FEDERAL BUREAU OF PRISONS ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2010

U.S. Department of Justice
Office of the Inspector General
Audit Division

Audit Report 11-14
January 2011

FEDERAL BUREAU OF PRISONS
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2010

OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the Federal Bureau of Prisons (BOP) for the fiscal years (FY) ended September 30, 2010, and September 30, 2009. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed the BOP's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2010 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2009, the BOP also received an unqualified opinion on its financial statements (OIG Report No. 10-18).

KPMG LLP also issued reports on internal control and on compliance and other matters. For FY 2010, the *Independent Auditors' Report on Internal Control over Financial Reporting* identified no deficiencies in internal control. In the FY 2010 *Independent Auditors' Report on Compliance and Other Matters*, the auditors identified no instances of non-compliance with laws and regulations and the *Federal Financial Management Improvement Act of 1996*.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the BOP's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the BOP's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 4, 2010, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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U.S. DEPARTMENT OF JUSTICE

BUREAU OF PRISONS

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U.S. Department of Justice
Bureau of Prisons
Management's Discussion & Analysis

MISSION

It is the mission of the Federal Bureau of Prisons to protect society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, cost-efficient, and appropriately secure, and that provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens.

ORGANIZATION STRUCTURE

The Bureau of Prisons (BOP) encompasses the activities of the Trust Fund and appropriated activities. It does not include the Federal Prison Industries, Inc. (FPI) (also called UNICOR) which is a separate reporting component of the Department of Justice (DOJ).

As of September 30, 2010, the **BOP** was comprised of 116 institutions, six regional offices, two staff training centers, 28 community corrections offices, and a Central Office, or headquarters, in Washington, D.C. The Executive Office of the Director provides overall direction for agency operations, with nine central office divisions, each led by a member of the BOP's Executive Staff, providing operational and policy direction. The Central Office manages the security and correctional operations of the BOP, the medical and psychiatric programs, and food and nutritional programs. Additionally, the Central Office plans for the acquisition, construction, staffing of new facilities, oversees budget development and execution, contracting, property management, and financial management. Additional operational support and direction are provided for community corrections and detention programs, legal counsel, public affairs, information resources, and human resources management.

The **National Institute of Corrections** (NIC), one of the BOP's Salaries and Expenses activities, provides technical assistance and training for state and local correctional agencies across the nation. The NIC supports the BOP's goal of building partnerships with community, state, local, and other entities. The **Program Review Division** (PRD) performs oversight over the BOP's programs through a rigorous review process that measures program effectiveness and adequacy of internal controls. The **Administration Division** (ADM) provides resources and support for the BOP to perform effectively and efficiently. This includes the development of budget requests, the stewardship of financial resources, and procurement and property management; the coordination and analysis of information related to capacity; the selection of sites for new prison construction; the design and construction of new correctional facilities; and the renovation and maintenance of existing facilities. The **Correctional Programs Division** (CPD) develops activities and programs designed to appropriately classify inmates, eliminate inmate idleness, and develop the skills necessary to facilitate the successful reintegration of inmates into their communities upon release. The **Health Services Division** (HSD) has responsibilities in medical care, safety and environmental health, and food services. The health care mission is to deliver necessary health care to inmates. The occupational safety and environmental health mission is to provide a safe and healthy environment for staff and inmates. The food service mission is to provide healthy and appetizing meals that meet the needs of the general population. The **Human Resource Management Division** (HRMD) is designed to oversee and administer personnel policy and programs developed to address the needs of Bureau employees covering all areas of personnel management. The **Industries, Education, and Vocational Training Division** (IE&VT**)** encompasses the FPI program and the Bureau's Education and Inmate Transition Program. The Education Branch oversees the Bureau's recreation programs and the Bureau's education and vocational training programming. The Inmate Transition Branch works to enhance inmates' post-release employment opportunities and also oversees the Bureau's Volunteer Management Program. The **Information, Policy and Public Affairs Division** (IPPA) collects, develops, and disseminates useful, accurate, and timely information to BOP staff, DOJ, Congress, other government agencies, and the public. The **Office of General Counsel** (OGC) provides effective legal advice, assistance, and representation to officials of the Federal Bureau of Prisons.

The **Trust Fund** was created in the early 1930s to allow inmates a means to purchase additional products and services above the necessities provided by appropriated Federal funds (e.g., personal grooming products, snacks, postage stamps, and telephone services). The Trust Fund is a self-sustaining trust revolving fund account that is funded through sales of goods and services to inmates.

The BOP is subdivided into **six geographical regions** (see Attachment A), each managed by a Regional Director. Regions are staffed with personnel who provide operational guidance and support to the field locations in management and administrative areas such as financial management, budgeting, technical assistance, personnel, and correctional management.

In the fiscal year 2010, the BOP operated 116 institutions spanning four main security levels in its efforts to provide secure and cost effective housing to a broad spectrum of offenders. Institutions are assigned a security classification based in part on the physical design of each facility. The four security levels are minimum, low, medium, and high. In addition, **administrative** facilities are institutions with special missions, including: detention of non-citizen or pretrial offenders, treatment of inmates with serious or chronic medical problems, and containment of extremely violent or dangerous inmates. Administrative facilities are capable of housing inmates of all security categories.

FINANCIAL STRUCTURE

The BOP was provided two appropriations by Congress for fiscal year 2010: **Salaries and Expenses** and **Buildings and Facilities.** The Salaries and Expenses (S&E) portion includes annual and multi-year appropriations, while Buildings and Facilities (B&F) is a no-year appropriation. The **Trust Fund** receives spending authority from offsetting collections for revenue earned through the sale of goods and services.

The S&E appropriations are annual and multi-year appropriations that support costs associated with the care and custody of all Federal offenders in Federal institutions and contract facilities, and the maintenance and operational costs associated with the upkeep of Federal facilities, regional offices, staff training centers, and administrative offices.

The B&F appropriation is a no-year appropriation that supports site planning, acquisition, and construction of new facilities. The B&F appropriation also supports the remodeling, renovating, and equipping of existing facilities for penal and correctional use.

ANALYSIS OF FINANCIAL STATEMENTS

Highlights of the financial and budgetary information presented in the financial statements follows.

Assets: The BOP's Consolidated Balance Sheets as of September 30, 2010, shows $7.988 billion in total assets, a decrease of $58 million from the previous year's total assets of $8.046 billion. General Property, Plant and Equipment, Net was $6.335 billion, which represents 79 percent of total assets.

Liabilities: Total BOP liabilities were $1.876 billion as of September 30, 2010, an increase of $208 million from the previous year's total liabilities of $1.668 billion. Actuarial FECA liabilities were $736 million and Accounts Payable was $422 million, which represents 39 percent and 22 percent of total liabilities respectively.

Net Cost of Operations: The Consolidated Statements of Net Cost presents the BOP's gross and net cost by strategic goals 2 and 3. The net cost of the BOP's operations totaled $6.656 billion for the fiscal year ended September 30, 2010, an increase of $433 million (7 percent) from the previous year's net cost of operations of $6.223 billion.

Consistent with the Government Performance and Results Act (GPRA), the BOP has a formal strategic planning process that feeds into the Department's strategic plan. The BOP sets goals, measures performance, and reports annually on its actual performance compared to its goals. The Office of Management and Budget (OMB) Circular A-136 and the Statement of Federal Financial Accounting Standard (SFFAS) No. 15, "Management's Discussion and Analysis – Standards," require agencies to present the most significant performance measures related to information on major goals from the agency's strategic plan. Reported measures are also linked to the DOJ Strategic Goal 2, "Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People," and Strategic Goal 3, "Ensure the Fair and Efficient Administration of Justice." Tables 1 and 2 summarize the activity on the BOP's Consolidated Statements of Changes in Net Position and Consolidated Statements of Net Cost. The tables show the funds provided to the BOP for the fiscal years ended September 30, 2010 and 2009 for the purpose of achieving the strategic goals.

Table 1. Source of BOP Resources
(Dollars in Thousands)

Source	FY 2010	FY 2009	Change %
Earned Revenue	$ 372,199	$ 357,601	4%
Budgetary Financing Sources			
Appropriations Received	6,205,386	6,176,599	0%
Appropriations Transferred-In/Out	(818)	(8,035)	-90%
Other Financing Sources			
Donations and Forfeitures of Property	340	68	400%
Transfers-In/Out Without Reimbursement	5,394	14,773	-63%
Imputed Financing From Costs Absorbed by Others	216,705	189,665	14%
Total	**$ 6,799,206**	**$ 6,730,671**	1%

Table 2. How BOP Resources are Spent
(Dollars in Thousands)

Strategic Goal (SG)	FY 2010	FY 2009	Change %
SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Gross Cost	$ 6,860	$ 6,987	
Less: Earned Revenue	-	-	
Net Cost	$ 6,860	$ 6,987	-2%
SG 3: Ensure the Fair and Efficient Administration of Justice			
Gross Cost	$ 7,021,759	$ 6,573,615	
Less: Earned Revenue	372,199	357,601	
Net Cost	$ 6,649,560	$ 6,216,014	7%
Total Gross Cost	**$ 7,028,619**	**$ 6,580,602**	
Less: Total Earned Revenue	**372,199**	**357,601**	
Total Net Cost of Operations	**$ 6,656,420**	**$ 6,223,001**	7%

2010 Financial Highlights

Strategic Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People, includes preventing, suppressing and intervening in crimes against children. The Adam Walsh Child Protection and Safety Act (Walsh Act) includes a provision for the civil commitment of sexually dangerous persons due for release from BOP custody. To initiate court commitment proceedings, the BOP must certify the inmate as a "sexually dangerous person" as specified in the statute. The BOP does not have an existing performance measure for its Walsh Act efforts.

Strategic Goal 3: Ensure the Fair and Efficient Administration of Justice

Strategic Goal 3, Ensure the Fair and Efficient Administration of Justice, includes maintaining secure, safe, and humane correctional institutions for sentenced offenders placed in custody. The BOP develops and operates correctional programs that seek a balanced application of the concepts of punishment and deterrence with opportunities to prepare the offender for successful reintegration into society. Through the NIC, the BOP provides assistance to international, Federal, state, and local correctional agencies. The BOP conducts its incarceration function using a range of the BOP operated institutions of varying security levels, as well as the use of privately operated facilities, which includes half-way houses. In addition, the BOP houses all Washington, D.C. adult felons sentenced to a term of confinement. In FY 2010, Goal 3 net costs increased by 7 percent. This is due primarily to the 1,468 increased number of inmates in the BOP's custody.

PERFORMANCE INFORMATION

Data Reliability And Validity

The BOP views data reliability and validity as critically important in the planning and assessment of our performance. As such, this document includes a discussion of data validation, verification, and any identified data limitations for each performance measurement presented. Each reporting component ensures that data reported meets the following criteria:

> At a minimum, performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. Performance data need not be perfect to be reliable, particularly if the cost and effort to secure the best performance data possible will exceed the value of any data so obtained.

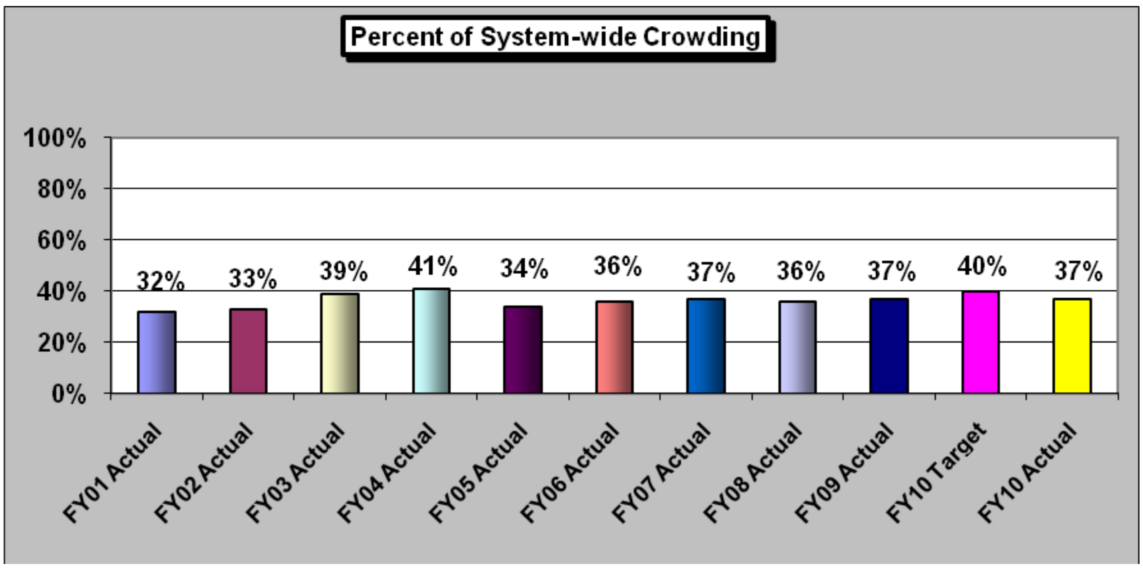
FY 2010 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People. .1 percent of the BOP's Net Costs support this Goal.

STRATEGIC GOAL 3: Ensure the Fair and Efficient Administration of Justice.
99.9 percent of the BOP's Net Costs support this Goal.

Performance Measure: Percent of System-wide Crowding in Federal Prisons (% over rated capacity)

Background/Program Objectives: The BOP constantly monitors and reports weekly on facility capacity, population growth, and prisoner crowding. As federal inmate population levels are projected to increase and continue to exceed the rated capacity of the BOP, every possible action is being taken to protect the community, while keeping institutional crowding at manageable proportions to ensure that federal inmates continue to serve their sentences in a safe and humane environment.



FY 2010 Target: 40%
FY 2010 Actual: 37%

Discussion of FY 2010 Results: During FY 2010, the BOP population increased by a net of 1,468 inmates. Capacity was added as a result of the final phase of activation at FCI Pollock, LA and the start of the activation at FCI McDowell, WV. As a result, the BOP was able to reach the target for rated capacity and system-wide crowding.

Data Definitions: The crowding levels are based on a mathematical ratio of the number of inmates divided by the rated capacity of the institutions at each of the specific security levels. The percent of crowding represents the rate of crowding that is over rated capacity. For example, if an institution had a number of inmates that equaled the rated capacity, this would represent 100% occupancy, which equals 0% crowding. Any occupancy above 100% represents a percentage of crowding. System-wide: represents all inmates in BOP facilities and all rated capacity, including secure and non-secure facilities, low, medium, and high security levels, as well as administrative maximum, detention, medical, holdover, and other special housing unit categories. Minimum security facilities: non-secure facilities that generally house non-violent, low risk offenders with shorter sentences. These facilities have limited or no perimeter security fences or armed posts. Low security facilities: double-fenced perimeters, mostly dormitory housing, and strong work/program components. Medium security facilities: strengthened perimeters, mostly cell-type housing, work and treatment programs and a lower inmate-to-staff ratio than low security facilities. High security facilities: also known as U.S. Penitentiaries, highly secure perimeters, multiple and single cell housing, lowest inmate-to-staff ratio, close control of inmate movement.

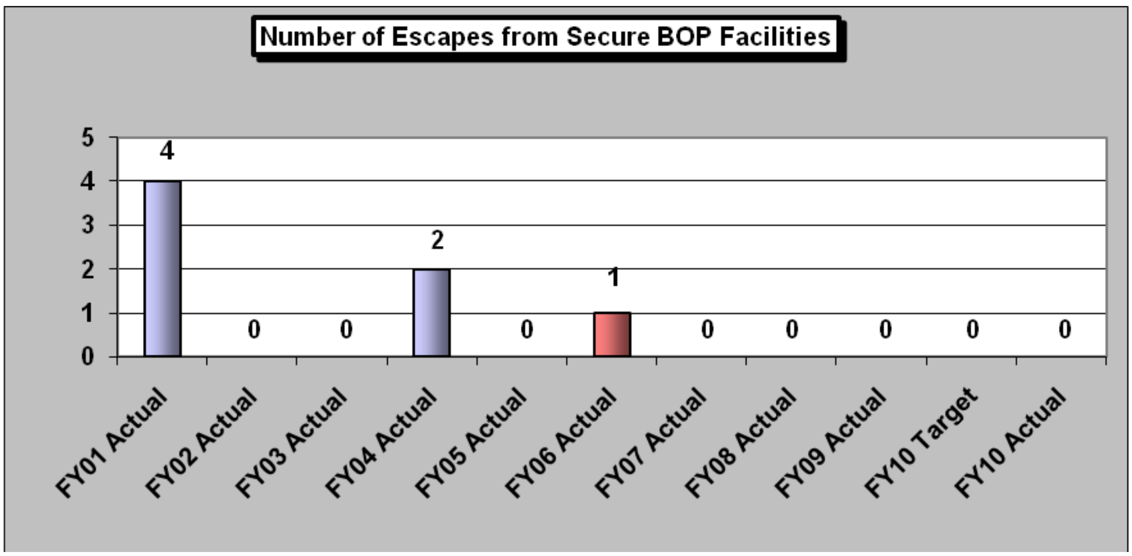
Data Collection and Storage: Data are gathered from several computer systems. Inmate data are collected on the BOP on-line system (SENTRY). The BOP also utilizes a population forecast model to plan for future contracting and construction requirements to meet capacity needs.

Data Validation and Verification: Subject matter experts review and analyze population and capacity levels daily, both overall and by security level. BOP institutions print a SENTRY report, which provides the count of inmates within every institution cell house. The report further subdivides the cell houses into counting groups, based on the layout of the institution. Using this report, institution staff conduct an official inmate count five times per day to confirm the inmate count within SENTRY. The BOP Capacity Planning Committee (CPC), comprised of top BOP officials, meets bi-monthly to review, verify, and update population projections and capacity needs for the BOP. Offender data are collected regularly from the Administrative Office of the U.S. Courts by the BOP Office of Research and Evaluation in order to project population trends. The CPC reconciles bed space needs and crowding trends to ensure that all available prison space is fully utilized, both in federal prisons and in contract care.

***Data Limitations*:** None known at this time.

Performance Measure: Ensure Zero Escapes from Secure BOP Facilities

Background/Program Objectives: The BOP significantly reduces the possibility of escape with long-term emphasis on security enhancements, physical plant improvements, enhanced training, and increased emphasis on staff supervision of inmates. In the event an escape does occur, the BOP will initiate immediate apprehension activities (escape posts, etc.) within the community, until the outside agency having jurisdiction assumes investigative and apprehension responsibilities.



FY 2010 Target: 0
FY 2010 Actual: 0

Discussion of FY 2010 Results: During FY 2010, the BOP had no escapes from secure BOP facilities.

Data Definitions: All BOP institutions are assigned a security classification level based in part on the physical design of each facility. There are four security levels: minimum; low; medium; and high. Additionally, there is an administrative category for institutions that house a variety of specialized populations such as pre-trial, medical, mental health, sex offenders, and U.S. Department of Homeland Security, Immigration and Customs Enforcement (ICE) detainees. Low, medium, and high security levels and administrative institutions are defined as "secure," based on increased security features and type of offenders designated.

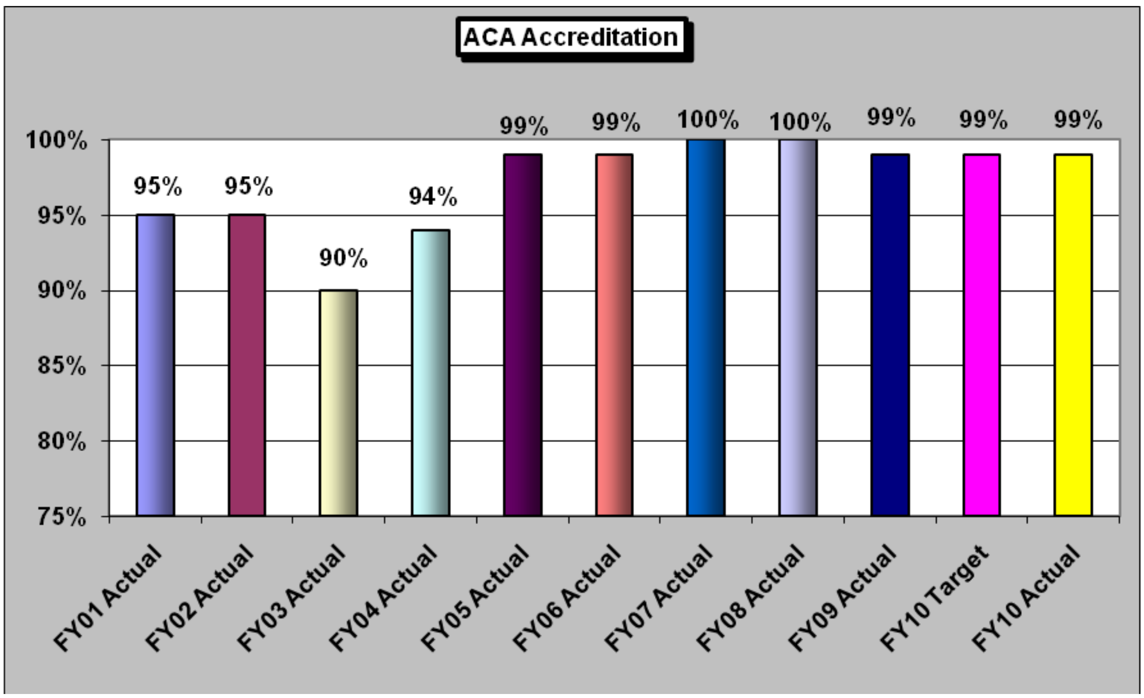
Data Collection and Storage: Data for this measure are taken from the Significant Incident Reports submitted by the institution where the incident occurred. This has become an automated process, which went nationwide in August of 2009, known as the TruIntel system. The data is captured in data sets and made available to the Office of Research and Evaluation, which analyzes the data and makes the escape information available through the Management Analysis Portal, specifically the Institution Management Dashboard.

Data Validation and Verification: The most senior managers in the agency conduct annual reviews of institution performance including escapes. Additionally, during Program Reviews (which are conducted at least every three years), annual operational reviews, and Institution Character Profiles (which are conducted every three years), reviews of escapes (including attempts) are conducted, along with other inmate misconduct.

Data Limitations: None known at this time.

Performance Measure: Inspection Results - Percent of Federal Facilities with American Correctional Association (ACA) Accreditations

Background/Program Objectives: The BOP has the highest regard for human rights and public safety. Therefore, it strives to maintain facilities that meet the accreditation standards of several professional organizations including the ACA. ACA auditors conduct on-site visits to BOP institutions during initial accreditation and re-accreditations. Institutions' ACA accreditation must be renewed tri-annually.



FY 2010 Target: 99%
FY 2010 Actual: 99%

Discussion of FY 2010 Results: One hundred fourteen of the BOP's one hundred fifteen prisons eligible to participate in the reaccreditation program maintained their accreditation. FCI Loretto, PA participated in an accreditation audit in September 2010, and is expected to be granted re-accreditation at ACA's January 2011 Winter Conference. In the latter part of September 2010, FCI McDowell, WV began activating but is not yet eligible for initial accreditation. New institutions are not considered eligible for accreditation status until approximately 2 years after initial activation.

Data Definitions: Initial ACA Accreditation is awarded when an institution demonstrates 100% compliance with mandatory ACA standards, and substantial compliance with nonmandatory ACA standards. The BOP's policy requires all institutions to maintain ACA Accreditation.

Data Collection and Storage: Once an audit is completed, an electronic report is received from ACA. These reports are maintained in GroupWise shared folders by institutions, and in WordPerfect files.

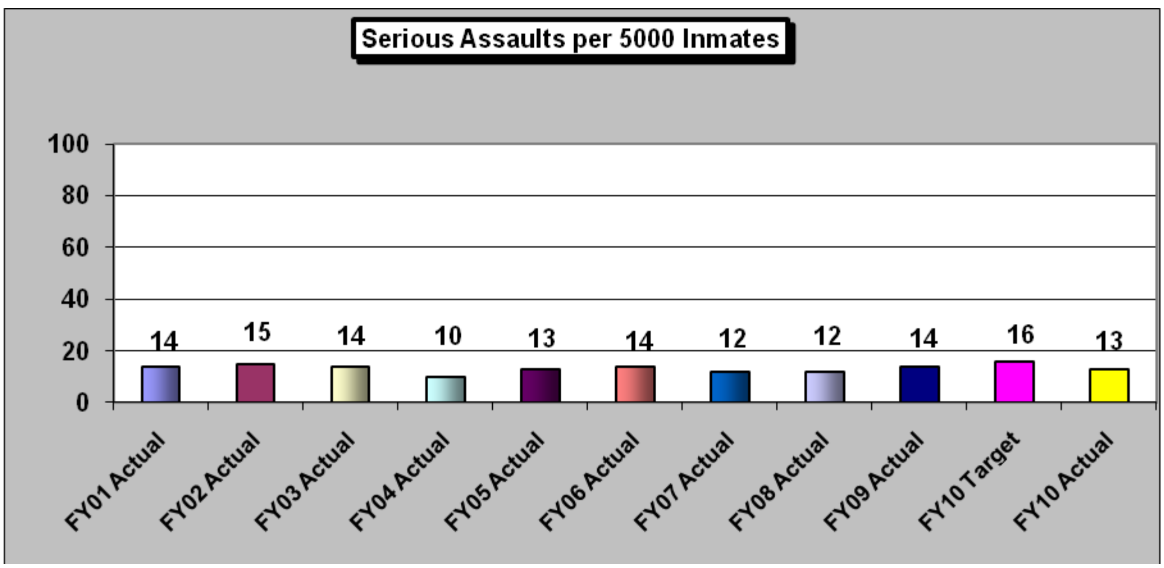
Data Validation and Verification: On an annual basis, Program Review personnel develop a schedule for initial accreditation and re-accreditation of all eligible BOP facilities to ensure reviews are conducted on a regular and consistent basis. BOP policy requires institutions to initially be ACA accredited within two years of activation. Therefore, non-accredited institutions that have been activated for less than two years are excluded from calculations regarding this performance measure.

Subject matter experts review report findings to verify accuracy and develop any necessary corrective measures. The ACA accreditation meeting minutes, identifying the institutions receiving accreditation and re-accreditation, are now on file and maintained by the BOP Accreditation Manager.

Data Limitations: None known at this time.

Performance Measure: Rate of Serious Assaults in Federal Prisons

Background/Program Objectives: Every reasonable precaution is taken to ensure that inmates are provided with a safe and secure environment in facilities according to their needs. While it is the objective of the DOJ and BOP to eliminate all assaults, the target reflects projections based on historical data and observed trends. This data represents the rate of adjudicated, inmate on inmate serious assaults over a twelve month period, per 5,000 inmates. Due to the time required to adjudicate allegations of assault, there is a lag between the occurrence of the incident and reporting of guilty findings. Accordingly, the figure reported represents guilty findings for incidents that occurred during the twelve month period ending the last month of the previous quarter.



FY 2010 Target: 16/5,000
FY 2010 Actual: 13/5,000

Discussion of FY 2010 Results: The FY 2010 target was met. The actual rate of serious assaults was 13 per 5,000 inmates, lower than the target rate of 16 per 5,000 inmates for FY 2010.

Data Definition: Reported assault rate is based on guilty findings of serious assaults. Serious assaults involve serious physical injury being attempted or carried out by an inmate. They include sexual assaults as well as armed assaults on the institution's secure perimeter.

Data Collection and Storage: Data is collected from the BOP's operational computer system (SENTRY), specifically the Chronological Disciplinary Record (CDR) module, which records all disciplinary measures taken with respect to individual inmates. This data is maintained and stored in the BOP's management information system (Key Indicators and the Institution Management Dashboard), which permits retrieval of data in an aggregated manner. The data represents guilty findings of serious inmate on inmate assaults.

Data Validation and Verification: The most senior managers in the agency conduct annual reviews of institution performance including assaults and other misconduct. Additionally, during Program Reviews (which are conducted at least every three years), annual operational reviews, and Institution Character Profiles (which are conducted every three years), reviews of assaults and other misconduct patterns are accomplished. The SENTRY system is the BOP's operational data system, whereas Key Indicators aggregates the SENTRY data and provides an historical perspective.

Data Limitations: The data represents the number of guilty findings for assaults over a twelve-month period per 5,000 inmates. Due to the time required to adjudicate allegations of assault, there is a lag between the occurrence of the assault and reporting of guilty findings. Due to accelerated reporting requirements (within 15 days of quarter and fiscal year end) and to provide a more accurate assault rate, the BOP is using 12 months of completed/adjudicated CDR data for each quarter and end of fiscal year reporting, showing 12 month periods ending the last month of the previous quarter.

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act or FMFIA) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires Federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The Integrity Act also requires agencies to annually assess and report on the internal controls that protect the integrity of Federal programs (FMFIA Section 2) and whether financial management systems conform to related requirements (FMFIA Section 4).

Guidance for implementing the Integrity Act is provided through OMB Circular A-123. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial systems requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting. The Department requires components to provide both of the assurance statements in order to have the information necessary to prepare the agency assurance statements.

FMFIA Assurance Statement

The Director of the BOP provides Reasonable Assurance that management controls and financial systems met the objectives of Sections 2 and 4 of the FMFIA.

Controls

The BOP has a management control and financial management systems review program as required by the FMFIA. The PRD facilitates, monitors, and evaluates the BOP's implementation of the FMFIA by coordinating management assessments, thereby providing a quality assurance mechanism for the program review process. The PRD conducts reviews for all BOP programs that examine compliance with laws, regulations, and policy. In addition, reviews examine the adequacy of controls, efficiency of operations, and effectiveness in achieving program results. During fiscal years 2010 and 2009, 32 and 34 Financial Management Program Reviews were conducted at field sites and the Central Office, respectively. The reviews covered the areas of Accounting, Budgeting, Laundry, Employee Organizations, Property Management, Commissary, and Warehouse.

Systems

For fiscal year 2010, the BOP's official reports were generated from the Financial Management Information System (FMIS) General Ledger, Cost Reporting, and Expenditure and Allotment reporting facilities. The FMIS General Ledger is supported by the following other systems: SENTRY Property Management System; SENTRY Real Property Management System; Trust Fund Accounting and Commissary System; and National Finance Center Payroll System.

Improper Payments

The Improper Payments Information Act (IPIA) requires a risk assessment in all programs to identify those that are susceptible to significant erroneous payments. Significant erroneous payments are defined by the OMB as annual erroneous payments in a program exceeding both 2.5 percent of program payments and $10 million. Based on risk assessment comprised of Independent Audit Reports and Internal Control Reviews, in FY 2010, the BOP has determined there were no significant risk programs in which improper payments exceed both 2.5 percent of program payments and $10 million.

FMFIA Section 2 – Material Weaknesses

Management of the Bureau of Prisons is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. The BOP assessed its internal control over the effectiveness and efficiency of operations and compliance with the applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, as required by Section 2 of the FMFIA. Based on the results of this assessment, the BOP can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2010, was operating effectively, except for one material weakness of system-wide prison crowding.

Although the performance measure for Prison crowding was below the target, the BOP continues to report it as a FMFIA Section 2 Material Weakness. The BOP manages the continually growing Federal inmate population by contracting with the private sector and using State and local facilities for certain groups of low-security inmates, expanding existing institutions, and building new facilities. The continued use of these approaches is expected to allow the BOP to keep pace with the growing inmate population and gradually reduce the crowding rate, thereby ensuring safe and secure operations in facilities housing Federal inmates.

FMFIA Section 4 – Material Nonconformances

The BOP management is responsible for ensuring compliance with applicable laws and regulations. To ensure compliance, reviews are performed as discussed above. Specifically, the BOP performed a review of its financial management systems pursuant to Section 4 provisions of the FMFIA. No significant financial management non-conformance was found in this review.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to improve Federal financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires agencies to have financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. The Federal Information Security Management Act (FISMA) states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

FFMIA Compliance Determination

During FY 2010, the BOP assessed its financial management systems for compliance with FFMIA and determined that they substantially comply with FFMIA. This determination is based on the results of FISMA reviews and testing performed for OMB Circular A-123, Appendix A. Consideration was also given to any issues identified during the BOP's financial statement audit.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

Crowding in Federal Prisons

Most of the challenges affecting the BOP today relate to growth of the Federal inmate population. The BOP continues to rely on funding to build and acquire additional facilities to help manage its growing inmate population and reduce the crowding rate. With increasing Federal law enforcement efforts, the BOP is projecting population increases for the next several years.

LIMITATIONS OF THE FINANCIAL STATEMENTS

- The principal financial statements have been prepared to report the financial position and results of operations of the BOP, pursuant to the requirements of 31 U.S.C. 3515(b).

- While the statements have been prepared from the books and records of the BOP in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

ATTACHMENT A

PRISON WORK CAMPS LOCATED WITH HIGHER SECURITY FACILITIES AND COMPLEXES (SATELLITE CAMPS):

ASHLAND, KY; ATLANTA, GA; ATWATER, CA; BASTROP, TX; BEAUMONT, TX; BECKLEY, WV; BENNETSVILLE, SC; BIG SPRING, TX; BIG SANDY, KY; BUTNER, NC; CANAAN, PA; CARSWELL, TX; COLEMAN, FL; CUMBERLAND, MD; DANBURY, CT; DEVENS, MA; DUBLIN, CA; EDGEFIELD, SC; EL RENO, OK; ENGLEWOOD, CO; ESTILL, SC; FAIRTON, NJ; FLORENCE, CO; FORREST CITY, AR; FORT DIX, NJ; GILMER, WV; GREENVILLE, IL; HAZELTON, WV; HERLONG, CA; JESUP, GA; LA TUNA, TX; LEAVENWORTH, KS; LEE, VA; LEWISBURG, PA; LEXINGTON, KY; LOMPOC, CA; LORETTO, PA; MANCHESTER, KY; MARIANNA, FL; MARION, IL; MCCREARY, KY; MCDOWELL, WV; MCKEAN, PA; MEMPHIS, TN; MIAMI, FL; OAKDALE, LA; OTISVILLE, NY; OXFORD, WI; PEKIN, IL; PETERSBURG, VA; PHOENIX, AZ; POLLOCK, LA; SCHUYLKILL, PA; SEAGOVILLE, TX; SHERIDAN, OR; TALLADEGA, AL; TERRE HAUTE, IN; TEXARKANA, TX; THREE RIVERS, TX; VICTORVILLE, CA; WILLIAMSBURG, SC; YAZOO CITY,MS.

U.S. DEPARTMENT OF JUSTICE

BUREAU OF PRISONS

REPORTS OF INDEPENDENT AUDITORS

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

Inspector General
U.S. Department of Justice

Director
Federal Bureau of Prisons
U.S. Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Prisons (BOP) as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the BOP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BOP's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Federal Bureau of Prisons as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the *Other Accompanying Information* section is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 4, 2010, on our consideration of the BOP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 4, 2010

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General
U.S. Department of Justice

Director
Federal Bureau of Prisons
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Prisons (BOP) as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 4, 2010.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the BOP is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the BOP's internal control over financial reporting by obtaining an understanding of the BOP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BOP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BOP's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Exhibit presents the status of the prior year's finding and recommendations.

This report is intended solely for the information and use of the BOP's management, the U.S. Department of Justice Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2010

STATUS OF PRIOR YEAR'S FINDING AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we have reviewed the status of the prior year's finding and recommendations. The following table provides our assessment of the progress the BOP has made in correcting the previously identified significant deficiency. We also provide the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the recommendation as of the end of fiscal year 2010.

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2009 Report No. 10-18	Weaknesses exist in the information system controls environment.	**Recommendation No. 1**: Ensure that the Windows Desktops and Servers Central Office Points of Contact are reviewing the vulnerability scans and timely distributing the patches via the Windows System Update Server (WSUS).	Completed*
		Recommendation No. 2: Execute procedures to frequently monitor the completion of the patch management deployment across the BOP enterprise.	Completed*
		Recommendation No. 3: Provide a statement of risk acceptance signed by the BOP Chief Information Officer (CIO) for the known high-risk Novell vulnerabilities.	Completed*
		Recommendation No. 4: Ensure that the configuration settings are compared against a documented baseline prior to implementing new servers or making configuration changes.	Completed
		Recommendation No. 5: Trust Fund Branch should perform a vulnerability scan immediately following the implementation of a new server to ensure that there are no security gaps after the implementation.	Completed

*Sufficient progress has been made in addressing this finding and the related recommendation such that the remaining risk of misstatement no longer merits the attention by those charged with governance. Therefore, the condition has been downgraded to a deficiency in internal control.

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KPMG LLP
2001 M Street, NW
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Independent Auditors' Report on Compliance and Other Matters

Inspector General
U.S. Department of Justice

Director
Federal Bureau of Prisons
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Federal Bureau of Prisons (BOP) as of September 30, 2010 and 2009, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 4, 2010.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the BOP is responsible for complying with laws, regulations, and contracts applicable to the BOP. As part of obtaining reasonable assurance about whether the BOP's fiscal year 2010 consolidated financial statements are free of material misstatement, we performed tests of the BOP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the BOP. 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 of compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the BOP's financial management systems did not substantially comply with the (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

This report is intended solely for the information and use of the BOP's management, the U.S. Department of Justice Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2010

U.S. DEPARTMENT OF JUSTICE

BUREAU OF PRISONS

PRINCIPAL FINANCIAL STATEMENTS
AND RELATED NOTES

U.S. Department of Justice
Bureau of Prisons
Consolidated Balance Sheets
As of September 30, 2010 and 2009

Dollars in Thousands	2010	2009
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 1,600,858	$ 1,758,029
Accounts Receivable, Net (Note 6)	6,235	3,765
Other Assets (Note 9)	407	347
Total Intragovernmental	1,607,500	1,762,141
Cash and Monetary Assets (Note 4)	774	738
Accounts Receivable, Net (Note 6)	20,012	19,611
Inventory and Related Property, Net (Note 7)	16,474	16,533
General Property, Plant and Equipment, Net (Note 8)	6,334,726	6,239,221
Advances and Prepayments	3,845	3,729
Other Assets (Note 9)	4,662	3,721
Total Assets	**$ 7,987,993**	**$ 8,045,694**
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	$ 33,303	$ 41,402
Accrued Federal Employees' Compensation Act Liabilities	139,222	132,154
Other Liabilities (Note 13)	73,926	62,659
Total Intragovernmental	246,451	236,215
Accounts Payable	389,178	343,619
Actuarial Federal Employees' Compensation Act Liabilities	735,856	669,020
Accrued Payroll and Benefits	140,727	125,510
Accrued Annual and Compensatory Leave Liabilities	168,853	162,056
Environmental and Disposal Liabilities (Note 11)	61,902	22,112
Deferred Revenue	1,833	1,625
Contingent Liabilities (Note 14)	4,827	4,930
Capital Lease Liabilities (Note 12)	30,703	36,956
Other Liabilities (Note 13)	96,138	65,880
Total Liabilities	**$ 1,876,468**	**$ 1,667,923**
NET POSITION		
Unexpended Appropriations - All Other Funds	$ 894,623	$ 1,106,922
Cumulative Results of Operations - Earmarked Funds (Note 15)	69,853	73,049
Cumulative Results of Operations - All Other Funds	5,147,049	5,197,800
Total Net Position	**$ 6,111,525**	**$ 6,377,771**
Total Liabilities and Net Position	**$ 7,987,993**	**$ 8,045,694**

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2010 and 2009

Dollars in Thousands

		Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 16)
	FY	**Intra-governmental**	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**	
Goal 2	**2010**	$ -	$ 6,860	$ 6,860	$ -	$ -	$ -	$ 6,860
	2009	$ -	$ 6,987	$ 6,987	$ -	$ -	$ -	$ 6,987
Goal 3	**2010**	1,513,891	5,507,868	7,021,759	12,903	359,296	372,199	6,649,560
	2009	1,398,657	5,174,958	6,573,615	17,598	340,003	357,601	6,216,014
Total	**2010**	**$ 1,513,891**	**$ 5,514,728**	**$ 7,028,619**	**$ 12,903**	**$ 359,296**	**$ 372,199**	**$ 6,656,420**
	2009	**$ 1,398,657**	**$ 5,181,945**	**$ 6,580,602**	**$ 17,598**	**$ 340,003**	**$ 357,601**	**$ 6,223,001**

Goal 2 Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People
Goal 3 Ensure the Fair and Efficient Administration of Justice

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

Consolidated Statements of Changes in Net Position
For the Fiscal Year Ended September 30, 2010

Dollars in Thousands

	2010		
	Earmarked Funds	**All Other Funds**	**Total**
Unexpended Appropriations			
Beginning Balances	**$ -**	**$ 1,106,922**	**$ 1,106,922**
Budgetary Financing Sources			
Appropriations Received	-	6,205,386	6,205,386
Appropriations Transferred-In/Out	-	(818)	(818)
Appropriations Used	-	(6,416,867)	(6,416,867)
Total Budgetary Financing Sources	**-**	**(212,299)**	**(212,299)**
Unexpended Appropriations	**$ -**	**$ 894,623**	**$ 894,623**
Cumulative Results of Operations			
Beginning Balances	**$ 73,049**	**$ 5,197,800**	**$ 5,270,849**
Adjustments (Note 19)			
Changes in Accounting Principles	-	(36,833)	(36,833)
Beginning Balances, As Adjusted	**73,049**	**5,160,967**	**5,234,016**
Budgetary Financing Sources			
Appropriations Used	-	6,416,867	6,416,867
Other Financing Sources			
Donations and Forfeitures of Property	-	340	340
Transfers-In/Out Without Reimbursement	-	5,394	5,394
Imputed Financing From Costs Absorbed by Others (Note 17)	3,891	212,814	216,705
Total Financing Sources	**3,891**	**6,635,415**	**6,639,306**
Net Cost of Operations	**(7,087)**	**(6,649,333)**	**(6,656,420)**
Net Change	(3,196)	(13,918)	(17,114)
Cumulative Results of Operations	**$ 69,853**	**$ 5,147,049**	**$ 5,216,902**
Net Position	**$ 69,853**	**$ 6,041,672**	**$ 6,111,525**

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

Consolidated Statements of Changes in Net Position (continued)
For the Fiscal Year Ended September 30, 2009

Dollars in Thousands

	2009		
	Earmarked Funds	**All Other Funds**	**Total**
Unexpended Appropriations			
Beginning Balances	**$ -**	**$ 899,745**	**$ 899,745**
Budgetary Financing Sources			
Appropriations Received	-	6,176,599	6,176,599
Appropriations Transferred-In/Out	-	(8,035)	(8,035)
Appropriations Used	-	(5,961,387)	(5,961,387)
Total Budgetary Financing Sources	**-**	**207,177**	**207,177**
Unexpended Appropriations	**$ -**	**$ 1,106,922**	**$ 1,106,922**
Cumulative Results of Operations			
Beginning Balances	**$ 78,480**	**$ 5,249,477**	**$ 5,327,957**
Budgetary Financing Sources			
Appropriations Used	-	5,961,387	5,961,387
Other Financing Sources			
Donations and Forfeitures of Property	-	68	68
Transfers-In/Out Without Reimbursement	7	14,766	14,773
Imputed Financing From Costs Absorbed by Others (Note 17)	3,376	186,289	189,665
Total Financing Sources	**3,383**	**6,162,510**	**6,165,893**
Net Cost of Operations	**(8,814)**	**(6,214,187)**	**(6,223,001)**
Net Change	(5,431)	(51,677)	(57,108)
Cumulative Results of Operations	**$ 73,049**	**$ 5,197,800**	**$ 5,270,849**
Net Position	**$ 73,049**	**$ 6,304,722**	**$ 6,377,771**

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

U.S. Department of Justice
Bureau of Prisons
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2010 and 2009

Dollars in Thousands		2010		2009
Budgetary Resources				
Unobligated Balance, Brought Forward, October 1	$	372,051	$	360,659
Recoveries of Prior Year Unpaid Obligations		6,845		18,899
Budget Authority				
Appropriations Received		6,205,386		6,176,599
Spending Authority from Offsetting Collections				
Earned				
Collected		374,407		372,994
Change in Receivables from Federal Sources		(2,005)		(4,015)
Change in Unfilled Customer Orders				
Advance Received		(203)		352
Subtotal Budget Authority		6,577,585		6,545,930
Nonexpenditure Transfers, Net, Anticipated and Actual		(818)		(8,035)
Total Budgetary Resources (Note 18)	**$**	**6,955,663**	**$**	**6,917,453**
Status of Budgetary Resources				
Obligations Incurred				
Direct	$	6,536,140	$	6,496,740
Reimbursable		41,617		48,662
Total Obligations Incurred (Note 18)		6,577,757		6,545,402
Unobligated Balance - Available				
Apportioned		300,013		284,574
Exempt from Apportionment		45,030		42,112
Total Unobligated Balance - Available		345,043		326,686
Unobligated Balance Not Available		32,863		45,365
Total Status of Budgetary Resources	**$**	**6,955,663**	**$**	**6,917,453**
Change in Obligated Balance				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	$	1,352,082	$	1,120,502
Less: Uncollected Customer Payments from Federal Sources		8,350		12,365
Total Unpaid Obligated Balance, Net - Brought Forward, October 1		1,343,732		1,108,137
Obligations Incurred, Net		6,577,757		6,545,402
Less: Gross Outlays		6,737,782		6,294,923
Less: Recoveries of Prior Year Unpaid Obligations, Actual		6,845		18,899
Change in Uncollected Customer Payments from Federal Sources		2,005		4,015
Obligated Balance, Net - End of Period				
Unpaid Obligations		1,185,212		1,352,082
Less: Uncollected Customer Payments from Federal Sources		6,345		8,350
Total Unpaid Obligated Balance, Net - End of Period	**$**	**1,178,867**	**$**	**1,343,732**
Net Outlays				
Gross Outlays	$	6,737,782	$	6,294,923
Less: Offsetting Collections		374,204		373,346
Less: Distributed Offsetting Receipts (Note 18)		12,666		2,813
Total Net Outlays (Note 18)	**$**	**6,350,912**	**$**	**5,918,764**

These notes are an integral part of these financial statements.

Bureau of Prisons
Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)

1. Summary of Significant Accounting Policies

A. Reporting Entity

The U.S. Federal Bureau of Prisons (BOP) is a reporting entity under the Department of Justice (DOJ) and encompasses the appropriated activities of the BOP, as well as the activities of the Trust Fund. It does not include the Federal Prison Industries, Inc. (FPI) (also called UNICOR), which is a separate reporting component under the DOJ.

BOP
The BOP protects society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, cost-efficient, and appropriately secure, and that provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens.

Trust Fund
The Trust Fund was created by two DOJ Orders, No. 2126 on April 1, 1930, and No. 2244 on January 1, 1932. The Trust Fund operates the Commissary to provide inmates with the opportunity to procure merchandise and services not ordinarily provided by the BOP. The Trust Fund is a self-sustaining trust revolving fund account that is funded through the sale of goods and services to inmates.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the BOP as required by the Government Management Reform Act of 1994, Public Law 103-356, 108, Stat. 3515. These financial statements have been prepared from the books and records of the BOP in accordance with United States generally accepted accounting principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements." These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of the BOP budgetary resources. To ensure that the BOP financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These include Advances and Prepayments, Accrued Federal Employees' Compensation Act (FECA) Liabilities, Accrued Payroll and Benefits, Accrued Annual and Compensatory Leave Liabilities, Deferred Revenue, Contingent Liabilities and Capital Lease Liabilities.

1. Summary of Significant Accounting Policies (continued)

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the BOP. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources are combined statements for the fiscal years ended September 30, 2010, and 2009 and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

The financial statements have been prepared and transactions have been recorded on an accrual and budgetary bases of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

These statements were prepared in accordance with GAAP. GAAP for Federal entities are the standards prescribed by the FASAB, which is designated as the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. The Statements of Federal Financial Accounting Standards (SFFAS) that were in effect as of September 30, 2010, were followed in the preparation of these financial statements.

E. Non-Entity Assets

A portion of the BOP's Fund Balance with the U.S. Treasury (Treasury) and Accounts Receivable is accounted for as a Non-Entity Asset and disclosed in Note 2. Non-Entity assets are assets held by the BOP but are not available for use by the BOP. The majority of non-entity assets are comprised of prisoner monies held in trust by the Treasury. This amount also includes certain receivables and receipts of cash that are in suspense, clearing, deposit, or general fund accounts. These transactions were processed by commercial banks for deposit to fund accounts maintained at the Treasury.

F. Fund Balance with U.S. Treasury and Cash

Funds with the Treasury represent appropriated and trust funds available to pay current liabilities and finance future authorized purchases. Certain receipts are processed by commercial banks for deposit to the BOP appropriation or fund accounts. In addition, the BOP has been granted and maintains imprest funds at many locations that are also included in the BOP's cash balance.

1. Summary of Significant Accounting Policies (continued)

G. Investments

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the Trust Fund. The cash receipts collected from the public for an earmarked fund are deposited in the Treasury, which uses the cash for general Government purposes. Treasury securities are an asset to the BOP and a liability to the Treasury. Because the BOP and the Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the BOP with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the BOP requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Beginning in fiscal year 1995, the Trust Fund was granted authority (Public Law 103-317, Section 107) to invest funds in excess of operating needs in securities guaranteed by the Treasury. In November 1994, the Trust Fund began participating in the Federal Investment Counseling Program through the Treasury. The Treasury charges no commissions or transaction fees for participating in the program. Investments are made in any Federal Treasury security available to the public. The amount and length of investments are determined after careful review of cash balances available to defray outstanding payables and other liabilities.

Investments in U.S. Government securities are reported at cost net of amortized discounts. Discounts are amortized into interest income over the term of the investment. The Trust Fund's intent is to hold investments to maturity, unless they are needed to sustain the operations of the Trust Fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. The interest received on these securities is captured in the Trust Fund and is used to defray its general operating expenses.

1. Summary of Significant Accounting Policies (continued)

H. Accounts Receivable

Accounts receivable are largely comprised of receivables with the Public. Net accounts receivable includes reimbursement and refund receivables due from Federal agencies and others, less the allowance for uncollectible accounts. The BOP establishes an allowance for uncollectible accounts when it is more likely than not that the accounts receivable will not be collected.

The allowance for uncollectible amounts is estimated by analyzing all individual accounts receivables. Loss estimation is based on the debtor's ability to pay, payment record, willingness to pay, and the probable recovery of amounts from secondary sources.

I. Inventory and Related Property

The Trust Fund Commissary inventories are comprised of merchandise on hand at 93 reporting sites located in the United States and Puerto Rico. Inventories consist of merchandise that is either not normally provided by the BOP or are of a different quality than is regularly issued. Inventory sales are restricted to inmates and consist primarily of foods and beverages, hobby craft items, stamps, clothing, health and hygiene commodities, and other sundry items.

The Trust Fund Commissary inventories are stated at latest acquisition cost, which is adjusted using the Consumer Price Index (CPI) for the year to approximate the value of the inventory under the First-In-First-Out (FIFO) accounting methodology.

J. General Property, Plant and Equipment

The BOP owns the majority of land and buildings in which it operates and capitalizes them on its records. Real property is capitalized based upon the total acquisition cost. Depreciation is applied to program areas based upon the percentage of space occupied. Real property acquisitions equal to or greater than $100 thousand are capitalized. Real property acquisitions are capitalized and depreciated by the automated SENTRY Real Property Management System (SRPMS).

Personal property acquisitions are capitalized and depreciated by the automated SENTRY Property Management System (SPMS). Physical inventories are conducted annually and adjustments are made as necessary. Any equipment with an acquisition cost of less than $5 thousand is expensed when purchased. Assets are depreciated using the straight-line method over the estimated useful lives of the assets.

1. Summary of Significant Accounting Policies (continued)

J. General Property, Plant and Equipment (continued)

The following chart represents the maximum depreciation years for BOP's property:

BOP Depreciation Schedule	
Buildings	30
Equipment	10
Leasehold Improvements	*
Other Structures & Facilities	20
Internal Use Software	7
Vehicles	10
Assets Under Capital Lease	*

*** Depreciation based on the lesser of the lease term or useful life of the asset.**

K. Advances and Prepayments

Advances and prepayments classified as assets of the BOP on the Balance Sheet represent funds disbursed to individuals and other organizations for which goods or services have not yet been provided.

This amount also includes the current balance of travel advances, issued to Federal employees in advance of official travel. Amounts issued are limited to per diem expenses expected to be incurred by the employees during official travel. For Federal employees who anticipate and plan for travel, advances are permitted up to 80 percent of per diem. Actual reimbursements are made at 100 percent of per diem.

The BOP's amount also includes advances that arise whenever the BOP provides money to state and local governmental agencies to fund correctional study programs. Advances and prepayments involving other Federal agencies are classified as other assets on the balance sheet.

L. Liabilities

Liabilities represent the monies or other resources that are likely to be paid by the BOP as the result of a transaction or event that has already occurred. However, no liability can be paid by the BOP absent proper budget authority. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 10.

1. Summary of Significant Accounting Policies (continued)

M. Contingencies and Commitments

Contingencies

The BOP is party to various administrative proceedings, legal actions, and claims related to contract disputes, employee claims under the Fair Labor Standards Act, and inmate claims under the Federal Tort Claim Act and other legal matters. These claims are of a nature considered normal for a government law enforcement agency. In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government" and SFFAS No. 12, "Recognition of Contingent liabilities from Litigation," the BOP has probable and reasonably possible losses arising from litigation. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions "probable" and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions "probable" or "reasonably possible" and the amounts are reasonably estimable are disclosed in Note 14, Contingencies and Commitments. However, 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 "remote."

N. Annual, Sick, and Other Leave

Annual and compensatory leave is expensed with an offsetting liability as it is earned and the corresponding liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are expensed as taken.

O. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, Federal agencies must pay interest on payments for goods or services made to business concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services.

1. Summary of Significant Accounting Policies (continued)

P. Retirement Plans

With few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and employees hired after December 31, 1983, are covered by the Federal Employees Retirement System (FERS).

For employees covered by the CSRS, the BOP contributes 7 percent of the employee's gross pay for normal retirement or 7.5 percent for hazardous duty retirement. For employees covered by the FERS, the BOP contributes 11.2 percent of the employee's gross pay for normal retirement or 24.9 percent for hazardous duty retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP is automatically established, and the BOP is required to contribute an additional 1 percent of gross pay to this plan and match employee contributions up to 4 percent. No matching contributions are made to the TSPs established by the CSRS employees. The BOP does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM).

SFFAS No. 5 requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 17, Imputed Financing from Costs Absorbed by Others.

Q. Federal Employee Compensation Benefits

The FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have contracted a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for BOP employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the BOP. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

Actuarial Liability: The DOL calculates the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and other approved costs. This method utilizes historical benefit payment patterns related to a specified incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting Federal Government liability was then distributed by the agency. The DOJ portion of this liability includes the estimated future cost of death benefits, workers' compensation, medical, and miscellaneous cost for approved compensation cases for the DOJ employees. The DOJ allocates the liability to the BOP on the basis of actual payments made to the FECA Special Benefits Fund (SBF) for the three prior years as compared to the total DOJ payments made over the same period.

1. Summary of Significant Accounting Policies (continued)

Q. Federal Employee Compensation Benefits (continued)

The FECA actuarial liability is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed to the DOJ.

Accrued Liability: The accrued FECA liability is the difference between the FECA benefits paid by the FECA SBF and the agency's actual cash payments to the FECA SBF. For example, the FECA SBF will pay benefits on behalf of an agency through the current year. However, most agencies' actual cash payments during the current year to the FECA SBF will reimburse the FECA SBF for benefits paid through a prior fiscal year. The difference between these two amounts is the accrued FECA liability.

R. Intragovernmental Activity

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal Government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-Federal entity. The classification of revenue or cost as "intragovernmental" or "with the public" is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, not to match public and intragovernmental revenue with the costs incurred to produce public and intragovernmental revenue.

S. Revenues and Other Financing Sources

The BOP receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures to support its programs. Appropriations are recognized as budgetary financing sources at the time the related program or administrative expenses are accrued. Additional amounts are obtained through reimbursements for services and donated property.

The BOP receives exchange revenues for daily care, maintenance, and housing of State and Local offenders; for medical services outside of BOP provided to United States Marshals Service prisoners; for meals provided to the BOP staff; for rental of staff housing on institution premises; and for utilities used by the FPI.

1. Summary of Significant Accounting Policies (continued)

S. Revenues and Other Financing Sources (continued)

The amount billed to house state prisoners is based on the average inmate per capita rate for the security level of the institution where the prisoner is housed. The price of meal tickets for institution employees is calculated using the annual per capita cost for providing meals to inmates. Rental rates for employee housing on institution premises are calculated using the Regional Survey Method: base rental rates are established by means of a series of economic models that utilize typical rates for comparable private rental housing in the established communities nearest to the sites in which the quarters are located. The amount charged for steam purchased by the FPI is the actual cost incurred by the BOP during the production of the utility provided.

Trust Fund profits are utilized for continued operations and for programs that benefit the inmate population. The Trust Fund receives no appropriated funds. The Trust Fund receives the majority of its funding through revenues generated by the sale of merchandise and telephone services to inmates. Regular items sold through institution commissaries are marked-up 30 percent from their per unit cost. They are then rounded to the nearest nickel to determine selling price. In rare instances when taxes (whether State, Local, or Federal) are included, the per unit tax amount is added to the marked-up price before rounding. Should the selling price ever exceed the manufacturer's printed price, the printed price shall be set even if it is in odd cents. The collection of commissions received from products sold through vending machines, based on the volume of products sold, also contributes to net profit.

The majority of these transactions were done through the use of the debit card program. The debit card program was approved for BOP-wide implementation in fiscal year 1991 by the BOP Executive Staff and is a coin-free means of using vending machines. Since September 30, 2000, all institutions have had debit card capacity. Inmates purchase "debits" from the Trust Fund and these debits are then recorded on a card with an electronic magnetic strip. The number of debits is automatically reduced with each purchase. In addition, the Trust Fund has deferred revenue for the Inmate Telephone System, Trust Fund Limited Inmate Communication System (TRULINCS), and the Debit Card program, which include the amount of phone credits, TRU-units, and vending credits purchased by inmates that have not been used as of September 30, 2010.

1. Summary of Significant Accounting Policies (continued)

S. Revenues and Other Financing Sources (continued)

The Trust Fund also earned other revenue from medical co-payments, vendor commissions, email, recycling income and employees' club commissions. As of March 2004, friends and family members are able to send money to inmates electronically. Funds are deposited directly to an inmate's account within a few hours. A commission based on transaction volume is received from the vendor. TRULINCS provides inmates with some limited computer access to include the capability to send and receive electronic messages without having access to the internet. The TRULINCS pilot was successful and the program was approved by the Executive Staff for Bureau-wide implementation. The Bureau anticipates full implementation by the fourth quarter 2011. TRULINCS will function as part of TRUFACS and be funded completely by the Trust Fund Appropriation. As of October 2005, inmates pay a $2 per visit co-pay for in-house hospital appointments. Twenty-five percent of the co-pay is retained by the Trust Fund and the other 75 percent is paid to the Office of Justice Programs Crime Victims Fund. Trust Fund revenue also includes investment income.

T. Earmarked Funds

SFFAS No. 27, "Identifying and Reporting Earmarked Funds," defines 'earmarked funds' as being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. The three required criteria for an earmarked fund are:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;
2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

The following fund meets the definition of an Earmarked Fund: Trust Fund – 15X8408.

1. Summary of Significant Accounting Policies (continued)

U. Allocation Transfer of Appropriations

The BOP is a party to allocation transfers with another Federal agency as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived.

The BOP allocates funds to the Public Health Service (PHS). The PHS provides a portion of the medical treatment for Federal inmates. Money is transferred from the BOP to PHS, and is designated and expended for current year obligations of PHS staff salaries, benefits, and applicable relocation expenses. The amounts transferred to PHS from the BOP totaled $90 million and $82 million for the fiscal years ended September 30, 2010 and 2009, respectively, and are not material to PHS, therefore they are included as part of these financial statements.

V. Tax Exempt Status

As an agency of the Federal Government, the BOP is exempt from all income taxes imposed by any governing body whether it is a Federal, state, commonwealth, local, or foreign government.

W. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

X. Reclassifications

The FY 2009 financial statements were reclassified to conform to the FY 2010 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

Y. Subsequent Events

Subsequent events and transactions occurring after September 30, 2010 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

2. Non-Entity Assets

Non-entity assets are assets that are held by an entity but are not available for use by the entity. Non-entity assets as of September 30, 2010 and 2009 are presented in the following table.

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Fund Balance With U.S. Treasury	$ 44,854	$ 42,981
With the Public		
Accounts Receivable, Net	13,729	13,512
Total With the Public	13,729	13,512
Total Non-Entity Assets	58,583	56,493
Total Entity Assets	7,929,410	7,989,201
Total Assets	$ 7,987,993	$ 8,045,694

3. Fund Balance with U.S. Treasury

The Fund Balance with the Treasury as reported in the financial statements represents the unexpended cash balances in the BOP's accounting records for all the BOP Treasury Symbols at September 30, 2010 and 2009. The fund balances with the Treasury are presented in the following table.

As of September 30, 2010 and 2009	2010	2009
Fund Balances		
Trust Fund	$ 67,328	$ 76,756
General Funds	1,488,676	1,638,292
Other Fund Types	44,854	42,981
Total Fund Balances with U.S. Treasury	$ 1,600,858	$ 1,758,029
Status of Fund Balances		
Unobligated Balance - Available	$ 345,043	$ 326,686
Unobligated Balance - Unavailable	32,863	45,365
Obligated Balance not yet Disbursed	1,178,867	1,343,732
Other Funds (With)/Without Budgetary Resources	44,085	42,246
Total Status of Fund Balances	$ 1,600,858	$ 1,758,029

3. Fund Balance with U.S. Treasury (continued)

The fund balance with the Treasury as reported in these financial statements and notes have been adjusted to account for the difference from that reported by the Treasury. The reported balance in the BOP's general ledger account, Fund Balance with the Treasury, before any adjustments, was $821 and $11,974 thousand greater than the actual fund balance reported by the Treasury as of September 30, 2010 and 2009, respectively. Routinely, two types of differences arise. First, differences are created between the accounting records of the BOP and the Treasury because of the timing of transaction inputs corresponding with cash receipts and disbursements. Second, differences are created by data input errors and remain until the necessary correcting entries are processed by the BOP's or the Treasury's accounting systems. The BOP operates a decentralized accounting system with 112 agency location codes. Any cause for reconciliation must be done individually by location.

For the Trust Fund, this amount represents the aggregate balance of the Trust Fund's cash accounts with the Treasury under the account symbol 15X8408. This item also represents the total amount of all obligated and unobligated undisbursed account balances with the Treasury as reflected in the Trust Fund's records. The Trust Fund's general ledger balance for Fund Balance with the Treasury, before any adjustments, was $253 and $810 thousand greater than the actual amount reported by each of the BOP's accounting stations to the Treasury as of September 30, 2010 and 2009, respectively.

The unobligated balance for annual and multi-year budget authority may be used to incur new obligations for the purpose specified by the appropriation act. Annual and multi-year budget authority expires at the end of its period of availability. During the first through the fifth expired years, the unobligated balance becomes unavailable and may be used to adjust obligations and disbursements that were recorded before the budgetary authority expired or to meet a legitimate or bona fide need arising in the fiscal year for which the appropriation was made. The unobligated balance for no-year budget authority may be used to incur obligations indefinitely for the purpose specified by the appropriation act. No-year budget authority unobligated balances are still subject to the annual apportionment and allotment process.

The total status of fund balances includes funds without budgetary resources. Other funds without budgetary resources are composed of prisoner monies held in trust by the Treasury and certain receivables and receipts of cash that are in suspense, clearing, deposit, or general fund accounts.

4. Cash and Monetary Assets

Cash and Monetary Assets, as reported in the financial statements, represent the total cash and cash equivalents under the control of the BOP as of September 30, 2010 and 2009, respectively.

As of September 30, 2010 and 2009	2010	2009
Cash		
Imprest Funds	$ 774	$ 738

The BOP's cash account is minimal given that the BOP does not, for the most part, maintain cash in commercial bank accounts. The BOP's cash account consists of imprest funds totaling $774 and $738 thousand as of September 30, 2010 and 2009, respectively. All of the listed amounts are available to pay current liabilities and finance future authorized purchases.

5. Investments, Net

The Trust Fund invests in non-marketable market-based Treasury securities issued by the Bureau of the Public Debt. These securities are available to the public but cannot be resold. These securities are purchased and redeemed at par value (the value at maturity) exclusively through the Treasury's Finance and Funding Branch, see Note 1.G. When securities are purchased, the investment is recorded at par value. Premiums and/or discounts are amortized through the end of the reporting period. As of September 30, 2010 and 2009, all Trust Fund security investments have matured. Therefore, the respective investment balances are zero.

6. Accounts Receivable, Net

Accounts Receivable represents the net amounts due to BOP as of September 30, 2010 and 2009, respectively, as shown in the following table. The Intragovernmental Allowance for Uncollectible Accounts represents accounts receivables from the Department of Homeland Security that are deemed uncollectible.

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Accounts Receivable	$ 7,701	$ 9,286
Allowance for Uncollectible Accounts	(1,466)	(5,521)
Total Intragovernmental	6,235	3,765
With the Public		
Accounts Receivable	20,732	22,734
Allowance for Uncollectible Accounts	(720)	(3,123)
Total With the Public	20,012	19,611
Total Accounts Receivable, Net	$ 26,247	$ 23,376

7. Inventory and Related Property, Net

The Trust Fund Commissary inventory purchased for resale sale as of September 30, 2010 and 2009 is presented in the following table.

As of September 30, 2010 and 2009	2010	2009
Inventory		
Inventory Purchased for Resale	$ 16,474	$ 16,533

8. General Property, Plant and Equipment, Net

Property, Plant and Equipment (PP&E), as reported in the financial statements, are recorded at the acquisition cost net of accumulated depreciation at September 30, 2010 and 2009, respectively. See Note 1.J for method of depreciation, capitalization thresholds, and useful lives.

As of September 30, 2010	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	$ 174,606	$ -	$ 174,606	N/A
Construction in Progress	373,126	-	373,126	N/A
Buildings, Improvements, and Renovations	8,433,772	(3,296,240)	5,137,532	2-30 yrs
Other Structures & Facilities	773,876	(387,538)	386,338	20 yrs
Vehicles	138,637	(94,752)	43,885	6-10 yrs
Equipment	269,725	(154,802)	114,923	10 yrs
Assets Under Capital Lease	89,625	(44,813)	44,812	5-30 yrs
Leasehold Improvements	60,261	(29,131)	31,130	2-20 yrs
Internal Use Software	26,582	(16,221)	10,361	5-7 yrs
Internal Use Software in Development	18,013	-	18,013	N/A
Total	$ 10,358,223	$ (4,023,497)	$ 6,334,726	

As of September 30, 2009	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	$ 174,779	$ -	$ 174,779	N/A
Construction in Progress	584,638	-	584,638	N/A
Buildings, Improvements, and Renovations	7,872,483	(3,022,720)	4,849,763	2-30 yrs
Other Structures & Facilities	742,445	(351,376)	391,069	20 yrs
Vehicles	134,123	(90,591)	43,532	6-10 yrs
Equipment	249,661	(144,085)	105,576	10 yrs
Assets Under Capital Lease	89,625	(41,825)	47,800	5-30 yrs
Leasehold Improvements	50,740	(24,593)	26,147	2-20 yrs
Internal Use Software	19,813	(12,763)	7,050	5-7 yrs
Internal Use Software in Development	8,867	-	8,867	N/A
Total	$ 9,927,174	$ (3,687,953)	$ 6,239,221	

Leasehold improvements reflect capital improvements made to facilities occupied but not owned by the BOP. Capital improvements made to buildings and other structures owned by the BOP are reflected as buildings and other structures and facilities. The BOP had capitalized property purchases from Federal Sources and from the Public. These purchases totaled $9,674 and $5,233 thousand from Federal Sources, and $443,927 and $374,190 thousand from the Public, for the fiscal years ended September 30, 2010 and 2009, respectively.

9. Other Assets

Other assets include advances to others and farm livestock. The amounts as of September 30, 2010 and 2009 are presented in the following table.

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Advances and Prepayments	$ 407	$ 347
Other Assets With the Public		
Farm Livestock	$ 4,662	$ 3,721

10. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. These liabilities as of September 30, 2010 and 2009, respectively, are presented in the following table.

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Accrued FECA Liabilities	$ 138,556	$ 131,712
Other Unfunded Employment Related Liabilities	923	977
Total Intragovernmental	139,479	132,689
With the Public		
Actuarial FECA Liabilities	735,856	669,020
Accrued Annual and Compensatory Leave Liabilities	168,853	162,056
Environmental and Disposal Liabilities (Note 11)	61,902	22,112
Contingent Liabilities (Note 14)	4,827	4,930
Capital Lease Liabilties (Note 12)	30,703	36,956
Other	47,300	14,282
Total With the Public	1,049,441	909,356
Total Liabilities not Covered by Budgetary Resources	1,188,920	1,042,045
Total Liabilities Covered by Budgetary Resources	687,548	625,878
Total Liabilities	$ 1,876,468	$ 1,667,923

11. Environmental and Disposal Liabilities

The BOP operates 116 facilities in over 30 States and Territories and is subject to rigorous Federal, State, and Local environmental regulations applicable to the facility locations. Per SFFAS No. 5, SFFAS No. 6, "Accounting for Property, Plant, and Equipment", and Technical Release No. 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government", Federal agencies are required to recognize liabilities for environmental clean-up costs when the future outflow or sacrifice of resources is probable and reasonably estimable. The BOP exercises due care in determining the presence of contamination through regularly scheduled testing required by Facilities Management Policy. If, as a result of the testing, environmental contamination is detected on BOP owned property or on non-BOP property but BOP is determined to be the agent of the contamination, the BOP will clean up the contamination as soon as possible. The liability is recognized immediately.

As environmental-related clean-up costs are accomplished, the prior established liability will be reduced. Additionally, estimates will be revised periodically to account for material changes due to inflation, deflation, technology, or applicable laws and regulations. Any material changes in the estimated total clean-up costs will be expensed when re-estimates occur and the liability balance adjusted.

Firing Ranges

The BOP operates firing ranges on 65 of the sites where its institutions are located. Use of these firing ranges generates waste consisting primarily of lead shot and spent rounds from rifles, shotguns, pistols, and automatic weapons. At operational firing ranges, lead-containing bullets are fired and eventually fall to the ground at or near the range. As of September 30, 2009, BOP management determined their estimated clean-up liability to be $22,112 thousand. In FY 2010, BOP management adjusted the estimated clean-up liability by the current U.S. inflation rate as determined by the U.S. Treasury and as such determined that an estimated firing range clean-up liability of $25,069 thousand, based on an inflation rate of 11.6 percent, should be recorded.

Asbestos

Section 112 of the Clean Air Act requires the U.S. Environmental Protection Agency (EPA) to develop and enforce regulations to protect the general public from exposure to airborne contaminants that are known to be hazardous to human health. On March 31, 1971, the EPA identified asbestos as a hazardous pollutant, and on April 6, 1973, EPA first promulgated the Asbestos National Emissions Standards for Hazardous Air Pollutants (NESHAP).

11. Environmental and Disposal Liabilities (continued)

Asbestos (continued)

The BOP conducted a review of 46 institutions that were in service prior to April 6, 1973; the review provided an estimate of the extent of friable and non-friable Asbestos Containing Materials (ACM) remaining in each of the institutions as of October 30, 2009. The BOP recognized the estimated total clean-up cost for friable and non-friable asbestos for those facilities as a liability and reported the offsetting charge as a "Change in Accounting Principles" in the Statement of Changes in Net Position (SCNP). As of October 1, 2009, the BOP management implemented FASAB Technical Bulletin 2006-1 and determined their estimated asbestos clean-up liability is $36,833 thousand. The BOP has chosen to adopt this requirement early.

12. Leases

Capital Leases

The tables that follow represent a 25-year capital lease for a Federal Transfer Center in Oklahoma City. The lease agreement, which will expire in fiscal year 2019, calls for semi-annual payments of $4.5 million for 20 years; the remaining five years (lease years 21 through 25) will be land rental payments only. The BOP paid a total of $9.1 million in payments during the fiscal year ended September 30, 2010.

As of September 30, 2010 and 2009

Capital Leases	2010	2009
Summary of Assets Under Capital Lease		
Land and Buildings	$ 89,625	$ 89,625
Accumulated Amortization	(44,813)	(41,825)
Total Assets Under Capital Lease (Note 8)	$ 44,812	$ 47,800

12. Leases (continued)

Future Capital Lease Payments

Future Capital Lease Payments Due

Fiscal Year	Land and Buildings
2011	$ 9,073
2012	9,073
2013	9,073
2014	9,073
2015	32
After 2015	128
Total Future Capital Lease Payments	$ 36,452
Less: Imputed Interest	(5,749)
FY 2010 Net Capital Lease Liabilities	$ 30,703
FY 2009 Net Capital Lease Liabilities	$ 36,956

	2010	2009
Net Capital Lease Liabilities Not Covered by Budgetary Resources	$ 30,703	$ 36,956

The table that follows represents the amounts that the BOP paid for operating leases during the fiscal years ended September 30, 2010 and 2009. The BOP did not have any noncancelable lease expenses for the fiscal years ended September 30, 2010 and 2009.

Operating Lease Expenses

Lease Type	2010	2009
Cancelable Operating Leases	$ 21,959	$ 20,422

13. Other Liabilities

Other liabilities as of September 30, 2010 and 2009, totaled $170 million and $129 million, respectively. The majority of Intragovernmental Other Liabilities are composed of monies received from prisoner funds and certain receipts of cash that are in suspense, clearing, deposit, or general fund accounts that are owed to the Treasury. Other Accrued Liabilities With the Public are composed of future funded energy savings performance contracts and utilities. All other liabilities are current and are presented in the following table.

13. Other Liabilities (continued)

As of September 30, 2010 and 2009	2010	2009
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 52,792	$ 46,239
Other Post-Employment Benefits Due and Payable	1,599	891
Other Unfunded Employment Related Liabilities	923	977
Advances from Others	868	1,071
Other Liabilities	17,744	13,481
Total Intragovernmental	73,926	62,659
With the Public		
Other Accrued Liabilities	47,300	14,282
Advances from Others	3,949	8,585
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	44,889	43,013
Total With the Public	96,138	65,880
Total Other Liabilities	$ 170,064	$ 128,539

14. Contingencies and Commitments

Contingencies include various administrative proceedings, legal actions, and claims related to contract disputes and employee and inmate claims; see Note 1.M for more details. For legal actions where management and the Chief Counsel consider adverse decisions "probable" or "reasonably possible" and the amounts are reasonably estimable, information is disclosed below. The amounts as of September 30, 2010 and 2009 are presented in the following table.

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2010			
Probable	$ 4,827	$ 4,827	$ 10,620
Reasonably Possible		4,643	9,599
As of September 30, 2009			
Probable	$ 4,930	$ 4,930	$ 11,405
Reasonably Possible		3,373	14,057

15. Earmarked Funds

The Trust Fund is a self-sustaining trust revolving fund account that is funded through the sale of goods and services to inmates. The Trust Fund receives no appropriated funds, and the majority of its funding is through revenues generated by the sale of merchandise and telephone services to inmates. Regular items sold through institution commissaries are marked-up 30 percent from their per unit cost. The Trust Fund Commissary inventories are comprised of merchandise on-hand at reporting sites located in the United States and Puerto Rico. Inventory sales are restricted to inmates and consist primarily of foods and beverages, hobby craft items, stamps, clothing, health and hygiene commodities, and other sundry items. Commissary items are stated at latest acquisition cost, which is adjusted using the CPI for the year to approximate the value of the inventory under the FIFO accounting methodology.

Cash receipts collected from the public for an earmarked fund are deposited in the Treasury, which uses the cash for general Government purposes. The Trust Fund invests in non-marketable market-based Treasury securities issued by the Bureau of Public Debt. These securities are available to the public but cannot be resold. These securities are purchased and redeemed at par value (the value at maturity) exclusively through the Treasury's Finance and Funding Branch. When securities are purchased, the investment is recorded at par value. Beginning in 1995, the Trust Fund was granted authority to invest funds in excess of operating needs in securities guaranteed by the Treasury. Investments in U.S. Government securities are reported at cost net of amortized discounts. Discounts are amortized into interest income over the term of the investment. The Trust Fund's intent is to hold investments to maturity, unless they are needed to sustain the operations of the Trust Fund. Interest received on securities is captured in the Trust Fund and is used to defray its general operating expenses. The following table shows earmarked funds as of September 30, 2010 and 2009.

15. Earmarked Funds (continued)

As of September 30, 2010 and 2009

	2010	**2009**
	Trust Fund	**Trust Fund**
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	$ 67,328	$ 76,756
Other Assets	27,560	26,997
Total Assets	$ 94,888	$ 103,753
Liabilities		
Accounts Payable	$ 12,696	$ 19,165
Other Liabilities	12,339	11,539
Total Liabilities	$ 25,035	$ 30,704
Net Position		
Cumulative Results of Operations	$ 69,853	$ 73,049
Total Net Position	$ 69,853	$ 73,049
Total Liabilities and Net Position	$ 94,888	$ 103,753
Statements of Net Cost		
Gross Cost of Operations	$ 338,286	$ 328,415
Less: Exchange Revenues	331,199	319,601
Net Cost of Operations	$ 7,087	$ 8,814
Statement of Changes in Net Position		
Net Position Beginning of Period	$ 73,049	$ 78,480
Other Financing Sources	3,891	3,383
Total Financing Sources	3,891	3,383
Net Cost of Operations	(7,087)	(8,814)
Net Change	(3,196)	(5,431)
Net Position at End of Period	$ 69,853	$ 73,049

16. Net Cost of Operations by Suborganization

The following tables show the net cost of operations for each of the BOP's goals by suborganization for the fiscal years ended September 30, 2010 and 2009.

For the Year Ended September 30, 2010	Suborganizations		
	Trust Fund	BOP	Consolidated
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Gross Cost	$ -	$ 6,860	$ 6,860
Less: Earned Revenue	-	-	-
Net Cost (Revenue) of Operations	-	6,860	6,860
Goal 3: Ensure the Fair and Efficient Administration of Justice			
Gross Cost	338,286	6,683,473	7,021,759
Less: Earned Revenue	331,199	41,000	372,199
Net Cost (Revenue) of Operations	7,087	6,642,473	6,649,560
Net Cost (Revenue) of Operations	$ 7,087	$ 6,649,333	$ 6,656,420

For the Fiscal Year Ended September 30, 2009	Suborganizations		
	Trust Fund	BOP	Consolidated
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Gross Cost	$ -	$ 6,987	$ 6,987
Less: Earned Revenue	-	-	-
Net Cost (Revenue) of Operations	-	6,987	6,987
Goal 3: Ensure the Fair and Efficient Administration of Justice			
Gross Cost	328,415	6,245,200	6,573,615
Less: Earned Revenue	319,601	38,000	357,601
Net Cost (Revenue) of Operations	8,814	6,207,200	6,216,014
Net Cost (Revenue) of Operations	$ 8,814	$ 6,214,187	$ 6,223,001

17. Imputed Financing from Costs Absorbed by Others

Imputed Inter-Departmental Financing Sources are the unreimbursed (i.e. non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the BOP from a providing entity that is not part of the DOJ. In accordance with SFFAS No. 30, "Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts", the material Imputed Inter-Departmental financing sources recognized by the BOP are the actual cost of future benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees' Group Life Insurance Program (FEGLI), the Federal Pension plans that are paid by other Federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the BOP. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards Interpretation No. 2, "Accounting for Treasury Judgment Fund Transactions," requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by CSRS, the cost factors are 30.1 percent of basic pay for regular, 51.1 percent law enforcement officers, 23.5 percent regular offset, and 45.6 percent law enforcement officers offset. For employees covered by FERS, the cost factors are 13.8 percent of basic pay for regular and 29.8 percent for law enforcement officers.

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, other retirement benefits, which include health and life insurance that are paid by other Federal entities, must also be disclosed.

17. Imputed Financing from Costs Absorbed by Others (continued)

Imputed Intra-Departmental Financing Sources as defined in SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts and Standards for the Federal Government," and FASAB Interpretation No. 6, "Accounting for Imputed Intra-Departmental Costs: An Interpretation of SFFAS No. 4," are the unreimbursed portion of the full costs of goods and services received by the BOP from a providing entity that is part of the DOJ. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity's output. The BOP management had adopted FASAB Interpretation No. 6 during FY 2005 and reviews Imputed Intra-Departmental Financing Sources quarterly to determine materiality. As of September 30, 2010 these costs are deemed immaterial and are not reported.

For the Year Ended September 30, 2010 and 2009		2010		2009
Imputed Inter-Departmental Financing				
Treasury Judgment Fund	$	5,215	$	7,185
Health Insurance		173,302		170,766
Life Insurance		449		427
Pension		37,739		11,287
Total Imputed Inter-Departmental	$	216,705	$	189,665
Total Imputed Financing	$	216,705	$	189,665

18. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

The apportionment categories are determined in accordance with the guidance provided in Part 4 "Instructions on Budget Execution" of OMB Circular A-11, "Preparation, Submission and Execution of the Budget". Category A represents resources apportioned for calendar quarters.

18. Information Related to the Statement of Budgetary Resources (continued)

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Year Ended September 30, 2010			
Obligations Apportioned Under Category A	$ 6,536,140	$ 41,617	$ 6,577,757
For the Year Ended September 30, 2009			
Obligations Apportioned Under Category A	$ 6,496,740	$ 48,662	$ 6,545,402

Status of Undelivered Orders:

Undelivered Orders (UDO) represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

As of September 30, 2010 and 2009	2010	2009
UDO Obligations Unpaid	$ 566,953	$ 793,983
UDO Obligations Prepaid/Advanced	872	(4,337)
Total UDO	$ 567,825	$ 789,646

Permanent Indefinite Appropriations:

A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount.

Congress established the Trust Fund in 1932 to allow inmates a means to purchase additional products and services above the necessities provided by appropriated Federal funds. The Trust Fund is a self-sustaining trust revolving fund account that is funded through sales of goods and services, rather than annual or no-year appropriations.

18. Information Related to the Statement of Budgetary Resources (continued)

Legal Arrangements Affecting Use of Unobligated Balances:

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation based on annual legislative requirements and other enabling authorities, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, and no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. Amounts in expired fund symbols are not available for new obligations, but may be used to adjust previously established obligations.

Statement of Budgetary Resources vs. the Budget of the United States Government:

The reconciliation between the Statement of Budgetary Resources and the Budget of the United States Government for fiscal year 2009 is shown in the following table. The reconciliation as of September 30, 2010 is not presented, because the submission of the Budget of the United States Government (Budget) for FY 2012, which presents the execution of the FY 2010 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2011.

For the Fiscal Year Ended September 30, 2009
(Dollars in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	$ 6,917	$ 6,545	$ 3	$ 5,919
Funds not Reported in the Budget				
Expired Funds	(56)	(9)	-	-
Reconciling Item 153220(ZX)			(3)	3
Other (Rounding)	2	(1)	-	-
Budget of the United States Government	**$ 6,863**	**$ 6,535**	**$ -**	**$ 5,922**

19. Restatements and Adjustments

Clean Up Cost Adjustments

OMB Circular No. A-136 states that the cost for any clean-up cost liability recognized upon implementation of the FASAB Technical Reference Manual 2006-1 requiring recognition shall be shown on the SCNP as a prior period adjustment. The BOP recognized the estimated total clean-up cost for friable and non-friable asbestos as a liability and reported the offsetting charge as a "Change in Accounting Principles" in the SCNP. As of September 30, 2010, BOP management has determined their estimated asbestos clean-up liability is $36,833 thousand.

For the Fiscal Year Ended September 30, 2010		
Statement of Changes in Net Position	$	(36,833)

20. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Year Ended September 30, 2010 and 2009

	2010	2009
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 6,577,757	$ 6,545,402
Less: Spending Authority from Offsetting Collections and Recoveries	379,044	388,230
Obligations Net of Offsetting Collections and Recoveries	6,198,713	6,157,172
Less: Offsetting Receipts	12,666	2,813
Net Obligations	6,186,047	6,154,359
Other Resources		
Donations and Forfeitures of Property	340	68
Transfers-In/Out Without Reimbursement	5,394	14,773
Imputed Financing from Costs Absorbed by Others (Note 17)	216,705	189,665
Net Other Resources Used to Finance Activities	222,439	204,506
Total Resources Used to Finance Activities	**6,408,486**	**6,358,865**
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	221,619	(194,930)
Resources That Fund Expenses Recognized in Prior Periods (Note 21)	(6,410)	(7,144)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	12,666	2,813
Resources That Finance the Acquisition of Assets	(454,738)	(375,522)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	(36,833)	-
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(263,696)	(574,783)
Total Resources Used to Finance Net Cost of Operations	**$ 6,144,790**	**$ 5,784,082**
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 21)	$ 153,285	$ 103,087
Depreciation and Amortization	356,000	333,240
Revaluation of Assets or Liabilities	2,345	2,592
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	**511,630**	**438,919**
Net Cost of Operations	**$ 6,656,420**	**$ 6,223,001**

21. Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling $1,189 million and $1,042 million on September 30, 2010 and 2009 respectively, are discussed in Note 10, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are presented in the following table.

The BOP has authority to record budgetary resources for receivables due from the Public, which mainly consists of state prisoner billings, before the funds are actually collected. For this reason, the change in Exchange Revenue receivables from the Public is not presented in the following table.

For the Year Ended September 30, 2010 and 2009	2010	2009
Resources that Fund Expenses Recognized in Prior Periods		
Other		
Decrease in Contingent Liabilities	$ (103)	$ -
Decrease in Unfunded Capital Lease Liabilities	(6,253)	(5,779)
Decrease in Other Unfunded Employment Related Liabilities	(54)	(1,365)
Total Other	(6,410)	(7,144)
Total Resources that Fund Expenses Recognized in Prior Periods	$ (6,410)	$ (7,144)
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	$ 6,797	$ 8,225
Increase in Environmental and Disposal Liabilities	39,790	-
Other		
Increase in Actuarial FECA Liabilities	66,836	78,496
Increase in Accrued FECA Liabilities	6,844	9,451
Increase in Contingent Liabilities	-	1,008
Increase in Other Liabilities	33,018	5,907
Total Other	106,698	94,862
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 153,285	$ 103,087

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U.S. DEPARTMENT OF JUSTICE

BUREAU OF PRISONS

REQUIRED SUPPLEMENTARY
INFORMATION SCHEDULES
(UNAUDITED)

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The BOP's deferred maintenance is immaterial. The BOP maintains maintenance schedules to monitor the condition of its PP&E. Due to health and safety concerns for staff and inmates, the BOP does not defer necessary maintenance.

U.S. Department of Justice
Bureau of Prisons
Required Supplementary Information
Combining Statement of Budgetary Resources
Broken Down by Major Budget Account
For the Fiscal Year Ended September 30, 2010

Dollars in Thousands				2010
	S&E	B&F	TF	Total
Budgetary Resources				
Unobligated Balance, Brought Forward, October 1	$ 60,428	$ 269,511	$ 42,112	$ 372,051
Recoveries of Prior Year Unpaid Obligations	6,845	-	-	6,845
Budget Authority				
Appropriations Received	6,106,231	99,155	-	6,205,386
Spending Authority from Offsetting Collections				
Earned				
Collected	43,476	-	330,931	374,407
Change in Receivables from Federal Sources	(2,273)	-	268	(2,005)
Change in Unfilled Customer Orders				
Advance Received	(203)	-	-	(203)
Subtotal Budget Authority	6,147,231	99,155	331,199	6,577,585
Nonexpenditure Transfers, Net, Anticipated and Actual	(818)	-	-	(818)
Total Budgetary Resources (Note 18)	**$ 6,213,686**	**$ 368,666**	**$ 373,311**	**$ 6,955,663**
Status of Budgetary Resources				
Obligations Incurred				
Direct	$ 6,062,966	$ 144,893	$ 328,281	$ 6,536,140
Reimbursable	41,617	-	-	41,617
Total Obligations Incurred (Note 18)	6,104,583	144,893	328,281	6,577,757
Unobligated Balance - Available				
Apportioned	76,240	223,773	-	300,013
Exempt from Apportionment	-	-	45,030	45,030
Total Unobligated Balance - Available	76,240	223,773	45,030	345,043
Unobligated Balance Not Available	32,863	-	-	32,863
Total Status of Budgetary Resources	**$ 6,213,686**	**$ 368,666**	**$ 373,311**	**$ 6,955,663**
Change in Obligated Balance				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	$ 642,241	$ 674,319	$ 35,522	$ 1,352,082
Less: Uncollected Customer Payments from Federal Sources	7,470	-	880	8,350
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	634,771	674,319	34,642	1,343,732
Obligations Incurred, Net	6,104,583	144,893	328,281	6,577,757
Less: Gross Outlays	6,036,846	360,577	340,359	6,737,782
Less: Recoveries of Prior Year Unpaid Obligations, Actual	6,845	-	-	6,845
Change in Uncollected Customer Payments from Federal Sources	2,273	-	(268)	2,005
Obligated Balance, Net - End of Period				
Unpaid Obligations	703,133	458,635	23,444	1,185,212
Less: Uncollected Customer Payments from Federal Sources	5,197	-	1,148	6,345
Total Unpaid Obligated Balance, Net - End of Period	**$ 697,936**	**$ 458,635**	**$ 22,296**	**$ 1,178,867**
Net Outlays				
Gross Outlays	$ 6,036,846	$ 360,577	$ 340,359	$ 6,737,782
Less: Offsetting Collections	43,273	-	330,931	374,204
Less: Distributed Offsetting Receipts (Note 18)	12,666	-	-	12,666
Total Net Outlays (Note 18)	**$ 5,980,907**	**$ 360,577**	**$ 9,428**	**$ 6,350,912**

U.S. Department of Justice
Bureau of Prisons
Required Supplementary Information
Combining Statement of Budgetary Resources
Broken Down by Major Budget Account
For the Fiscal Year Ended September 30, 2009

Dollars in Thousands	S&E	B&F	TF	Total
				2009
Budgetary Resources				
Unobligated Balance, Brought Forward, October 1	$ 92,019	$ 218,021	$ 50,619	$ 360,659
Recoveries of Prior Year Unpaid Obligations	18,899	-	-	18,899
Budget Authority				
Appropriations Received	5,600,792	575,807	-	6,176,599
Spending Authority from Offsetting Collections				
Earned				
Collected	50,874	-	322,120	372,994
Change in Receivables from Federal Sources	(1,496)	-	(2,519)	(4,015)
Change in Unfilled Customer Orders				
Advance Received	352	-	-	352
Subtotal Budget Authority	5,650,522	575,807	319,601	6,545,930
Nonexpenditure Transfers, Net, Anticipated and Actual	(8,035)	-	-	(8,035)
Total Budgetary Resources (Note 18)	**$ 5,753,405**	**$ 793,828**	**$ 370,220**	**$ 6,917,453**
Status of Budgetary Resources				
Obligations Incurred				
Direct	$ 5,644,315	$ 524,317	$ 328,108	$ 6,496,740
Reimbursable	48,662	-	-	48,662
Total Obligations Incurred (Note 18)	5,692,977	524,317	328,108	6,545,402
Unobligated Balance - Available				
Apportioned	15,063	269,511	-	284,574
Exempt from Apportionment	-	-	42,112	42,112
Total Unobligated Balance - Available	15,063	269,511	42,112	326,686
Unobligated Balance Not Available	45,365	-	-	45,365
Total Status of Budgetary Resources	**$ 5,753,405**	**$ 793,828**	**$ 370,220**	**$ 6,917,453**
Change in Obligated Balance				
Obligated Balance, Net - Brought Forward, October 1				
Unpaid Obligations	$ 563,504	$ 531,926	$ 25,072	$ 1,120,502
Less: Uncollected Customer Payments from Federal Sources	8,966	-	3,399	12,365
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	554,538	531,926	21,673	1,108,137
Obligations Incurred, Net	5,692,977	524,317	328,108	6,545,402
Less: Gross Outlays	5,595,341	381,924	317,658	6,294,923
Less: Recoveries of Prior Year Unpaid Obligations, Actual	18,899	-	-	18,899
Change in Uncollected Customer Payments from Federal Sources	1,496	-	2,519	4,015
Obligated Balance, Net - End of Period				
Unpaid Obligations	642,241	674,319	35,522	1,352,082
Less: Uncollected Customer Payments from Federal Sources	7,470	-	880	8,350
Total Unpaid Obligated Balance, Net - End of Period	**$ 634,771**	**$ 674,319**	**$ 34,642**	**$ 1,343,732**
Net Outlays				
Gross Outlays	$ 5,595,341	$ 381,924	$ 317,658	$ 6,294,923
Less: Offsetting Collections	51,226	-	322,120	373,346
Less: Distributed Offsetting Receipts (Note 18)	2,813	-	-	2,813
Total Net Outlays (Note 18)	**$ 5,541,302**	**$ 381,924**	**$ (4,462)**	**$ 5,918,764**

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U.S. DEPARTMENT OF JUSTICE

BUREAU OF PRISONS

OTHER ACCOMPANYING INFORMATION
(UNAUDITED)

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TREASURY SYMBOL MATRIX

15101060	Salaries and Expense
1591060	Salaries and Expense
1581060	Salaries and Expense
1571060	Salaries and Expense
1561060	Salaries and Expense
1551060	Salaries and Expense
1510/111060	Salaries and Expense
159/101060	Salaries and Expense
158/91060	Salaries and Expense
157/81060	Salaries and Expense
156/71060	Salaries and Expense
155/61060	Salaries and Expense
154/51060	Salaries and Expense
15X1003	Buildings and Facilities
15X8408	Revolving Trust Fund
15X1060	Salaries and Expense
15X6085	Deposit Fund (Prisoners)
151060	General Fund (Forfeiture Unclaimed)
151099	General Fund (Fines, Penalties, Forfeiture)
153220	General Fund (Miscellaneous Receipts)
151210	Conscience Fund
151299	Gifts to U.S.
151435	Miscellaneous Interest Received
151699	Dividends and Other Earnings
15F3878	Clearing Account (Budget)
15F3879	Clearing Account (Budget)
15F3880	Clearing Account (Budget)
15F3875.10	Clearing Account (Budget)
15X6275.10	Deposit Fund (State/Local Taxes)
20X1807	BOP Refund Erroneously Received
20X6133	BOP Payment Unclaimed Money
15_7001	Elimination Fund
15_7002	Elimination Fund

PRISONER CAPACITY REQUIREMENTS

The numbers in the chart reflect the additional requested, funded, and partially funded capacity (number of beds) required for each established facility.

Note that the estimated construction completion dates supplied below are projections, not fixed dates. Also, once construction is completed at an institution, that institution does not immediately begin accepting inmates, as there are necessary activation and preparatory procedures that must be enacted beforehand.

REQUESTED, FUNDED, OR PARTIALLY FUNDED CAPACITY REQUIREMENTS

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
ADDITIONAL CAPACITY:											TOTAL
FCI McDowell, WV (Medium/Camp)	702										702
FCI Mendota, CA (Medium/Camp)	728	552									1,280
FCI Berlin, NH (Medium/Camp)	488	792									1,280
USP Thomson, IL (High/Camp)	50	1,275	375								1,700
FCI Aliceville, AL (Secure Female/Low Camp)		1,792									1,792
FCI Hazelton, WV (Medium/Camp)			728	552							1,280
FCI Standish, MI (Medium/Camp)			558	860							1,418
USP Yazoo City, MS (High/Camp)				736	480						1,216
USP Forrest City, AR (High/Camp)						256	480	480			1,216
USP El Reno, OK (High/Camp)						256	480	1,120			1,856
USP Bennettsville, SC (High/Camp)						128	480	480			1,088
FCI Leavenworth, KS (Medium/Camp)						256	600	552			1,408
USP Letcher County, KY (High/Camp)							256	480	480		1,216
USP North Central/Pekin, IL (High/Camp)							256	480	480		1,216
USP Southeast (High/Camp)								736	480		1,216
USP Mid-Atlantic (High/Camp)								736	480		1,216
FCI Florida (Medium/Camp)							256	600	552		1,408
FCI South Central (Medium/Camp)								856	552		1,408
FCI Northeast (Medium/Camp)								856	552		1,408
USP Western (High/Camp)									736	480	1,216
USP Mid-Atlantic (High/Camp)								256	480	480	1,216
FCI South Central (Medium/Camp)									856	552	1,408
FCI Western (Medium/Camp)									856	552	1,408
USP South Central (High/Camp)										736	736
FCI North Central (Medium/Camp)										856	856
FCI Northeast (Medium/Camp)										856	856
Total	1,968	4,411	1,661	2,148	480	896	2,808	7,632	6,504	4,512	33,020

This exhibit includes facilities requested, funded, or partially funded capacity requirements through September 30, 2010.

OPERATING LEASES AS OF SEPTEMBER 30, 2010 (IN THOUSANDS)

Operating Lease Identifier		Total Future Payments
230 N First Avenue	Phoenix, AZ	$ 759
230 N First Avenue	Phoenix, AZ	630
255 E Temple Street	Los Angeles, CA	71
501 I Street	Sacramento, CA	507
2880 Sunrise Boulevard	Rancho Cordova, CA	860
7338 Shoreline Drive	Stockton, CA	9,564
324 Horton Plaza	San Diego, CA	1,789
791 Chambers Road	Aurora, CO	118
1190 E Cornell Avenue	Aurora, CO	25,491
320 First Street NW	Washington, DC	16,601
500 First Street NW	Washington, DC	48,266
100 Indiana Avenue NW	Washington, DC	102
200 Constitution Avenue NW	Washington, DC	590
3800 Camp Creek Parkway	Atlanta, GA	5,861
450 S Federal Street	Chicago, IL	173
5270 S Cicero Avenue	Chicago, IL	4,057
55 E Monroe Street	Chicago, IL	183
200 W Adams Street	Chicago, IL	638
318 S Federal	Chicago, IL	31
Fourth & State Avenue	Kansas City, KS	3,864
302 Sentinel Drive	Annapolis Junction, MD	11,372
300 S Fourth Street	Minneapolis, MN	229
1222 Spruce	St. Louis, MO	99
1222 Spruce	St. Louis, MO	19
36 E Seventh Street	Cincinnati, OH	477
200 Chestnut Street	Philadelphia, PA	2,740
1000 Liberty Avenue	Pittsburgh, PA	448
600 Arch Street	Philadelphia, PA	13
701 Market Street	Philadelphia, PA	102
125 South 2nd Street	Philadelphia, PA	10
801 Broadway	Nashville, TN	22
811 McGavock Street	Nashville, TN	1
701 San Jacinto Street	Houston, TX	104
701 San Jacinto Street	Houston, TX	362
15431 W Vantage Parkway, Suites 200 & 205	Houston, TX	797
727 E Durango Boulevard	San Antonio, TX	1,760
4211 Cedar Springs Road	Dallas, TX	10,211
796 N Foxcroft Avenue	Martinsburg, WV	3,453
		$ 152,374