



Audit of the Federal Prison Industries, Inc.
Annual Financial Statements
Fiscal Year 2024



AUDIT DIVISION

26-027

FEBRUARY 2026



COMMENTARY AND SUMMARY

Audit of the Federal Prison Industries, Inc. Annual Financial Statements Fiscal Year 2024

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; 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

In fiscal year (FY) 2023, the FPI management discovered a misstatement in previously issued financial statements which resulted in the FPI subsequently restating its FY 2022 financial statements. The FPI's FY 2023 financial statements audit was not completed until December 2025.

In this report, KPMG found that the FPI's financial statements are fairly presented as of and for the year ended September 30, 2024, and issued an unmodified opinion. KPMG reported two material weaknesses in the Independent Auditors' Report and did not report any instances of non-compliance.

The FPI's audited FY 2024 annual financial statements were submitted to the Office of Management and Budget on February 10, 2026, and are included within this OIG report. The OIG's memorandum transmitting the Independent Auditors' Report to the 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 39, respectively, of the FPI's annual financial statements.

Audit Results

The audit resulted in an unmodified opinion on the financial statements. 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 2023, the FPI also received an unmodified opinion on its financial statements (OIG Audit Division Report Number 26-006).

KPMG reported two material weaknesses in the Independent Auditors' Report, noting that improvements are needed in accounting standard implementation controls, and in raw material receipt input review. 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.

Recommendations

KPMG provided the FPI with three recommendations to improve its internal controls, including two recommendations that were originally identified in FY 2023 and continue to exist, and one new recommendation. Management concurred with KPMG's recommendations, and its responses to the recommendations can be found in the Exhibit of the Independent Auditors' Report.

KPMG also evaluated whether the FPI had taken the appropriate corrective action to address recommendations (from the prior years' financial statements audits) that remained open during the FY 2024 audit. The FPI had five open prior year

recommendations. The audit determined that three recommendations from FY 2021 were closed, and two recommendations from FY 2023 continue to exist in FY 2024.

The following table provides the status of the FPI financial statements 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 statements audits.

Fiscal Year	Recommendations	Status
FY 2024	Recommendation No. 1: Design and implement control activities to review the Topic 606 adjustment with sufficient precision to ensure the revenue adjustment is complete and accurate. <i>(Repeat)</i>	Closed ^a <i>(Repeat of FY 2023 Recommendation No. 1. See below)</i>
	Recommendation No. 2: Automate their accounting system to recognize revenue under Topic 606 throughout the year. <i>(Repeat)</i>	Closed ^a <i>(Repeat of FY 2023 Recommendation No. 2. See below)</i>
	Recommendation No. 3: Design and implement control activities to perform a timely review of the inputs when raw material items are received to ensure the perpetual inventory system is accurate. <i>(New)</i>	Resolved
FY 2023	Recommendation No. 1: Design and implement control activities to review the Topic 606 adjustment with sufficient precision to ensure the revenue adjustment is complete and accurate.	Resolved
	Recommendation No. 2: Automate the FPI accounting system to recognize revenue under Topic 606 throughout the year.	Resolved
FY 2021	Recommendation No. 3: Design and implement policies and procedures to identify changes in operational activities that necessitate a change in accounting treatment.	Closed
	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.	Closed
	Recommendation No. 5: Design and implement a formal revenue recognition review process for significant judgments and elections.	Closed

^a When our current audit work identifies a condition that requires the same corrective action covered by an open recommendation from a prior year, we retain the prior year open recommendation to track the origin of the recommendation.

**FEDERAL PRISON INDUSTRIES, INC.
ANNUAL FINANCIAL STATEMENTS**



FEDERAL PRISON INDUSTRIES, INC.

Fiscal Year 2024

Annual Management Report

February 9, 2026

Table of Contents

Letter from the Acting Senior Deputy Assistant Director and Chief Financial Officer	3
Management’s Discussion and Analysis (Unaudited)	5
Office of the Inspector General Transmittal Memo	12
Independent Auditors’ Report	14
Principal Financial Statements and Related Notes	
Balance Sheets.....	21
Statements of Operations and Cumulative Results of Operations.....	22
Statements of Cash Flows.....	23
Notes to Financial Statements	24
APPENDIX: Office of the Inspector General Analysis and Summary of Actions Necessary to Close the Report.....	39



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

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

February 9, 2026

We are pleased to present the Federal Prison Industries, Inc.'s (FPI) Fiscal Year 2024 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 and the raw material receipt activity were identified. FPI will continue to assess, change, and implement policies and automated procedures necessary to ensure future compliance with Topic 606 Revenue from Contracts with Customers and FPI Management will conduct a risk assessment and assess the sufficiency of existing controls as well as provide additional training to personnel for raw material receipt activity.

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 three years of release. As one of the Bureau of Prisons' (BOP's) most crucial AIC reentry programs, FPI employed 11,043 federal AIC across 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. Due to decreased purchases from FPI by the government sector. The emphasis continues to be exploring more opportunities with commercial customers. For

instance, new market authorities contained in the Consolidated and Further Continuing Appropriations Act of 2012 (PL 112-55) authorize FPI to both 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 continues implementation of authorities provided by the First Step Act of 2018. FPI appreciates Department of Justice agencies assisting with the development of work opportunities to support our mission. The outstanding dedication of FPI staff and the leadership provided by the Board of Directors also contributes to FPI's continued success and will, we believe, in the future.

OLETA
VASSILOPOULOS



Digitally signed by OLETA
VASSILOPOULOS
Date: 2026.02.09
09:21:57 -05'00'

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

Porras,
Edward



Digitally signed by Porras,
Edward
Date: 2026.02.09
09:26:43 -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 2024, FPI operated in seven business segments: Agribusiness, Clothing and Textiles, Electronics, Fleet, Office Furniture, Recycling, and Services. FPI has agricultural, industrial and service operations at 63 factories and 2 farms located at 51 prison facilities as of September 30, 2024. 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, inmate 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 2024 include the Department of Defense (DOD), the Department of Justice (DOJ), the Department of Homeland Security (DHS), 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.

Lease Accounting: FPI adopted ASU 2016-02 and its related amendments (collectively known as ASC 842) effective October 1, 2022, which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. FPI adopted ASC 842 using the modified retrospective transition approach, applying ASC 842 to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statement as its date of initial application. FPI has elected to apply the transition requirements at the October 1, 2022, effective date rather than at the beginning of the earliest comparative period presented. This approach allows for a cumulative effect adjustment in the period of adoption, and prior periods are not restated and continue to be reported in accordance with historic accounting under ASC 840 (Leases). In addition, FPI has elected the package of practical expedients permitted under the transition guidance within the new standard which does not require reassessment of prior conclusions related to contracts containing a lease, lease classification and initial direct lease costs. As an accounting policy election, FPI excluded short-term leases (term of 12 months or less) from

the balance sheet and accounts for non-lease and lease components in a contract as a single component for all asset classes.

FPI determines at its inception whether an arrangement that provides them control over the use of an asset is a lease. FPI recognizes at lease commencement a right-of-use (ROU) asset and lease liability based on the present value of the future lease payments over the lease term. Leases are classified as operating or finance leases based on factors such as the lease term, lease payments, and the economic life, fair value and estimated residual value of the asset. Certain leases include options to purchase the leased asset at the end of the lease term, which is assessed as a part of lease classification determination. Some leases include options to renew, extend the term of the lease or to terminate the lease. When it is reasonably certain that FPI will exercise the option, FPI includes the impact of the option in the lease term for purposes of determining total future lease payments and lease classification. FPI elected to use a risk-free discount rate as a practical expedient in lieu of its incremental borrowing rate on the first of each month for all leases requiring measurement during that month to calculate the present value of future payments.

In addition to the present value of the future lease payments, the calculation of the ROU asset also includes any deferred rent, lease pre-payments and initial direct costs of obtaining the lease, such as commissions. FPI has variable payments that are not based on an index or rate such as the Consumer Price Index (CPI). These variable lease payments, such as usage-based amounts, are excluded from the ROU asset and lease liability, and are expensed as incurred. Variable lease costs under short-term leases are disclosed as part of short-term lease costs.

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 90 years. Over the course of these years, FPI has positively impacted countless staff and inmate lives. FPI's training programs ease tensions 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 training provides 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

Cash and Cash Equivalents

Cash and Cash Equivalents increased \$84.5 million from September 30, 2023, to September 30, 2024. The primary factors in the increase in cash were related to investments redeemed of \$19.6 million and an increase of \$63.5 million in contract liabilities.

Investments

During fiscal year 2024, FPI redeemed \$19.6 million in investments. As a general investment strategy, FPI plans to hold all short-term and long-term investments to maturity.

Accounts Receivable

The Accounts Receivable balance increased \$6.6 million during fiscal year 2024. FPI's average days to collect as of September 30, 2024, were approximately 29.8 days.

Liabilities

Total Liabilities increased by \$53.6 million during fiscal year 2024. The primary contributor was a \$63.5 million increase in contract liabilities. The contract liabilities are attributable to customer advances payable on hand primarily for the retrofitting of vehicles for the Department of Homeland Security.

Revenue, Cost of Revenue, and Net Income

Total revenue increased by \$0.8 million while total cost of revenue decreased \$16.2 million, resulting in an increase in gross profit of \$17.0 million. Sales increased \$12.8 million from fiscal year 2023. Clothing and Textiles business group led the way with an increase of \$12.1 million in sales. FPI 12-month sales were \$423.7 million, an increase of 3.1% over the previous year. FPI experienced an increase of \$5.1 million in operating expenses, however FPI recognized an \$18.8 million increase in net income from September 30, 2023, to September 30, 2024.

Business Segments

Between September 30, 2023, and September 30, 2024, FPI's businesses were 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	
	2024	2023
Agribusiness		
Sales	\$2,466	\$2,971
Earnings after G&A	\$(1,586)	\$(2,733)
Clothing and Textiles		
Sales	\$164,589	\$152,494
Earnings after G&A	\$(7,685)	\$(7,486)
Electronics		
Sales	\$15,042	\$23,390
Earnings after G&A	\$(8,058)	\$(8,708)
Fleet		
Sales	\$48,221	\$59,029
Earnings after G&A	\$(7,637)	\$(2,301)
Office Furniture		
Sales	\$132,516	\$109,564
Earnings after G&A	\$18,544	\$(3,090)
Recycling		
Sales	\$27,488	\$28,734
Earnings after G&A	\$5,734	\$7,135
Services		
Sales	\$33,367	\$34,731
Earnings after G&A	\$(375)	\$462
Factory Total		
Sales	\$423,689	\$410,913
Earnings after G&A	\$(1,063)	\$(16,721)

Plan for Growth

In order to increase sales in fiscal year 2024 and beyond, FPI leveraged its Business Development Group to explore additional 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. FPI has also engaged with the DOJ and BOP to identify additional opportunities for sales.

Employment of AIC

FPI employed 11,043 AIC as of September 30, 2024, above FPI's goal of 10,115. In order to ensure that FPI work skills are up to date among releasing AIC with FPI experience, which is likely to enhance these AIC post-release job prospects, FPI's goal is that 30 percent of the FPI in-custody workforce will consist of individuals within 3 years of their release date.

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 is expected to grow in order to provide a significant number of these opportunities.



DEPARTMENT OF JUSTICE | OFFICE OF THE INSPECTOR GENERAL

February 9, 2026

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

FROM: William M. Blier
Deputy Inspector General
Performing the Duties of the Inspector General

SUBJECT: Independent Auditors' Report on the Audit of the Federal Prison Industries, Inc.'s Annual Financial Statements, Fiscal Year 2024

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 years ended September 30, 2024, and 2023. 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.

In its audit of the FPI's financial statements, KPMG reported:

- The financial statements are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.
- Two 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 February 9, 2026, 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

Deputy Inspector General
Performing the Duties of the 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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the U.S. Department of Justice Federal Prison Industries, Inc. (FPI), which comprise the balance sheets as of September 30, 2024 and 2023, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FPI as of September 30, 2024 and 2023, and the results of its operations and cumulative results of operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the FPI and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the FPI's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 FPI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the FPI's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the Annual Management Report. The other information comprises the Table of Contents, 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 but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2024, we considered the 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 the FPI's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 were not identified. However, as described in the accompanying Exhibit, we identified 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FPI's financial statements as of and for the year ended September 30, 2024 is 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. 24-02.

We also performed tests of the FPI's 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 the 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on the FPI's responses to the findings identified in our audit and described in the accompanying Exhibit. The FPI's responses were not subjected to the other 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 Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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 the FPI's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FPI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
February 9, 2026

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

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 current accounting system configurations do not allow for revenue to be recognized on a real-time basis under Topic 606. As such, management manually completes an annual year-end process to calculate a Topic 606 revenue adjustment. The adjustment is compiled from four separate workbooks, which are divided by the main business segments that drive the adjustment – textiles, fleet, electronics, and services. The workbooks are prepared and reviewed by separate Deputy CFOs prior to recording the revenue adjustment.

Internal controls over the review of the adjustment were not designed effectively. Management did not require the review to be performed routinely or with sufficient precision to identify whether all inputs were complete and accurate. Management failed to identify input errors related to a subset of fleet raw materials that were recognized as revenue in the adjustment. Additionally, management failed to identify a selling price inaccuracy related to a fleet finished good. At the end of fiscal year 2024, FPI incorrectly overstated revenue by \$70 thousand.

Criteria:

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

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."

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."

Principle 10.02 (Design Control Activities): "Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks."

Principle 13.05 (Use Quality Information): "Management processes the obtained data into quality information that supports the internal control system..."

Recommendations:

We recommend that FPI:

1. Design and implement control activities to review the Topic 606 adjustment with sufficient precision to ensure the revenue adjustment is complete and accurate.

Management's Response:

FPI Management concurs. In fiscal year 2024, processes were evaluated to confirm that Topic 606 adjustments are identified and recorded with the required degree of accuracy. FPI Management is developing and refining enhanced internal controls and testing of these controls in subsequent fiscal years.

2. Automate its accounting system to recognize revenue under Topic 606 throughout the year.

Management's Response:

FPI Management concurs. FPI engaged an external contractor to automate our accounting system to recognize revenue under Topic 606 by utilizing the SAP Revenue Accounting and Reporting (RAR) application to ensure timely and consistent revenue recognition throughout the year. FPI Management continues to refine the RAR automation to limit manual intervention to record revenue with the required degree of accuracy.

Improvements Needed in Raw Material Receipt Input Review

When raw materials are purchased and received, FPI records the quantity received and unit cost per the purchase order. The total quantity and cost of inventory on hand are automatically updated, and a new moving average price is applied to raw materials consumed in production orders.

During the fiscal year 2024 financial statement audit, management did not perform a sufficient risk assessment to identify and respond to risks relating to the accuracy of FPI's perpetual inventory system. Management did not identify the risk that controls were not designed or implemented to timely detect and correct input errors related to raw material receipts. Management failed to identify input errors related to a raw material that caused an overstatement of raw material inventory of \$26 million. Management subsequently corrected the error in the year-end financial statements.

Criteria:

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

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."

Principle 10.02 (Design Control Activities): "Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks."

Recommendation:

3. We recommend that FPI design and implement control activities to perform a timely review of the inputs when raw material items are received to ensure the perpetual inventory system is accurate.

Management's Response:

FPI Management concurs. FPI performed a review of the raw material process in SAP and determined that automated controls are working as designed. FPI Management will conduct a risk assessment to design raw material receipt manual controls and assess the sufficiency of these controls as well as provide additional training to personnel.

Federal Prison Industries, Inc.

Balance Sheets

<i>As of September 30, (DOLLARS IN THOUSANDS)</i>	2024	2023
Assets		
Current:		
Cash and cash equivalents	\$ 408,044	\$ 323,568
Accounts receivable, net	43,228	36,582
Short term investments	-	20,240
Contract assets	48,347	55,832
Inventories, net	80,564	77,670
Other assets	876	490
Total current assets	581,059	514,382
Property, plant and equipment, net	72,443	70,760
Total long-term assets	72,443	70,760
Total Assets	\$ 653,502	\$ 585,142
Liabilities and United States Government Equity		
Current:		
Accounts payable	\$ 32,378	\$ 41,781
Contract liabilities	195,640	132,130
Accrued salaries and wages	3,510	7,658
Accrued annual leave	6,110	6,157
Other accrued expenses	17,040	14,595
Total current liabilities	254,678	202,321
FECA actuarial liability	15,773	14,567
Total Liabilities	270,451	216,888
United States Government Equity		
Initial capital	4,176	4,176
Contributed capital	6,905	6,905
Cumulative results of operations	371,970	357,173
Total United States Government Equity	383,051	368,254
Total Liabilities and United States Government Equity	\$ 653,502	\$ 585,142

Federal Prison Industries, Inc.

Statements of Operations and Cumulative Results of Operations

<i>For the fiscal years ended September 30, (DOLLARS IN THOUSANDS)</i>	2024	2023
Revenue:		
Sales	\$ 423,689	\$ 410,913
Other revenue	48,316	60,247
Total revenue	472,005	471,160
Cost of revenue:		
Cost of sales	376,975	378,019
Cost of other revenue	36,190	51,340
Total cost of revenue	413,165	429,359
Gross profit	58,840	41,801
Operating expenses:		
Sales and marketing	8,948	7,445
General and administrative	88,421	84,803
Total operating expenses	97,369	92,248
Loss from operations	(38,529)	(50,447)
Interest income	17,672	11,712
Interest expense	(210)	(68)
Other income, net	35,864	34,810
Net income/ (loss)	14,797	(3,993)
Cumulative results of operations, beginning of fiscal year	357,173	361,165
Cumulative results of operations (ASC 606)	-	1
Cumulative results of operations, end of fiscal year	\$ 371,970	\$ 357,173

The accompanying notes are an integral part of these financial statements

Federal Prison Industries, Inc.

Statements of Cash Flows

<i>For the fiscal years ended September 30,</i>	2024	2023
<i>(DOLLARS IN THOUSANDS)</i>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 14,797	\$ (3,993)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,505	7,675
Amortization of discount or premium on investments	591	743
Loss on disposal of property, plant and equipment	134	1,833
Changes in:		
Accounts receivable	(6,646)	10,401
Contract assets	7,485	2,044
Inventories	(2,894)	740
Other assets	(386)	1,222
Accounts payable and accrued expenses	(9,947)	1,806
Contract liabilities	63,510	26,200
Net cash provided by (used in) operating activities	74,149	48,671
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(9,322)	(3,192)
Investments redeemed	19,649	25,110
Net cash provided by investing activities	10,327	21,918
Net increase (decrease) in cash and cash equivalents	84,476	70,589
Cash and cash equivalents, beginning of fiscal year	323,568	252,979
Cash and cash equivalents, end of fiscal year	\$ 408,044	\$ 323,568

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Note 1. Organization and Mission

Federal Prison Industries, Inc. (FPI) was established by statute (P.L. 73-461) on June 23, 1934, and implemented by Executive Order No. 6917, signed by President Roosevelt on December 11, 1934. 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 2024 percent of sales activity including interagency sales shown in parenthesis), agencies and bureaus such as the Department of Defense (56%), the Department of Justice (13%), the Department of Homeland Security (10%), the Social Security Administration (4%), 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 also sells products to certain private sector companies, without requiring collateral.

FPI has agricultural, industrial, and service operations at 63 factories and 2 farms located at 51 prison facilities that employed 11,043 and 11,489 AIC as of September 30, 2024, and 2023, respectively.

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 standard-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

These notes are an integral part of the financial statements.

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

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 accordance with U.S. GAAP. In fiscal years 2024 and 2023, 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. FPI's financial instruments are comprised of cash, accounts receivable, accounts payable, and accrued liabilities as of September 30, 2024, and 2023. The carrying amounts of these financial instruments approximate fair value because of the short-term nature of these instruments. 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 FPI holds are 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.

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

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.

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

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, 2024.

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

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

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, 2024.

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

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

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.

Costs 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.

Property, Plant and Equipment

Property, plant and equipment (PP&E) 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:

	<u>Years</u>
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, if any, is reflected in the statements of operations. Repairs and maintenance costs are expensed as incurred.

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 February 9, 2026.

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Note 3. Investments

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

<u><i>As of September 30,</i></u>	<u>2024</u>	<u>2023</u>
Due in one year or less	\$ -	\$ 20,240
	<u>\$ -</u>	<u>\$ 20,040</u>

The investments above held by FPI on September 30, 2024, and 2023 consist of Market Notes, issued by the U.S. Treasury. All 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 had a significant adverse impact on the fair value of these securities.

As of September 30, 2024, all investments have been redeemed in comparison to having \$378 in an unrealized loss position as of September 30, 2023.

Note 4. Accounts Receivable, Net

Accounts receivable, net consists of the following:

<u><i>As of September 30,</i></u>	<u>2024</u>	<u>2023</u>
Intragovernmental receivables	\$ 31,232	\$ 26,923
Interest receivable – investments	-	104
Unbilled receivables	7,554	4,311
Private sector receivables	5,081	5,856
	<u>43,867</u>	<u>37,194</u>
Less allowance for doubtful accounts	639	612
Accounts receivable, net	\$ 43,228	\$ 36,582

FPI incurred bad debt expense of \$26 and \$50, respectively, for the fiscal years ended September 30, 2024 and 2023.

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Note 5. Inventories, Net

Inventories, net consists of the following:

<i>As of September 30,</i>	2024	2023
Raw materials	\$ 58,378	\$ 53,978
Work-in-process	8,157	6,292
Finished sub-assemblies	7,978	7,635
Finished goods	15,948	15,131
	90,461	83,036
Less inventory allowance	9,897	5,366
Inventories, net	\$ 80,564	\$ 77,670

Note 6. Property, Plant and Equipment, Net

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

<i>As of September 30,</i>	2024	2023
Buildings and improvements	\$ 174,171	\$ 174,093
Machinery and equipment	86,368	86,258
Livestock	1,080	854
Computer hardware	2,189	2,263
Computer software	41,715	41,715
	305,523	305,183
Less accumulated depreciation	241,964	236,536
	63,559	68,647
Software under development	1,108	1,108
Construction in progress	7,776	1,005
Property, plant and equipment, net	\$ 72,443	\$ 70,760

Depreciation and amortization expense totaled \$7,505 and 7,675 for the fiscal years ended September 30, 2024, and 2023, respectively. During fiscal years 2024 and 2023, FPI invested \$9,322 and \$3,192, respectively, for the purchase and construction of property, plant and equipment.

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Note 7. Other Accrued Expenses

Other accrued expenses consist of the following:

<i>As of September 30,</i>	2024	2023
Materials in transit	\$ 90	\$ 53
Relocation travel expense	1,217	1,226
FECA liabilities – current portion	2,029	1,849
Financial audit expense	62	756
Telecommunication expense	3,429	3,236
Utilities	1,055	995
Product warranties	309	311
Intra-Departmental agreements	130	800
Vendor invoices	8,328	5,293
Other expense	391	76
Other accrued expenses	\$ 17,040	\$ 14,595

Note 8. 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 institution 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 years ended September 30, 2024, and 2023, respectively.

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

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

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, 2024, and 2023, the accrued FECA liabilities as charged to FPI, approximated \$2,028 and \$1,849, respectively.

FPI is required by 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 \$15,773 and \$14,567 as of September 30, 2024, and 2023, respectively.

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 years ended September 30, 2024, and 2023, 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) 18.4 percent and 18.4 percent for fiscal years ended September 30, 2024, and 2023, respectively. FPI contributed (for hazardous retirement) 38.2 percent and 37.6 percent for fiscal years ended September 30, 2024, and 2023, respectively. For employees covered by the FERS-RAE, (generally those employees hired between January 1, 2013, and December 31, 2013), FPI contributed (for normal retirement) 16.5 percent and 16.6 percent for fiscal years ended September 30, 2024, and 2023, respectively. FPI contributed (for hazardous duty retirement) 36.4 percent and 35.8 percent for the fiscal years ended September 30, 2024, and 2023, respectively. For employees covered by the FERS-FRAE, (generally those employees hired on or after January 1, 2014), FPI contributed (for normal retirement) 16.5 percent and 16.6 percent for fiscal years ended September 30, 2024, and 2023, respectively. FPI contributed (for hazardous duty retirement) 36.4 percent and 35.8 percent for the fiscal years ended September 30, 2024, and 2023, respectively.

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).

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Under the thrift plan, an employee may contribute (tax deferred) to an investment fund, up to \$23,000 and \$22,500 of salary for the fiscal years ended September 30, 2024, and 2023, respectively. 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 \$23,000 and \$22,500 of their salary to the thrift plan for the fiscal years ended September 30, 2024, and 2023 respectively, 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 were approximately \$27,786 and \$25,782 for the fiscal years ended September 30, 2024, and 2023, respectively.

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 \$8,232 and \$5,019 in the fiscal years ended September 30, 2024, and 2023, respectively, 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 \$8,742 and \$8,373 for the fiscal years ended September 30, 2024, and 2023, respectively.

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 \$6,007 and \$6,411 during the fiscal years ended September 30, 2024, and 2023, respectively, 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.

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Note 9. Sales and Marketing, General and Administrative Expenses

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

<i>Fiscal years ended September 30,</i>	2024	2023
Salaries, wages and benefits	\$ 37,819	\$ 34,930
Permanent change of station expense	1,000	702
Purchases of minor equipment	167	73
Contract services	11,148	13,213
Bad debt expense	26	50
Credit card services	(4)	364
Travel	402	457
Personal computer expense	97	72
Accident compensation	3,002	3,338
Financial audit	1,611	1,588
Marketing	8,948	7,445
Depreciation	3,465	3,498
Loss on disposition of assets	13	157
Telecommunication expense	1,184	1,081
Other expenses	(2,626)	(3,660)
Imputed pension costs	8,232	5,019
Imputed post-retirement health care and life insurance cost	6,007	6,411
Imputed operating costs	16,878	17,510
Sales and marketing, general and administrative expenses	\$ 97,369	\$ 92,248

Other expenses are comprised primarily of, sales consulting fees, AIC wages, maintenance agreements, prior year reimbursable agreement adjustments, 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 \$8.6 and \$8.6 million for fiscal years 2024 and 2023, respectively. Contract services consist primarily of consulting and sales and marketing fees.

Note 10. 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

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Counsel considers 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, 2024, and 2023, legal contingencies total \$0 and \$0, respectively.

Lease Commitments

FPI leases certain machinery, vehicles, and office equipment. FPI owns buildings that reside on land leased from BOP under rent-free leases that are depreciated over the useful life of the asset, as opposed to the rent-free lease period due to the common control group comprised of FPI and BOP. FPI elected the practical expedient to use written terms and conditions to determine whether a lease exists and to classify and account for a lease. For rent-free leases with BOP accounted for under the expedient, an ROU asset, lease liability, and lease costs are not recognized.

The components of lease costs was as follows:

Year Ended September 30	2024	2023
Finance lease cost:		
Amortization of ROU assets	\$ 130	\$ 53
Interest on lease liabilities	15	1
Short-term lease cost	-	-
Variable lease cost	-	-
Total lease costs	\$ 145	\$ 54

Additional information related to leases was as follows:

Year Ended September 30	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	3	1
Financing cash flows from finance leases	176	53
Supplemental non-cash information:		
Right-of-use assets obtained in exchange for lease liabilities:		
Finance leases	601	100
Amounts recognized related to termination of finance leases:		
Derecognition of ROU assets	107	-
Derecognition of lease liabilities - short-term	26	-
Derecognition of lease liabilities - long-term	75	-
Loss on derecognition	6	-

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

Additional quantitative lease information was as follows:

September 30	2024	2023
Weighted-average remaining lease term:		
Finance leases	4.06 years	2.57 years
Weighted-average discount rate:		
Finance leases	3.94%	1.61%

The following is a reconciliation of future undiscounted cash flows to the operating and finance lease liabilities, and the related ROU assets, presented on the Balance Sheet on September 30, 2024:

	Finance Leases	
2025	\$	138
2026		112
2027		112
2028		106
2029		-
Thereafter		-
Total future lease payments		468
Less imputed interest		(32)
Present value of future lease payments		436
Less current portion of lease liabilities		(129)
Long-term lease liabilities	\$	307
ROU assets	\$	443

Lease liabilities included on the Balance Sheet are solely related to finance leases and are all included in property plant and equipment. ROU assets included on the Balance Sheet are solely related to finance leases and are included in noncurrent other assets.

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

<i>Fiscal years ended September 30,</i>	2024	2023
Balance at the beginning of the period	\$ 311	\$ 311
Accruals for warranties issued during the period	28	35
Settlements made (in cash or in kind) during the period	(30)	(35)
Balance at the end of the period	\$ 309	\$ 311

Fiscal Years 2024 and 2023
Notes to Financial Statements
(Dollars in Thousands)

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:

<u><i>Fiscal years ended September 30,</i></u>	<u>2024</u>	<u>2023</u>
Congressional limitation on expenses	\$ 2,700	\$ 2,700
<u>Expenses incurred subject to Congressional limitation</u>	<u>\$ 2,129</u>	<u>\$ 2,697</u>

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 control activities to review the Accounting Standards Codification No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) adjustment with sufficient precision to ensure the revenue adjustment is complete and accurate.**

Closed. FPI management concurred with this recommendation. Because this recommendation is identical to an open recommendation from a prior year, we are closing this recommendation and tracking the status of corrective action through recommendation No. 1 of the Audit of the Federal Prison Industries, Inc. Annual Financial Statements Fiscal Year 2023 (OIG Audit Division Report Number 26-006).

- 2. Automate its accounting system to recognize revenue under Topic 606 throughout the year.**

Closed. FPI management concurred with this recommendation. Because this recommendation is identical to an open recommendation from a prior year, we are closing this recommendation and tracking the status of corrective action through recommendation No. 2 of the Audit of the Federal Prison Industries, Inc. Annual Financial Statements Fiscal Year 2023 (OIG Audit Division Report Number 26-006).

- 3. Design control activities to perform a timely review of the inputs when raw material items are received to ensure the perpetual inventory system is accurate.**

Resolved. FPI concurred with this recommendation. FPI stated in its response that it will conduct a risk assessment to design raw material receipt manual controls and assess the sufficiency of these controls as well as provide additional training to personnel.

This recommendation can be closed when subsequent annual financial statements audit tests verify that management has designed control activities to perform a timely review of the inputs when raw materials items are received to ensure the perpetual inventory system is accurate.