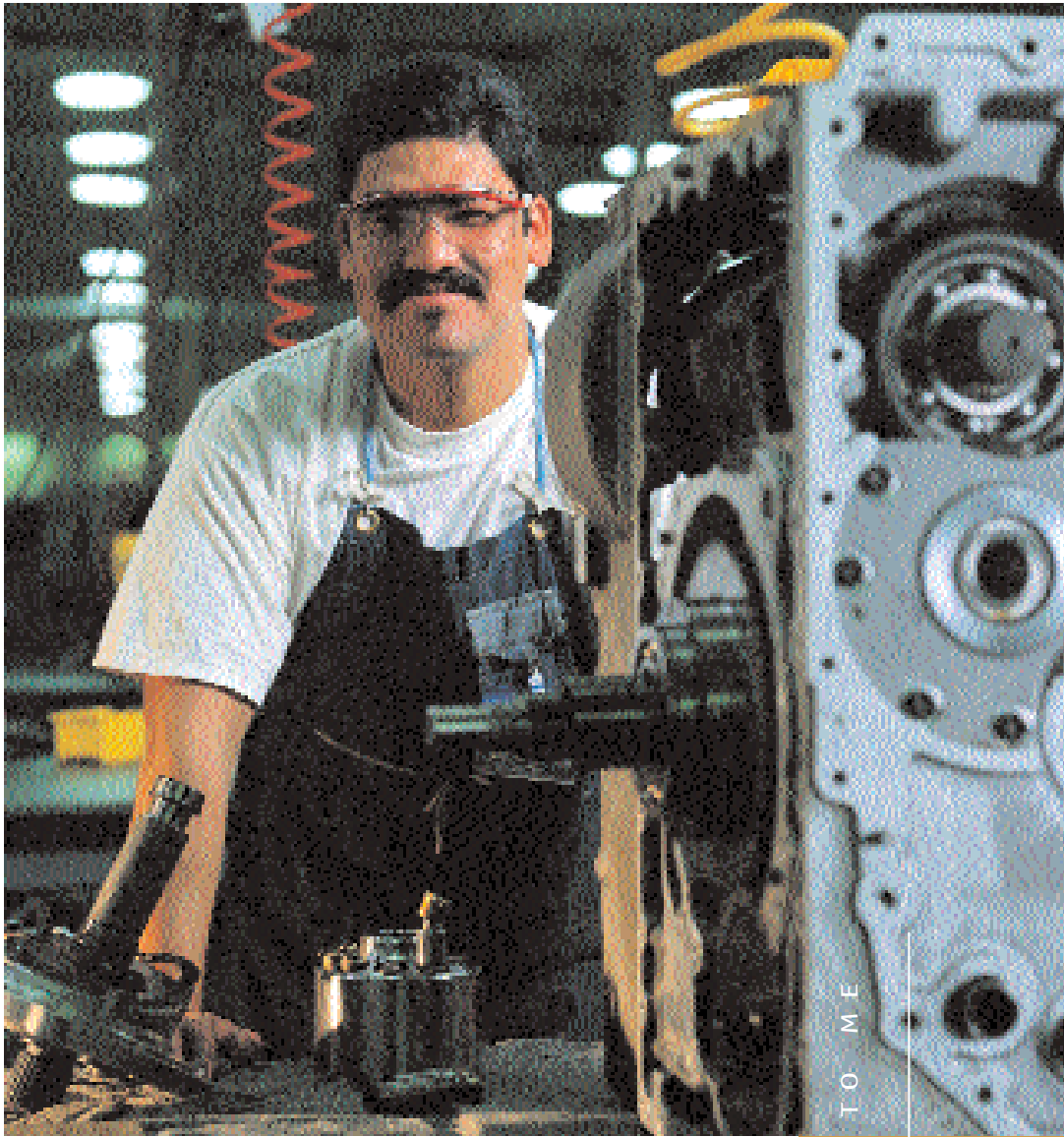
Congress has imposed an annual spending limit on certain administrative expenses relating to FPI's central office management. These costs include salaries for management personnel, travel expenses and supplies. The following is a comparison of actual expenses to the limitation imposed:

Congressional limitation on administrative expenses

Fiscal years ended September 30

(DOLLARS IN THOUSANDS)

	2001	2000
Congressional limitation on expenses	\$3,429	\$3,429
Expenses incurred subject to Congressional limitation	\$1,195	\$1,634



WHAT UNICOR MEANS TO ME

*“This program
has truly turned
my life around.”*

MALE INMATE
Product Support Center, Drafting
Department, FCI Englewood, Colorado

