Audit of the Federal Prison Industries, Inc. Restated Annual Financial Statements Fiscal Year 2021

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AUDIT DIVISION

26-005

DECEMBER 2025

COMMENTARY AND SUMMARY

Audit of the Federal Prison Industries, Inc. Restated Annual Financial Statements Fiscal Year 2021

Objectives

Pursuant to the Government Corporation Control Act, as amended (31 U.S.C. § 9105), the Department of Justice Office of the Inspector General (OIG) contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audit of the Federal Prison Industries, Inc.'s (FPI) annual financial statements.

The objectives of the audit were to opine on the financial statements as of and for the year ended September 30, 2021; report on internal control over financial reporting; and report on compliance and other matters, including compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).

Results in Brief

On November 12, 2021, KPMG issued an unmodified opinion on previously issued fiscal year (FY) 2021 financial statements. However, in FY 2023 FPI management discovered a misstatement and KPMG withdrew its unqualified opinion based on this misstatement. FPI subsequently restated its FY 2021 financial statements, which are included in and the subject of this report.

In this report, KPMG found that the FPI's restated financial statements are fairly presented as of and for the year ended September 30, 2021, and issued an unmodified opinion. KPMG reported three material weaknesses in the Independent Auditors' Report and did not report any instances of non-compliance.

Audit Results

The audit of the restated FY 2021 FPI financial statements resulted in an unmodified opinion. An unmodified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in accordance with U.S. generally accepted accounting principles. For FY 2020, the FPI also received an unmodified opinion on its financial statements (OIG Audit Division Report Number 21-019).

During FY 2021, FPI adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). After issuance, FPI identified a misstatement in its previously issued FY 2021 financial statements. Specifically, revenue was incorrectly presented on a gross basis for arrangements where FPI was acting as an agent in contracts with customers. Additionally, FPI management identified a misstatement in the application of revenue recognition guidance under Topic 606 resulting in the shipping and handling activities being incorrectly presented. The FY 2021 financial statements have been restated to correct the previously reported financial statements.

KPMG reported three material weaknesses in the Independent Auditors' Report, noting that improvements are needed in accounting standard implementation controls, response to changes in contracts, and the identification of risks related to revenue presentation and recognition. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

No instances of non-compliance or other matters were identified during the audit that are required to be reported under Government Auditing Standards. Additionally, KPMG's tests disclosed no instances in which the FPI's financial management systems did not substantially comply with FFMIA.

The FPI's annual financial statements were submitted to the Office of Management and Budget on December 11, 2025, and are included within this OIG report. The OIG's memorandum transmitting the Independent Auditors' Report to FPI, the Independent Auditors' Report, and the OIG Analysis and Summary of Actions Necessary to Close the Audit Report are found on pages 12, 14, and 44, respectively, of FPI's annual financial statements.

Recommendations

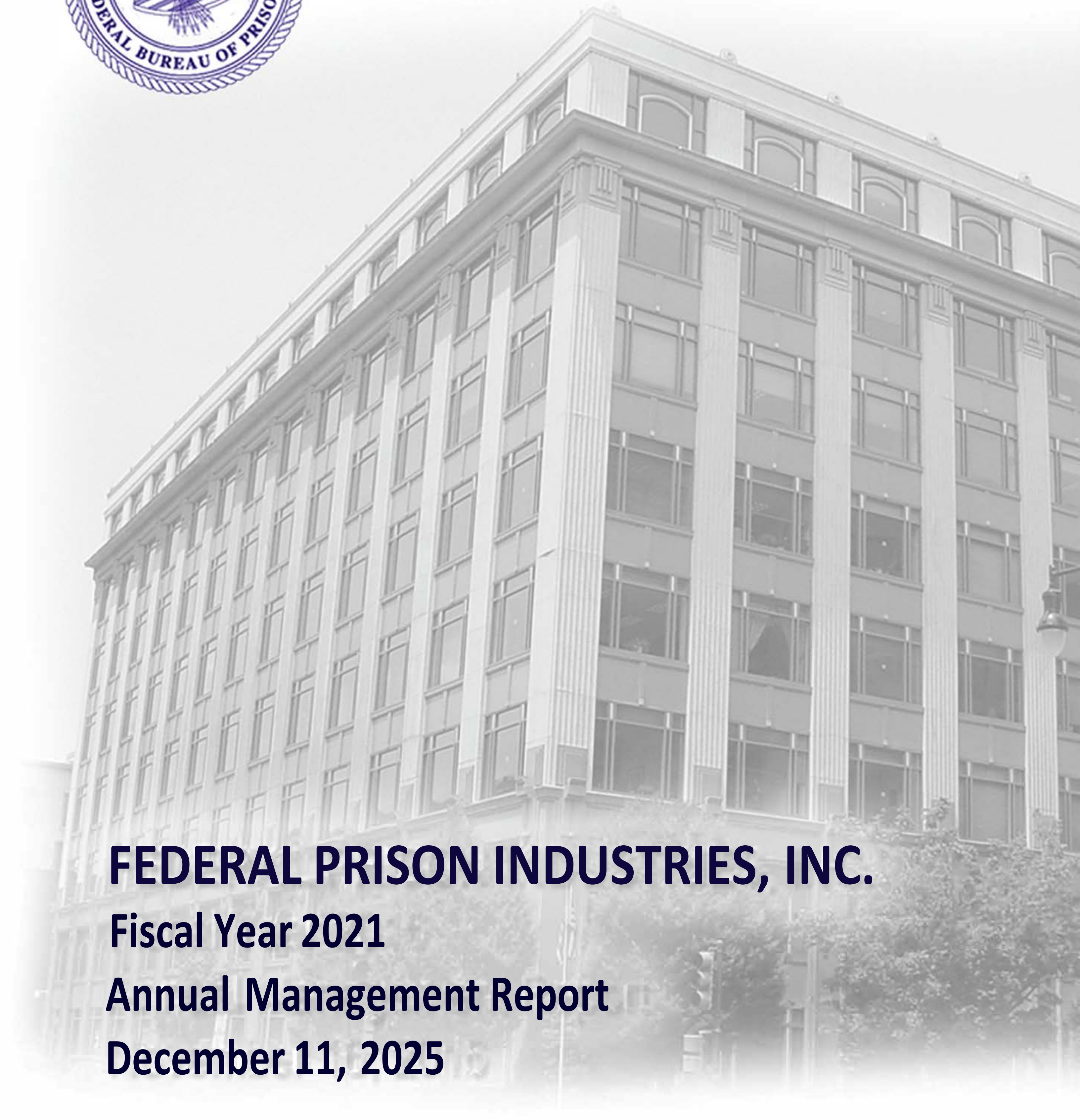
KPMG provided FPI with five recommendations to improve its internal controls, including three new recommendations and two updated recommendations. Management concurred with KPMG's recommendations, and its response to the recommendations can be found in the Exhibit of the Independent Auditors' Report.

KPMG also evaluated whether FPI had taken the appropriate corrective action to address the recommendation from the FY 2020 financial statements audit that remained open during the FY 2021 audit. The audit results determined that correction actions were not fully completed during the audit of the restated financial statements. The recommendation was updated, resulting in two recommendations and the FY 2020 recommendation was closed.

Recommendations number 1 and 2 below are closed upon issuance of this report because, although they had not been addressed by the end of FY 2021, corrective actions were completed by the end of FY 2023. These recommendations are further discussed in the audit report containing FPI's annual financial statements for FY 2022 and FY 2023, which is being issued concurrently with this report (OIG Audit Division Report Number 26-006). The following table provides the status of FPI financial statement audit recommendations. A "Resolved" status means that the FPI has agreed to implement the recommendation or has proposed actions that will address the recommendation. Corrective actions relevant to resolved recommendations will be evaluated in subsequent financial statement audits.

Fiscal Year	Recommendations	Status
FY 2021	**Recommendation No. 1:** Design and implement policies and procedures to assess changes in accounting standards. *(Updated)*	Closed
	Recommendation No. 2: Enhance its training programs to enable staff to identify and respond to required accounting principles. *(Updated)*	Closed
	Recommendation No. 3: Design and implement policies and procedures to identify changes in operational activities that necessitate a chance in accounting treatment. *(New)*	Resolved
	Recommendation No. 4: Design and implement policies and procedures to identify risks related to presentation matters that are pertinent to the users of the financial statements. *(New)*	Resolved
	Recommendation No. 5: Design and implement a formal revenue recognition review process for significant judgments and elections. *(New)*	Resolved
FY 2020	**Recommendation No. 1:** Implement policies and procedures to assess significant changes in their operations and enhance their training programs to enable their staff to identify and respond to required accounting principles, including FASB ASC Section 606, in the fiscal year 2021.	Closed *(Updated by FY 2021 Recommendation Nos. 1 and 2.)*

FEDERAL PRISON INDUSTRIES, INC.
ANNUAL FINANCIAL STATEMENTS



FEDERAL PRISON INDUSTRIES, INC.

Fiscal Year 2021

Annual Management Report

December 11, 2025

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U.S. Department of Justice
Federal Bureau of Prisons
Federal Prison Industries, Inc.

400 First Street, NW
Washington, D.C. 20534

December 11, 2025

We are pleased to present the Federal Prison Industries, Inc.'s (FPI) Fiscal Year 2021 Annual Management Report to the Congress of the United States. This report includes FPI's financial statements, Management's Discussion and Analysis, the Office of the Inspector General Transmittal Memorandum and Appendix, and the Independent Auditors' report on the Corporation's financial statements, internal controls over financial reporting and compliance, and other matters. FPI's financial statements received an unmodified audit opinion, although material weaknesses related to revenue were identified. FPI will continue to assess, change, and implement policies and procedures necessary to ensure future compliance with ASC 606 Revenue from Contracts with Customers.

FPI was established by statute and Executive Order 6917 in 1934 to provide opportunities for educational and work-related experiences to federal offenders. Although a great deal of time has passed and technology is changing rapidly, FPI's mission throughout these years has remained the same - to protect society and reduce crime by preparing adults in custody (AIC) for successful reentry through job training. FPI continues to emphasize reaching as many AIC as possible by focusing on the employment of AIC within two years of release. As one of the Bureau of Prisons' (BOP's) most crucial AIC reentry programs, FPI employed over 16,300 AIC throughout FY 2021, employing 10,032 federal AIC in FPI factories at fiscal year-end.

The need to address AIC idleness was a contributing factor in the creation of FPI in 1934. This program continues to directly support the BOP's mission by keeping AIC productively occupied, which lowers the likelihood that they will engage in disruptive behavior and contributes significantly to the safe and secure management of prisons. Additionally, AIC participating in the FPI program have an increased likelihood of successful reentry into society. They are significantly less likely to return to a life of crime, which reduces future costs of enforcement and incarceration.

FPI is a program with proven lasting benefits, including reduced recidivism; a positive impact on the US economy through the raw materials purchased from suppliers, including veteran, small, and women-owned businesses; and the staff salaries spent in the community, all without an additional tax burden to society.

As a federal government corporation, FPI is a program that also functions as a business to remain self-sustaining. It continues to face a dynamic set of external and internal constraints. Due to the nature of the changes affecting purchases from FPI by the government sector, the emphasis continues to be exploring more opportunities with commercial customers. New market authorities, contained in both the Consolidated and Further Continuing Appropriations Act of 2012, (PL 112-55) authorize FPI to participate in the Prison Industry Enhancement Certification Program (PIECP) and to obtain commercial customers through repatriation of work opportunities otherwise performed outside of the United States. Additionally, FPI began the lengthy process of implementing the new authorities provided by the First Step Act in fiscal year 2019. FPI is optimistic that we will continue to grow operations as we seek to meet the employment goals outlined in the First Step Act. FPI is thankful for the support from all of the Department of Justice agencies in assisting with the development of work opportunities to support our mission. The outstanding dedication of FPI staff, the continued outstanding support, and leadership provided by the Board of Directors all contribute to FPI's continued success.

OLETA VASSILOPOULOS Digitally signed by OLETA VASSILOPOULOS Date: 2025.12.11 14:00:22 -05'00'

Oleta Vassilopoulos
Acting Senior Deputy Assistant Director
Federal Prison Industries, Inc.

EDWARD PORRAS Digitally signed by EDWARD PORRAS Date: 2025.12.11 13:33:07 -05'00'

Edward Porras
Chief Financial Officer
Federal Prison Industries, Inc.

U.S. Department of Justice
Federal Prison Industries, Inc.
Management's Discussion and Analysis
(Unaudited)

Mission

It is the mission of Federal Prison Industries, Inc. (FPI) to protect society and reduce crime by preparing adults in custody (AIC) for successful reentry through job training.

Organizational Structure of Federal Prison Industries, Inc.

FPI is a wholly-owned government corporation created by Congress in 1934. FPI is authorized to operate industries in federal penal and correctional institutions and disciplinary barracks (18 U.S.C. § 4121 to § 4129). The Director of the Federal Bureau of Prisons (BOP), who has jurisdiction over all federal correctional institutions, is the Commissioner of FPI. General management of FPI is provided by the Chief Executive Officer who also serves as an Assistant Director for the BOP. Fiduciary and policy oversight of FPI is administered by a board of six directors appointed by the President.

In fiscal year 2021, FPI operated in seven business segments: Agribusiness, Clothing and Textiles, Electronics, Fleet, Office Furniture, Recycling, and Services. FPI had agricultural, industrial and service operations at 63 factories and 2 farms located at 51 prison facilities as of September 30, 2021. Factories are operated by FPI supervisors and managers, who train and oversee the work of AIC. The factories utilize raw material and component parts purchased primarily from the private sector to produce finished goods. Orders for goods and services are obtained through marketing and sales efforts managed primarily by FPI staff. Some products and all services are provided on a non-mandatory, preferred source basis. FPI's ability to add or to expand production of a specified mandatory product is regulated by the Federal Prison Industries Reform Act (the Act). The Act provides specific guidelines to FPI regarding its methodology for evaluating and reporting new or expanded products. FPI also has procedures for competitive and non-mandatory items it produces. Finally, publication of annual decisions of the FPI Board of Directors and semi-annual sales disclosures are mandated under the Act. FPI processes primarily all customer orders and billings along with vendor payments through a centralized service center in Lexington, Kentucky.

Financial Structure

FPI operates as a revolving fund and does not receive an annual appropriation. The majority of revenues are derived from the sale of products and services to other federal departments, agencies, and bureaus. Operating expenses such as the cost of raw materials and supplies, AIC wages and staff salaries are applied against these revenues resulting in operating income or loss, which is reapplied toward operating costs for future production. In this regard, FPI makes capital investments in buildings and improvements, machinery, and equipment as necessary in the conduct of its industrial operation.

FPI sells products and services to the majority of federal departments, agencies, and bureaus. FPI's largest federal government customers for fiscal year 2021 include the Department of Defense (DOD), the Department of Homeland Security (DHS), the Department of Justice (DOJ), the Social Security Administration (SSA), and the General Services Administration (GSA).

Given the variability in government sector purchasing trends, FPI has placed emphasis on exploring additional opportunities with commercial customers. Opportunities in this arena have become available as part of the approval for FPI to obtain commercial customers through repatriation and bringing sales otherwise sent to foreign countries back into the United States. New opportunities are being pursued through a collaboration of FPI's business groups and the Business Development Group (BDG). Additionally, the Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55) authorized FPI to participate in the Prison Industries Enhancement Certification Program (PIECP), a program allowing FPI to explore potential joint ventures with private sector businesses as a means of expanding our core training mission for AICs.

Critical Accounting Policies

The following discussion and analysis of FPI's financial condition, results of operations, liquidity and capital resources are based upon FPI's financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private sector standards-setting body. GAAP requires FPI management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses. In this regard, FPI management evaluates the estimates on an on-going basis, including those related to product returns, bad debt, inventories, long-lived assets, and contingencies and litigation. FPI bases its estimates upon historical experience and various other assumptions that FPI believes are reasonable under the circumstances. The actual results may differ from these estimates when assumptions or conditions change.

FPI believes that some of its accounting policies involve complex or higher degrees of judgment than its other accounting policies. The following accounting policies have been identified by FPI management as being critical and therefore require more significant estimates or reliance on a higher degree of judgment on the part of FPI management.

Revenue recognition: The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. FPI adopted Topic 606 on October 1, 2020 utilizing the modified retrospective method for all open contracts. FPI also adopted the related guidance in ASC 340-40, *Contracts with Customers* (ASC 340-40) on October 1, 2020 with respect to costs to obtain and costs to fulfill a contract.

Allowance for doubtful accounts receivable: The allowance for doubtful accounts is based upon an analysis of several factors including payment trends, historical write off experience, credit quality for non-governmental accounts, and specific analysis of collectability of an account. During the course of time, these factors may change which will cause the allowance level to adjust accordingly. As part of this analysis, customer accounts determined to be unlikely to be paid are recorded as a charge to bad debt expense in the income statement and the allowance account is increased. When it becomes certain that a customer account will not be paid, the receivable is written off by removing the balance from accounts receivable.

Inventory valuation: FPI maintains its inventory primarily for the manufacture of goods for sale to its customers. FPI's inventory is composed of four categories: Raw Materials, Work-in-Process, Sub-Assemblies, and Finished Goods. These categories are generally defined by FPI as follows: Raw Materials consist of materials that have been acquired and are available for the production cycle, Work-in-Process is composed of materials that have moved into the production process and have some measurable amount of labor and overhead added by FPI, Sub-Assemblies are materials with FPI added labor that are awaiting future further production, and Finished Goods are materials with FPI added labor and overhead that have completed the production cycle and are awaiting sale to customers.

Raw material inventory value is based upon moving average cost. Inventories are valued at the lower of average cost or net realizable value (LCNRV) and include materials, labor and manufacturing overhead. Net realizable value is calculated on the basis of the contractual or anticipated selling price, less allowance for administrative expenses. Work-in-Process inventory value is based on a point in time of actual cost accumulation. FPI values its finished goods and sub-assembly items at a standard cost that is periodically adjusted to approximate actual cost. FPI has established inventory allowances to account for LCNRV adjustments and obsolete items that may not be utilized in future periods.

Program Values

It is FPI's vision to protect society, reduce crime, aid in the security of the nation's prisons and decrease taxpayer burden by assisting AIC with developing vital skills necessary for successful reentry into society. Through the production of market-priced quality goods and services, FPI provides job training and work opportunities to AIC, while minimizing impact on private industry and labor. FPI provides a program of constructive industrial work and services where job skills can be developed and positive work habits acquired.

FPI has existed as an effective correctional program for 87 years. Over the course of these years, FPI has positively impacted countless staff and AIC lives. FPI's training programs ease tension within the correctional environment and avert dangerous situations, thereby protecting lives and federal property. FPI work programs provide meaningful activities for AIC, thereby playing an essential role in the operation of safe, secure, and less costly correctional facilities.

FPI provides opportunities for AIC who want to take an active role in their rehabilitation. More than 95 percent of AIC eventually will be returned to society; industrial programs can help them to steer clear of criminal activity after release. A comprehensive study conducted by the BOP demonstrated that FPI provides training to AIC with an opportunity to develop positive work ethics and skills, contributes substantially to lower recidivism and increases the job-related success of AIC upon release. AIC involved in FPI work programs are substantially less likely to return to prison. The impact on the lives of people who live in the communities in which these AIC will return is immeasurable.

Analysis of Financial Statements

Investments

During fiscal year 2021, FPI redeemed $59.5 million in investments. As a general investment strategy, FPI plans to hold all short-term and long-term investments to maturity.

Accounts Receivable

Accounts Receivable balance decreased $4.0 million during fiscal year 2021. FPI's average days to collect in 2021 were approximately 24.6 days.

Liabilities

Total Liabilities increased by $10.7 million during fiscal year 2021. The primary contributor was a $16.1 million increase in contract liabilities. The contract liabilities are attributable to customer advances payable on hand primarily for the retrofitting of vehicles for the DHS.

Revenue, Cost of Revenue, and Net Income

During fiscal year 2023, it was discovered that in fiscal year 2021 revenue was being incorrectly presented on a gross basis for arrangements where FPI was acting as an agent in contracts with customers. Where such arrangements require presentation on a net basis, FPI has restated fiscal year 2021 numbers related to this error.

During fiscal year 2024, FPI discovered that revenue had been recognized, presented, and disclosed incorrectly under ASC 606-10-25-18B. Specifically, FPI elected to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations. The election allows the revenue for shipping and handling activities to be recorded as part of the transaction price and used to recognize revenue when control of the good transfers to the customer. While FPI did record and present some of the shipping and handling activities correctly, the presentation of shipping and handling as other revenue is in error. In addition, the calculation, recognition, and presentation of overtime revenues was not consistent with the policy election made by FPI.

The restatement of fiscal year 2021 results is reflected within the Statement of Operations and Cumulative Results of Operations, the Balance Sheet, and the Statement of Cash Flows as well as Note 3 Restatement.

Users of previously issued fiscal year 2021 financial statements should no longer rely on those statements.

Business Segments

FPI's businesses are organized, managed, and internally reported as seven operating segments based on products and services. These segments are Agribusiness, Clothing and Textiles, Electronics, Fleet, Office Furniture, Recycling, and Services. FPI is not dependent on any single product as a primary revenue source; however, it is currently primarily dependent on the federal government market for the sale of its products. FPI's earnings by business segment, after General and Administrative costs (G&A), consists of sales, interest income, and other revenue offset by cost of sales, cost of other revenue, selling expense and certain other general and administrative costs.

The amounts listed in the table below are presented as dollars in thousands.

Business Segment	Fiscal Year
Agribusiness	**2021 (Restated)**
Sales	$6,137
Earnings after G&A	($1,354)
Clothing and Textiles	
Sales	$129,607
Earnings after G&A	$802
Electronics	
Sales	$14,745
Earnings after G&A	($1,186)
Fleet	
Sales	$92,314
Earnings after G&A	$10,753

Business Segment	Fiscal Year
Office Furniture	**2021 (Restated)**
Sales	$114,879
Earnings after G&A	$9,045
Recycling	
Sales	$30,593
Earnings after G&A	$16,605
Services	
Sales	$29,885
Earnings after G&A	$8,328
Factory Total	
Sales	$418,160
Earnings after G&A	$42,993

As of fiscal year 2021(restated), FPI has chosen to display earnings after G&A to provide a proper indication of the business segment's profitability.

Possible Future Effects of Existing Events and Conditions

During fiscal year 2021, Covid disruptions to the supply chain and to factory operations negatively impacted sales. Through the extraordinary efforts of its staff, FPI was realized a profit of $8.0 million (restated) at the end of fiscal year 2021.

Continuing Impact of COVID-19 on FPI Operations

Covid disruptions began at the end of March 2020, when all FPI factories were closed, except those converted to the production of personal protective equipment and two farm operations. In fiscal year 2021, most FPI factories were operational, but overall factory capacity operated at an average of only 68 percent, well below breakeven. By the end of September 2021, FPI was operating at only 80 percent of pre-pandemic levels due to necessary COVID-19 operational restrictions.

These restrictions had a negative impact on FPI's ability to manufacture and ship products to customers in a timely manner. Additionally, many customers were unable to accept deliveries, as they were either working a modified schedule or non-operational, due to the pandemic.

Plan for Growth

In order to increase sales in fiscal year 2022 and beyond, FPI's strategy is to increasingly leverage its Business Development Group (BDG). The BDG is the branch within FPI that explores and acquires commercial opportunities for FPI that are authorized under various authorities (including the First Step Act, repatriation, and PIECP), in addition to identifying and securing prime and subcontracting roles on federal government contracts.

Upgrade to SAP S/4 Enterprise Resource Planning (ERP) System

In fiscal year 2019, FPI began the implementation of SAP S/4 Hana, an upgrade to FPI's current enterprise resource planning (ERP) system. TS/4 Hana is planned to enhance functionality in the areas of a unified general ledger, costing, and profitability analysis. The upgraded system will provide FPI users with a more user-friendly and powerful analytics.

Employment of AIC

FPI employed 16,315 AIC workers throughout fiscal year 2021, which, due to COVID-19, was below FPI's goal of 18,000 AIC workers. In order to ensure that FPI work skills are up-to-date among releasing AIC with FPI experience, which is likely to enhance these AIX post-release job prospects, FPI's goal is that 30 percent of the FPI AIC workforce will consist of AIC within 3 years of their release date. For fiscal year 2021, 29 percent of FPI AIC were within 3 years of their release, which was lower than recent years due to the release of a significant number of AIC in the target population to Residential Reentry Management (RRM) field offices, and home release due to COVID-19.

By fiscal year 2022, the First Step Act requires the Attorney General to report on efforts to enable 75 percent of the eligible minimum- and low-risk offenders to have the opportunity to participate in a prison work program for not less than 20 hours per week. FPI will be expected to grow in order to provide a significant number of these opportunities.

December 11, 2025

MEMORANDUM FOR Todd Plimpton
Chief Executive Officer
Federal Prison Industries, Inc.

FROM: Don R. Berthiaume
Acting Inspector General

SUBJECT: Independent Auditors' Report on the Audit of the Federal Prison Industries, Inc.'s Annual Financial Statements, Fiscal Year 2021

The Government Corporation Control Act, as amended (31 U.S.C. § 9105), requires the Department of Justice (Department) Inspector General, or an independent external auditor as determined by the Inspector General, to audit the Federal Prison Industries, Inc.'s (FPI) financial statements.

The Office of the Inspector General (OIG) contracted with the independent public accounting firm KPMG LLP (KPMG) to audit the financial statements of the FPI as of and for the fiscal year ended September 30, 2021. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance.

On November 12, 2021, KPMG issued an unmodified opinion on the previously issued fiscal year (FY) 2021 financial statements. However, in FY 2023 FPI management discovered a misstatement and KPMG withdrew its unqualified opinion based on this misstatement. FPI subsequently restated its FY 2021 financial statements. In this audit of the FPI's restated financial statements, KPMG reported:

- The financial statements are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.
- Three material weaknesses were reported in internal controls over financial reporting.
- No instances of non-compliance or other matters.

- No instances in which the FPI's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The OIG reviewed KPMG's report and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with Government Auditing Standards, was not intended to enable us to express, and we do not express, an opinion on the FPI's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the FPI's financial management systems substantially complied with FFMIA, or conclusions on compliance and other matters. KPMG is responsible for the attached Independent Auditors' Report dated December 11, 2025, and the conclusions expressed in the report. Our review disclosed no instances where KPMG did not comply, in all material respects, with Government Auditing Standards.

Attachment

cc: Oleta Vassilopoulos
Acting Senior Deputy Assistant Director
Federal Prisons Industries, Inc.

Edward Porras
Chief Financial Officer
Federal Prisons Industries, Inc.

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
U.S. Department of Justice

Chief Executive Officer
Board of Directors
Federal Prison Industries, Inc.
U.S. Department of Justice:

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Department of Justice Federal Prison Industries, Inc. (FPI), which comprise the balance sheet as of September 30, 2021, and the related statement of operations and cumulative results of operations, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Federal Prison Industries, Inc. as of September 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter – Change in Accounting

As discussed in Note 2 to the financial statements, FPI changed its method of accounting for revenue recognition in the year ended September 30, 2021, due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and the related amendments. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Restatement

As discussed in Note 3 to the financial statements, FPI has restated its financial statements to correct misstatements. Our opinion is not modified with respect to this matter.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Letter from the Acting Senior Deputy Assistant Director and Chief Financial Officer, Management's Discussion and Analysis, the Office of the Inspector General Transmittal Memorandum, and Appendix are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2021, we considered FPI's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FPI's internal control. Accordingly, we do not express an opinion on the effectiveness of FPI's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Exhibit, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FPI's financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which FPI's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

FPI's Responses to the Findings

FPI's responses to the findings identified in our audit are described in the Exhibit. FPI's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FPI's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
December 11, 2025

EXHIBIT

Material Weaknesses

This section contains our discussion of the material weaknesses that we identified in internal control over financial reporting.

Improvements Needed in Accounting Standard Implementation Controls

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Federal Prison Industries, Inc. (FPI) provides employment and training for inmates in the Federal Prison System while remaining self-sufficient through the sale of its products and services primarily to other federal departments, agencies, and bureaus. FPI recognizes revenue in conformity with U.S. generally accepted accounting principles (GAAP) based on accounting standards issued by the Financial Accounting Standards Board (FASB). FPI adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), in fiscal year 2021.

FPI's internal controls over the adoption of a new accounting standard were deficient. Management did not properly record the entries to implement Topic 606 in the financial statements. FPI lacked policies and procedures to assess changes in accounting standards and adherence to required accounting principles and their application to the financial statement presentation. At the end of fiscal year 2021, FPI incorrectly overstated total revenue by $142 million and misstated other balances by material amounts including cost of sales, net income, and accounts receivable as well as the related amounts in the statement of cash flows and the notes to the financial statements. Management subsequently corrected the errors in the financial statements.

Criteria:

The Government Accountability Office's *Standards for Internal Controls in the Federal Government* states:

> Principle 9.01 (Identify, Analyze, and Respond to Change): "Management should identify, analyze, and respond to significant changes that could impact the internal control system."

FASB Accounting Standards Codification (ASC) states:

> Section 606-10-05-2 (Overview and Background): "This Topic establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers."

Recommendations:

We recommend that FPI:

1. Design and implement policies and procedures to assess changes in accounting standards.

Management's Response:

FPI Management concurs. In fiscal years 2023, 2024 and 2025, FPI evaluated processes related to control activities under ASC Topic 606. FPI will continue to strengthen its ability to respond to new accounting standards by developing formal review procedures to be executed by senior personnel within the Financial Management Branch.

2. Enhance its training programs to enable staff to identify and respond to required accounting principles.

Management's Response:

FPI Management concurs. A comprehensive training plan will be developed for senior personnel within the Financial Management Branch to reinforce the skills necessary to identify, interpret, and apply both existing and emerging accounting standards.

Improvements Needed in Response to Changes in Contracts

During the fiscal year 2023 financial statement audit, management identified a control deficiency and material misstatement related to the recognition of revenue for services provided through a third-party service provider, including revenue recognized in fiscal year 2021 and 2022. Specifically, FPI had recognized revenue from the arrangement with the third-party service provider on a gross basis as if FPI was a principal for the contract, when in substance, FPI was acting as an agent and should have recognized revenue on a net basis. The correction of this error resulted in a $49 million reduction of total revenue originally reported for fiscal year 2021.

This error was caused by changes in fiscal year 2021 to the nature and proportion of goods and services provided under a contract that allowed for variability in what was provided to the end user. While FPI initially concluded a principal relationship existed for the contract, the evolution of the form and nature of how the work was performed and service were provided indicated that FPI began acting as an agent in fiscal year 2021. Insufficient risk procedures were performed by FPI management to respond to the changes in the nature and proportion of goods and services provided under the contract, and management did not identify the need to properly assess the transaction for revenue recognition purposes.

Criteria:

The Government Accountability Office's *Standards for Internal Controls in the Federal Government* states:

> Principle 9.01 (Identify, Analyze, and Respond to Change): "Management should identify, analyze, and respond to significant changes that could impact the internal control system."

FASB ASC states:

> Section 606-10-55-36 through 606-10-55-40: "When another party is involved in providing goods or services to a customer, the entity should determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for those goods or services to be provided by the other party (that is, the entity is an agent)."

Recommendation:

3. We recommend that FPI design and implement policies and procedures to identify changes in operational activities that necessitate a change in accounting treatment. Particularly, contracts that demand significant judgment in determining the correct principal-agent accounting treatment should undergo regular review. The conclusions regarding the principal-agent relationship should be documented based on the actual substance of the transaction during the execution of the contract, rather than relying solely on the initial accounting assessment.

Management's Response:

FPI Management concurs. Controls governing gross versus net revenue presentation will continue to be refined and evaluated throughout the year. FPI is also pursuing automation to further strengthen this review process and ensure accounting treatment reflects the substance of contractual relationships.

Improvements Needed in Identifying Risks Related to Revenue Presentation and Recognition

During the audit of the financial statements of FPI for FY 2024, management identified a control deficiency and material misstatement in the application of revenue recognition guidance related to shipping and handling activities under Topic 606. These errors pertained to transactions recorded in prior periods, including fiscal years 2021, 2022 and 2023.

Specifically,

- FPI incorrectly presented revenues for shipping and handling activities occurring throughout fiscal year 2021 as Other Revenue instead of Sales, resulting in a $17 million adjustment to Sales and Other Revenue, and a corresponding $21 million adjustment to Cost of Sales and Cost of Other Revenue.
- FPI did not appropriately recognize revenue related to shipping and handling activities of performance obligations performed over time, resulting in a $44 thousand increase to Sales in fiscal year 2021.

These errors were caused by (1) insufficient risk assessment to validate and document the risk that the presentation of revenue related to shipping and handling transactions could have a material impact to FPI's reporting due to the users of the financial statements focus on FPI's Sales, as opposed to Other Revenue, and (2) insufficient response to analyzed risks for accounting policy elections made by management.

Criteria:

The Government Accountability Office's *Standards for Internal Controls in the Federal Government* states:

> Principle 7.01 (Identify, Analyze, and Respond to Risks): "Management should identify, analyze, and respond to risks related to achieving the defined objectives."
>
> Principle 7.08 (Identify, Analyze, and Respond to Risks): "Management designs responses to the analyzed risks so that risks are within the defined risk tolerance for the defined objective."

FASB ASC states:

> Section 606-10-25-18B: "If shipping and handling activities are performed after a customer obtains control of the good, then the entity may elect to account for shipping and handling as activities to fulfill the promise to transfer the good… If revenue is recognized for the related good before the shipping and handling activities occur, the related costs of these shipping and handling activities shall be accrued."

Recommendations:

We recommend that FPI:

4. Design and implement policies and procedures to identify risks related to presentation matters that are pertinent to the users of the financial statements.

Management's Response:

FPI Management concurs. Financial statement preparation will incorporate an assessment of presentation risks tied to internal control over financial reporting.

5. Design and implement a formal revenue recognition review process for significant judgments and elections (e.g. practical expedients).

Management's Response:

FPI Management concurs. Revenue recognition processes will ensure compliance with Topic 606 by recording revenue when earned and at the transaction price. FPI will enhance current methodologies through the integration of structured manual and automated review procedures.

Federal Prison Industries, Inc.

Balance Sheet

As of September 30, *(DOLLARS IN THOUSANDS)*		2021 (Restated)
Assets		
Current:		
Cash and cash equivalents	$	240,245
Accounts receivable, net		35,226
Short term investments		19,936
Contract assets		48,058
Inventories, net		80,737
Other assets		2,728
Total current assets		426,930
Investments		45,799
Property, plant and equipment, net		81,165
Total long term assets		126,964
Total Assets	$	553,894
Liabilities and United States Government Equity		
Current:		
Accounts payable	$	34,543
Contract liabilities		98,377
Accrued salaries and wages		6,707
Accrued annual leave		5,787
Other accrued expenses		11,486
Total current liabilities		156,900
FECA actuarial liability		17,293
Total Liabilities		174,193
United States Government Equity		
Initial capital		4,176
Contributed capital		6,905
Cumulative results of operations		368,620
Total United States Government Equity		379,701
Total Liabilities and United States Government Equity	$	553,894

Federal Prison Industries, Inc.

Statement of Operations and Cumulative Results of Operations

For the fiscal year ended September 30, *(DOLLARS IN THOUSANDS)*		**2021(Restated)**
Revenue:		
Net sales	$	418,160
Other revenue		62,041
Total revenue		480,201
Cost of revenue:		
Cost of sales		378,396
Cost of other revenue		51,731
Total cost of revenue		430,127
Gross profit		50,074
Operating expenses:		
Sales and marketing		7,261
General and administrative		65,786
Total operating expenses		73,047
Loss from operations		(22,973)
Interest income		2,016
Interest expense		(2)
Other income, net		29,000
Net income/ (loss)		8,041
Cumulative results of operations, beginning of fiscal year		350,514
Effect of adoption of ASU 2014-09, Revenue		10,065
Cumulative results of operations, end of fiscal year	$	368,620

Federal Prison Industries, Inc.

Statement of Cash Flows

For the fiscal year ended September 30, *(DOLLARS IN THOUSANDS)*		2021(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$	8,041
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization		5,674
Amortization of discount or premium on investments		(885)
Loss on disposal of property, plant and equipment		1,049
Changes in:		
Accounts receivable		3,987
Contract assets		(10,006)
Inventories		(1,664)
Other assets		5,848
Accounts payable and accrued expenses		(5,297)
Contract liabilities		16,026
Net cash provided by (used in) operating activities		22,773
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment		(16,606)
Investments redeemed		59,473
Net cash provided by investing activities		42,867
Net increase (decrease) in cash and cash equivalents		65,640
Cash and cash equivalents, beginning of fiscal year		174,605
Cash and cash equivalents, end of fiscal year	$	240,245

Note 1. Organization and Mission

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

FPI's federal government customers include departments (fiscal year 2021 percent of revenue shown in parenthesis), agencies and bureaus such as the Department of Defense (56%), the Department of Homeland Security (18%), the Department of Justice (10%), the Social Security Administration (7%), and the General Services Administration (1%). These and other federal organizations are generally required to purchase products from FPI, if its products meet the customer's price, quality, and delivery standards, under a mandatory source preference specified in FPI's enabling statute and the Federal Acquisition Regulation.

FPI has agricultural, industrial, and service operations at 63 factories and 2 farms located at 51 prison facilities that employed 10,032 as of September 30, 2021.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

FPI transactions are recorded on the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when the cash is exchanged.

Basis of Presentation

FPI has historically prepared its external financial statements in conformity with U.S. GAAP based on accounting standards issued by the FASB, the private sector standard-setting body. The Federal Accounting Standards Advisory Board (FASAB) has been designated as the standards-setting body for federal financial reporting entities with respect to the establishment of U.S. GAAP. FASAB allows certain government agencies that have historically used FASB standards to continue to utilize FASB standards for Financial Statement presentations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

FPI considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. In fiscal year 2021, FPI's investment activities and cash equivalents included overnight repurchase agreements with the Bureau of the Fiscal Service of the United States Treasury. The market value of overnight purchase agreements is equivalent to cost.

Fair Value Measurements

FASB Accounting Standard Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The FPI's financial instruments are comprised of cash, accounts receivable, accounts payable, and accrued liabilities as of September 30, 2021. The carrying amounts of these financial instruments approximate fair value because of the short-term nature of these instruments. The FPI intends to hold their investments until maturity, and therefore, has recorded the investments at amortized cost.

Investments

FPI invests in Treasury fixed-principal notes with Bureau of the Fiscal Service of the United States Treasury. Treasury fixed-principal notes are issued with a stated rate of interest to be applied to their par amount, have interest payable semiannually, and are redeemed at their par amount at maturity. All investments with maturity due dates within the next fiscal year are considered short-term, and classified as current assets. FPI plans to hold these investments to maturity.

Accounts Receivable / Concentration of Credit Risk

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

FPI routinely assesses the payment histories of its federal customers and the financial strength of its private sector customers and maintains allowances for anticipated losses as they become evident.

Unbilled receivables reflect the value of services provided that is being recognized as revenue for which FPI has an unconditional right to consideration before it invoices the customer.

Inventories

FPI maintains its inventory primarily for the manufacture of goods for sale to its customers. FPI's inventory is composed of four categories: Raw Materials, Work-in-Process, Sub-Assemblies, and Finished Goods. These categories are generally defined by FPI as follows: Raw Materials consist of materials that have been acquired and are available for the production cycle, Work-in-Process is composed of materials that have moved into the production process and have some measurable amount of labor and overhead added by FPI, Sub-Assemblies consist of materials with FPI added labor and overhead that are available for the production cycle, and Finished Goods are materials with FPI added labor and overhead that have completed the production cycle. The Finished Goods are either awaiting sale to customers or represent goods shipped to customers or their agents where revenue is unrecognized due to acceptance criteria within the customer contract.

Raw material inventory is valued at moving average cost. All other inventory is valued at a standard cost that includes materials, labor, and manufacturing overhead and is periodically adjusted to approximate actual cost. Inventories are valued at the LCNRV. Net realizable value is calculated based on the contractual or anticipated selling price, less allowance for administrative expenses. FPI has established inventory allowances to account for LCNRV adjustments and excess obsolete, or unserviceable inventory items that may not be utilized in future periods.

Advances to Vendors

FPI generally does not offer advances to the public; however, where warranted, FPI will on occasion make an advance to a vendor. Historically, these advances have been insignificant. Prior to issuing advances to a vendor, the Centralized Accounts Receivable office performs a review as though the vendor is a public customer, to include performing a due diligence review to assess risk and a review of applicant financial statements. A letter of credit is obtained as needed based on the results of this review. The FPI Controller approves advances prior to their disbursement. Advances are reduced by offset to the vendor invoice as goods are delivered.

Revenue Recognition

FPI recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

FPI records as other revenue the installation costs for FPI furniture products, and items procured for its customers, the cost of the items, and the related service fees as part of procurement services provided by the Intragovernmental Solutions Services group.

FPI's revenue is primarily derived from a wide range of products and services that are produced through its full-time work program for AIC populations. FPI's products and services are marketed and sold primarily to governmental departments, agencies, and bureaus, as well as end- user commercial customers in the United States. Sales of products and services are subject to economic conditions and may fluctuate based on changes in the industry and financial markets.

FPI assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. The contract term can differ from the stated term in contracts that include certain termination or renewal rights, depending on whether there are penalties associated with those rights. Generally, FPI's orders of products and services can be terminated for convenience, but these products and services allow for termination where FPI would be entitled to consideration, including a reasonable profit margin, for work completed up through the effective date of termination. These contracts with termination for convenience rights impact the determination of the contract term and may give rise to material rights with respect to implied renewal options for periods related to customer decision to not terminate.

FPI recognizes revenue over time for multiple contracts across multiple business groups. As the manufacturing process progresses, FPI has the enforceable right to payment for performance completed on the customized products that have no alternative use. Revenue is measured by the costs incurred to date relative to the estimated total direct costs to fulfill each contract. Incurred cost represent work performed that corresponds with the transfer of control to the customer. These costs include labor, materials, and overhead.

Contracts with multiple performance obligations

When FPI's contracts with customers contain multiple performance obligations, the contract transaction price is allocated on a relative standalone selling price (SSP) basis to each performance obligation. FPI typically determines SSP based on observable selling prices of its products and services. In instances where SSP is not directly observable, SSP is determined using information that may include market conditions and other observable inputs or by using a cost plus margin approach. On a limited basis, certain of the FPI's contracts may include implied renewal periods for shortened contract terms due to termination for convenience rights. FPI evaluated the options and determined that FPI did not have any significant material rights during the year ending September 30, 2021.

Transaction price

The transaction price is the amount of consideration to which FPI expects to be entitled in exchange for transferring goods and services to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and estimates of variable consideration such as, time and material and cost plus contracts, prompt payment discounts, shortages or damaged products, restocking fees, markdowns on damaged or returned items, and chargebacks.

The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

FPI uses the as-invoiced practical expedient for time and materials and cost plus contracts if the value transferred to the customer is commensurate with the invoice amount throughout the term of the contract. Although the rates are fixed in time and materials contracts, the activity in time and materials contracts will not be fixed at contract inception as the labor and materials used is billed as incurred. The costs and related fees in cost plus contracts are variable consideration because the amount of the costs is not fixed at the inception of the contract so although the fee percentage may be a fixed percentage the amount of compensation is variable.

The nature of FPI's business gives rise to prompt pay discounts, shortages or damaged products, restocking fees, markdowns on damaged or returned items, and chargebacks. FPI applies the expected value method to these forms of variable consideration using the sum of probability-weighted amounts in a range of possible amounts under the contract.

The timing of revenue recognition may not align with the right to invoice the customer. FPI records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability also is recorded. If revenue is recognized in advance of the right to invoice, a contract asset (unbilled receivable) is recorded.

FPI applies the practical expedient which allows them to not adjust the amount of consideration for the effects of a significant financing component if FPI expects, at contract inception, that the period between when FPI transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. In instances where the timing of revenue recognition differs from the timing of the right to invoice, FPI has determined that a significant financing component generally does not exist under the practical expedient. Although there are contracts that can exceed 12 months, FPI does not wait until the end of the contract term to invoice the customer. Invoicing in amounts that correspond with the transfer of value to the customer is done throughout the length of the contract and, therefore, FPI did not identify any significant financing components during the year ending September 30, 2021.

FPI excludes from revenue sales taxes and other government-assessed and imposed taxes on revenue generating activities that are invoiced to customers.

Shipping and handling

All shipping and handling costs are included in cost of sales. When shipping and handling costs are incurred after a customer obtains control of the good, FPI has elected the practical expedient to account for such costs as fulfillment activities which are recognized in cost of sales when control of the good transfers to the customer. Any amounts billed to a customer in a sales transaction related to shipping and handling are classified as sales revenue.

Cost to obtain a contract

Sales commissions and other costs that are incremental to the acquisition of customer contracts, are capitalized as deferred contract costs under the provisions of ASC 340-40. FPI has elected to apply the practical expedient to expense sales commissions and associated costs as incurred when the expected amortization period is one year or less. FPI's contract acquisition costs meet the criteria to apply the practical expedient and thus no contract acquisition costs are capitalized.

Nature of products and services

Agribusiness:

Milk Delivery: FPI contracts with customers to deliver milk products. Revenue from agribusiness is recognized upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms.

Clothing and Textiles:

Uniforms and Mattresses: FPI contracts with customers to manufacture uniforms and mattresses, which can be customized or non-customized. Revenue for customized uniforms and mattresses is recognized over time as a series as there is no alternative use for the asset and FPI has an enforceable right to payment. FPI utilizes an output method based on the number of uniforms or mattresses completed as a measurement of progress toward satisfaction of the performance obligation. Revenue for non-customized uniforms and mattresses is recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms.

Personal Protective Equipment: FPI contracts with customers to manufacture non-custom personal protective equipment. Revenue is recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms.

PIE Certification Program: FPI contracts with customers to provide sewing services. Revenue is recognized over time as a series as the customer simultaneously receives and consumes the benefits of services provided. FPI can apply the right to invoice practical expedient because FPI's right to consideration corresponds directly with the value transferred to the customer for performance completed to date.

Electronics:

Cable Assemblies: FPI contracts with customers to manufacture cable assemblies, which can be customized to customer specifications or non-customized. Revenue for customized cable assemblies is recognized over time as a series as there is no alternative use for the asset and FPI has an enforceable right to payment. FPI utilizes an output method based on the number of cable assemblies manufactured as a measurement of progress toward satisfaction of the performance obligation. Revenue for non-customized cable assemblies and other standard finished goods are recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms.

Manufacturing finished goods: FPI contracts with customers to manufacture finished goods, which are non-customized, and have alternate use. Revenue for these finished goods is recognized at a point in time, upon delivery to customer based on shipping terms.

Eyewear: FPI manufactures eyewear, which can be customized to customer specifications or non-customized. Revenue for customized eyewear is recognized over time as there is no alternative use for the asset and FPI has an enforceable right to payment. FPI utilizes the ouput method as a measurement of progress toward satisfaction of the performance obligation. Revenue for non-customized eyewear is recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms.

Fleet:

Upfit Services: FPI contracts with customers to provide vehicle upfit services. Revenue for vehicle upfit services, including the ordering of vehicles and customized upfit services, is recognized over time as there is no alternative use for the asset and FPI has an enforceable right to payment. These services are recognized using an input method as costs are incurred compared to estimated costs, as that best depicts the measure of progress toward satisfaction of the performance obligation.

Fleet Procurement Services: Revenue, in the form of an administrative fee, for fleet procurement services are recorded net as FPI is the agent in the transaction. Revenue should be recognized overtime as FPI enhances an asset the customer controls. Design is a fulfillment cost.

Office Furniture:

Office Furniture and Pallet Racking: FPI manufactures and installs furniture and pallet racking. Furniture and pallet racking can be customized to customer specifications or non-customized. Revenue for customized furniture and pallet racking are recognized over time as there is no alternative use for the asset and FPI has an enforceable right to payment. FPI utilizes the input method to measure costs incurred to date compared to the total cost for the contract as a measurement of progress toward satisfaction of the manufacturing performance obligation. Revenue for non-customized furniture and pallet racking are recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms. Installation services for customized and non-customized furniture and pallet racking is recognized over time because the service is enhancing an asset that the customer controls under the input method as costs are incurred compared to estimated costs, as that best depicts the measure of progress toward satisfaction of the performance obligation.

Storage: FPI stores furniture for its customers. Storage is recognized over time ratably over the storage period.

Scanning, Printing, and Mailing Services: FPI contracts with customers to provide scanning, printing, and mailing services. Revenue is recognized over time as there is no alternative use for the asset and FPI has an enforceable right to payment. FPI applies the right to invoice practical expedient because the FPI's right to consideration corresponds directly with the value transferred to the customer for performance completed to date.

Recycling:

Recycled Products: FPI contracts with customers to sell recycled products. Revenue is recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms.

Services:

Signs: FPI creates signs which include manufacturing and installation services. Signs can be customized to the customer specifications or non-customized. Revenue for customized signs is recognized over time as a series as there is no alternative use for the asset and FPI has an enforceable right to payment. FPI utilizes an output method based on the number of signs completed as a measurement of progress toward satisfaction of the manufacturing performance obligation. Revenue for non-customized signs is recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms. Installation services for customized and non-customized signs is recognized over time because the service is enhancing an asset that the customer controls using an input method based on costs incurred compared to total estimated costs, as that best depicts the measure of progress toward satisfaction of the performance obligation.

License Plates, Print Products, and Filtration Products: FPI manufactures license plates, print products or filtration products, which can be customized to customer specifications or non-customized. These services are all separate performance obligations. Revenue for customized license plates, print products, and filtration products are recognized over time as a series as there is no alternative use for the asset and FPI has an enforceable right to payment. FPI utilizes an output method based on the number of items completed as a measurement of progress toward satisfaction of the performance obligation. Revenue for non-customized license plates, print products, and filtration products, are recognized at a point in time upon transfer of control to the customer, which is typically upon delivery to the customer based on shipping terms.

Call Center Services: FPI contracts with customers to provide call center services. Revenue is recognized over time as a series as the customer simultaneously receives and consumes the benefits of services provided. FPI applies the right to invoice practical expedient because the FPI's right to consideration corresponds directly with the value transferred to the customer for performance completed to date.

Laundry Services: FPI contracts with customers to provide laundry services. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits of services provided. FPI applies the right to invoice practical expedient because the FPI's right to consideration corresponds directly with the value transferred to the customer for performance completed to date. Alterations are also recognized over time under the variable allocation exception.

Distribution Center Services: FPI contracts with customers to provide distribution center services. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits of services provided. FPI applies the right to invoice practical expedient because FPI's right to consideration corresponds directly with the value transferred to the customer for performance completed to date.

Data Entry Services: FPI contracts with customers to provide data entry services. Revenue is recognized over time as there is no alternative use for the documents and FPI has an enforceable right to payment. FPI applies the right to invoice practical expedient because the FPI's right to consideration corresponds directly with the value transferred to the customer for performance completed to date.

Procure Electronic Services: FPI also contracts with customers to procure electronic services, including hiring a third party to order materials and provide labor and installation services. Revenue, in the form of an administrative fee, is recorded net for these services as FPI is the agent in the transaction and is recognized at a point in time upon customer acceptance of the service.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Under FPI's current policy, depreciation and amortization is computed using the straight-line method over the following estimated useful lives:

	Years
Machinery & Equipment	2 - 25
Computer Hardware	2 - 10
Computer Software	2 - 5

Livestock	4
Building & Improvements	24 - 40

Upon retirement or disposition of property and equipment, the related gain or loss is reflected in the statements of operations. Repairs and maintenance costs are expensed as incurred.

FPI values livestock, including new cattle born into the herd at lower of cost or net realizable value (LCNRV) until they are either sold or die. Costs for cattle under development are accumulated throughout their development cycle. For dairy cattle, the development period is 22 months, which is the average age of maturity for a productive heifer. At this point the cow is considered a capital asset and the LCNRV analysis can be conducted and the asset properly valued. All beef cattle accumulate costs on a monthly basis until sale or death has occurred. A gain or loss will be recognized on all beef cattle at the time of death or sale.

Agribusiness livestock, property, plant and equipment will be depreciated and amortized using straight-line depreciation along with the standard useful life structure noted above.

Taxes

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

Subsequent Events

Subsequent events are evaluated by management through the date that the financial statements are available to be issued, which is December 11, 2025

Recently Adopted Accounting Standards

In accordance with Topic 606, the disclosure of the impact of adoption to FPI's statements of operations and cumulative results of operations, balance sheets, and cash flows was as follows:

(Dollars in Thousands)

Statement of Operations For the fiscal year ended September 30, 2021	As reported (Restated)	Balances without adoption of Topic 606	Effect of change – higher/(lower)
Revenues			
Sales	$ 418,160	$ 445,296	$ (27,136)
Other revenue	62,041	64,994	(2,953)
Costs and expenses			
Cost of sales	378,396	410,086	(31,690)
Cost of other revenue	51,731	54,358	(2,627)
Gross profit	$ 50,074	$ 45,846	$ 4,228

Balance Sheet September 30, 2021	As reported (Restated)	Balances without adoption of Topic 606	Effect of change – higher/(lower)
Assets			
Contract assets	$ 48,058	$ 8	$ 48,050
Inventory	80,737	178,110	(97,373)
Liabilities			
Contract liabilities	98,377	161,992	(63,615)
Shareholders' equity			
Retained earnings	$ 368,620	$ 354,327	$ 14,293

(Dollars in Thousands)

	Statement of Cash Flows September 30, 2021		
	As reported (Restated)	Balances without adoption of Topic 606	Effect of change – higher/(lower)
Assets			
Change in Accounts receivables	$ 3,987	$ (883)	$ 4,870
Change in Contract assets	(10,006)	(9)	(9,997)
Change in Inventory	(1,664)	(30,022)	28,358
Liabilities			
Change in Accounts payable and accrued expenses	(5,297)	(36)	(5,261)
Change in Contract Liabilities	16,026	(20,956)	36,982

Note 3. Restatement

During fiscal year 2023, it was discovered that in fiscal year 2021 revenue was being incorrectly presented on a gross basis for arrangements where FPI was acting as an agent in contracts with customers. Also, during fiscal year 2024, it was discovered that the presentation of shipping and handling activities as other revenue was in error. The calculation, recognition, and presentation over time revenues was not consistent with the elected policy ASC 606-10-25-18B made by FPI. The errors were corrected to reflect revenue for the shipping and handling recognized as sales revenue and to record revenue at the transaction price including shipping and handling for the ASC 606 over time sales orders on the year end analysis. Where such arrangements require presentation on a net basis and shipping handling recognized as sales revenue, each of the affected financial statement line items for the prior period have been corrected by the restatement. The following table summarizes the impacts on the Statement of Operations and Cumulative Results of Operations, Balance Sheet, and Statement of Cash Flows:

(Dollars in Thousands)

Fiscal Year 2021	Previously Reported	Adjustments	As Restated
Sales	$ (404,065)	$ (14,095)	$ (418,160)
Other revenue	(124,552)	62,511	(62,041)
Total revenue	(528,617)	48,416	(480,201)
Cost of sales	357,296	21,100	378,396
Cost of other revenue	120,754	(69,023)	51,731
Total cost of revenue	478,050	(47,923)	430,127
General and administrative	69,287	(3,501)	65,786
Total operating expenses	76,548	(3,501)	73,047
Other income, net	(28,507)	(493)	(29,000)
Contract assets	48,050	8	48,058
Accounts payable	(38,000)	3,457	(34,543)
Contract liabilities	(98,413)	36	(98,377)

Net Impact to Statement of Operations and Cumulative Results of Operations	$3,501
Net Impact to Balance Sheet	$0
Net Impact to Statement of Cash Flows	$0

Note 4. Investments

The amortized cost and maturities of investment securities were as follows:

As of September 30,	2021
Due in one year or less	$ 19,936
Due after one year through three years	45,799
	$ 65,735

The investments above held by FPI at September 30, 2021 consist of Market Notes, issued by the U.S. Treasury. All of these notes are either explicitly or implicitly backed by the U.S. Government. Given the backing by the U.S. Government, current market conditions have not had a significant adverse impact on the fair value of these securities.

As of September 30, 2021, no investments are in an unrealized loss position.

(Dollars in Thousands)

Note 5. Accounts Receivable, Net

Accounts receivable, net consists of the following:

As of September 30,		2021
Intragovernmental receivables	$	30,749
Interest receivable – investments		168
Unbilled receivables		1,677
Private sector receivables		3,242
		35,836
Less allowance for doubtful accounts		610
Accounts receivable, net	$	35,226

FPI incurred bad debt expense of $77 for the fiscal year ended September 30, 2021.

Note 6. Inventories, Net

Inventories, net consists of the following:

As of September 30,		2021
Raw materials	$	54,997
Work-in-process		5,199
Finished sub-assemblies		10,006
Finished goods		15,538
		85,740
Less inventory allowance		5,003
Inventories, net	$	80,737

In accordance with Topic 606, revenue is recognized over time for certain contracts. As a result, certain amounts that were previously recognized as inventory are recorded as contract assets or are a reduction of contract liabilities.

Approximately $2,860 of FPI's fiscal year 2021 finished goods balance represents goods shipped to customers or their agents, and is unrecognized revenue due to acceptance criteria within the customer contract.

(Dollars in Thousands)

Note 7. Property, Plant and Equipment, Net

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

As of September 30,		**2021**
Buildings and improvements	$	174,056
Machinery and equipment		87,102
Livestock		2,821
Computer hardware		2,262
Computer software		6,298
		272,539
Less accumulated depreciation		226,590
		45,949
Software under development		35,036
Construction in progress		180
Property, plant and equipment, net	$	81,165

Depreciation and amortization expense totaled $5,674 for the fiscal year ended September 30, 2021. During fiscal year 2021, FPI invested $16,606 for the purchase and construction of property, plant and equipment.

During fiscal year 2021, FPI recorded a loss of $206 for the lower of cost or net realizable value analysis conducted on the Agribusiness Group’s livestock assets. Each September, FPI conducts market price analysis in the areas surrounding each of the farms to determine the market value of the herd. Any asset categories that have a carrying value more than market are written down and the loss is recorded.

(Dollars in Thousands)

Note 8. Other Accrued Expenses

Other accrued expenses consist of the following:

As of September 30,		**2021**
Materials in transit	$	551
Relocation travel expense		612
FECA liabilities – current portion		1,547
Financial audit expense		1,302
Telecommunication expense		2,839
Utilities		709
Product warranties		311
Intra-Departmental agreements		696
Vendor invoices		2,568
Other expense		351
Other accrued expenses	$	11,486

Note 9. Intra-Department of Justice (DOJ) / Intragovernmental Financial Activities

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

Relationship with the Federal Bureau of Prisons

FPI and the BOP have a unique relationship in that the nature of their combined missions requires the sharing of certain institution facilities and responsibilities relative to the custody, training and employment of federal AIC. The Director of the BOP, who has jurisdiction over all federal penal correctional institutions, is the Commissioner of Federal Prison Industries. General management of FPI is provided by the Chief Executive Officer who also serves as an Assistant Director of the BOP. The BOP provides land to FPI for the construction of its manufacturing facilities and both FPI and BOP share certain facilities, generally at no cost to FPI. In accordance with Managerial Cost Accounting Concepts an estimate of these costs as provided by the BOP is included in general expense and other income of FPI for the fiscal year ended September 30, 2021.

Self Insurance

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

Federal Employees Compensation Act

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The United States Department of Labor (DOL), which administers FECA, annually charges each federal agency and department for its applicable portion of claims and benefits paid in the preceding year. As of September 30, 2021, the accrued FECA liabilities as charged to FPI, approximated $1,547.

FPI is required by generally accepted accounting principles (GAAP) to account for future workers' compensation costs not yet paid. These costs include employees' medical expenses, payments for continuation of wages, estimated liability of death, and DOL administrative fees. The liability amount is determined by discounting the projected annual benefit payments using Treasury spot rates. FPI's estimated future liability approximated $17,293 as of September 30, 2021.

Retirement

All of FPI's civilian employees are covered under either the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the Federal Employee Retirement System-Revised Annuity Employees (FERS-RAE), or the Federal Employee Retirement System-Further Revised Annuity Employees (FERS-FRAE) System. For employees covered by the CSRS, (those employees hired prior to January 1, 1984), for fiscal year ended September 30, 2021, FPI contributed approximately 7 percent (for normal retirement) or 7.5 percent (for hazardous duty retirement) of each employee's salary, respectively. CSRS covered employees do not have Federal Insurance Contribution Act (FICA) withholdings and, thus, are not fully eligible to receive Social Security benefits. For employees covered by the FERS, (generally those employees hired between January 1, 1984 and December 31, 2012), FPI contributed (for normal retirement) 17.3 percent for fiscal year ended September 30, 2021. FPI contributed (for hazardous retirement) 35.8 percent for fiscal year ended September 30, 2021. For employees covered by the FERS-RAE, (generally those employees hired between January 1, 2013 and December 31, 2013), FPI contributed (for normal retirement) 15.5 percent for fiscal year ended September 30, 2021. FPI contributed (for hazardous duty retirement) 34.0 percent for the fiscal year ended September 30, 2021. For employees covered by the FERS-FRAE, (generally those employees hired on or after January 1, 2014), FPI contributed (for normal retirement) 15.5 percent for fiscal year ended September 30, 2021. FPI contributed (for hazardous duty retirement) 34.0 percent for the fiscal year ended September 30, 2021.

Under FERS, FERS-RAE, and FERS-FRAE employees also receive retirement benefits from Social Security and, if applicable, benefits from a defined contribution plan (thrift savings plan). Under the thrift plan, an employee may contribute (tax deferred) to an investment fund, up to $19,500 of salary for the fiscal year ended September 30, 2021. FPI then matches this amount up to 4 percent in addition to an automatic 1 percent that is contributed for all FERS, FERS-RAE, and FERS-FRAE employees. Those employees that elected to remain under CSRS after January 1, 1984 continue to receive benefits in place, and may also contribute (tax deferred) up to $19,500 of their salary to the thrift plan for the fiscal year ended September 30, 2021, but with no automatic or matching amount contributed by FPI.

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

FPI's contribution to both plans was approximately $23,172 for the fiscal year ended September 30, 2021.

FPI must recognize its share of the cost of providing pension benefits to eligible employees utilizing cost factors determined by the OPM. Included in general and administrative expense is approximately $549 in the fiscal year ended September 30, 2021, with an offsetting credit to other income on the Statements of Operations and Cumulative Results of Operations.

Health Benefits and Life Insurance

FPI, through the OPM, offers health and life insurance plans under which premium costs for health care are shared between FPI and the employees. A substantial portion of life insurance premiums are paid for by employees. Amounts paid by FPI for health benefits and life insurance approximated $7,934 for the fiscal year ended September 30, 2021.

OPM also provides health care and life insurance benefits for FPI's retired employees. FPI must recognize an expense related to its share of the cost of such post-retirement health benefits and life insurance on a current basis (while its employees are still working), with an offsetting credit to other income. Costs in this regard, which approximated $5,726 during the fiscal year ended September 30, 2021, were determined by OPM utilizing cost factors to estimate the cost of providing post-retirement benefits to current employees. However, because of the offsetting credit, which is reflected as other income on the Statements of Operations and Cumulative Results of Operations, the recording of these costs has no impact on reported net income or cash flows.

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

(Dollars in Thousands)

Note 10. Sales and Marketing, General and Administrative Expenses

Sales and marketing, general and administrative expenses consist of the following:

Fiscal year ended September 30,	**2021**
Salaries, wages and benefits	$ 31,120
Permanent change of station expense	771
Purchases of minor equipment	1,512
Contract services	8,328
Bad debt expense	77
Credit card service fees	695
Travel	252
Personal computer expense	185
Accident compensation	(2,144)
Financial audit	1,554
Marketing	7,261
Depreciation	1,269
Loss on disposition of assets	32
Telecommunication expense	2,710
Other expense	(3,404)
Imputed pension costs	549
Imputed post-retirement health care and life insurance cost	5,726
Imputed operating costs	16,554
Sales and marketing, general and administrative expenses	$ 73,047

Other expense is comprised primarily of, sales consulting fees, AIC wages, maintenance agreements, and distributions to factory operations. FPI distributes certain General and Administrative expenses that benefit all locations to the individual factory levels. These charges include computer licenses and fees, civilian and AIC accident compensation, and check charges. These charges totaled $8.1 fiscal year 2021. Contract services consist primarily of consulting and sales and marketing fees.

Note 11. Commitments and Contingencies

Legal Contingencies

FPI is party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated liability for those legal actions where management and the FPI General Counsel consider adverse decisions "probable" and amounts are reasonably estimable. Legal actions where management and the FPI General Counsel consider adverse decisions reasonably possible and the amounts are reasonably estimable, should not result in judgments which would have a material, adverse effect on the organization's financial statements. Furthermore, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered remote. As of September 30, 2021 legal contingencies total $900.

(Dollars in Thousands)

Lease Commitments

FPI leases certain facilities, machinery, vehicles and office equipment under noncancelable capital and operating lease agreements that expire over future periods. Many of these lease agreements provide FPI with the option (after initial lease term) to either purchase the leased item at the then fair value or to renew the lease for additional periods of time. As of September 30, 2021, future capital lease payments due total $4 and future operating lease commitments total $165.

Product Warranty

FPI has analyzed the historical pattern of warranty returns and the adequacy of the warranty returns and allowances. In this regard, FPI has established an estimate of future warranty returns related to current period product revenue.

Changes in aggregate product warranty liability

Fiscal year ended September 30,	**2021**
Balance at the beginning of the period	$ 311
Accruals for warranties issued during the period	9
Settlements made (in cash or in kind) during the period	(9)
Balance at the end of the period	$ 311

Congressional Limitation on Administrative Expenses

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

Fiscal year ended September 30,	**2021**
Congressional limitation on expenses	$ 2,700
Expenses incurred subject to Congressional limitation	$ 2,387

APPENDIX: Office of the Inspector General Analysis and Summary of Actions Necessary to Close the Audit Report

The U.S. Department of Justice Office of the Inspector General (OIG) provided a draft of the Independent Auditors' Report to the Federal Prison Industries, Inc. (FPI). The FPI's response is incorporated in the Exhibit of the Independent Auditors' Report of this final report. In response to the Independent Auditors' Report, the FPI concurred with the recommendations and discussed the actions it will implement in response to the findings. As a result, the status of the report is resolved. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendations for the FPI:

1. **Design and implement policies and procedures to assess changes in accounting standards.**

   <u>Closed.</u> FPI management concurred with the recommendation. This recommendation is closed upon issuance of this report because, although it had not been addressed by the end of FY 2021, corrective actions were completed by the end of FY 2023. This recommendation is further discussed in the audit report containing FPI's annual financial statements for FY 2023 and FY 2022, which is being issued concurrently with this report (OIG Audit Division Report Number 26-006).

2. **Enhance its training programs to enable staff to identify and respond to required accounting principles.**

   <u>Closed.</u> FPI management concurred with the recommendation. This recommendation is closed upon issuance of this report because, although it had not been addressed by the end of FY 2021, corrective actions were completed by the end of FY 2023. This recommendation is further discussed in the audit report containing FPI's annual financial statements for FY 2023 and FY 2022, which is being issued concurrently with this report (OIG Audit Division Report Number 26-006).

3. **Design and implement policies and procedures to identify changes in operational activities that necessitate a change in accounting treatment.**

   <u>Resolved.</u> FPI concurred with this recommendation. FPI stated in its response that its controls governing gross versus net revenue presentation will continue to be refined and evaluated throughout the year. FPI management is also pursuing automation to further strengthen its review process and ensure accounting treatment reflects the substance of contractual relationships.

This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has implemented policies and procedures to identify changes in operational activities that necessitate a change in accounting treatment.

4. **Design and implement policies and procedures to identify risks related to presentation matters that are pertinent to the users of the financial statements.**

   Resolved. FPI concurred with this recommendation. FPI stated in its response that financial statement preparation will incorporate an assessment of presentation risks tied to internal control over financial reporting.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has implemented policies and procedures to identify risks related to presentation matters that are pertinent to the users of the financial statements.

5. **Design and implement a formal revenue recognition review process for significant judgments and elections.**

   Resolved. FPI concurred with this recommendation. FPI stated in its response that its revenue recognition processes will ensure compliance with Topic 606 by recording revenue when earned and at the transaction price. FPI will enhance current methodologies through the integration of structured manual and automated review procedures.

   This recommendation can be closed when subsequent annual financial statement audit testing verifies that management has implemented a formal revenue recognition review process for significant judgments and elections.