

# Annual Report



120417

120417

U.S. Department of Justice  
National Institute of Justice

This document has been reproduced exactly as received from the person or organization originating it. Points of view or opinions stated in this document are those of the authors and do not necessarily represent the official position or policies of the National Institute of Justice.

Permission to reproduce this ~~copyrighted~~ material has been granted by  
Public Domain/UNICOR/Federal  
Prison Industries/US Dept. of  
Justice  
to the National Criminal Justice Reference Service (NCJRS).

Further reproduction outside of the NCJRS system requires permission of the ~~copy~~ owner.

# Dedication



Gerald M. Farkas

It is eminently appropriate that the 1988 Annual Report be dedicated to Gerald M. Farkas, Assistant Director, Federal Bureau of Prisons and Chief Operating Officer, Federal Prison Industries, Inc.

Through his vision and inspired leadership, UNICOR has experienced ten years of unprecedented growth and risen to the forefront of correctional industries throughout the world. In addition to increased sales and earnings, the new programs and product lines developed during his tenure have contributed significantly to the success of the Corporation.

Mr. Farkas' innumerable contributions to correctional administration and prison industries management have been critical elements in the evolution and preeminence of both Federal Prison Industries and the Bureau of Prisons.

## Message From The Chairman

Federal Prison Industries, Inc. (UNICOR) maintains its position as an important component in the administration of the Federal Prison System by providing meaningful employment, comprehensive training, and a full range of education programs for inmates. At the same time, UNICOR continues to function as a self-sustaining, wholly-owned government corporation.

As the Federal Bureau of Prisons experiences further dramatic growth, industrial operations will play a vital role in reducing inmate idleness and accompanying management problems. The Corporation will continue its extensive construction, modernization, and renovation programs to keep pace with the Bureau's aggressive building program. It will take this kind of concerted effort to successfully manage our nation's prison system.

For the past twenty-eight years, I have had the distinct honor of being both a member and chairman of the Board of Federal Prison Industries. Since my appointment to the Board in 1960, sales have increased from \$29 million to over \$335 million, inmate employment has grown from 4,400 to near 14,000, and the Corporation now operates 72 factories in 41 institutions as compared to 49 factories in the 31 institutions which comprised the Federal Bureau of Prisons at that time.

UNICOR is recognized as the leader in correctional industries throughout the world. This preeminence is the direct result of the high level of professionalism and dedication of the staff who form the foundation of this unique organization. They are our most valuable asset and will provide Federal Prison Industries with future leadership and direction.

John Marshall Briley  
Chairman

## Message From The Commissioner

Federal Prison Industries continues to be an essential component of the Bureau of Prisons. UNICOR's industrial operations provide the Federal inmate population with meaningful employment, job skills training, and an environment in which to cultivate a positive work ethic. These serve to alleviate inmate idleness and improve the overall climate of our institutions.

This year has been a milestone for the Corporation. Gerald M. Farkas, Chief Operating Officer since 1979, announced his retirement; Richard P. Seiter was appointed to succeed him; and John Marshall Briley, a member and chairman of the UNICOR Board of Directors, retired after twenty-eight years of exemplary service to Federal Prison Industries.

The Corporation will continue to build upon the many achievements of Jerry's administration. Initiatives such as borrowing authority from the U.S. Treasury, comprehensive strategic planning, work measurement standards, establishing a marketing and sales division, optimum inmate employment levels, distribution centers, and an unprecedented period of new construction and overall expansion laid the foundation for UNICOR's future growth and development.

Corporate Management, the Board of Directors, and I will continue to work together to provide both leadership and direction for the Corporation. As Director of the Federal Bureau of Prisons, I strongly support our industrial programs and sincerely appreciate the many accomplishments and dedication of everyone associated with Federal Prison Industries.

J. Michael Quinlan  
Commissioner  
Director, Federal Bureau of Prisons

# Letter to Congress

UNICOR continues to be an integral part of the Federal Bureau of Prisons mandate to maintain a secure prison environment and contribute to the ability of inmates to make a successful transition to free society upon release.

A major focus of the Corporation was directed toward preparing for the challenges that will accompany a rapidly increasing inmate population during the 1990's. Sales must continue to be strong and operations must be conducted more efficiently. This will ensure that the Corporation can continue to be self-sufficient, while achieving its mission of educating, training and employing inmates in federal custody.

A total of 13,330 inmates were employed in 72 factories in 41 locations. This represents a 12.4 percent decrease in a one year period, resulting from increased factory efficiencies. Currently 30 percent of all inmates are employed by UNICOR.

Fiscal year 1988 showed continued growth and financial strength. Total sales were \$335.9 million, with gross profits of \$46.6 million. This compares with sales of \$306.8 million and gross profits of \$34.9 million for fiscal year 1987. This represents an increase of 9.5 percent and 33.5 percent respectively.

Several initiatives were undertaken during the year aimed at strengthening the Corporation, to ensure it will continue to meet its goals. The first of these was the passage of the UNICOR borrowing authority legislation, which will permit the Corporation to meet its construction and equipment needs, so that factories can be ready for operation at new Bureau of Prison locations. Although the legislation permits other uses of the funds, the Board of Directors has stipulated that these funds will only be used for capital expenditures.

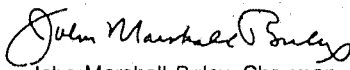
Second, UNICOR's sales and customer service staff has been expanded, Marketing Centers were opened in Research Triangle Park, NC, and Golden, CO. A new Product Development Center for wood furniture opened at Allenwood, PA. Additionally, our quality improvement program continued to be a top priority, ensuring that virtually all of UNICOR's product lines exceed the most rigorous government standards.

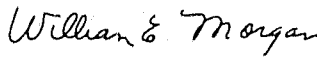
Finally, our heightened customer responsiveness has been complemented by our efforts to improve communications and cooperation with the private sector. The Corporation began a dialogue with appropriate trade and business associations, and is pledged to continue this process, as outlined under the provisions of the borrowing authority legislation.

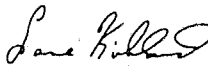
UNICOR's construction program has continued. Over 935,000 square feet of construction has been completed since 1983. Some 118,000 square feet was completed in 1988.

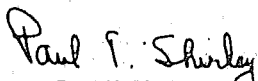
UNICOR continued to support basic vocational training programs, as well as experimental and pre-industrial programs in FY 88. UNICOR funds made possible the extension of integrated computer-assisted instruction systems to five new institutions. As a result, twenty-six federal prisons now have these systems to help deliver education programs to inmate-students. Adult Basic Education and high school equivalency (GED) courses, are among the most important provided by computer assisted instruction, and these programs continued to receive a high level of UNICOR support.


This support extended to a year-long pilot effort in one region of the Bureau to require all inmates promoted to the most senior factory assignments to have achieved a high school diploma or a GED. The pilot was completed successfully during the year and is expected to be expanded nationwide during early FY 89.

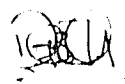
  
John Marshall Briley, Chairman  
Representing the Secretary of Defense

  
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

## Corporate Overview

The accomplishments and initiatives of the Corporation during this last year continue to play a major role in the management of the federal inmate population and provide a solid foundation for the future of Federal Prison Industries. UNICOR has reached a critical point in its fifty-four year history. The Board of Directors, Corporate Management, and staff are on the threshold of an era of unprecedented growth that will challenge all of our resources.

The most important component of the Corporation is the staff who comprise the backbone of Federal Prison Industries. They form the vanguard which will formulate new policies and procedures, create and develop new product lines, and manufacture and deliver products and services to the Federal marketplace. It is through their efforts that UNICOR is well-known and continues to maintain the reputation as a producer of quality goods which are delivered on time with guaranteed customer satisfaction.

UNICOR's primary mission will continue to be the employment and training of inmates. A skilled workforce is essential to producing quality goods and alleviating inmate idleness. Likewise, inmates have the opportunity to obtain marketable employment skills and develop a positive work ethic. These two factors are critical for an ex-offender's successful integration back into the community upon release. Coupled with these goals, adult literacy continues to be a major initiative of Federal Prison Industries. The eighth grade level requirement of employment beyond the entry-level and pilot high school equivalency for pay Grade 1 positions are examples of our commitment to enhancing the basic academic skills of inmates throughout the system.



Gerald M. Farkas  
Chief Operating Officer

NCJRS

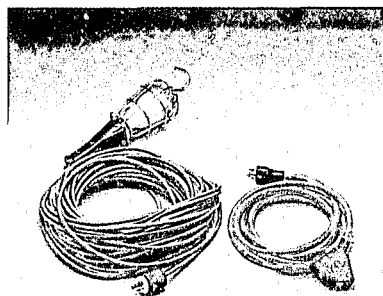
NO. 15 PA

ACQUISITIONS

# The Business of UNICOR



*UNICOR lights the way. UNICOR products and services meet the needs of an extremely diverse Federal population. The Corporation manufactures everyday items such as the extension cords and drop lights pictured here as well as thousands of other products. Descriptions of products and services can be found in the Corporation's full-line catalog, available through the Corporate Marketing Division.*



Federal Prison Industries, Inc., which has the trade name of 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 Title 18 of the United States Code, 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 area.
- Giving 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 and pre-industrial training as well as "real work" training opportunities.
- Financing Bureau of Prisons vocational training programs.
- Developing new products and services to increase customer satisfaction and permit broader training and employment options for inmates.
- Reducing inmate idleness and overcrowding through productive job assignments and staff supervision.

# Corporate Marketing Division

As UNICOR has grown, the Corporate Marketing Division has contributed to that growth. In fact, it has assumed a pivotal role within the Corporation. This division defines the needs of UNICOR customers, determines ways to meet those needs and lets Federal customers know the Corporation's capabilities in serving them.

One very tangible way we have reached out to our customers is with the expansion of the sales group. In the past year, two regional marketing consultants were added in Denver, Colorado and Durham, North Carolina, bringing the total number of consultants to six.

The UNICOR showroom, featuring a variety of the Corporation's products and services, was opened at the Central Office in Washington, DC in June and two display areas were opened in Durham, North Carolina and Fort Worth, Texas.

Marketing Services produced a public relations film about UNICOR titled "UNICOR Today" which won a Gold Screen Award from the National Association of Government Communicators.

Major trade shows were held this year in Fort Worth, Texas and Los Angeles, California. A number of new catalogs were completed including a sign catalog, seating catalog, schedule of products, and a brochure on systems furniture.

The research group provided informational support in a lawsuit against the Corporation as well as background data to support the passage of the Borrowing Authority Bill. A number of marketing product studies were completed.

**METAL/WOOD PRODUCT DIVISION**  
BRADFORD

PANELS  
ASFT MRFT TOFT

POSTFORMING  
DUMT LEMT

TAFT TEFT LVFT OTFT

FUTURE EXPANSIONS (PRE-MACHINED PARTS)  
1. ALL CASEGOODS FACTORIES  
2. VENEERS FOR ALLENWOOD

**METAL AND WOOD PRODUCTS DIVISION**

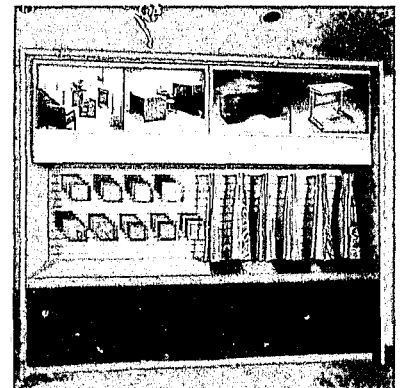
SCOPE OF OPERATIONS

- ★ FURNITURE FACTORIES
- UPHOLSTERY FACTORIES
- METAL FACTORIES
- REFINISHING FACTORIES
- PROPOSED FURNITURE FACTORIES
- DISTRIBUTION CENTERS
- BRUSH FACTORY

NEW:  
MARIANNA, FLA JUNE '88  
SHERIDAN, OR MID '88  
BRADFORD, PA MID '88

Stan Wexler  
Division Manager

Office furnishings samples display in national capital showroom (DC).



## Metal/Wood Products Division



Chuck Wilkie  
Division Manager



The metal modular furniture systems for the Social Security Administration is one of the largest projects in the Metal/Wood Products Division, and has generated over \$10 million in sales. Additionally, large installations of systems furniture were delivered to Ft. Detrick, Sharpe Army Depot, Ft. Sill and the Small Business Administration. Systems furniture is manufactured at USP Lewisburg and FPC Duluth.

The division installed systems furniture in all UNICOR central offices. The installation also serves as a permanent display for prospective customers.

Several new metal products were introduced in the past year including: pallet stacking supports, stainless wire shelving, the ergo chair and metal modular furniture.

Two factories, wood furniture and upholstery, opened at FCI Marianna. In the coming year, a furniture factory for the production of Allenwood Executive and Contemporary Centurion will open at FCI Sheridan.

One important project begun in FY 88 and expected to be completed in FY 89 is construction and staffing of the Metal and Wood Product Development Centers. The centers will develop new products from concept to the point of production and additionally will standardize and upgrade existing products. The Wood Center will be at FPC Allenwood and the Metal Center at USP Lewisburg.

*LEFT: Mike Fitzpatrick, former Associate Warden for Operations at FCI Lexington, was named to succeed Chuck Wilkie who retired in December 1988. RIGHT: The Metal/Wood Products Division operates 23 factories at institutions across the country. Here, workers assemble office chairs.*



## Textile and Leather Division

The Textile and Leather Division received a number of major contracts in 1988 including a \$12.8 million mattress contract with the General Services Administration (GSA) as well as a \$2.4 million contract with GSA for gloves. The Veterans Administration awarded the division a \$2.4 million contract for pajamas.

The division undertook a production improvement program in 1988. Piece rate pay systems were established in several factories and production methods were continually reviewed to keep costs competitive. These cost efficient production programs will be expanded to additional factories in 1989. Exploration and development of new products continued, with duffel bags, incontinent pads, flyers' helmet bags, postal satchels and plastic parachute hoops currently in the developmental stage.

Recruitment of textile and apparel engineers remains an important issue for the division, and efforts to recruit at technical schools and job fairs will continue in 1989.



John Howard  
Division Manager

*Mallbag repair is a part of the Textile and Leather Division's Atlanta operation as shown in the picture at right.*



## Data/Graphics Division

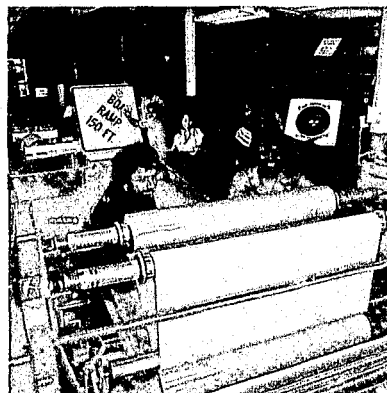


Terry Sullivan  
Division Manager

The Data/Graphics Division consists of three major groupings of products and services: Printing, Sign and Decal products and ADP services.

In September, a new ADP factory was opened at FCI, Marianna. This is the division's fourth ADP factory. The print plant at FCI Petersburg was expanded. During 1989, the plant will install the most highly advanced printing equipment within UNICOR, becoming the Corporation's flagship print plant.

The Data/Graphics Division received a number of major orders in 1988 including \$4 million in printing services from the Federal Retirement Thrift Investment Board and their Federal Thrift Savings plan. More than one million brochures were printed for the Centers for Disease Control as part of the nationwide AIDS information program. Contracts were awarded to Data/Graphics to manufacture and install architectural signage systems for major Veterans Administration Medical Centers throughout the country.



Workers at the Fort Worth sign factory apply reflective sheeting to aluminum signs.

## Electronics, Plastics and Optics Division

Three major items were developed by this division in the past year which will account for nearly \$50 million in sales. Two lighting systems for military field operations were produced; one for the Marine Corps to supply light and power to field tents, the other for the Army to distribute power from generators. The third item is a radio mount which holds communication radios in vehicles. This division has, for many years, been supplying cable assemblies for this system.

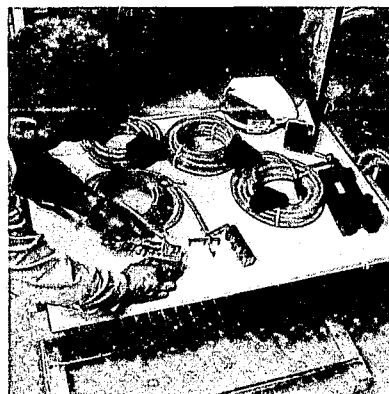
The division is continuing to vertically integrate by producing electronic subcomponents of many items it previously bought. It is working with the Metal/Wood Products Division to develop and produce plastic parts for furniture. Eventually the Electronics, Plastics and Optics Division will produce various plastic component parts for safety eyewear.

Plans for 1989 call for opening a new distribution center at Phoenix Camp to stock commonly used electronics parts, and the opening of a cable factory at FCI Fairton to support the needs of a major customer at Fort Monmouth, New Jersey.



Peter Rossi  
Division Manager

*The Electronics, Plastics and Optics Division produces a wide variety of products for the Department of Defense and other agencies. These range from power distribution systems to Kevlar combat helmets and optical products such as safety and prescription eyewear.*



# Support Divisions

The UNICOR Support Divisions play an important role in the smooth operation of the Corporation by providing administrative, logistical and technical support to the various divisions and Corporate Management. As the Corporation has grown—there are 72 factories in 41 locations and more than 13,000 inmates—the range of work required by the Support Divisions has not only increased, but has grown more complex. The Corporation can be proud of the dedicated group of men and women in its Support Divisions.



Jack Rigsby  
Controller



Ted Pasek  
Acting Manager



Tom Pospichal  
Division Manager

## Resources Division

This division is responsible for providing accounting, purchasing and warehousing support.

In FY 1988, the Resources Division completed the automated Inmate Payroll System which will be installed in all locations in 1989. This will significantly increase the timeliness and accuracy of processing inmate payrolls.

Progress has also been made on automating accounting systems. The General Ledger was automated at most locations in the past year, with installation to be completed in FY 1989.

The Corporation changed a major part of its billing system to OPAC (On-Line Payment and Collection System) which allows for electronic transfer of funds between government agencies.

## Information Systems Division

Two major computer applications were developed in the past year. The Standard Industries System (SIS) automates accounting procedures for UNICOR factories and also provides them a computerized tool to control and monitor inventories and production. The Executive Information System (EIS) provides summary information as a trend indicator for Corporate Management. EIS provides summary information of key indicators of important production and sales information.

A variety of the SIS components became operational in 1988 and the system will be expanded in 1989.

The Corporation's mainframe computer was upgraded in FY 1988, and plans call for continued upgrading in the coming year.

## Plans and Policy Division

The overall plans and policies which guide the Corporation are developed and coordinated by this division. During the past fiscal year, the division expanded its functions. It is now responsible for developing the Corporate budget submission to the Bureau of Prisons as well as a number of new initiatives, such as integrating planning and budgeting processes in conjunction with the Resources Division.

The division coordinated development of factory staffing guidelines for UNICOR factories, which will help management make staffing decisions for new and existing factories.

It coordinated the planning materials and data collection to create optimum inmate employment figures to assist management in improving both plant efficiency and the inmate work experience.



Gary S. Izo  
Executive Assistant to the Assistant Director, Industries,  
Training and Education Division

### Executive Assistant

This office is responsible for coordinating and reviewing policies, plans and procedures for Corporate Management, and serves as liaison with the Bureau of Prisons, and UNICOR field operations. It is also the Corporation's public information office.



Al Marra  
Division Manager

### Industrial Design Division

In 1988, this division was responsible for designing and constructing the UNICOR showroom at Central Office in Washington, DC.

Space planning assistance was provided for customers wishing help with the installations of Allenwood and Contemporary Centurion lines of furniture.



Sylvia McCollum  
Division Manager

### Training and Education

Computer-assisted instruction systems were extended to an additional five institutions. Currently, 26 Federal prisons have these systems which help deliver education programs to inmate-students. A pilot effort was started to evaluate the use of the high school equivalency certificate as a requirement for promotion to all institution and UNICOR Grade 1 positions.



John Wu  
Corporate Quality Assurance Manager

### Quality Assurance

Approval was given this past year to upgrade all field Quality Assurance Manager positions which will enable the Corporation to recruit and retain professional staff.

"Work measurement" was introduced and approved, and in 1989 at least five factories will begin pilot programs. A newsletter, "Quality Counts", was begun.



Steve Wanbaugh  
Division Manager

### Distribution Division

The Distribution Centers, two locations which quick-ship popular office furniture items, had sales of \$6.2 million in 1988, a 17 percent increase over 1987. As a cost-saving measure, the Washington, DC center was moved to Allenwood, PA in August, and plans call for the center in Pleasanton, CA to be moved to Leavenworth, KS in 1989.

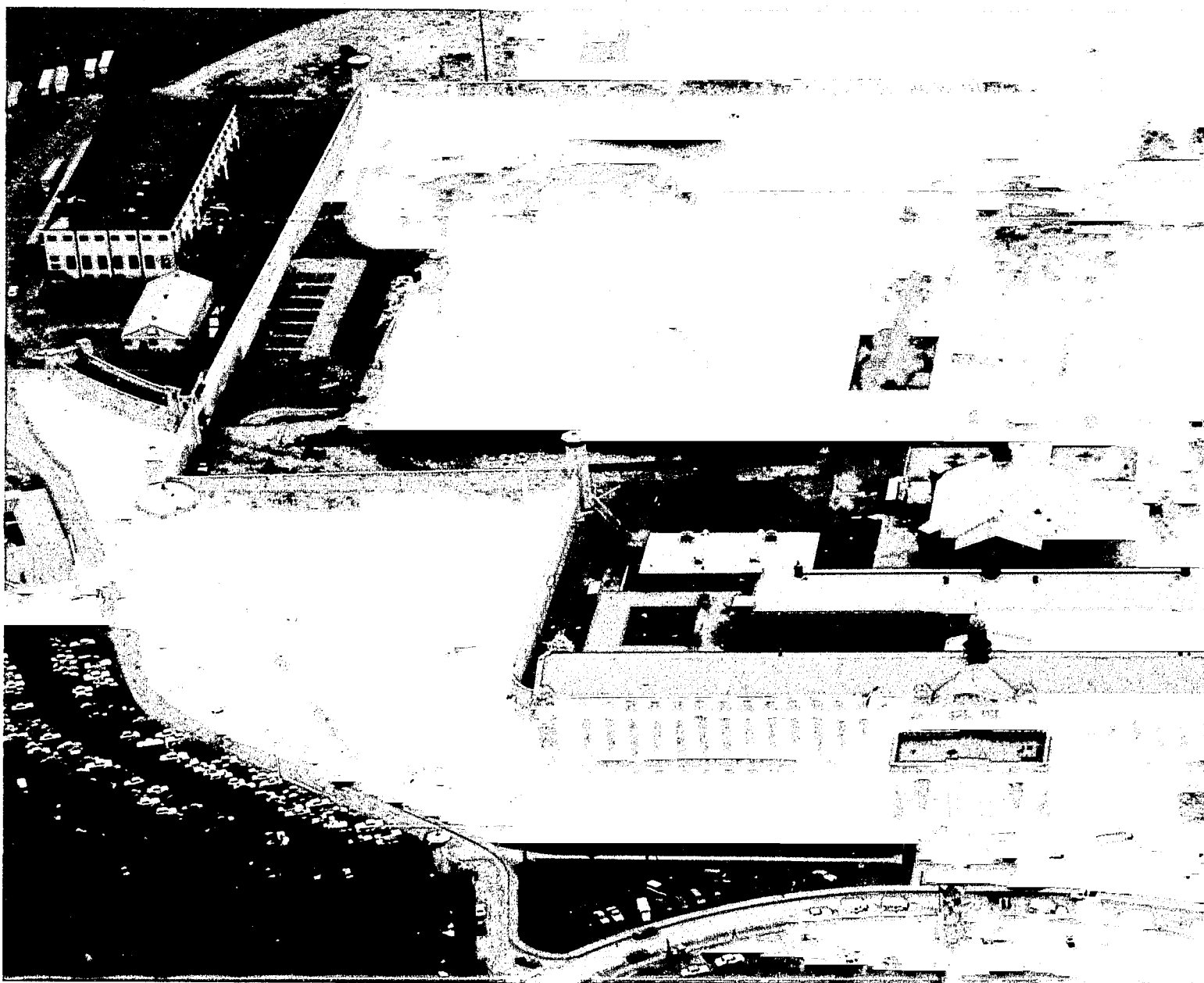


Dorothy McElroy  
Administrative Officer

### Administrative Unit

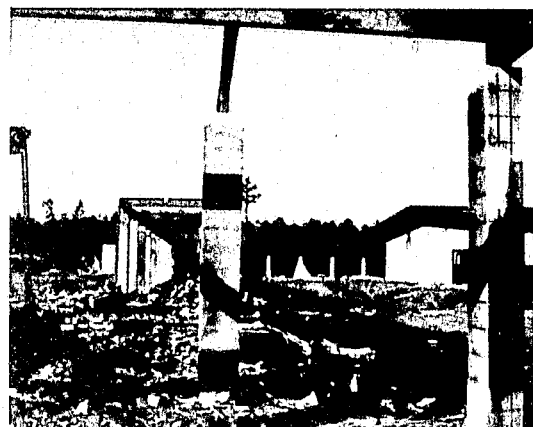
When UNICOR moved to its new headquarters during the past year, this division provided support for all aspects of the move. The unit also assisted with staffing of FCI Marianna, and upgrading of quality assurance positions throughout the Corporation.

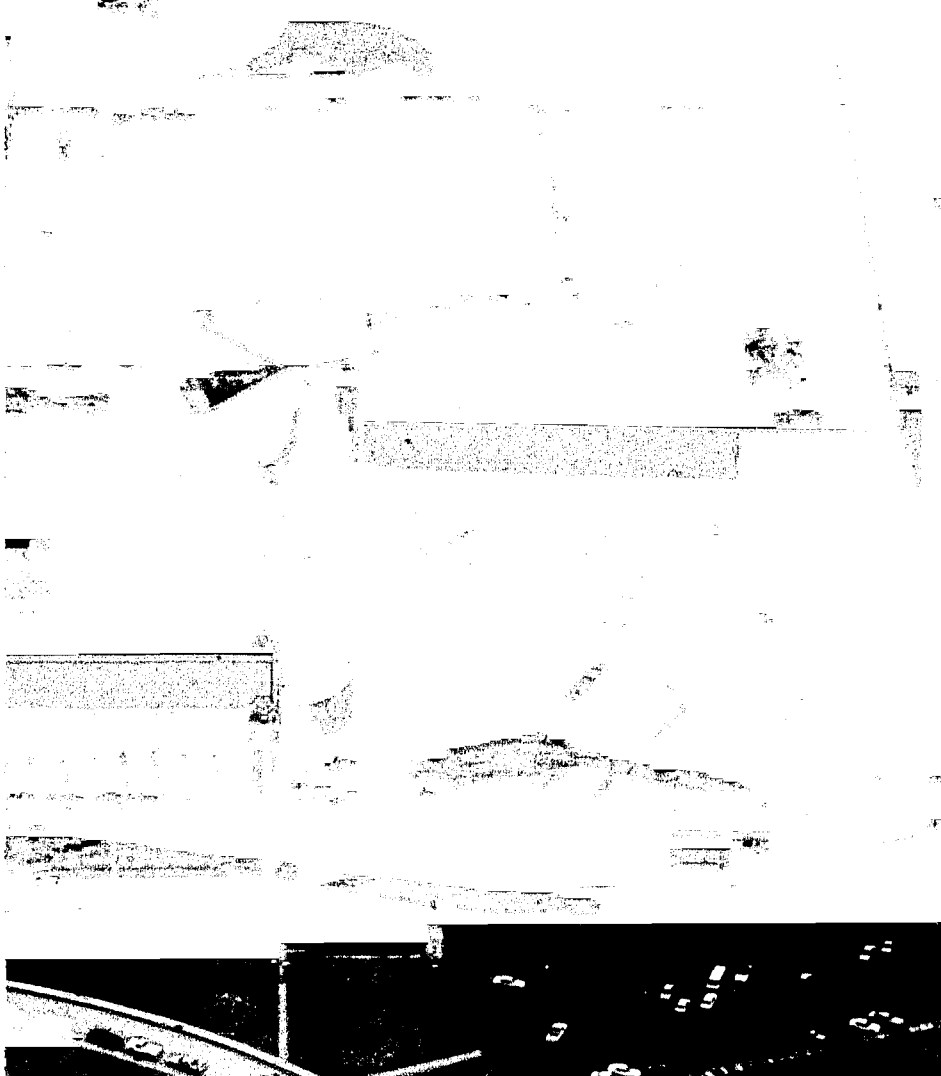
# Cuban Detainee Disturbances



*U.S. Penitentiary, Atlanta, Georgia.*

*Building damage at Oakdale, LA resulting from Cuban disturbances.*





Early in FY 1988, Bureau of Prisons staff faced the most difficult set of events in this nation's correctional history—the Cuban detainee uprisings at the Federal Detention Center in Oakdale, LA, and the U.S. Penitentiary in Atlanta, GA. The successful outcomes of these disturbances were measured by the fact that despite being the longest and potentially most deadly prison sieges in U.S. history, no staff member died during these uprisings and no detainee escaped to the community.

Both institutions sustained serious property damage, including the destruction of Federal Prison Industries factories inside the perimeters. The loss of almost all housing capacity forced population readjustments in many of our other institutions, and additional facilities were temporarily activated at Ft. Polk, LA, and Ft. Gordon, GA, to house Cuban detainees removed from the damaged facilities.

Bureau of Prisons staff members have a right to be proud of the highly professional manner in which these crises were managed and resolved, and in which the Cuban detainees continue to be managed in our already overcrowded system.

**The Washington Post** FINAL

### Officials, Cuban Inmates Agree To End Siege at Atlanta Prison

By Dan Pridemore and Michael S. Schwartz

ATLANTA, Dec. 2 (AP)—Cuban detainees and prison officials here today agreed to end a 10-day siege at the Federal Detention Center in Atlanta, Georgia.

The agreement was reached after a week of negotiations and the release of 26 hostages.

The siege began on Nov. 22 when Cuban inmates took control of the prison's main building. They demanded the release of 26 Cuban detainees held in other parts of the prison system.

Prison officials agreed to the demands, and the siege ended at 11:30 a.m. today.

The 26 hostages were released to the Federal Detention Center in Louisiana.

The Cuban detainees are being held in the Federal Detention Center in Louisiana.

The Cuban detainees are being held in the Federal Detention Center in Louisiana.

### Siege Ends At Prison In Louisiana

#### Cuban Inmates Free Their 26 Hostages At Uprising of Bishop

By Michael Schwartz

ATLANTA, Dec. 2 (AP)—Cuban detainees at the Federal Detention Center in Atlanta, Georgia, today agreed to end a 10-day siege at the prison.

The agreement was reached after a week of negotiations and the release of 26 hostages.

The siege began on Nov. 22 when Cuban inmates took control of the prison's main building. They demanded the release of 26 Cuban detainees held in other parts of the prison system.

Prison officials agreed to the demands, and the siege ended at 11:30 a.m. today.

The 26 hostages were released to the Federal Detention Center in Louisiana.

The Cuban detainees are being held in the Federal Detention Center in Louisiana.

*Disturbances at FCI, Atlanta, Georgia and Oakdale, LA make national news.*

# Show Room



The UNICOR showroom located at the Central Office in Washington, DC, displays a wide variety of products from all manufacturing divisions. The showroom provides visitors a hands-on approach to purchasing from UNICOR.

Designed by the Industrial Design Division, the showroom opened in June 1988. Some 200 people visited in FY 1988. The showroom is open five days a week by appointment. Marketing consultants from the Corporate Marketing Division are available to help prospective customers.



*The UNICOR showroom in Washington, DC, permits customers to see first-hand the many products and services produced by the Corporation's four product divisions. Shown here are custom draperies and bedspreads.*



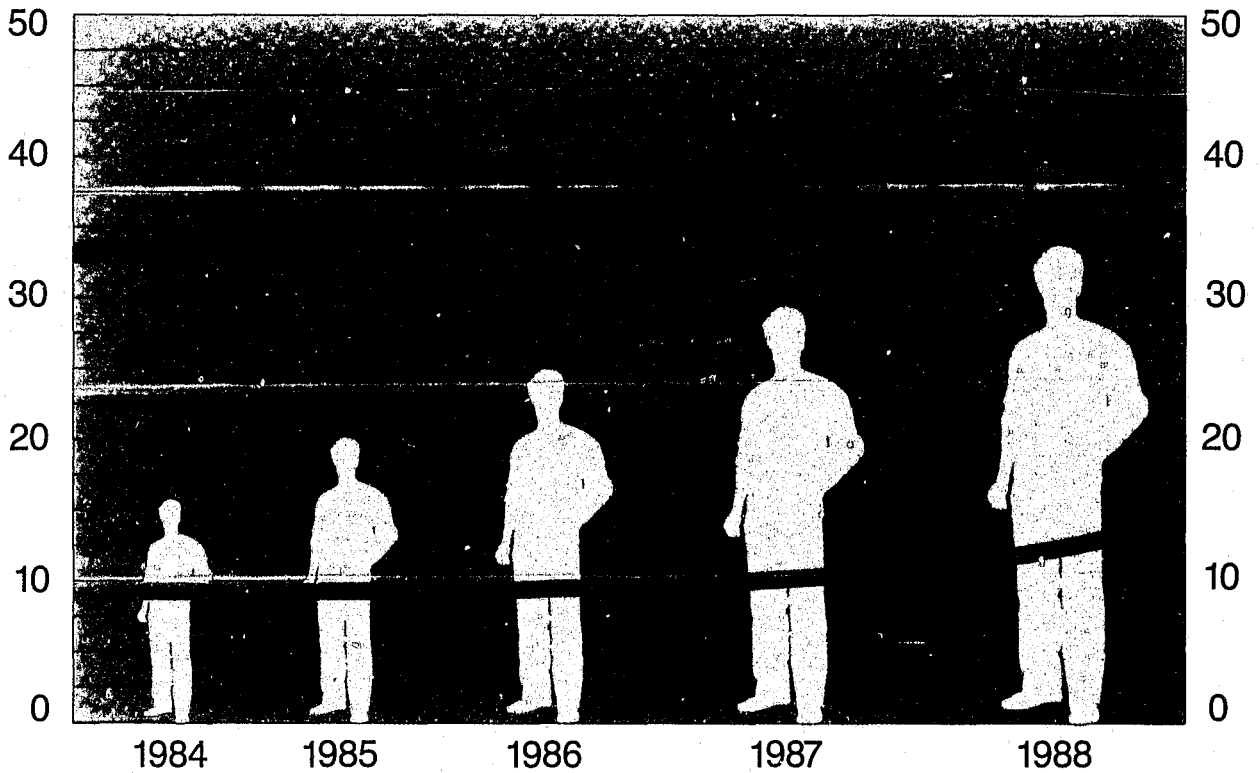
# Trend Charts

POPULATION  
VS.  
EMPLOYMENT  
1984-1988

Population  
Employment

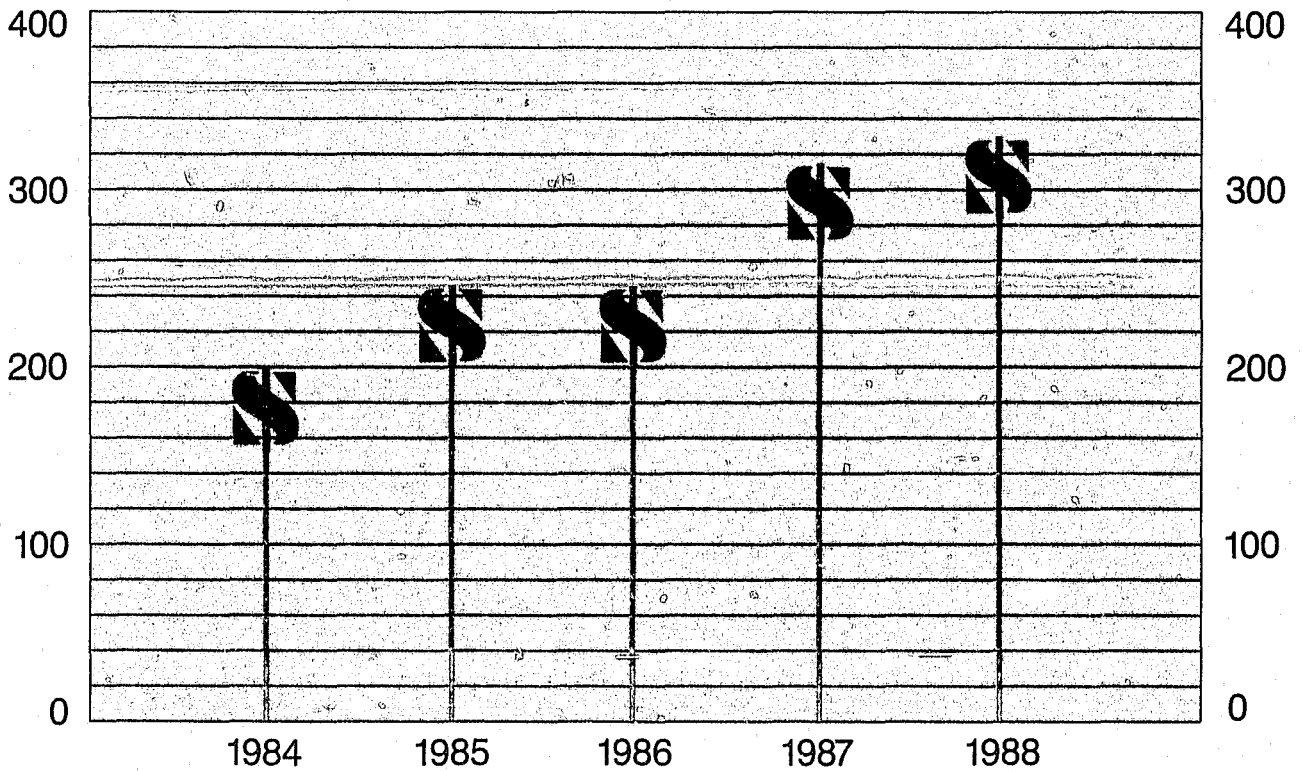
(Employment  
in Thousands)

Population



Sales

(Sales in  
Millions)



# Industrial Operations

Divisions	Metal/Wood Products	Textile & Leather Products
<b>Location and Number of Plants</b>	<p>Allenwood, PA Ashland, KY Duluth, MN El Reno, OK La Tuna, TX Leavenworth, KS Lewisburg, PA Lompoc, CA Milan, MI</p> <p style="text-align: right;"><b>*23 Plants</b></p> <p>Morgantown, WV Otisville, NY Petersburg, VA Pleasanton, CA Seagoville, TX Talladega, AL Tallahassee, FL Terminal Island, CA Texarkana, TX</p>	<p>Alderson, WV Atlanta, GA Big Spring, TX Butner, NC Englewood, CO Leavenworth, KS Lexington, KY Miami, FL Maxwell AFB, AL Oakdale, LA</p> <p style="text-align: right;"><b>*20 Plants</b></p> <p>Otisville, NY Pleasanton, CA Ray Brook, NY Safford, AZ San Diego, CA Sandstone, MN Seagoville, TX Terre Haute, IN Tucson, AZ</p>
<b>Products and Services Provided</b>	<p>Executive furniture, general office furniture, modular systems 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.</p>	<p>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.</p>
<b>Major Federal Customers</b>	<p>Department of Defense General Services Administration U.S. Postal Service Veterans Administration Immigration &amp; Naturalization Service Federal Aviation Administration Bureau of Prisons Social Security Administration</p>	<p>Department of Defense General Services Administration U.S. Postal Service Veterans Administration Bureau of Prisons</p>
<b>Inmates Employed</b>	<p>4,718 Not including support positions</p>	<p>3,032 Not including support positions</p>
<b>Sales</b>	<p>\$124,260,843</p>	<p>\$80,048,765</p>

Data/Graphics	Electronics, Plastics & Optics	Divisions
<p>Alderson, WV Ft. Worth, TX Leavenworth, KS Lexington, KY Lompoc, CA Marianna, FL</p> <p style="text-align: right;">*15 Plants</p> <p>Otisville, NY Petersburg, VA Pleasanton, CA Ray Brook, NY Sandstone, MN</p>	<p>Bastrop, TX Big Spring, TX Boron, CA Butner, NC Danbury, CT Englewood, CO Lexington, KY Lompoc, CA</p> <p style="text-align: right;">*14 Plants</p> <p>Loretto, PA Memphis, TN Oxford, WI Petersburg, VA Phoenix, AZ Rochester, MN</p>	<p><b>Total Number of Plants</b></p> <p>72 Plants*</p>
<p>Data encoding services (key-to-tape, word processing, telecommunications transmission). Printing services of all types from duplication to 4-color process. 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.</p>	<p>Wiring devices of all types, electrical cable assemblies, electronic wiring harnesses, light kits, printed circuits, electronic systems support, and the remanufacture of vehicular electronics systems. Thermo plastics, fiber glass and Kevlar reinforced products, Prescription and non-prescription eyewear, safety eyewear, and radio mounts.</p>	<p><b>Products and Services Provided</b></p>
<p>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 Investment Board</p>	<p>Department of Defense General Services Administration Veterans Administration Bureau of Indian Affairs Bureau of Prisons</p>	<p><b>Major Federal Customers</b></p>
<p>814</p> <p>Not including support positions</p>	<p>3,651</p> <p>Not including support positions</p>	<p><b>Total Number of Inmates</b></p> <p>13,330**</p>
<p>\$22,494,949</p>	<p>\$109,059,539</p>	<p>\$335,864,096***</p>

\*Some locations with multiple plants.  
\*\*This includes an additional 1,115 inmates employed in support positions.  
\*\*\*Does not include transfer sales of \$13.2 million.

# Audit

Office of Government Services  
1801 K Street, N.W.  
Washington, DC 20006

Telephone 202 296 0800

*Price Waterhouse*



To the Board of Directors  
Federal Prison Industries, Inc.

In our opinion, the accompanying balance sheets and the related statements of income and cumulative results of operations and of cash flows present fairly, in all material respects, the financial position of Federal Prison Industries, Inc. (UNICOR) at September 30, 1988 and 1987, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the UNICOR's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards and the financial audit standards in Government Auditing Standards issued by the Comptroller General. These 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*Price Waterhouse*

March 3, 1989

# Balance Sheet

Balance Sheet  
September 30, 1988 and 1987  
(Dollars in Thousands)

Assets	1988	1987
<b>Current Assets</b>		
Cash (Note 2)	\$ 8,811	\$ 6,663
Accounts Receivable	44,423	37,948
Inventories (Note 3)	77,628	63,295
Other Current Assets (Note 4)	4,204	—
	<b>135,066</b>	<b>107,906</b>
<b>Plant and Equipment</b>		
Machinery and Equipment	64,188	61,842
Buildings and Improvements	79,641	78,593
Construction in Progress (Note 5)	15,267	8,280
	<b>159,096</b>	<b>148,715</b>
Less: Accumulated Depreciation	42,987	41,181
	<b>116,109</b>	<b>107,534</b>
<b>Other Assets (Note 4)</b>	<b>5,580</b>	<b>—</b>
	<b>\$256,755</b>	<b>\$215,440</b>

## Liabilities and U.S. Government Equity

<b>Current Liabilities</b>		
Accounts Payable	\$ 48,354	\$ 26,389
Advances from Customers (Note 2)	21,108	6,420
Salaries and Wages Payable	4,649	4,361
Other Accrued Expenses	4,522	9,285
	<b>78,633</b>	<b>46,455</b>
<b>Accrued Annual Leave</b>	<b>3,388</b>	<b>3,225</b>
	<b>82,021</b>	<b>49,680</b>
<b>U.S. Government Equity</b>		
Initial Capital	4,176	4,176
Donated Property	626	649
Cumulative Results of Operations	169,932	160,935
	<b>174,734</b>	<b>165,760</b>
	<b>\$256,755</b>	<b>\$215,440</b>

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

# Statement of Income

## Statement of Income & Cumulative Results of Operations September 30, 1988 and 1987

(Dollars in Thousands)

	1988	1987
Sales	\$335,864	\$306,754
Other Income (Note 4)	1,724	760
Gross Income	337,588	307,514
Cost of Goods and Services Sold	290,947	272,638
Gross Profit	46,641	34,876
Selling, General and Administrative Expenses (Note 6)	25,808	20,359
Income from Industrial Operations	20,833	14,517
Non-Industrial Expenses		
Inmate Performance Pay	6,927	6,160
Vocational Training Program (Note 7)	4,909	5,816
Income Before Cumulative Effect of Accounting Change (Note 1)	8,997	2,541
Cumulative Effect of Accounting Change	—	1,573
Net Income	8,997	968
Cumulative Results of Operations, Beginning	160,935	159,967
Cumulative Results of Operations, Ending	\$169,932	\$160,935

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

# Statement of Cash Flows

## Statement of Cash Flows for September 30, 1988 and 1987

(Dollars in Thousands)

	1988	1987
<b>Cash Flows From Operating Activities:</b>		
Cash Received From Customers	\$351,480	\$305,895
Cash Paid to Suppliers	(262,812)	(223,804)
Civilian and Inmate Payrolls	(73,371)	(63,646)
Net Cash Provided by Operating Activities	15,297	18,445
<b>Cash Flows From Investing Activities:</b>		
Net Capital Expenditures—Machinery & Equipment	5,443	4,191
—Building & Improvements	7,706	9,488
Net Cash Used in Investing Activities	13,149	13,679
<b>Net Increase in Cash</b>	<b>2,148</b>	<b>4,766</b>
<b>Cash at Beginning of Year</b>	<b>6,663</b>	<b>1,897</b>
<b>Cash at End of Year</b>	<b>\$ 8,811</b>	<b>\$ 6,663</b>

### Schedule Reconciling Earnings to Net Cash Flow From Operating Activities

<b>Net Income</b>	<b>\$ 8,997</b>	<b>\$ 968</b>
<b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</b>		
Depreciation/Amortization	7,716	6,955
Accounting Policy Change	—	1,573
Accrual of Annual Leave	163	328
Purchase of Reimbursable Inventory	(132)	—
Net Loss on Disposals of Assets	68	—
Increase in Accounts Receivable	(6,475)	(12,610)
(Increase) Decrease in Inventories	(14,333)	11,213
Increase in Other Current Assets	(4,204)	—
Increase (Decrease) in Accounts Payable		
Net of Year-end Investing Activity Liabilities	13,284	(2,081)
Increase in Advances from Customers	14,688	6,420
Increase in Salaries Payable	288	495
Increase (Decrease) in Accrued Expenses	(4,763)	5,184
<b>Net Cash Flow From Operating Activities</b>	<b>\$ 15,297</b>	<b>\$ 18,445</b>

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

# Financial Notes

## 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-industrial 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 in 1987.

**Statement Presentation**—The financial statements include UNICOR's 72 industrial facilities located at 41 correctional institutions and its central and administrative offices located in Washington, D.C. Inter-industry transactions, including profits, have been eliminated.

**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 and 30 to 40 years, respectively.

Included in Plant and Equipment are non-operating properties valued at estimated realizable value of \$190,000 in 1988 and \$70,000 in 1987. 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.



# Financial Notes

## Note 1: Summary of Significant Accounting Policies (continued)

**Inventories**—Inventory is valued at the lower of cost or market using the moving average cost method. The Corporation records currently as an inventory loss reserve the total of the anticipated losses for contracts where the total estimated cost to produce exceeds the total sales price.

**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: Advances from Customers

The Corporation receives advances on some major contracts to fund raw material purchases. At September 30, 1988, cash includes \$5.6 million of these advances.

## Note 3: Inventories

The following is a summary of inventories:

	Year Ended September 30, (Dollars in Thousands)	
	1988	1987
Raw Materials and Supplies	\$42,932	\$36,510
Work-In-Process	25,837	19,405
Finished Goods	11,242	12,180
	80,011	68,095
Less: Reserve for Estimated Losses on Sales Commitments	2,383	4,800
<b>Total Inventories</b>	<b>\$77,628</b>	<b>\$63,295</b>

---

# Financial Notes

---

## Note 4: Gain on Involuntary Conversion

---

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. A total of \$6.6 million will be reimbursed by the Bureau of Prisons (\$4.2 million to be paid in fiscal year 1989 and the balance in fiscal year 1990) for inventories and equipment. The equipment reimbursement exceeds depreciated cost and accordingly results in a gain on conversion during fiscal year 1988 of \$998,000.

The buildings destroyed had a net book value of \$3.1 million. These buildings are being reconstructed by the Bureau of Prisons at no cost to the Corporation. Consistent with Accounting Principles Board Opinion No. 29, this reconstruction is treated as an exchange of non-monetary assets and accordingly, no gain or loss has been recognized. The \$3.1 million is included in Other Assets until reconstruction is completed.

## Note 5: Construction Commitments

---

Various projects for the construction of industrial facilities at new institutions and the renovation of existing facilities were in progress at September 30, 1988. The estimated additional cost to complete these projects is \$11 million dollars.

## Note 6: 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 to the limitation.

	Year Ended September 30, (Dollars in Thousands)	
	1988	1987
Congressional Limitation	\$2,347	\$2,157
Total Expenses Subject to Congressional Limitation	\$2,260	\$1,705

---

---

# Financial Notes

---

## Note 7: 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.

	Year Ended September 30, (Dollars in Thousands)	
	1988	1987
Congressional Limitation on Vocational Training	\$7,571	\$7,208
Operating Expenses of Permanent Programs	\$4,133	\$4,361
Operating Expenses and Machinery and Equipment for Experimental Programs	776	1,235
Total Subject to Congressional Limitation	\$4,909	\$5,596

---

## Note 8: Pensions

---

Civilian employees of UNICOR are covered by FICA and the Federal Employment Retirement System (FERS). Employees who were employed before January 1, 1984 are covered by the Civil Service Retirement and Disability Fund (CSR). Consequently, UNICOR has the responsibility for withholding 7% (normal retirement) or 7½% (hazardous duty retirement) of each employee's salary and for contributing a matching amount to the fund. Total costs in 1988 and 1987 for FERS and CSR were \$5,059,985 and \$3,578,524 respectively.

## Note 9: Subsequent Event

---

Borrowing and investment authority were authorized on November 18, 1988 under the Omnibus Anti-Substance Abuse Act of 1988. Budget Act of 1989 authorized borrowing authority not to exceed \$20 million for fiscal year 1989.

## Board of Directors



**JOHN MARSHALL BRILEY (Chairman)**

Appointed to the 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 is 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 the 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.



**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.



**PAUL T. SHIRLEY (Member)**  
Appointed to the Board 5-27-82  
Represents Industry

Mr. Shirley is President of Medevac, Inc. He studied Police Science at Pasadena City College and San Jose State College. He is a 1987 graduate of the Senior Executive Course, at the Graduate School of Business, Stanford University. Mr. Shirley has corrections experience, serving as a Management Trainee with the Federal Bureau of Prisons at Lewisburg, PA and Milan, MI, 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).



**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 graduated from The George Washington University (B.A./International Affairs, 1966; J.D., 1974). He was a local prosecutor, taught law school, and was an associate in private practice. He is currently Chairman of the National Crime Prevention Coalition and a member of the Advisory Board of the National Institute of Corrections.

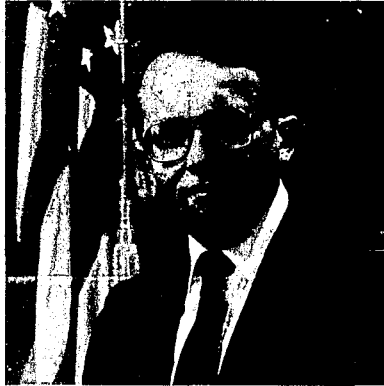


**DONALD A. SCHWARTZ (Member)**  
Appointed to the Board 7-2-85  
Represents Retailers and Consumers

Mr. Schwartz is president of Medallic Art Co. in Danbury, CT. A graduate of New York University, Mr. Schwartz is a graduate of the Senior Executive Course, at the Graduate School of Business, Stanford University, 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.

---

# Officers of the Corporation



J. MICHAEL QUINLAN  
Commissioner/Director



GERALD M. FARKAS  
Chief Operating Officer



RICHARD SEITER  
Chief Operating Officer Designate



GLEN POMMERENING  
Deputy Chief Operating Officer  
(Administration)



DALE THOMAS  
Deputy Chief Operating Officer  
(Operations)



JAMES A. MEKO  
Deputy Chief Operating Officer  
(Programs)