

...a new era,
a new beginning...

112555

The 1987 Annual Report

112555

U.S. Department of Justice
National Institute of Justice

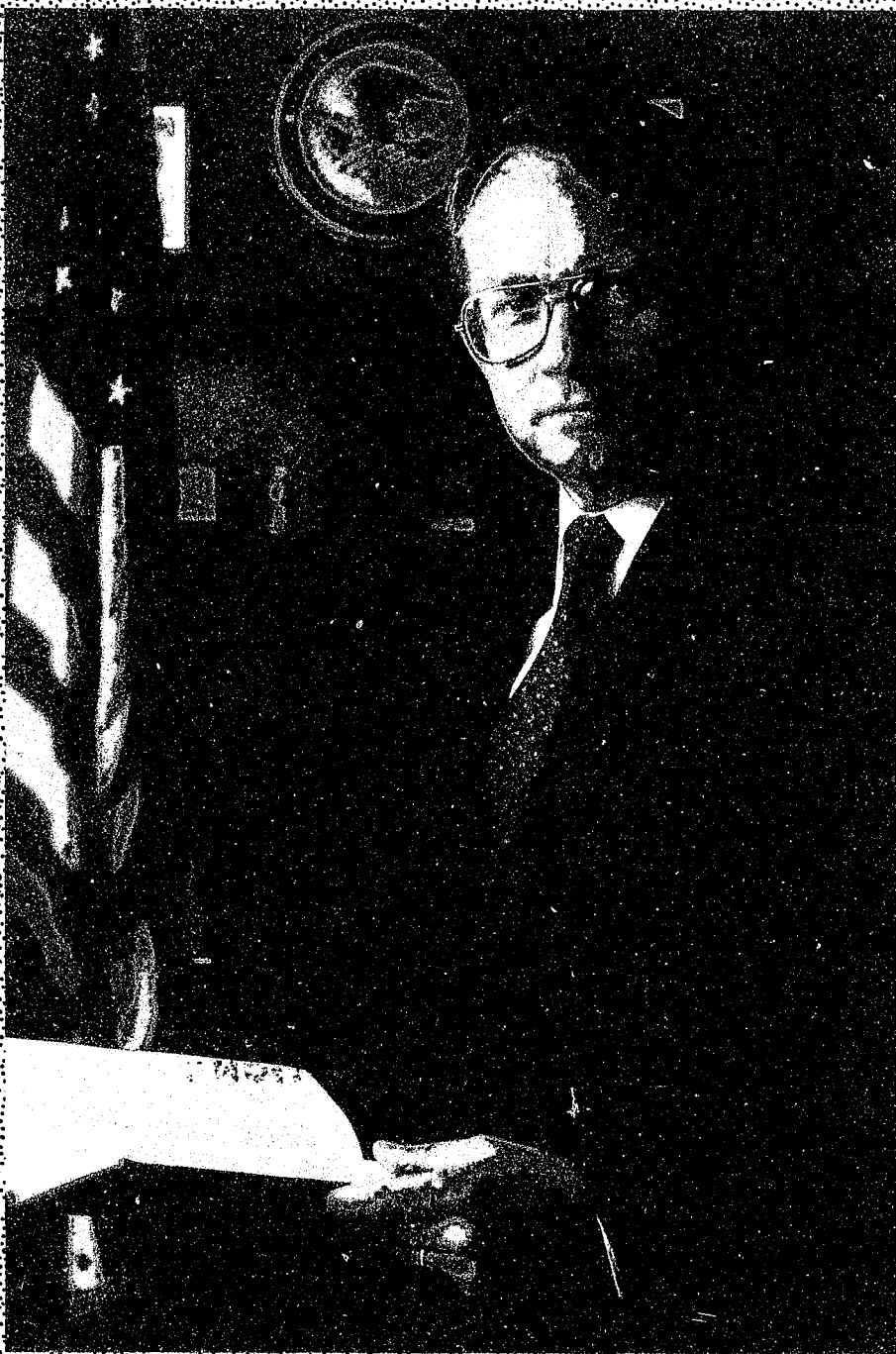
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On July 1, 1987 I succeeded Norman A. Carlson as the fifth Director of the Federal Bureau of Prisons. Like my predecessors, I strongly support the mission of Federal Prison Industries as a major component of the Federal Prison System.

The unprecedented growth in the Bureau of Prisons' inmate population further demonstrates the need for industries as an important element in the management of a correctional system. Federal Prison Industries' ability to keep over 15,000 inmates actively employed is a key to maintaining a correctional environment within constitutional standards. Our successful industrial programs provide inmates with an opportunity to develop a constructive work ethic and marketable employment skills that are essential for re-entry into society.

Since working with the Board of Directors, I have learned to understand the important issues and concerns that confront us. With the guidance of the Board and Corporate Management, we will continue to move in a positive and proactive direction.

Message from The Chairman

112555

Federal Prison Industries, Inc. (UNICOR) has maintained its place of critical importance in the management of the Federal Prison System by providing comprehensive employment and training programs to offenders confined in Federal correctional institutions throughout the country.

The Federal Bureau of Prisons continues to experience an unprecedented growth in inmate population. UNICOR has more than kept pace with that increase through accelerated product development and factory expansion. Industrial programs serve to reduce the idleness associated with prison overcrowding, and provide a positive management tool for institutional administrators. While the overall population of the BOP rose 7% in the last year alone, from 41,506 to 44,215, UNICOR employment rose by 17%, from 12,955 to 15,203. The Corporate sales for FY 1987 were \$319 million, and gross earnings totaled \$34.9 million.

UNICOR continued to fund a major plant expansion program, as well as extensive modernization and renovation of existing facilities. Earnings continued to support a

broad spectrum of programs benefiting the Bureau of Prisons, including \$6.2 million for stipends for non-industrial workers, and a variety of experimental training programs.

Corporate expansion included the full activation of Product Development Centers, enhanced use of Distribution Centers for improved customer service, and implementation of improved information systems in the Headquarters office and in the field. New product development and expansion continue to serve the immediate needs of the Corporation, as well as to position UNICOR for keeping pace with the future growth in the Federal Prison System.

Industrial employment is in the forefront of those programs acknowledged to provide significant prison management benefits, particularly in times of overcrowding. Federal Prison Industries continues to provide an invaluable service to the Federal Prison System as a whole, and the Corporation is committed to continuing and increasing its level of support to the Bureau.

John Marshall Briley, Chairman

NCJRS

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The 1987 Annual Report

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Letter to Congress

Federal Prison Industries, Inc. (UNICOR) continues to fulfill its mission of providing training and employment for Federal inmates. UNICOR functions as a self-sustaining, wholly-owned government corporation, with 78 manufacturing operations in 43 federal correctional facilities throughout the country.

Fiscal year 1987 saw a continuation of the unprecedented growth in inmate population which has characterized this decade. UNICOR has kept pace with this increase, once again achieving record-high inmate employment levels at the end of fiscal year 1987. A total of 15,203 inmates were employed by UNICOR on September 30, 1987, compared with 12,955 on that same date in 1986. This represents a 17% increase in a one-year period. Currently, 34.4% of all inmates are employed by UNICOR.

Financially, fiscal year 1987 showed a resumption of past year's growth. Total sales were \$319 million, with gross profits of \$34.9 million. In comparison, 1986 sales were \$250 million, with gross profits of \$30.7 million. Fiscal year 1987 sales reflect a new vigor in the government marketplace, UNICOR's expanding marketing capability, and its ability to tailor production capacity to meet customer needs.

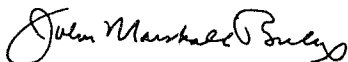
UNICOR's construction program continued. A total of 817,000 sq. ft. of construction has been completed since 1983, at a cost of \$46 million. This program will result in a total of over 1 million sq. ft. of expanded production capability, at a cost \$74 million.

UNICOR's support for vocational training activities throughout the Federal Prison System continued in fiscal year 1987. A total of \$7.2 million was allocated to fund pre-industrial, vocational, and experimental training programs. In addition, the corporation provided \$6.2 million to the Bureau of Prisons to fund a stipend program for non-industrial inmate workers who contributed to institutional maintenance, food service, and other support functions.

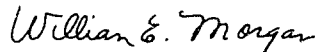
Inmate education programs also received a high level of attention under the Industries, Education, and Training Division. The expansion of the Associate Warden, Industries and Education concept (AW/I&E) continued in 1987. The linkage between inmate education and institutional employment was strengthened in fiscal year 1987. In addition to requiring an 8.0 grade level on standardized testing for all inmates in jobs above the entry level, a pilot program was approved in one Region of the Bureau, wherein all inmates promoted to grade 1 assignments must have attained a high school diploma or a GED. A combination of mandatory and optional education programs continues to provide every offender an opportunity to improve their literacy levels and become more functional citizens upon release.

The Corporation continued its support of the Product Development Center concept at locations throughout the country. The purpose of these Centers is to prototype new products, test new equipment, and provide training for staff on both production methods and equipment utilization. Distribution Center operations enhanced the ability of the Corporation to respond to customer needs. The Centers are located on the East and West Coasts and primarily serve the furniture market.

FY 1987 can be viewed as one of revived sales. Despite losses and production concerns in our battle dress uniform and T-shirt production lines, the Corporation's position is sound. In addition, we continue to perform a vital function through our academic education, pre-industrial, and vocational training programs, to the Bureau of Prisons. FY 1988 and beyond will see Federal Prison Industries taking new initiatives to meet employment goals for our expanding inmate population. Emphasis will continue to be placed on sound fiscal management, improved manufacturing operations, additional market diversification, and further emphasis on the Quality Improvement Process.



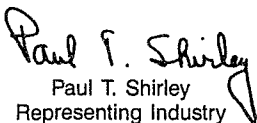
John Marshall Briley, Chairman
Representing the Secretary of Defense



William E. Morgan, Vice Chairman
Representing Agriculture



Lane Kirkland
Representing Labor



Paul T. Shirley
Representing Industry



Donald A. Schwartz
Representing Retailers and Consumers



Richard Abell
Representing the Attorney General

There may never have been a time in the history of the Corporation when its programs and employment capability have been more critical to the Federal Prison System. In recognition of this fact, the Board of Directors has continued to authorize necessary factory expansion, and to go forward with the planning for factories in support of Bureau construction at the following locations:

- Marianna, Florida
- Fairton, New Jersey
- Bradford, Pennsylvania
- Sheridan, Oregon
- Jesup, Georgia

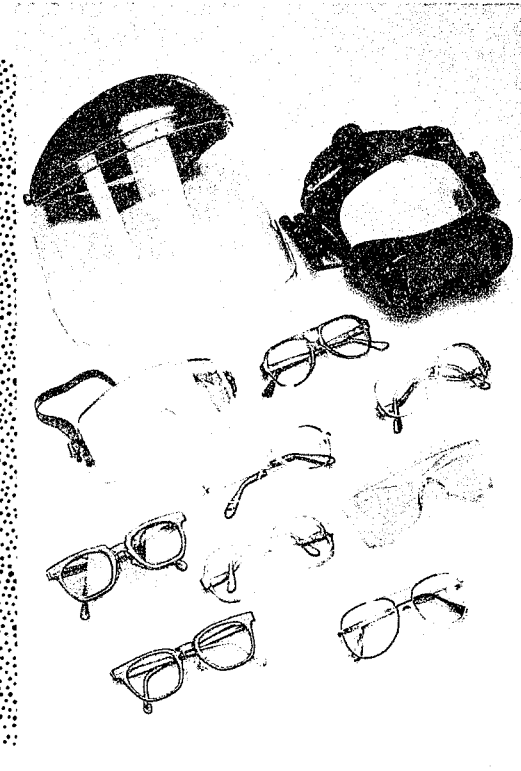
UNICOR has continued to expand its use of the Quality Improvement Process. Comprehensive assessments of the cost of quality and the price of nonconformance are a feature of this program. In addition, the basic tenet of the program—"Do it right the first time"—is instilled in staff at all levels of the organization, as well as inmate workers.

UNICOR's support of education and training continued in both the administrative and financial areas. Pre-industrial training programs have been instituted at all locations, and "live-work" is a major feature of many of those programs. In addition, the 8.0 grade level requirement for employment beyond the entry-level



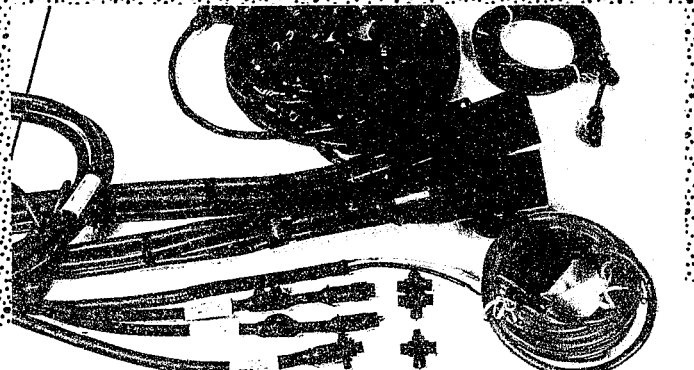
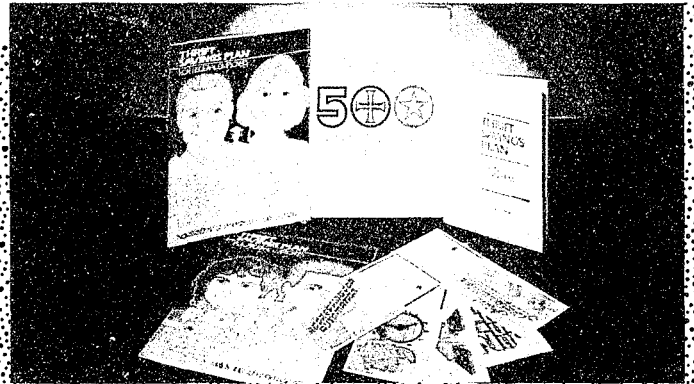
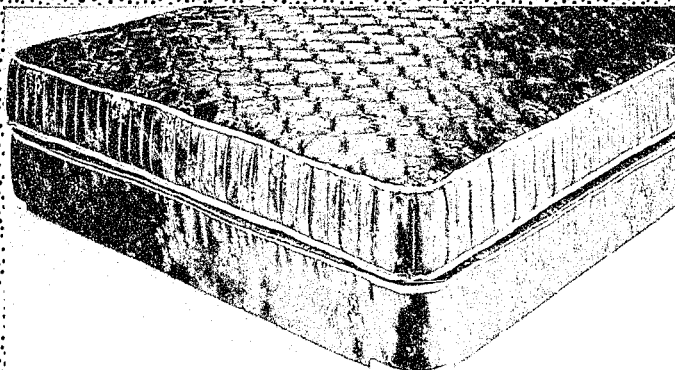
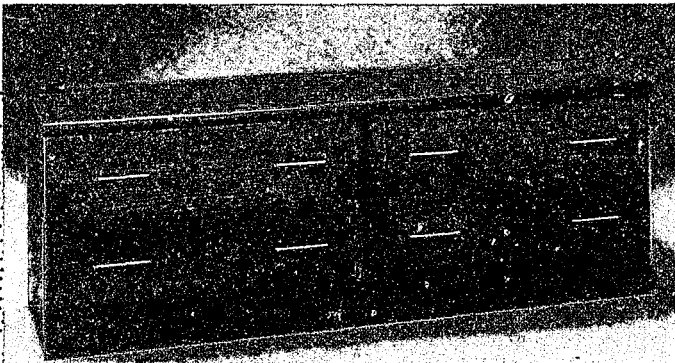
Gerald M. Farkas
Chief Operating Officer
Federal Prison Industries, Inc.

is successful in enhancing the literacy levels of inmates throughout the system.



Federal Prison Industries, Inc. (trade name UNICOR) was established in 1934 by an Act of Congress and Executive Order. It operates as a wholly-owned government corporation under the provisions of 18 USC 4124-4128, and provides employment and training for inmates in Federal correctional institutions. UNICOR's operations include the following activities:

- Providing a wide range of products and services to Federal agencies at fair market prices.
- Maintaining diversified industrial operations to ensure optimum inmate employment.
- Structuring product lines which minimize competition with private sector industry and labor in any one product or service area.
- Providing inmates the opportunity to earn funds for restitution, payment of fines, and personal and family expenses.
- Providing inmates with training and entry-level skills, through apprenticeship training, pre-industrial training as well as "live work" training opportunities.
- Financing Bureau of Prisons vocational training programs.
- Reducing inmate idleness and overcrowding through productive job assignments and staff supervision.
- Developing new products and services which increase customer satisfaction and acceptance, and provide broader training and employment options for inmates.



Furniture

The Corporation has embarked on exciting new product lines in the areas of systems furniture and metal modular furniture products. These contemporarily designed lines are a response to the needs of the modern workplace; and many customer requests for functional, highly adaptable office furniture.

Appliance Repair

One of the Corporation's most unique activities is the renovation and repair of appliances and other equipment. This operation, located at FPC, Boron, California, provides an economical alternative for cost-conscious agencies to new, costly equipment purchases.

Seating Line

UNICOR continues to respond to customer needs

in its production of seating products. Comfort, color-coordination, and durability are features of these products, all making them highly desirable.

Stainless Steel Line

Stainless steel products are a growing feature of the Metal/Wood Product Division. They are sold primarily to large institutional and military customers for kitchen applications. These products combine functional durability and attractive styling.

New Mattress

UNICOR has begun production of a new line of mattress products in order to meet customer needs. This product, which incorporates many contemporary design features, has been well received.

Print Material

UNICOR's Data/Graphics

Division continues to produce a wide range of print products for its customer agencies. In addition to expanding in the electronic publishing business, the Division continues its highly sought after four-color work.

Pallet Shelving

The Metal/Wood Products Division has continued to supply its customers with quality products. An innovative pallet shelving line is but one of many products available.

Electronics Products

The Electronics, Plastics, & Optics Division produces a wide variety of complex products for the Department of Defense and other agencies. These range from power distribution systems to Kevlar combat helmets and optical products.



UNICOR has developed a number of new products in the past year in response to the need to remain diversified and improve customer satisfaction.

The Systems Furniture line, now being produced by the UNICOR Metal/Wood Products Division, is a popular choice by many desiring contemporary office furnishings.

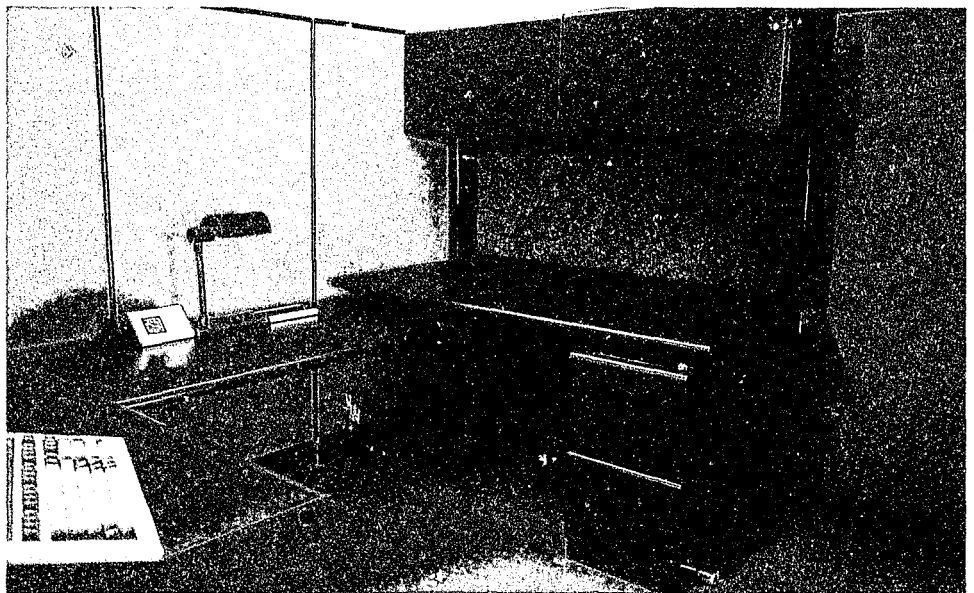
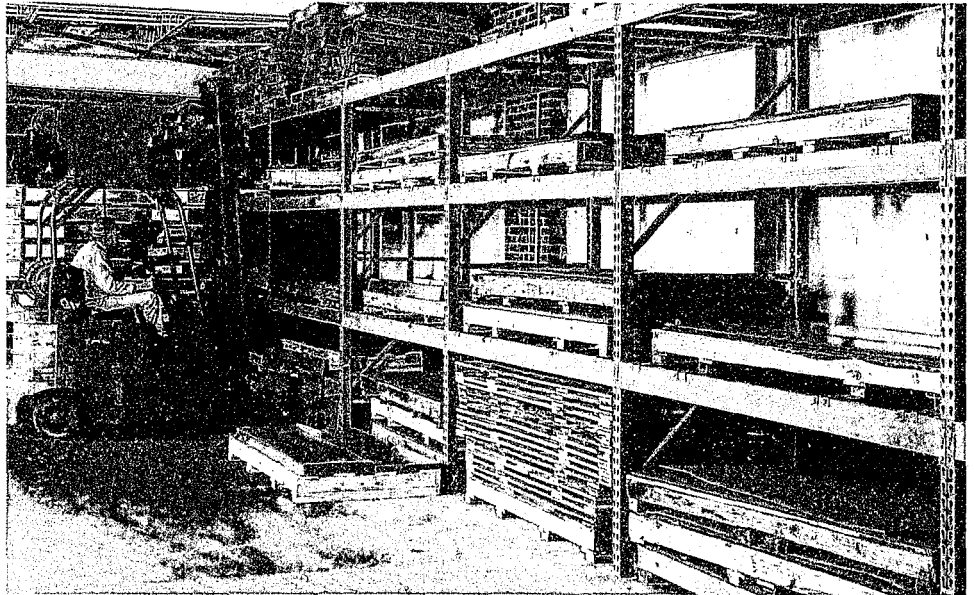
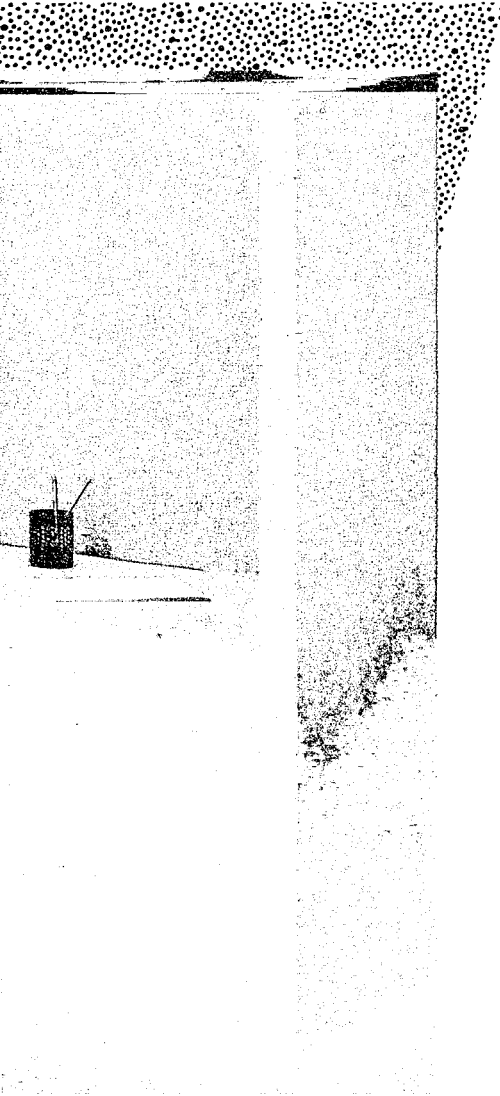
Metal Modular Furniture manufactured by UNICOR is another modern adaptation to the needs of customers for flexible, attractive products that enhance their ability to perform their agency functions.

The Textiles Division has begun producing a new chambray shirt which will meet uniform clothing needs

of several customer agencies. Similarly, the Electronics, Plastics, & Optics Division has started shipping a new line of safety glasses to several customer agencies.

The renovation and rehabilitation of used equipment is a unique service provided by UNICOR. The expansion of this program has continued in the past year, benefiting

New Products and Services



customer agencies and the taxpayer by reducing costs for economical, re-built equipment.

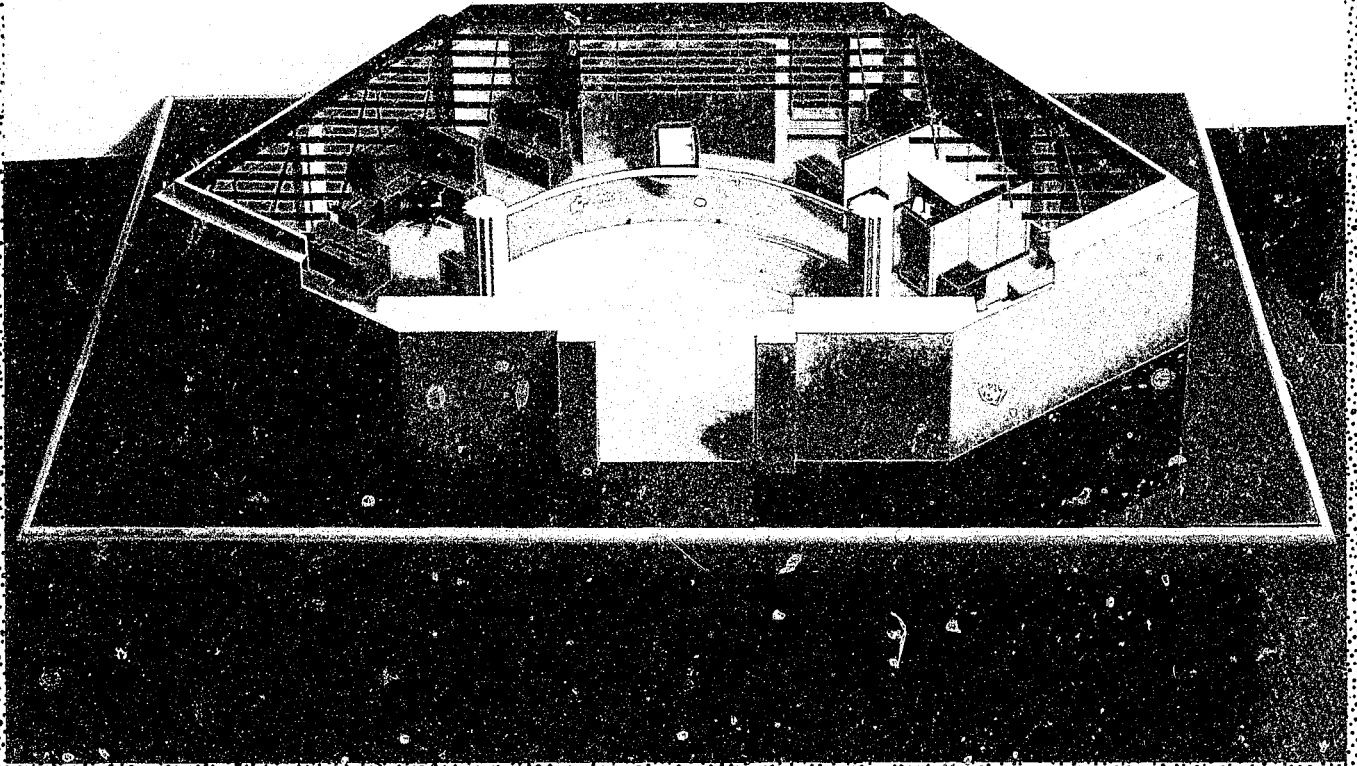
Other functional products include a new line of pallet shelving, a new line of seating products, and expansion of a popular stainless steel product line used in many military food service operations.



During the past year, UNICOR's participation in Trade Shows has been most successful. This was UNICOR's third year of involvement in the FOSE (Federal Office Systems Expo) show. We upgraded our display area and introduced our Metal Modular

and Systems Furniture line for the first time. Trade shows were also held in Norfolk, VA; Atlanta, GA; Cincinnati, OH; and St. Louis, MO. Upgrades included a new kiosk featuring UNICOR's Quality Improvement Process and Research and Development Program.

New products presented at these shows included stacking chairs, stainless steel food service items, metal storage systems, and Allenwood oak furniture with accompanying couch and sofa.



Early this year, space was identified in our Central office in Washington, D.C. for a UNICOR Showroom. An architectural firm was contracted to work with our Industria! Design Department to develop an upscale show-

room to display various furniture and accessories produced by the Corporation.

This showroom will feature a variety of UNICOR products and will be available to interior designers, architects, and

users. Visitors will be able to view conventional office furniture, system and modular furniture, and dormitory items. A small conference area will be available to discuss color selections, laminates, and other details.

Quality Program



The Quality Improvement Process in the Industries, Education, and Training Division is making steady progress. The process is expected to take several years to fully implement. To date, however, training has been provided for 47 senior level staff and over 750 Central Office and field staff. The Corporation has developed a second-level training package called the Quality Education System which will be presented to line staff at the institutions by a local trainer.

Field implementation is led by institutions such as Englewood, Lewisburg, Petersburg, Lexington, and Fort Worth where staff are reporting significant progress. Other locations are reporting measurement and problem identification steps underway; all of which lead to reductions in the price of nonconformance to product requirements.

Specific results of progress include improved quote processing in the Electronics Division, 24-hour turn-around

on travel voucher payments in the Central Office, and an average savings of over \$5,000 per quarter on safety shoes at the Federal Correctional Institution, Fort Worth.

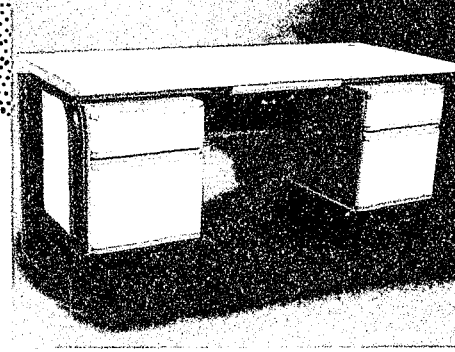
In addition, a research program has been developed in the Central Office in order to fully assess the cost and benefits of the program. As field locations experience success with the program, its further expansion and enthusiastic participation are expected.



Industrial Design and Development supports the Product Divisions with creative services in product and graphic designs.

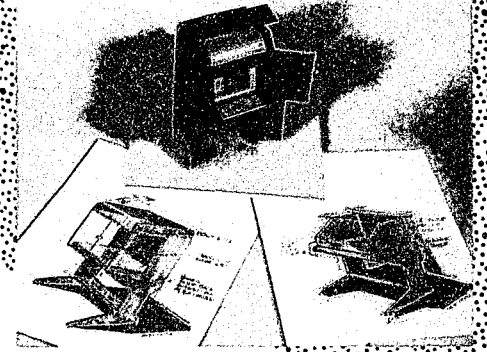
In 1987 a CAD/CAM system (computer aided design/ computer aided manufacturing) was added to the design section.

The computer is the state of the art design tool which will help in creating new and up-



to-date products. It is also used in the development of space planning services for customers that purchase UNICOR products.

Many phases are necessary in product development. One such phase is the mock-up



stage of paper, wood or plastic to ensure the proper size, proportion and appearance of a product.

Above are two examples of different stages in the development of a mock-up.

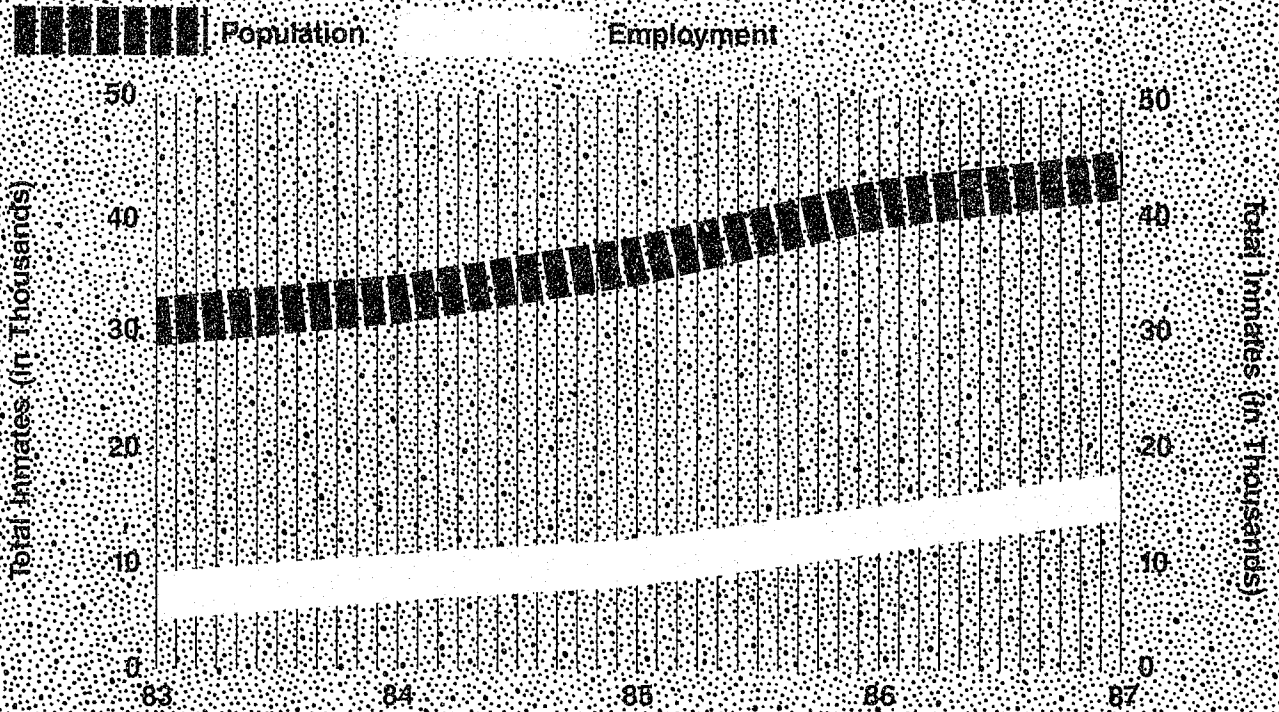


The Corporation continues an aggressive construction and renovation program to meet inmate employment needs. This important initiative has more than kept pace with population growth. The program, which to date has involved over \$74 million in funds either allocated or expended, is the cornerstone of the Corporation's critical effort to keep pace with the Bureau's population growth.

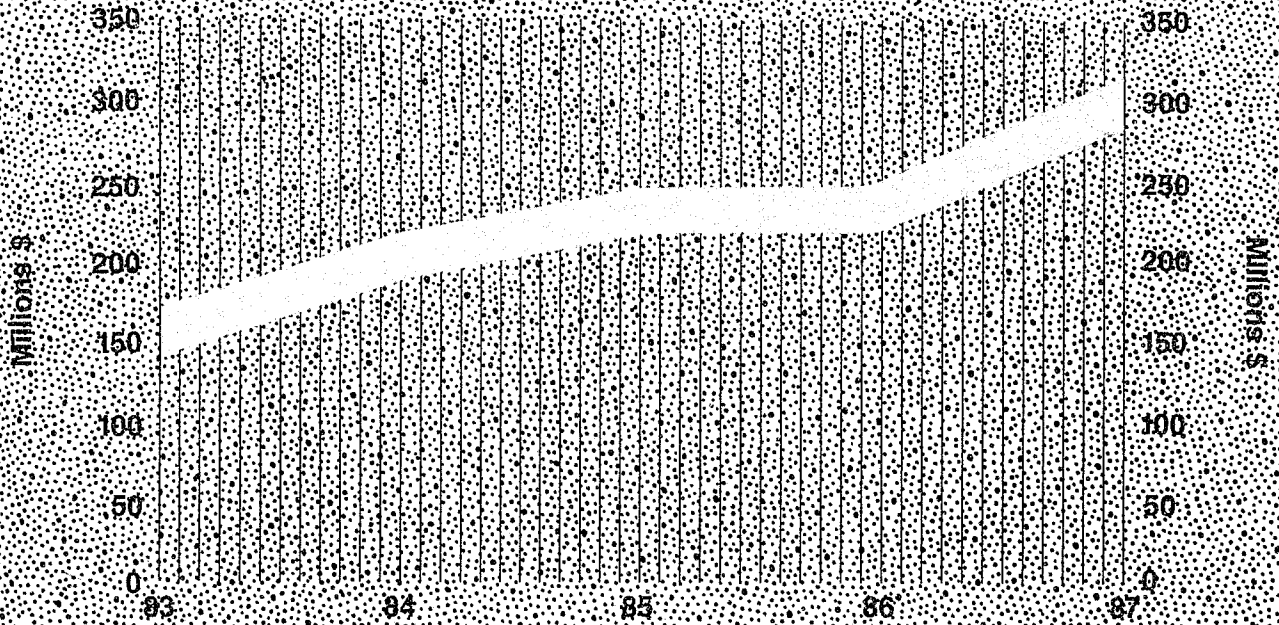
Part of the building program for the Corporation involved the construction of new Product Development Centers for wood products at Allenwood, Pennsylvania; for metal products at Lewisburg, Pennsylvania; and for textile products at Atlanta, Georgia. In concert with the existing Product Development Center for electronics at Phoenix, Arizona, these facilities provide in-house capability to evaluate

and prototype new products, train staff in their manufacture, and test and train in the use of new equipment. These functions will better prepare the Corporation to match physical plant expansion with planned product line growth.

Population vs Employment 1983-1987



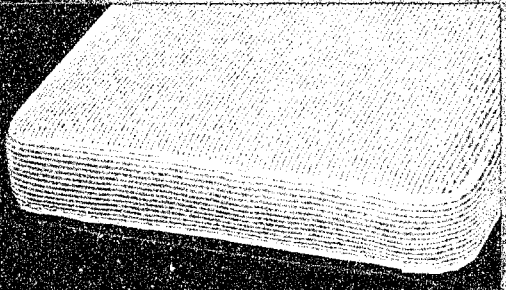
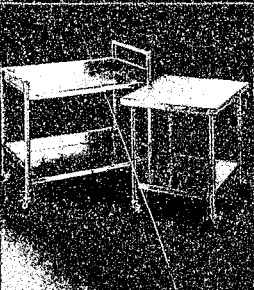
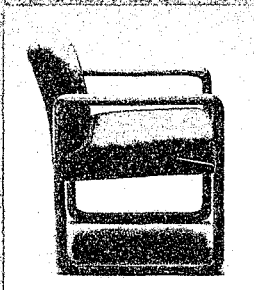
Sales



Metal & Wood Products

Textiles & Leather Products

Divisions



Location and Number of Plants

Allenwood, PA
Ashland, KY
Atlanta, GA
El Reno, OK
La Tuna, TX
Leavenworth, KS
Lewisburg, PA
Lompoc, CA
Milan, MI

***24 Plants**

Morgantown, WV
Otisville, NY
Petersburg, VA
Pleasanton, CA
Seagoville, TX
Talladega, AL
Tallahassee, FL
Terminal Island, CA
Texarkana, TX

Alderson, WV
Atlanta, GA
Big Spring, TX
Butner, NC
Duluth, MN
Leavenworth, KS
Lexington, KY
Miami, FL
Maxwell AFB, AL
New York, NY

***25 Plants**

Oakdale, LA
Otisville, NY
Pleasanton, CA
Ray Brook, NY
Safford, AZ
San Diego, CA
Sandstone, MN
Seagoville, TX
Terre Haute, IN
Tucson, AZ

Products and Services Provided

Executive furniture, general office furniture, modular system furniture, ergonomic seating, dormitory and quarters furniture, household furniture, metal bunk beds, ID tags, lockers, storage cabinets, metal shelving, pallet racks, brushes, office accessories, furniture refinishing.

Cotton and wool textiles, canvas goods, synthetic textile products, mattresses, apparel, weather parachutes, brooms, bed linens, gloves, draperies, bedspreads, knit products, boxer drawers and pajamas, military uniforms, undergarments, laundry services.

Major Federal Customers

Department of Defense
General Services Administration
U.S. Postal Service
Veterans Administration
Immigration & Naturalization Service
Federal Aviation Administration
Bureau of Prisons

Department of Defense
General Services Administration
U.S. Postal Service
Veterans Administration
Bureau of Prisons

Inmates Employed

4,934
Not including support positions

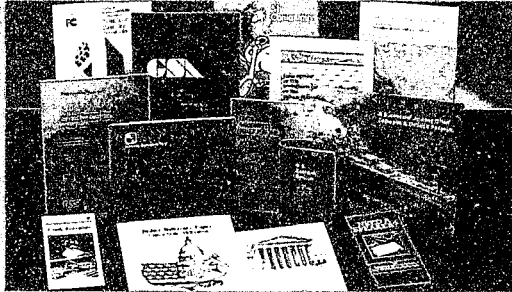
4,119
Not including support positions

Sales

\$107,433,135

\$83,100,553

Data/Graphics



Electronics, Plastics & Optics



Alderson, WV
 Ft. Worth, TX
 Leavenworth, KS
 Lexington, KY
 Lompoc, CA
 Milan, MI

*15 Plants

Otisville, NY
 Petersburg, VA
 Pleasanton, CA
 Ray Brook, NY
 Sandstone, MN

Bastrop, TX
 Big Spring, TX
 Boron, CA
 Butner, NC
 Danbury, CT
 Englewood, CO
 Lexington, KY
 Lompoc, CA

*14 Plants

Loretto, PA
 Memphis, TN
 Oxford, WI
 Petersburg, VA
 Phoenix, AZ
 Rochester, MN

**Total
 Number of
 Plants**
 78 Plants*

Data encoding services (key-to-tape, word processing, telecommunications transmission). Printing services of all types from duplication to 4-color process. Graphic digitization, micrographics, and textile printing. All types of signs (traffic, safety, and recreational symbols) and decals (silk-screened, die-cut) manufactured on aluminum, plastic, wood, and fiber glass, architectural signage, and metal photo-engraved plaques.

Wiring devices of all types, electrical cable assemblies, electronic wiring harnesses, printed circuits, electronic systems support, and the remanufacture of vehicular electronics systems. Thermo plastics, fiber glass and Kevlar reinforced products, Postal trays, prescription and non-prescription eyewear, safety eyewear.

Department of Agriculture
 Department of Commerce
 Department of Defense
 Department of Interior
 Department of Justice
 Department of Transportation
 Administrative Office of the U.S. Courts
 General Services Administration
 U.S. Postal Service
 Federal Retirement Thrift Board

Department of Defense
 General Services Administration
 Veterans Administration
 Bureau of Indian Affairs
 Bureau of Prisons

**Major
 Federal
 Customers**

1,085
 Not including support positions

3,249
 Not including support positions

**Total Number
 of Inmates**
 15,203**

\$20,270,690

\$95,950,003

\$306,754,381***

Price Waterhouse



April 1, 1988

To the Board of Directors
Federal Prison Industries, Inc. (UNICOR)

In our opinion, the accompanying balance sheet and the related statements of income and cumulative results of operations and of cash flows present fairly the financial position of Federal Prison Industries, Inc., (UNICOR) a federal government corporation, at September 30, 1987 and 1986 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the method of accounting for pre-operating costs as described in Note 1 to the financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Balance Sheet

Balance Sheet September 30, 1987 and 1986

	Assets	
	1987	1986
Current Assets		
Cash	\$ 6,662,903	\$ 1,896,789
Accounts Receivable	37,948,567	25,338,833
Inventories (Note 2)	68,093,901	74,506,754
	112,705,371	101,742,376
Plant and Equipment		
Machinery and Equipment	61,842,060	58,949,015
Buildings and Improvements	78,593,252	62,254,921
Construction in Progress (Note 3)	8,280,112	16,040,369
	148,715,424	137,244,305
Less: Accumulated Depreciation	41,180,576	36,417,248
	107,534,848	100,827,057
Deferred Preoperating Expenses (Note 1)	—	1,573,957
	\$220,240,219	\$204,143,390
Liabilities and U.S. Government Equity		
Current Liabilities		
Accounts Payable	\$32,808,445	\$ 28,469,443
Salaries and Wages Payable	4,361,074	3,866,028
Other Accrued Expenses	9,285,239	4,100,739
Estimated Losses on Sales Commitments (Note 4)	4,800,000	0
	51,254,758	36,436,210
Accrued Annual Leave	3,225,150	2,897,372
	54,479,908	39,333,582
U.S. Government Equity		
Initial Capital	4,176,040	4,176,040
Donated Capital	649,221	666,381
Cumulative Results of Operations	160,935,050	159,967,387
	165,760,311	164,309,808
	\$220,240,219	\$204,143,390

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

Statement of Income

Statement of Income & Cumulative Results of Operations September 30, 1987 and 1986

	1987	1986
Sales	\$306,754,381	\$237,520,442
Other Income	760,670	753,702
Gross Income	307,515,051	238,274,144
Cost of Goods and Services Sold	272,638,634	207,602,682
Gross Profit	34,876,417	30,671,462
Selling, General and Administrative Expenses (Note 5)	20,358,801	14,086,374
Income from Industrial Operations	14,517,616	16,585,088
Non-Operating Expenses		
Inmate Performance Pay	6,160,000	6,000,000
Vocational Training Program (Note 6)	5,815,996	7,319,490
	11,975,996	13,319,490
Income Before Cumulative Effect of Accounting Change (Note 1)	2,541,620	3,265,598
Cumulative Effect of Accounting Change	1,573,957	0
Net Income	967,663	3,265,598
Cumulative Results of Operations, Beginning	159,967,387	156,701,789
Cumulative Results of Operations, Ending	\$160,935,050	\$159,967,387
<p>Pro forma amounts assuming accounting change for preoperating costs would have been applied retroactively: (Note 1)</p>		
Net Income	\$ 2,541,620	\$ 4,343,455
Cumulative Results of Operations, Beginning	158,393,430	154,049,975
Cumulative Results of Operations, Ending	\$160,935,050	\$158,393,430

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

Statement of Cash Flows

Statement of Cash Flows for Fiscal Years 1987 and 1986 (Dollars in Thousands)

	1987	1986
Cash Flows From Operating Activities:		
Cash Received from Customers	\$ 305,895	\$ 242,661
Cash Paid to Suppliers	(223,804)	(158,534)
Payrolls, Civilian and Inmate	(63,646)	(61,556)
Net Cash Provided by Operating Activities	18,445	22,571
Cash Flows From Investing Activities:		
Net Capital Expenditures—Machinery & Equipment	4,191	14,505
—Building & Improvements	9,488	16,633
Prepaid & Deferred Expenses	—	690
Net Cash Used in Investing Activities	13,679	31,828
Net Increase (Decrease) in Cash	4,766	(9,257)
Cash at Beginning of Year	1,897	11,154
Cash at End of Year	\$ 6,663	\$ 1,897

Schedule Reconciling Earnings to Net Cash Flow from Operating Activities

Net Income	\$ 968	\$ 3,266
Noncash Expenses, Revenues, Losses, and Gains Included in Income:		
Depreciation	6,954	5,584
Accounting Policy Change	1,574	—
Amortization of Prepaid & Deferred Expenses	—	1,022
Accrual of Annual Leave	328	362
Loss on Disposal of Assets	—	1,875
(Increase) Decrease in Accounts Receivable	(12,610)	10,625
(Increase) Decrease in Inventories	6,413	(15,283)
Increase (Decrease) in Accounts Payable	14,818	15,120
Net Cash Flow From Operating Activities	\$ 18,445	\$ 22,571

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

Note 1: Summary of Significant Accounting Policies

Organization and Mission—Federal Prison Industries, Inc. (UNICOR) operates as a wholly-owned federal government corporation. UNICOR's mission is to provide employment and training for inmates in Federal correctional institutions while remaining self-sufficient through sales of its products and services. In addition to factory operations, UNICOR supports a portion of vocational training programs in the Federal Prison System and provides funds for institution work incentive programs. UNICOR functions administratively within the Department of Justice although no operating funds are provided to it through the budgetary and appropriation process.

UNICOR and the Bureau of Prisons have a unique relationship in that the nature of their respective missions requires sharing of facilities and responsibilities relative to the custody, training and employment of federal inmates.

As a result of their close working relationship, the Director of the Bureau of Prisons serves as the ex-officio Commissioner of UNICOR and the Chief Operating Officer of UNICOR serves as an Assistant Director of the Bureau of Prisons.

Wages paid to inmates give consideration to the cost of subsistence provided by the Bureau of Prisons. In addition to employing inmates of the Bureau of Prisons in its manufacturing operations, UNICOR contributes to other training and employment activities through the payment of performance pay reimbursement and vocational training expenses, included in non-operating expenses.

UNICOR is responsible for the custodial care of inmates during their work day. In addition, civilian employees respond to institutional emergencies under the direction of the warden and field managers and serve as institutional duty officers.

The Bureau of Prisons provides land to UNICOR for the construction of its manufacturing facilities, at no cost. However, UNICOR also permits the Bureau of Prisons to utilize idle facilities at no cost, when requested.

UNICOR and the Bureau of Prisons also share the cost of certain legal, personnel, and architectural and construction contracting services.

UNICOR's customers consist exclusively of federal government departments and agencies such as the Defense Department, General Services Administration, Veterans Administration and the U.S. Postal Service. These and other federal organizations are required to procure goods from UNICOR as specified by the Federal Acquisition Regulations.

As a wholly-owned corporation of the federal government, UNICOR is not subject to federal or state income, gross receipts or property taxes.

Accounting Change—Effective October 1, 1986, UNICOR changed its method of accounting for preoperating costs, from deferral and amortization on a straight line basis over a period of two to five years, to recording them as period costs when incurred. Upon reevaluation, UNICOR concluded that accounting for preoperating costs as period costs is preferable due to the uncertainty surrounding the future periods of benefit. This change reduced net income by \$1,573,957 in 1987. The pro forma amounts shown on the statement of income and cumulative results of operations reflect operating results assuming the change in accounting for preoperating costs had been applied retroactively.

Statement Presentation—The financial statements include UNICOR's 78 industrial facilities located at 43 correctional institutions and its central and administrative offices located in Washington, D.C. Inter-industry transactions, including profits, are eliminated in consolidation.

Accounts Receivable—Accounts receivable consist of amounts due from government agencies. Where appropriate such amounts are presented net of allowance for doubtful accounts.

Plant and Equipment—Plant and equipment utilized in industrial activities are presented at cost, or in the case of donated property at appraised value at date of donation. Expenditures which substantially increase the useful lives of existing plant and equipment are capitalized. Repairs and maintenance expenditures are expensed as incurred. The straight line method of depreciation is used to allocate the cost of machinery and equipment and buildings and improvements over their estimated useful lives of generally 8 to 12 years

Note 1: Summary of Significant Accounting Policies (continued)

and 30 to 40 years, respectively.

Included in Plant and Equipment are non-operating properties valued at estimated realizable value of \$70,000 in 1987 and \$988,900 in 1986. This property is being held for sale or other disposition.

Plant and equipment purchased for vocational training programs are expensed as acquired at which time they are transferred to the Bureau of Prisons for accountability purposes.

Inventories—Inventory is valued at the lower of cost or market using the moving average cost method.

Non-Operating Expenses—In addition to its industrial activities, the mission of UNICOR includes providing funds for other work related and training programs. These programs, funded in part by UNICOR, are administered by the Bureau of Prisons. Performance pay provides compensation to inmates for services performed in non-industrial areas of correctional institutions. Vocational training relates to formal programs developed and conducted for the benefit of inmate education.

Self Insurance—In accordance with Federal Government policy, UNICOR is uninsured with respect to property damage or other customary business loss exposures. Losses incurred are absorbed as operating expenses, or if they are induced by factors related to UNICOR's relationship with the prison system, may be reimbursed by the Bureau of Prisons.

Note 2: Inventories

The following is a summary of inventories.

	1987	1986
Raw Materials and Supplies	\$ 36,510,691	\$ 42,184,246
Work-In-Process	19,403,110	18,207,778
Finished Goods	12,180,100	14,114,730
Total Inventories	\$ 68,093,901	\$ 74,506,754

Note 3: Commitment for Construction in Progress

Various projects for the construction of industrial facilities at new institutions and the renovation of existing facilities were in progress at September 30, 1987. The estimated additional cost to complete these projects is \$12,100,000.

Note 4: Estimated Losses on Sales Commitments

The Corporation has commitments to produce textile products at September 30, 1987 that will result in significant losses to complete. Current estimates are that total future losses on these contracts will be approximately \$4,800,000. This amount has been recorded as of September 30, 1987.

Financial Notes

Note 5: Selling, General and Administrative Expenses

Included in Selling, General and Administrative Expenses are Corporate Administrative Expenses which are subject to Congressional limitation. The following is a comparison of actual expenses with the limitation.

	1987	1986
Congressional Limitation	\$ 2,157,000	\$ 2,102,000
Total Expenses Subject to Congressional Limitation	\$ 1,705,116	\$ 1,805,607

Note 6: Vocational Training Program

The Vocational Training Program includes operating expenditures and the cost of related plant and equipment. Operating expenditures of permanent programs and the total cost of experimental programs are also subject to Congressional limitation.

	1987	1986
Congressional Limitation on Vocational Training	\$ 7,208,000	\$ 7,018,000
Operating Expenses of Permanent Programs	\$ 4,361,243	\$ 3,708,672
Operating Expenses and Machinery and Equipment for Experimental Programs	1,234,870	2,176,886
Total Subject to Congressional Limitation	\$ 5,596,113	\$ 5,885,558

Note 7: Pensions

Civilian employees of UNICOR are covered by the Civil Service Retirement System (CSRS). Consequently, UNICOR has the responsibility for withholding 7% (normal retirement) or 7.5% (hazardous duty retirement) of each employee's salary and for contributing a matching amount to the fund. Employees who were employed after January 1, 1984, are covered under FICA and the newly established contributory Federal Employees Retirement System (FERS). Total costs in 1987 for CSR and FERS were \$1,275,730 and \$2,302,793 respectively.

Note 8: Subsequent Event

Inmate riots at the Atlanta and Oakdale institutions in November, 1987 resulted in the destruction and loss of UNICOR inventories, equipment and buildings at these locations with a net book value of \$8,808,000. The Corporation is seeking reimbursement for these losses through the Bureau of Prisons and management's current assessment is that any loss as a result of these incidents will be reimbursed. Total assets for these locations were \$12,839,000 as of September 30, 1987. Total sales and earnings for these locations were \$20,824,000 and \$5,064,000 respectively for the year then ended.



JOHN MARSHALL BRILEY (Chairman)*

Appointed to Board 1-15-60
Elected President of the Board 12-15-76
Represents the Secretary of Defense

Mr. Briley was senior Vice President and General Counsel of Owens-Corning Fiberglas Corporation until his retirement. He was a partner in the New York law firm of Shearman and Sterling. He was a graduate of Harvard (LL.B, 1930) and is a member of the American, New York and Ohio Bar Associations.



DR. WILLIAM E. MORGAN (Vice-Chairman)*

Appointed to Board 5-26-66
Elected Vice President of the Board 12-15-76
Represents Agriculture

Dr. Morgan is President Emeritus of Colorado State University. He is a graduate of Texas A & M (B.S., 1930) and the University of California (M.S., 1933). He has served on numerous commissions and committees as an economics and educational consultant. Dr. Morgan is currently serving as director of several corporations in Colorado and Wyoming.



DONALD A. SCHWARTZ (Member)

Appointed to the Board 7-2-85
Represents Retailers and Consumers

Mr. Schwartz is president of Medallie Art Co. in Danbury, CT. A graduate of New York University, Mr. Schwartz earned his M.B.A. from Stanford University in 1981. He serves on the development board of the Danbury Hospital, the board of Boys Club of America, and is past president of the Rotary Club of New York.



PAUL T. SHIRLEY (Member)

Appointed to the Board 5-27-82
Represents Industry

Mr. Shirley is a financial consultant with Shearson Lehman/American Express, Inc. He studied Police Science at Pasadena City College and San Jose State College. Mr. Shirley has corrections experience, serving as a Management Trainee with the Federal Bureau of Prisons at Lewisburg, Pa. and Milan, Michigan, and as a Corrections Administrator with the U.S. Army. He was formerly a member of the State of California Narcotic Addict Evaluation Authority (Parole Board) and the President of a medical services corporation.



LANE KIRKLAND (Member)

Appointed to the Board 3-6-80
Represents Labor

Mr. Kirkland is currently President of the AFL—CIO (elected 11-19-79). He has held various posts with the Union since graduating from Georgetown University (B.S., 1948). He has served on numerous Executive Commissions, Delegations, and Panels and is on the Board of Directors of a number of Foundations and Institutes.



RICHARD B. ABELL (Member)

Appointed to the Board 1-10-85
Represents the Attorney General

Mr. Abell is Assistant Attorney General for the Office of Justice Programs. He was assistant district attorney, police legal coordinator, in Chester County, Pa., in 1974-1979. He graduated from George Washington University (B.A., 1966; J.D., 1974).

**Title changes approved by Board of Directors
in revision of corporate by-laws*

Officers of the Corporation

Gerald M. Farkas
Chief Operating Officer

J. Michael Quinlan
Commissioner
Director Federal Bureau of Prisons

Dale Thomas
Deputy Chief Operating Officer
(Operations)

Glen Pommerening
Deputy Chief Operating Officer
(Administration)

Margaret Hambrick
Deputy Chief Operating Officer
(Programs)