California Prison Industry Authority

REPORT TO THE LEGISLATURE

Fiscal Year 2012-2013

QUALITY PRODUCTS

CHANGED LIVES

A SAFER CALIFORNIA

CALPIA

Quality Products ★ Changed Lives ★ A Safer California

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The Prison Industry Board (PIB) Fiscal Year 2012-13 Report to the Legislature regarding the California Prison Industry Authority (CALPIA) is submitted pursuant to Chapter 1549, Statutes of 1982, as embodied in paragraph 2808 (k) of the California Penal Code which requires the PIB to report to the Legislature in writing on or before February 1, of each year regarding the following:

1. The financial activity and condition of each enterprise under its jurisdiction.
2. The plans of the board regarding any significant changes in existing operations.
3. The plans of the board regarding the development of new enterprises.
4. A breakdown, by institution, of the number of prisoners at each institution, working in enterprises under the jurisdiction of the CALPIA.

Committed to California's Public Safety

The Prison Industry Board

Pursuant to Chapter 1549, statutes of 1982, the Prison Industry Board (PIB) was established in 1983 to oversee California Prison Industry Authority (CALPIA) operations, much like a corporate board of directors. The PIB sets general policy for CALPIA, oversees the performance of existing CALPIA industries, determines which new industries shall be established, and appoints and monitors the performance of CALPIA's CEO/General Manager. The PIB also serves as a public hearing body, charged both with ensuring that CALPIA enterprises are self-sufficient and that they do not have a substantial adverse effect upon the private sector. The PIB actively solicits public input for the decisions it makes to expand existing or develop new prison industries.

The Penal Code[1] Established CALPIA to:

- Develop and operate manufacturing, agricultural and service enterprises that provide work opportunities for offenders under the jurisdiction of the California Department of Corrections and Rehabilitation (CDCR) and serve government agencies with products and services commensurate with their needs.

- Create and maintain working conditions within enterprises that mirror those which prevail in private industry as possible, to assure offenders assigned therein the opportunity to work productively to earn funds, and to acquire or improve effective work habits or occupational skills.

- Operate work programs for offenders that are self-supporting through the generation of sufficient funds from the sale of products and services to pay all its expenses, thereby avoiding the cost of alternative inmate programming by CDCR. CALPIA receives no annual appropriation from the Legislature.

1. Penal Code Section 2800-2818

CALPIA Mission Statement

The mission of CALPIA is to support the CDCR public safety mission.

CALPIA Program Goal

CALPIA's program goal is to produce trained offenders that have a job skill, good work habits, basic education and job support in the community when they parole so they never return to prison. CALPIA offenders receive industry accredited certifications that employers require. CALPIA offender programming reduces prison violence and makes communities safer by lowering the frequency of repeat criminal behavior.

Does CALPIA Work?

Over a three year period, beginning in Fiscal Year (FY) 2008-09, CALPIA participants returned to prison, on average, 26 to 38 percent less often than offenders released from the CDCR general population, saving the General Fund millions in incarceration costs. Additionally, offenders who participate in CALPIA's Career Technical Education (CTE) program are 91 percent less likely to return to prison.

Does CALPIA Save the State Money?

CALPIA's offender programming saves the State General Fund millions annually through lower recidivism and saves CDCR millions more by providing rehabilitation programs that CDCR does not have to fund.

To achieve its mission, CALPIA has established five main strategic and business goals:

Achieve Self-Sufficiency
Build Offender Success
Exceed Customer Expectations
Ensure an effective and well-trained workforce
Promote and Support CALPIA

Correctional Industries

CALPIA manages 60 manufacturing, service and consumable factories in 25 CDCR institutions. CALPIA provides employment and programming for approximately 7,000 offenders assigned to 5,560 positions annually in manufacturing, consumable service and support functions including warehouse and administration. The CALPIA Administrative offices are located in Folsom, California.

The goods and services produced by CALPIA's enterprises are sold predominately to departments of the State of California, as well as other government entities. CDCR is CALPIA's largest customer and accounted for 57.4 percent of all sales in FY 2012-13, down from 57.6 percent in FY 2011-12, and 61 percent in FY 2010-11. Other major State customers include The Department of Motor Vehicles, the Department of State Hospitals, the Department of Health Care Services, the Department of Transportation (Caltrans), Board of Equalization (BOE), the Department of General Services (DGS), the Department of Forestry and Fire Protection (CAL FIRE), the California Highway Patrol (CHP), the Department of Veteran Affairs (CDVA), and the Employment Development Department (EDD).

Joint and Free Venture Programs

On behalf of CDCR, CALPIA manages California's Joint Venture Program (JVP), which is responsible for implementing the Prison Inmate Labor Initiative, Proposition 139 of 1990. Under its provisions, private businesses may establish business operations inside California correctional facilities and hire offenders. This includes only those businesses that are starting a new company, expanding an existing business, or relocating to California.

CALPIA also manages the Free Venture Program (FVP), which operates in much the same way as the JVP, except it is located within California's juvenile facilities and prepares offenders for successful reintegration into the community.

Offenders are paid a comparable wage that is then subject to deductions for room and board, crime victim compensation, prisoner family support, government ordered restitution and mandatory offender savings for release. In addition, offender-employees pay federal and state taxes. The JVP disbursed more than $130,000 for crime victim restitution in FY 2012-13. As of October 2012, local government correctional facilities may also participate in the JVP.

Inmate Employability Program

CALPIA developed the Inmate Employability Program (IEP) to enhance the ability of offender workers to obtain meaningful jobs upon release and successfully transition from prison to the community and the workforce. This effort supports CALPIA's goal to reduce recidivism and contribute to safer communities.

Through the IEP, CALPIA offender workers are continually evaluated for improvement in job skills, education, experience and work habits. The IEP provides offender workers access to nationally accredited certifications and internal skill proficiency certificates.

All CALPIA offender participants must achieve a General Education Development (GED) degree within two years to continue participating in CALPIA programs.

The IEP provides transition to employment services and information. Prior to parole, an appointment at the Department of Motor Vehicles is arranged to provide valid identification. Information and forms are provided for a social security card, birth certificate, child support and veteran's benefits. The IEP also provides access to the CDCR statewide resource guide.

Career Technical Education

The CALPIA Career Technical Education (CTE) program[2], established by CALPIA in 2006 as a pilot, gives offenders an opportunity to gain hands-on experience in real world training, as well as opportunities performing construction and facility maintenance for institutions and communities. To date, the CALPIA CTE program has been the most effective rehabilitation program in California and also provides a well-trained labor force for maintenance and construction projects at reduced cost.

2. Under Penal Code Section 2805, CALPIA may initiate and develop new vocational training programs as well as assume jurisdiction over existing vocational training programs

The CALPIA CTE program is the first of its kind in the nation to partner an offender rehabilitation program with trade unions to meet the rehabilitative needs of offenders. CALPIA CTE participants perform various pre-apprenticeship construction activities such as the fabrication of modular buildings and renovations of state-owned assets, including parks and prisons. CTE participants also renovated and re-opened a commercial diving training facility within a state prison and now utilize that facility for vocational education training in commercial diving and welding.

In 2012, the Prison Industry Board approved an assessment report of the CALPIA CTE program from FYs 2007-08 through 2010-11. The report shows that cumulatively, CALPIA CTE graduates have a recidivism rate of 7.13 percent. Additionally, the report documents the program's recidivism reduction and construction savings to governments at both the state and local level. Although there may be other relevant factors that contribute to lowering recidivism, CALPIA participants are significantly more likely to become productive citizens that pay taxes instead of costing California taxpayers by returning to prison. The full study is available at www.calpia.ca.gov.

The CALPIA CTE program is divided into five areas:
1. Carpentry
2. Iron working
3. Construction labor
4. Commercial diving
5. Facilities maintenance

In FY 2012-13 CALPIA integrated a new population of female offenders from the Folsom Women's Facility into its pre-apprentice Construction Labor CTE program. In total, 281 male and female offenders participated in CALPIA CTE programming in FY 2012-13 statewide.

Due to new funding support from CDCR that reimburses CALPIA for funds appropriated by the Prison Industry Board, in FY 2013-14 CALPIA is adding new vocational training programs for female offenders. These are pre-apprentice Carpentry, Auto Computer Aided Design, Computer Coding, and Facilities Maintenance for Folsom Women's Facility offenders. CALPIA is also creating a satellite CTE Braille program for Central California Women's Facility offenders that will augment CALPIA's world-renowned Braille program at Folsom State Prison. CALPIA will also inaugurate its first CTE program for juvenile offenders with a Construction Labor program at the Ventura Youth Correctional Facility.

Over the next two years, CALPIA expects to expand the CTE programs increasing offender participation more than 40 percent over current levels.

CALPIA Reduces Recidivism, Saves Money and Increases Public and Prison Safety

CALPIA prepares offenders for productive lives and reduces incarceration costs. Paroled offenders who participated in CALPIA programs are less likely to return to prison than general population offenders. Although there may be other relevant factors that contribute to lowering recidivism, CALPIA participants are significantly more likely to become productive citizens that pay taxes instead of costing California taxpayers by returning to prison.

The recidivism rate of CALPIA participants is an essential measure of the organization's success. Over a three-year period, beginning in FY 2007-08, CALPIA participants returned to prison, on average, 26 to 38 percent less often than offenders released from the CDCR general population, saving the General Fund millions in incarnation costs. Additionally, offenders who participate in CALPIA's CTE program are 91 percent less likely to return to prison.

CALPIA provides CDCR over 7,000 alternative inmate programming positions annually, thereby saving CDCR more than $11 million annually in General Fund costs for rehabilitation positions that CDCR does not have to fund.[1]

CALPIA Reduces Recidivism

Fiscal Year	Total CALPIA Parolees	Total CDCR Parolees	1 Year			2 Years			3 Years		
			CALPIA Percent	CDCR Percent	Variance Percent	CALPIA Percent	CDCR Percent	Variance Percent	CALPIA Percent	CDCR Percent	Variance Percent
10/11*	1,402		20.40%								
09/10*	1,364	105,598	23.61%	45.70%	48.34%	33.65%					
08/09*	1,471	112,934	27.46%	45.20%	39.25%	38.55%	56.90%	32.25%	42.96%		
07/08	1,549	116,063	31.18%	47.50%	34.36%	42.09%	59.20%	28.90%	46.80%	63.70%	26.53%
06/07	1,693	115,254	30.89%	47.90%	35.51%	43.89%	60.50%	27.45%	48.32%	65.10%	25.78%
05/06	1,646	108,662	31.11%	49.10%	36.64%	44.11%	62.50%	29.42%	50.12%	67.50%	25.75%

Average Variance 38.82%** Average Variance 29.51%** Average Variance 26.02%**

* Due to the Public Safety Realignment Act of 2011, the proper disposition of data for FY 2010-11 is not available.

1. Legislative Analyst's Office (2011) Rehabilitation Programs (http://www.lao.ca.gov/laoapp/LAOMenus/Sections/crim_justice/6_cj_inmatecost.aspx?catid=3)

** Compared to CDCR percent.

CALPIA Invests in Training and Rehabilitation

CALPIA invests in curriculum for offenders, including 15 programs that offer nationally recognized accredited certification such as optometry, dental technology, food handling, automotive service, laundry, commercial baking, agriculture, welding, metal stamping, industrial safety and health, electrical systems, mechanical systems and maintenance. CALPIA offenders may also earn certificates of proficiency in occupational disciplines to validate skills and abilities obtained during their time employed by CALPIA (see accredited certifications, below).

FY 2012-13 Training Highlights

622 CALPIA participants received a certificate of proficiency and/or Standard Occupational Code Proficiency certification and 800 participants successfully completed an accredited certification program, a 29 percent decrease from FY 2011-12. The major cause of this reduction was a change in the online tests offered by the Federal Emergency Management Agency certificate series that cannot be administered in a correctional environment.

Of those that completed an accredited certification program, 31 were graduates of CALPIA's CTE program.

Accredited Certifications

American Board of Opticianry

Optician

American Institute of Baking

Science of Baking

Foundations

Ingredient Technician

Bread/Rolls

Cake/Sweet Goods

American Welding Society

Gas Metal Arc Welding 1

Gas Tungsten Arc Welding 1

Gas Tungsten Arc Welding 2

Gas Tungsten Arc Welding 3

Association for Linen Management

Certified Linen Technician

Certified Washroom Technician

Certified Laundry Linen Manager

CA Department of Food & Agriculture

Artificial Insemination License

Pasteurizer License

Sampler/Weigher License

Electronics Technicians Association

Customer Service Specialist

Certified Electronics Technician

Journeyman (Industrial)

Library of Congress – Braille

Literary Transcribing

Literary Proofreading

Mathematics Transcribing

Mathematics Proofreading

Music Transcribing

National Institute of Metalworking Skills

Machining, Level I

Metal Forming, Level I

Metal Stamping, Level II

National Restaurant Association

ServSafe Essentials

ServSafe Food Handler

North American Technician Excellence

Installation or Service for:

Air Conditioning

Air Distribution

Heat Pumps

Gas Heat

Oil Heat

Overton–Forklift Operator

Warehouse Pallet Jack/ Forklift

Construction Forklift

Printing Industries of America

Sheetfed Offset Press

Web Offset Press

Bindery

Pre-Press

Productivity Training Corporation

Dental Technician

Stiles Machinery Inc.

Intermediate Weeke Machining

TCP Training System

Type: Fundamentals/Core Competencies

(Series 100)

101 Reading Blueprints

102 Reading Schematics and Symbols

103 Mathematics in the Plant

104 Making Measurements

105 Metals in the Plant

106 Nonmetals in the Plant

107 Hand Tools

108 Portable Power Tools

109.1 Industrial Safety and Health

110 Troubleshooting Skills

TCP Training System (continued)

Type: Electrical Systems

(Series 200)

201 Basic Electricity and Electronics

202 Batteries and DC Circuits

203 Transformers and AC Circuits

204.1 Electrical Measuring Instruments

205.1 Electrical Safety and Protection

206 DC Equipment and Controls

207 Single Phase Motors

208 Three Phase Systems

209 AC Control Equipment

210 Electrical Troubleshooting

211 Electrical Safety – Understanding NFPA 70E

TCP Training System (continued)

Type: Mechanical Systems

(Series 300)

301 Basic Mechanics

302 Lubricants and Lubrication

303.1 Power Transmission Equipment

304 Bearings

305 Pumps

306 Piping Systems

307 Basic Hydraulics

308 Hydraulic Troubleshooting

309 Basic Pneumatics

310 Pneumatic Troubleshooting

TCP Training System (continued)

Type: Mechanical Maintenance Applications

(Series 340)

341 Mechanical Drive Maintenance

342 Mechanical and Fluid Drive Systems

343 Bearing and Shaft Seal Maintenance

344 Pump Installation and Maintenance

345 Maintenance Pipefitting

346 Tubing and Hose System Maintenance

347 Valve Maintenance & Piping Sys. Protection

TCP Training System (continued)

Type: Building and Grounds

(Series 360)

361 Introduction to Carpentry

362 Constructing the Building Shell

363 Finishing the Building Interior

364 Structural Painting

366 Flat Roof Maintenance

367 Plumbing Systems Maintenance

375 Landscaping Maintenance

TCP Training System (continued)

Type: Welding

(Series 420)

416 Blueprint Reading for Welders

417 Welding Principles

418 Oxyfuel Operations

419 Arc Welding Operations

TCP Training System (continued)

Type: Custodial Maintenance

(Series 450)

451 Cleaning Chemicals

452 Floors and Floor Care Equipment

453 Maintaining Floors and Other Surfaces

454 Restroom Care

455 Carpet and Upholstery Care

Financial Activity of CALPIA

Financial Overview

CALPIA approached profitability with a $.1M decrease in net assets in FY 2012-13, compared to an $8.86 M decrease in FY 2011-12. The FY 2013-14 Mid-Year Revise (MYR) projects an operating profit of $.3M, but a net asset decrease of $13M. The chief contributing factors of the net decrease in FY 2012-13 was a $1M increase in pro rata expense and a $200,000 increase for Other Postemployment Benefits (OPEB). Another impact to CALPIA's asset base, but not its profitability, was the July 1, 2013 transfer of $13M from the Prison Industry Revolving Fund by the State Controller into the State General Fund. CALPIA will book this loss of cash as a $13M asset decrease in FY 2013-14. (see Significant Impacts)

CALPIA sales increased $7.6M, or 4.39 percent, in FY 2012-13 from $172.7M to $180.2M. Sales of manufactured products increased $7.7M, or 9.83 percent and sales by service enterprises increased $0.6M or .97 percent. Agricultural enterprises decreased by $0.7M, or 2.62 percent. Due to strategic sourcing and other efficiency measures that reduced CALPIA's cost of goods sold, gross profits rose in all segments.

Operating Revenues

CALPIA's revenues increased 9.6 percent between FY 2010-11 and FY 2012-13, primarily due to the successful introduction of new products and the broadening of CALPIA's customer base.

The FY 2013-14 Mid-Year Revise (MYR) anticipates revenues of 169.8M, a decrease of 5.8 percent from FY 2012-13 audited revenues of $180.2M. The MYR anticipates CALPIA utilizing up to 6,085 offender positions, compared to 5,399 positions in FY 2012-13. CALPIA anticipates employing 583 free staff in FY 2013-14, which is a 2.3 percent increase from the previous year, due to an increase in the Construction Services and Facilities Maintenance Enterprise.

CALPIA Balance Sheet

Notwithstanding the challenges of FY 2012-13, CALPIA remains financially strong. The CALPIA Balance Sheet at June 30, 2013 reflects current assets which are almost five times greater than current liabilities and more than twice the amount of total liabilities, which are financial indicators that CALPIA is well positioned to meet its short term and long term obligations and equally well-positioned to expand work and training opportunities for offenders.

CALPIA remains optimistic about the future of successful business enterprises, supported by a dedicated and qualified workforce, working in partnership with satisfied customers that create the best opportunities for the rehabilitation of offender workers, resulting in a safer California.

Significant Impacts

Pro Rata Payments to the State

Despite the fact that CALPIA receives no Budget Act appropriation, CALPIA must pay the State its *pro rata* share of costs of State services (Legislature, Department of Finance, Controller, Treasurer, etc.) The FY 2011-12 *pro rata* payment was $3.8M and will increase to $4.8M in FY 2012-13.

Postemployment Benefits Other than Pensions

Under Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45)—Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), the State is required to recognize the cost of retiree health benefit programs on an accrual basis rather than on a pay as you go basis. The State Controller, who administers GASB 45 accounting requirements for the State, assessed CALPIA's share of the State's net unfunded OPEB obligation is $7.2M in FY 2012-13, up from $7.0M for FY 2011-12. CALPIA records these amounts as a "selling and administrative" expense on the operating statement in addition to the actual payments made for OPEB. The State does not maintain a separate pool of assets to finance future retiree healthcare benefits. As one of the few State agencies required to fund the OPEB obligation from its own proprietary fund, CALPIA actively monitors the costs of retiree health benefits in accordance with Generally Accepted Accounting Principles (GAAP) and the funding policies of the State.

As of June 30, 2013, CALPIA's balance sheet reflects a net OPEB obligation of $39.4M. CALPIA has funded this allocation through cash reserves. CALPIA is seeking authority to reinvest these set aside funds in order to minimize the future obligation through higher interest earnings.

Transfer from Prison Industry Revolving Fund to the General Fund

Penal Code section 2806 authorizes the Secretary of CDCR and the Director of the Department of Finance to order the transfer of funds from the Prison Industry Revolving Fund to the State of California General Fund if a determination is made that the balance in the fund exceeds the amount necessary to carry out the mission of CALPIA. On May 24, 2013, it was requested by the Department of Finance that pursuant to Penal Code 2806, the State Controller's Office (SCO) transfer $13 M from the Prison Industry Revolving Fund to the General Fund in FY 2012-13. On June 21, 2013, $13M was transferred by the State Controller from the Prison Industry Revolving Fund to the Prison Industry General Fund. The transferred funds were not appropriated for CALPIA's operational expenditures; therefore CALPIA classified the $13M as restricted cash in FY 2012-13. On July 1, 2013, the $13M was transferred out of the Prison Industry General Fund, to the States General Fund.

Public Safety Realignment

In October of 2011, the Governor signed Assembly Bill 109, the Public Safety Realignment Act, which has reduced the population of California prisons by over 25,000 offenders over the last two years. During FY 2012-13, CDCR's institution population dropped by approximately 13,000 offenders.

It was forecasted that correctional realignment would decrease CALPIA's revenue for population driven products and services (food, clothing, and laundry) by $5.5M in FY 2012-13. However, the associated revenue decrease as a result of the reduction of the offender population was somewhat mitigated by increased revenues from new institutional food product offerings. In addition, CALPIA increased its food customer base by expanding sales at the county jail level.

As the CDCR institution population continues to decline, it is anticipated that sales to CDCR for institutional products from population driven enterprises will decrease by approximately $2.9M in FY 2013-14 and will decrease again in FY 2014-15 as the new lower population is in effect for a full fiscal year.

Application of State Sales Tax

Per the Board of Equalization, unlike any other manufacturer, CALPIA must pay sales tax on purchases of raw materials. CALPIA paid over $4.3M in Sales and Use Tax to its vendors in FY 2012-13, which is a 2 percent increase over FY 2011-12.

Product Recall

In July 2012, it was determined that certain fragrance formulations used by CALPIA in the manufacture of its scented bar soap products had been changed by the product supplier and contained an ingredient that has been identified for further study under California's Proposition 65. As a precautionary measure, on July 27, 2012, CALPIA recalled this product from its customers. In FY 2012-13, CALPIA incurred a total expense of $1.1M for the product recall.

Cash as Designated Liabilities

CALPIA maintains cash levels to meet liabilities such as CALPIA's OPEB obligation, accrued employee vacation, and workers compensation liabilities. CALPIA will seek authority to reinvest this cash to achieve yields that would lessen the OPEB liability. In addition, Government Code Section 16310(a) authorizes the State Treasurer to transfer idle cash from other funds (not to exceed 10 percent of the fund) to meet the cash needs of the State. CALPIA is not reimbursed for lost interest when this occurs.

Future Impacts

Declining Offender Population

On September 12, 2013, Governor Brown signed Senate Bill 105, which facilitates the reduction of offenders in existing state facilities for transfer to either private and public correctional centers in California or private and public correctional facilities outside the state. The effects of Senate Bill 105 and Assembly Bill 109, the Public Safety Realignment Act of 2011, are reducing the number of CDCR offenders that utilize CALPIA products by over 35,000 offenders. This reduction also impacts the number of offender employees that are available for employment and training in CALPIA enterprises. CALPIA is working closely with CDCR to ensure that potential CALPIA enterprise impacts are minimized and training and employment opportunities are maximized utilizing the remaining population of offenders.

Employee Pay Restoration and Increase

To assist in achieving budget savings in FY 2012-13, excluded, non-statutory exempt as well as State Employees International Union (SEIU), and International Union of Operating Engineers (IUOE) employees were subject to the mandatory 4.62 percent reduction in pay from July 1, 2012 through June 30, 2013. On July 1, 2013, all employees subject to this reduction received a 4.62 percent pay restoration. The estimated financial impact to CALPIA of the pay restoration in FY 2013-14 is $1.9M. Excluded, non-statutory exempt employees and SEIU members received a three percent increase to the maximum step of the salary range in each classification on July 1, 2013. The impact to CALPIA in FY 2013-14 will be approximately $1.2M. Employee pay negotiations are conducted by the California Department of Human Resources (CalHR) and are outside the control of CALPIA.

Metal Products

CALPIA continues to partner with CDCR on projects associated with prison construction legislation (Assembly Bill 900, Chapter 7, 2007). CALPIA is providing metal products required for new correctional facilities, including the California Healthcare Facility in Stockton. These products, such as beds, lockers, and tables, have custom specifications due to their use in correctional settings and CALPIA's production experience and capabilities make CALPIA uniquely qualified to meet these needs. Metal products had a $4.5M, or 108 percent, increase in sales in FY 2012-13, primarily from major projects for the California Healthcare Facility. Also, CALPIA manufactured and produced metal products for Caltrans and CHP vehicles.

Food and Beverage Packaging

CALPIA's Food and Beverage Packaging Enterprise experienced a sales increase of $3.1M, primarily due to the full implementation of an individual packaged meal enterprise in FY 2012-13. CALPIA began providing individual pre-packaged meals for offenders as a pilot program in FY 2011-12. In April, 2012, the Prison Industry Board authorized individual pre-packaged meals as a CALPIA product. This product eliminates CDCR staff time and the costs associated with individual meal assembly. CALPIA is currently providing over 400,000 individual packaged meals per month to CDCR.

Furniture Products

Furniture products experienced a $3.2M, or 3.2 percent, increase in sales due to major construction projects for the California Healthcare Facility and California Veterans Homes.

Enterprise Highlights

Fabric Products

Fabric sales increased $2.2M, or 11 percent, due to increases sales of CALPIA's First Defense Wildland Firefighting garments to CAL FIRE, as well as moisture wicking work and safety apparel to Caltrans.

License Plates

Sales of license plates increased by $2.4M, or 19 percent, due to California's improved car sales, as well as a new program to stock and issue license plate inventory at car dealerships.

Healthcare Facilities Maintenance

In FY 2013-14, in partnership with California Correctional Health Care Services (CCHCS), CALPIA will establish a Healthcare Facilities Maintenance (HFM) at all 34 CDCR institutions statewide.

The HFM prepares offenders for post-incarceration employment through a Certified Healthcare Environmental Services Professional (CHESP) program administered by CALPIA staff through the American Hospital Association (AHA). CALPIA offers a sustainable model that is well situated to meet healthcare facility maintenance needs. CALPIA expects to employ over 900 offenders in this enterprise.

e-Waste Pilot

In FY 2013-14, CALPIA will pilot a vocational e-Waste recycling and computer refurbishing program for government customers, beginning with CDCR. CALPIA will utilize trained Free Venture Program juvenile offenders to refurbish usable computers at the N.A. Chaderjian Youth Correctional Facility in Stockton and distribute the refurbished computers to CDCR and community-based organizations. If the pilot succeeds, CALPIA will seek Prison Industry Board approval to establish a statewide e-Waste enterprise.

New Products

Furniture and Metal Products for Re-entry and Healthcare Facilities

In support of new re-entry and healthcare facilities, CALPIA continued to provide custom products in FY 2012-13 based on the unique specifications of these facilities and the specialized manufacturing experience of CALPIA. In all, CALPIA designed and manufactured over 50 separate items for the new California Healthcare Facility, including 11 versions of metal study carrels, new therapeutic treatment modules, wheelchair-accessible mess tables, printer cages, metal flip/swivel stools, beds, lockers, benches and many other items.

New Furniture Lines for Department of Veterans Affairs

The concept and design for a new line of California Department of Veterans Affairs (CDVA) "craftsman-style" furniture in FY 2012-13 was a cooperative effort between CDVA, DGS and CALPIA to build durable and attractive products that meet the demands of a healthcare environment.

Improved Customer Service

CALPIA made significant enhancements to its customer service experience in FY 2012-13. An internet home-page customer feedback portal was launched that allows online customers a way to ask questions, resolve problems, and provide immediate feedback to CALPIA. This information is monitored by both CALPIA Customer Service and Executive staff. CALPIA conducts weekly meetings to ensure customer issues that arise from the feedback portal are being documented and resolved in a timely manner. CALPIA also increased the frequency and types of customer service training for staff.

Improved Processes

Quality Control and International Organization for Standards (ISO)

In FY 2012-13, CALPIA reviewed and updated International Organization for Standards (ISO) policy and procedure documentation. ISO is the world's largest developer and publisher of international standards. A re-certification audit conducted in October, 2012 by ABS Quality Evaluations, Inc., verified that CALPIA maintained an effective quality system as documented. Also, in FY 2012-13, CALPIA initiated and resolved 74 corrective action plans that further confirmed the commitment to customer focus and continuous improvement.

CALPIA is one of two state correctional industries in the nation that is ISO certified. Implementing and maintaining quality standards affirms CALPIA's commitment to producing superior products while enhancing CALPIA's ability to retain existing customers and attract new customers. In FY 2013-14, CALPIA will be seeking ISO certification for cleaning products, laundry services, dairy and food and beverage packaging enterprises.

Lean Manufacturing and Kaizen

CALPIA began implementing Lean Manufacturing in FY 2011-12. Lean Manufacturing is a process improvement system that identifies and eliminates waste, understands customer needs, analyzes business processes and institutes proper measurement methods.

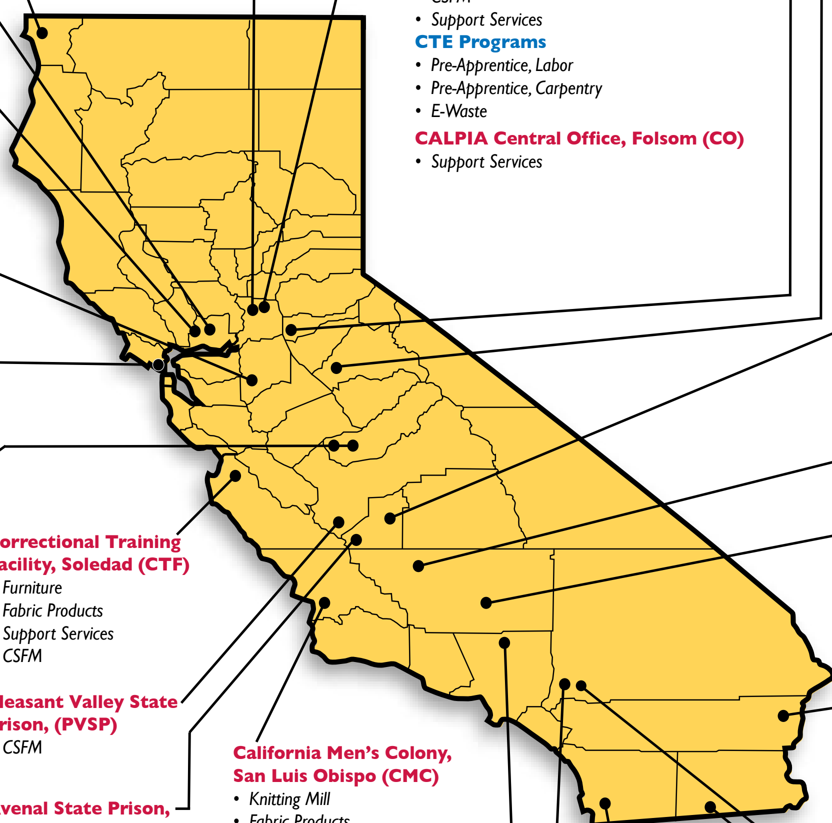
To implement Lean Manufacturing, CALPIA holds Kaizen events. Kaizen is a Japanese word, meaning, "many small improvements" and was developed by Japan's Kaizen Institute. CALPIA used the Kaizen event system to implement Lean Manufacturing at CALPIA's General Fabrication factory at Avenal State Prison in April, 2012. In FY 2012-13, the factory reduced the amount of lead-time needed for its products by half, doubled production capacity and reduced return item costs by $300,000.

CALPIA is expanding Lean Manufacturing training and will conduct more Kaizen events in factories in FY 2013-14.

PIB Meetings - Summary of Adopted Action Items 2012-2013

Meeting	Item	2012
1/13/2012	(12-0113-328-AI)	Reconsider Individual Prepackaged Meals and hold agenda item over to next PIB meeting after Development and Operations Committee analysis.
1/13/2012	B (12-0113-329-AI)	Reconsider AB 109 to amend PC 2933.3 at October, 2012 PIB meeting regarding service credit parity for CALPIA inmates at conservation camp or trained as firefighters (two days of credit for every one day of service).
1/13/2012	C (12-0113-330-AI)	Adoption of Year End Audit of Financial Statement FY 2010-11.
1/13/2012	D (12-0113-331-AI)	Approval of FY 2011-12 Proposed Mid-Year Revise. Revenues $160.5M, increase 1.5% ($2.3M) from AP estimate; 4.1% (4.8M) increase of total costs of goods sold.
1/13/2012	E (12-0113-332-AI)	Approval of $14,937,546 designation of cash to support FY 2011-12 capital expenditures for ongoing operations.
1/13/2012	F (12-0113-333-AI)	Approval of PIB Report to the Legislature FY 2010-11.
4/27/2012	A (12-0427-334-AI)	Adoption of Regulations, Sections 8000, 8004, 8004.1, 8004.2, 8004.3 & 8004.4 re: Inmate Work/Training & Education for promulgation through APA.
4/27/2012	B (12-0427-335-AI)	Oppose Assembly Bill 1507 re: enabling State agencies to enter into purchase contracts for less than $25,000 with CA small, micro or disabled veteran business enterprises; reduction of up to $135M in CALPIA revenues; increase cost to CDCR up to $6.9M.
4/27/2012	C (12-0427-336-AI)	Oppose Senate Bill 1162 re: allowing rather than requiring State entities to purchase goods produced by CALPIA; requiring state entities to award contracts to the lowest responsible bidder, reducing Prison Industries Revolving Fund by up to $153M; CDCR incurring GF costs up to $8.1M.
4/27/2012	D (12-0427-337-AI)	Approval and concurrence with PIB Development and Operations Committee to proceed with the manufacture of Individual Prepackaged Meals granting a purchase exemption to CDCR for meat-type meals for duration of subsequent contract; have CDCR request DGS establish contract or RFI for meat-type boxed lunches.
6/29/2012	A (12-0629-301-AP)	Adoption of FY 2012-13 Annual Plan; revenues of $167.4M; increase of 4.3% ($6.9M) from MYR; $6.8M (5.7%) increase of total costs of goods sold; utilizing approx. 5,408 inmate positions, reduction of 0.2 % from MYR.
6/29/2012	B (12-0629-302-AP)	Adoption of $13,285,410 designation of cash to support capital expenditures.
11/16/2012	A (12-1116-338-AI)	Approval of the Report to the Prison Industry Board – Career Technical Education (CTE) Programs Fiscal Years 2007-2008 to 2010-2011.
11/16/2012	B (12-1116-339-AI)	Approval of partial deactivation of the Modular Building Enterprise at Folsom State Prison.
11/16/2012	C (12-1116-340-AI)	Approval of diminishment of the Construction Services & Facilities Maintenance Enterprise at Folsom State Prison.
11/16/2012	D (12-1116-341-AI)	Deferred action on diminishment of the Career Technical Education (CTE) programs statewide.
11/16/2012	F (12-1116-343-AI)	Adoption of Regulations CALPIA Inmate Work/Training and Education Sections 8000-8004.4 (various)
12/18/2012	A (12-1218-344-AI)	Approval of Fiscal Year 2012-13 Mid-Year Revise.
12/18/2012	B (12-1218-345-AI)	Approval of designation of cash to support FY 2012-13.
12/18/2012	C (12-1218-346-AI)	Deferred approval of the Prison Industry Board's Report to the Legislature Fiscal Year 2011-12.
12/18/2012	D (12-1218-347-AI)	Adoption of Regulations. CALPIA Personnel Sections 8000-8130 (various).
Meeting	**Item**	**2013**
01/29/2013	A(13-0129-348-AI)	Adoption of PIB Report to the Legislature FY 2011-12.
06/21/2013	A (13-0621-303-AP)	Adoption of the Annual Plan for Fiscal Year 2013-14
06/21/2013	B (13-0621-304-AP)	Approval of designation of cash for Fiscal Year 2013-14
06/21/2013	C (13-0621-349-AI)	Approval of increasing revenue limit for Metal Signs Enterprise
12/18/2013	A (13-1218-305-AP)	Approval of Fiscal Year 2013-14 Mid-Year Revise.

CALPIA Enterprises by Location



Pelican Bay State Prison, Crescent City (PBSP)
- *Laundry*

CSP Solano, Vacaville (SOL)
- *Metal Products*
- *Bindery*
- *Laundry*
- *Optical*
- *Support Services*
- *Construction Services and Facilities Maintenance (CSFM)*

California Medical Facility (CMF)
- *CSFM*

Deuel Vocational Institution, Tracy (DVI)
- *Dairy*
- *Support Services*
- *CSFM*

CSP San Quentin, San Quentin (SQ)
- *Furniture*
- *Mattress*
- *Support Services*

Central California Women's Facility, Chowchilla (CCWF)
- *Crops*
- *Fabric Products*
- *Dental Lab*
- *Optical*
- *Laundry*
- *Support Services*

Valley State Prison (VSP)
- *Crops*
- *Laundry*
- *Optical*
- *Support Services*

On Time Delivery Center, Sacramento (OTD)
- *Distribution Center (Northern)*

Correctional Training Facility, Soledad (CTF)
- *Furniture*
- *Fabric Products*
- *Support Services*
- *CSFM*

Pleasant Valley State Prison, (PVSP)
- *CSFM*

Avenal State Prison, Avenal (ASP)
- *Poultry*
- *Egg Production*
- *Furniture*
- *General Fabrication/Century Systems*
- *Laundry*
- *Support Services*
- *CSFM*

Folsom State Prison (FSP)
- *Metal Products*
- *Metal Signs*
- *License Plates*
- *Printing*
- *Laundry*
- *Modular Building Construction*
- *Digital Services*
- *Support Services*

CSP Sacramento (CSP-SAC)
- *Laundry*

Folsom Women's Facility (FWF)
- *CSFM*
- *Support Services*

CTE Programs
- *Pre-Apprentice, Labor*
- *Pre-Apprentice, Carpentry*
- *E-Waste*

CALPIA Central Office, Folsom (CO)
- *Support Services*

California Men's Colony, San Luis Obispo (CMC)
- *Knitting Mill*
- *Fabric Products*
- *Shoes*
- *Printing*
- *Laundry*
- *Support Services*
- *CSFM*

CSP Los Angeles County, Lancaster (LAC)
- *Cleaning Products*
- *Laundry*
- *Support Services*

Richard J. Donovan, Correctional Facility, San Diego (RJD)
- *Bakery*
- *Shoes*
- *Laundry*
- *Support Services*
- *CSFM*

California Institution for Women, Corona (CIW)
- *Fabric Products*

CTE Program
- *Pre-Apprentice Labor*

Mule Creek State Prison, Ione (MCSP)
- *Meat Cutting*
- *Coffee Roasting*
- *Fabric Products*
- *Laundry*
- *Support Services*

Sierra Conservation Center, Jamestown (SCC)
- *Fabric Products*
- *CSFM*

CSP Corcoran (COR)
- *Dairy*
- *Food & Beverage Packaging*
- *Laundry*
- *Support Services*
- *CSFM*

On Time Delivery Center, Corcoran (OTD)
- *Distribution Center (Central)*

Substance Abuse Treatment Facility, Corcoran
- *Food & Beverage Packaging*
- *CSFM*

Wasco State Prison, Wasco (WAS)
- *Laundry*

California Correctional Institution, Tehachapi (CCI)
- *Fabric Products*
- *Support Services*
- *CSFM*

Chuckawalla Valley State Prison, Blythe (CVSP)
- *Laundry*

California Institution for Men, Chino (CIM)
- *Laundry*
- *Food & Beverage Packaging*
- *Support Services*

CTE Program
- *Marine Technology Training Center*

On Time Delivery Center, Chino (OTD)
- *Distribution Center (Southern)*

Centinela State Prison, (CEN)
- *Fabric Products*

*Career Technical Education (CTE) locations appear in blue

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Financial Overview

Revenues (In Thousands)	FY 11-12 Audited Actual*	FY 12-13 Audited Actual*	FY 13-14 Approved Annual Plan	FY 13-14 Approved Mid-Year Revise
Manufacturing	$78,038	$85,712	$75,271	$73,548
Services	66,342	66,987	69,087	69,570
Agricultural	28,290	27,547	27,110	26,719
Total Revenue	**$172,670**	**$180,246**	**$171,468**	**$169,837**

Expenses (In Thousands)	FY 11-12 Audited Actual*	FY 12-13 Audited Actual*	FY 13-14 Approved Annual Plan	FY 13-14 Approved Mid-Year Revise
Cost of Goods Sold				
Manufacturing	$65,183	$64,157	$54,879	$53,411
Services	49,072	48,932	50,642	51,610
Agricultural	26,468	25,428	22,877	23,047
Total Cost of Goods Sold	**$140, 723**	**$138,517**	**$128,398**	**$128,068**
Gross Profit	**$31,947**	**$41,729**	**$43,070**	**$41,769**
Selling & Administration				
Prison Industry Board	$136	$128	$167	$162
Executive Division				
Executive Management	273	287	292	284
Legal	590	607	742	682
External Affairs	142	141	144	140
Operations Division	3,426	3,029	3,225	3,514
Marketing Division	3,497	3,480	3,876	3,545
Administration Division				
Administration Mgmt	207	109	196	194
Business Services	1,116	820	1,037	926
Management Information Systems	3,138	2,858	3,429	3,490
Human Resources	972	1,005	1,115	1,181
Staff Development	745	427	735	687
Health & Safety	393	294	354	393
Fiscal Services Bureau	2,488	2,604	2,838	2,523
Offender Development Branch				
Inmate Employability Program (IEP)	746	536	756	860
Joint Venture/Free Venture (JV/FV)	395	383	668	668
Career Technical Education Programs (CTE)	1,265	1,070	1,010	2,890
Reimbursements				
IEP	(104)	0	0	0
JV/FV	(652)	(651)	(668)	(668)
CTE	0	0	0	(2,708)
Total Central Office	18,773	17,127	19,916	18,763
Distribution/Transportation	11,888	12,119	11,488	11,147
State Pro Rata	3,798	4,789	4,269	4,269
Other Post Employment Benefits	7,034	7,191	7,034	7,264
Total Selling and Administration	**$41,493**	**$41,226**	**$42,707**	**$41,443**
Operating Income/(Loss)	**($9,546)**	**$503**	**$363**	**$326**
Non-Operating Revenues/Expenses	**$688**	**($586)**	**($181)**	**($326)**
Penal Code 2806 Transfer	**$0**	**$0**	**$0**	**($13,000)**
Net Gain/(Loss)	**($8,858)**	**($83)**	**$182**	**($13,000)**

*For the purpose of this section, the display of audited financial information was re-configured to remove Pro Rata costs for each category. A State Pro Rata category was added to display associated costs. The Net Gain/(Loss) of the fiscal year equals the audited financial statement.

Enterprise Overview

Enterprise	FY 2013-14 Proposed Mid-Year Revise		
	Revenue	Cost of Goods Sold	Gross Profit/ (Loss)
Manufacturing		(In Thousands)	
Furniture	$10,500	$8,568	$1,932
Metal Products	7,500	5,514	1,986
License Plates	15,000	7,122	7,878
General Fabrication (Century Systems)	6,600	5,781	819
Bindery	1,600	1,339	261
Knitting Mill	1,374	958	416
Fabric Products	18,694	14,867	3,827
Shoes	3,880	3,133	747
Mattresses	2,400	1,880	520
Cleaning Products	6,000	3,979	2,021
Modular Construction	0	270	(270)
Sub-total Manufacturing	$73, 548	$53,411	$20,137
Services			
Meat Cutting	$10,573	$8,820	$1,753
Bakery	3,239	2,041	1,198
Coffee Roasting	1,766	1,522	244
Food & Beverage Packaging	20,212	16,798	3,414
Metal Signs	1,201	857	344
Printing	5,000	2,927	2,073
Dental Lab	700	422	278
Digital Services	425	333	92
Laundry	13,157	9,994	3,163
Optical	10,500	5,757	4,743
Construction Services & Facilities Maintenance	2,797	2,139	658
Sub-total Services	$69,570	$51,610	$17,960
Agricultural			
Dairy/Farm	$13,716	$11,743	$1,973
Crops	379	483	(104)
Poultry	6,245	5,607	638
Egg Production	6,379	5,214	1,165
Sub-total Agricultural	$26,719	$23,047	$3,672
Total	**$169,837**	**$128,068**	**$41,769**

Inmate Assignments by Enterprise

Enterprise	FY 11-12 Actuals	FY 12-13 Actuals	FY 13-14 Approved Annual Plan	FY 13-14 Approved Mid-Year Revise
Manufacturing				
Furniture	416	410	508	508
Metal Products	214	216	230	240
License Plates	106	104	116	116
General Fabrication (Century Systems)	133	138	138	138
Bindery	87	69	105	105
Knitting Mill	101	63	120	120
Fabric Products	1,245	1,224	1,461	1,461
Shoe	154	130	170	170
Mattress	61	39	111	111
Cleaning Products	50	50	54	54
Modular Construction	70	50	66	66
Sub-total Manufacturing	2,637	2,493	3,079	3,089
Services				
Meat Cutting	67	63	75	75
Bakery	62	59	52	52
Coffee Roasting	23	23	25	25
Food & Beverage Packaging	158	169	147	169
Metal Signs	32	36	33	33
Printing	138	124	131	131
Dental Lab	56	56	56	56
Digital Services	14	16	18	18
Laundry	750	662	787	787
Optical	185	190	190	190
Construction Services & Facilities Maintenance	29	97	58	308
Sub-total Services	1,514	1,495	1,572	1,844
Agricultural				
Dairy/Farm	227	185	236	236
Crops	31	14	48	48
Poultry	37	25	31	31
Egg Production	60	28	48	48
Sub-total Agricultural	355	252	363	363
Selling and Administration				
Statewide Administrative Support	261	261	368	369
On-Time Delivery	29	26	25	28
Central Office	24	10	43	44
Career Technical Education Programs	50	43	110	348
Sub-total Selling and Administration	364	340	546	789
Total	**4,870**	**4,580**	**5,560**	**6,085**

Inmate Positions by Location (Updating)

Location	Average Monthly Filled Inmate Assignments			
	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
California Institution for Men	241	216	210	207
California Men's Colony	620	598	593	557
R. J. Donovan Correctional Facility	282	232	206	167
Correctional Training Facility	375	381	360	363
Avenal State Prison	482	424	423	390
Deuel Vocational Institution	186	151	106	69
Folsom State Prison/CSP Sacramento/OTD North	540	503	491	435
San Quentin State Prison	292	236	172	130
California Institution for Women	178	124	102	112
California Correctional Institution	270	272	255	247
California State Prison, Solano - includes CMF	410	390	393	385
Mule Creek State Prison	350	332	348	343
Corcoran State Prison/Substance Abuse Treatment Facility	363	334	368	348
Chuckawalla Valley State Prison	52	38	37	32
Pelican Bay State Prison	35	19	18	17
Sierra Conservation Center	125	123	125	131
Central California Women's Facility/Valley State Prison	406	402	397	339
California State Prison, Lancaster	91	96	97	91
Wasco State Prison	86	71	76	67
Centinela State Prison	69	70	70	70
Central Office	29	27	23	17
Total	**5,505**	**5,039**	**4,870**	**4,517**

CALIFORNIA PRISON INDUSTRY AUTHORITY

(A Component Unit of the
State of California)

ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2013 and 2012

MGO Certified Public Accountants.

CALIFORNIA PRISON INDUSTRY AUTHORITY
(A Component Unit of the State of California)

Table of Contents

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INDEPENDENT AUDITOR'S REPORT

To the California Prison Industry Authority Board
Folsom, California

Report on the Financial Statements

We have audited the accompanying statements of net position of California Prison Industry Authority ("CALPIA"), a component unit of the State of California, as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise CALPIA's basic financial statements as listed in the table of contents. .

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CALPIA as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of CALPIA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters The purpose of that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CALPIA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Sacramento, California
November 22, 2013

CALIFORNIA PRISON INDUSTRY AUTHORITY

The following Management Discussion and Analysis (MD&A) applies only to the activities of the California Prison Industry Authority (CALPIA) and should be read in conjunction with its financial statements and related footnotes.

CALPIA is a proprietary component unit of the state of California (State) and is accounted for in the Prison Industries Revolving Fund, which is an internal service fund in the State's basic financial statements. CALPIA does not receive a General Fund appropriation.

Chapter 1549, Statutes of 1982, created CALPIA as a self-supporting state agency. The statutory purposes of the CALPIA are to:

- Develop and operate manufacturing, services, and agricultural, enterprises that provide work opportunities for offenders under the jurisdiction of the California Department of Corrections and Rehabilitation ("CDCR");
- Create and maintain working conditions within enterprises, as much like those which prevail in private industry as possible, to assure offenders the opportunity to work productively to earn wages, and to acquire or improve effective work habits or occupational skills;
- Operate a work program for offenders that is self-supporting through the sale of products and services, and reduces the cost of operations of the CDCR.

CALPIA is under the policy direction of an eleven-member board of directors, which reviews and approves the annual budget for the CALPIA. CALPIA manages 57 manufacturing, service, and agricultural factories in 25 institutions. Administrative offices are located in Folsom, California. The goods and services produced by CALPIA's operations are sold principally to departments of the State of California, and other governmental entities. CDCR is CALPIA's largest customer, and accounted for 57.4% and 57.6% of all sales in the fiscal years ended June 30, 2013 and 2012, respectively.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of CALPIA as prescribed by statements of the Governmental Accounting Standards Board (GASB).

The Statements of Net Position include all assets and liabilities of CALPIA. They are prepared under the accrual basis of accounting, whereby revenues and receivables are recognized when the service is provided and expenses and liabilities are recognized when incurred, regardless of when cash is exchanged.

The Statements of Revenues, Expenses and Changes in Net Position, present information reflecting how net position changed during the most recent two fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected service charges and earned but unused vacation leave).

The Statements of Cash Flows present information about the cash receipts and cash payments of CALPIA during the two most recent fiscal years. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess CALPIA's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments, and the effects on CALPIA's financial position of its cash and its noncash investing, capital, and related financing transactions during the year.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in CALPIA's basic financial statements. The notes are included immediately following the basic financial statements within this report.

Financial Overview

CALPIA has consistently ensured self-sufficiency through the implementation of strategic planning processes and cost containment measures to fulfill its statutory requirement of self-sufficiency. However, CALPIA recorded a loss (decrease) in net position of $0.1 million and $8.9 million during fiscal years 2013 and 2012, respectively, after experiencing a $15.3 million decrease in net position in fiscal 2011.

CALPIA experienced a $7.6 million increase in operating revenues in fiscal 2013 due, in part, to increased revenues in its metal and furniture enterprises from major projects for the California Department of Veterans Affairs, the California Correctional Health Care Services, and California Department of Transportation (Caltrans). Additional revenue gain was achieved in food related sales primarily for food packaging due to the introduction of pre-packaged lunches, increased sales of peanut butter, and the expansion of CALPIA's state and non-state customer base. The sale of fabric products also contributed to the increase in overall CALPIA revenues in fiscal 2013. The increase in revenue was negatively impacted by a reduction in demand for general fabrication and modular construction products.

Gross profits have increased for several CALPIA business lines due to an increase in business for major projects as well as new centralized procurement processes for various food related raw materials which has optimized CALPIA's ability to purchase and achieve volume quantity discounts at best value. Gross profits have been reduced for other CALPIA business lines, in part due to the declining CDCR offender population.

The chief factors related to the decrease in net position for fiscal 2013 include an increase of CALPIA's pro rata expense of $1.0 million or 26.1%, and $200,000 increase or 3% for Other Post Employment Benefits (OPEB) cost. Pro rata expenses represent allocated costs to CALPIA for its share of various State services, see description below.

Another impact to CALPIA's asset base, but not profitability, was the transfer of $13.0 million from the Prison Industry Revolving Fund by the State Controller into a General Fund account that CALPIA is restricted from utilizing. (See discussion below)

Notwithstanding the challenges of fiscal 2013, CALPIA remains financially strong. The CALPIA Statements of Net Position at June 30, 2013 reflects current assets which are almost five times greater than current liabilities and more than twice the amount of total liabilities, which are financial indicators that CALPIA is well positioned to meet its short term and long term obligations.

If not for the pro rata expense and the annual OPEB charge, CALPIA would have been profitable in fiscal 2013.

Transfer from Prison Industry Revolving Fund to the General Fund

Penal Code section 2806 authorizes the Secretary of CDCR and the Director of the Department of Finance to request the transfer of funds from the Prison Industry Revolving Fund to the General Fund if a determination is made that the balance in the fund exceeds the amount necessary to carry out the purposes of CALPIA. On June 21, 2013, $13.0 million was transferred from the Prison Industry Revolving Fund to a General Fund account that CALPIA does not have the authority to utilize.

Public Safety Realignment

In October of 2011, the Governor signed AB 109, the Public Safety Realignment Act, which has since reduced the population of California prisons by over 25,000 offenders over the last two years.

It was forecasted that correctional realignment would decrease CALPIA revenue for population driven products and services by $5.5 million in fiscal 2013. While CDCR's institution population for the year dropped by approximately 13,000 offenders, the associated decrease in offender population was somewhat mitigated by new food product offerings that increased the volume of CDCR food purchases from the prior year and achieving greater participation from CDCR. In addition, CALPIA increased its food customer base by expanding sales to other governmental entities, such as counties.

As the CDCR institution population continues to decline, it is anticipated that revenue for population driven enterprises will decrease by approximately $2.9 million in fiscal 2014 and will decrease again in fiscal 2015 as the new lower population is in effect for a full fiscal year.

Pro Rata Payments to State

By law, CALPIA must pay the State its pro rata share of costs of State services including the Legislature, Department of Finance, Controller, Treasurer, etc. Pro rata expenses are based on the allocation the Department of Finance sets for CALPIA each fiscal year. CALPIA's pro rata payment is $4.8 million in fiscal 2013, up from $3.8 million in fiscal 2012.

Postemployment Benefits Other than Pensions

Under Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45)—Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), the State is required to recognize the cost of retiree health benefit programs on an accrual basis rather than on a pay as you go basis. The State Controller, who administers GASB 45 accounting requirements for the State, assessed that CALPIA's share of the State's OPEB cost is $7.2 and $7.0 million for the fiscal years 2013 and 2012 respectively. CALPIA recorded these amounts as selling and administrative expense on the operating statement in addition to the actual payments made for OPEB. The State does not maintain a separate pool of assets to finance future retiree healthcare benefits. As one of the few State agencies required to fund the OPEB obligation from its own proprietary fund, CALPIA actively monitors the costs of retiree health benefits in accordance with Generally Accepted Accounting Principles and the funding policies of the State. As of June 30, 2013, CALPIA's balance sheet reflects a net OPEB obligation of $39.4 million. CALPIA accrued these funds for fiscal 2013 and is seeking authority to reinvest the funds in order to minimize the future obligation through higher interest earnings.

Employee Pay Restoration and Pay Increase

To assist in achieving budget savings in fiscal 2013, excluded, non-statutory exempt as well as State Employees International Union (SEIU), and International Union of Operating Engineers (IUOE) employees were subject to the mandatory 4.62% reduction in pay from July 1, 2012 through June 30, 2013. On July 1, 2013, all employees subject to this reduction received a 4.62% pay restoration. The estimated financial impact to CALPIA of the pay restoration in fiscal 2014 is $1.9 million. Employee pay negotiations are conducted by the California Department of Human Resources (CalHR) and are outside the control of CALPIA. Excluded, non-statutory exempt employees and SEIU members received a 3% increase to the maximum step of the salary range in each classification on July 1, 2013. The impact to CALPIA in fiscal 2014 will be approximately $1.2 million.

Factory Closures

In fiscal 2013 and 2012, CALPIA had no new factory closures. At June 30, 2013 and 2012, CALPIA had equipment and improvements relating to prior fiscal years factory closures with a net book value of approximately $4,000 and $340,000, respectively.

CALPIA Overview

CALPIA is financially resilient because management adjusts to the ever-changing business and governmental environment in which it operates. The CALPIA Strategic Business Plan emphasizes the dual priorities of providing inmate rehabilitation and operating a self-sufficient business while enumerating objectives and strategies to accomplish CALPIA's mission.

In fiscal 2012, CALPIA worked with the California Department of Forestry and Fire Protection (CAL FIRE), to produce a line of wild land fire protection clothing designed to the unique specifications of CAL FIRE. Additionally, as a result of the ongoing partnership with the California Department of Transportation (Caltrans), CALPIA designed new clothing that meets the American National Standards Institute (ANSI) requirements for Caltrans employees.

CALPIA also continues to partner with CDCR on projects associated with prison construction. CALPIA provided numerous metal and furniture products required for new correctional healthcare facilities. These products such as beds, lockers, and tables have custom specifications due to the use in correctional settings and CALPIA's production experience and capabilities make CALPIA uniquely qualified to meet CDCR's needs.

CALPIA introduced pre-packaged lunches in fiscal 2013. The pre-packaged lunch consisting of sliced bread, peanut butter, jelly, cookies, almonds and drink mixes provide an effective way for CDCR institutions to feed their offenders. These lunches are also a key resource for handling emergency situations such as lockdowns.

Fiscal 2013 was characterized by CALPIA's on-going efforts to adapt to market conditions and improve the overall quality of its products and services. These efforts included expanding the application of International Standards Organization (ISO) principles throughout the organization. In fiscal 2013, CALPIA placed emphasis on existing ISO certifications, by reviewing and updating policy and procedure documentation. A re-certification audit conducted in October 2012 by ABS Quality Evaluations, Inc., verified that CALPIA maintained an effective quality system as documented. In fiscal 2014, CALPIA will expand ISO certification to additional enterprises.

In addition to ISO certification, CALPIA is focused on improving quality and customer satisfaction through the implementation of a web-based customer feedback process originally introduced in March 2012. Through the new process, customer feedback is logged and routed through helpdesk software so that it can be tracked and analyzed to determine the root cause of failures, resolve customer complaints and potentially initiate ISO preventative and corrective actions. The new process has benefitted CALPIA in numerous ways including improving processes, product and service quality, customer satisfaction and transparency within the organization as well as reducing costs due to quality issues.

As previously noted above, CALPIA was not created solely to be a business enterprise. CALPIA distinguishes itself as a state program by providing offenders work opportunities and skills they will require to re-enter society as productive citizens. In fiscal 2013, CALPIA employed approximately 5,399 offenders assigned to 4,682 positions in manufacturing, service, and agricultural enterprises. CALPIA invests in curricula for offenders, including 15 programs that offer nationally recognized accredited certifications such as optometry, dental technology, food handling, automotive service, laundry, commercial baking, agriculture, welding, and metal stamping. Additionally, through fiscal 2013, CALPIA offered Career Technical Education (CTE) programs in commercial diving, carpentry, construction labor, and ironworking in partnership with trade unions who offer employment possibilities when offenders are released on parole. CALPIA offenders also earn certificates of proficiency in occupational disciplines which may be utilized upon parole to validate skills and abilities acquired during employment with CALPIA. In fiscal 2013, 662 CALPIA offenders received a certificate of proficiency, and another 800 successfully completed an accredited certification program.

In times of economic uncertainty, it is incumbent upon CALPIA to be as responsive as possible to customer demands. In that regard, CALPIA is proud of its contributions to the State. Research indicates that CALPIA saves the State money, both by enhancing the safety of prisons, which helps to reduce staffing costs and by demonstrating lower recidivism rates among those offenders who work in its programs. The recidivism rate of CALPIA offenders is 26 to 38% lower than general population offenders and even less for CALPIA offenders participating in CTE programs. Although other factors may contribute to lower recidivism, incarceration cost avoidance from CALPIA industries saves the General Fund approximately $8.5 million per year (Bureau of State Audits, May, 2011).

In the immediate future, CALPIA must focus on issues which directly affect its ability to operate a business in a correctional environment. Governor Brown signed Senate Bill 105 (Chapter 310/2013), which facilitates the reduction of offenders in existing state facilities for transfer to either private facilities in California or correctional facilities outside the state. The effects of this and AB 109, the Public Safety Realignment Act of 2011, will reduce the number of CDCR offenders that CALPIA produces products for by over 35,000 offenders, thus impacting the number of offender employees that are available to service CALPIA enterprises.

As our customers benefit from quality goods and services, so do our offender workers and, ultimately communities throughout California. CALPIA remains optimistic about a future of successful business enterprises, supported by a dedicated and qualified workforce, working in partnership with satisfied customers that create the best opportunities for the rehabilitation of offender workers.

Condensed Statements of Net Position The following table presents the condensed statements of net position for CALPIA as of June 30, 2013, 2012 and 2011:

	2013	2012	2011
ASSETS			
Cash and cash equivalents	$ 66,718,853	$ 70,838,529	$ 59,682,438
Restricted cash	13,000,000	-	-
Accounts Receivable	11,515,315	8,735,239	7,221,260
Due from State General Fund	-	-	23,400,000
Inventories	40,808,675	41,693,682	42,726,358
Capital Assets, Net	42,983,821	44,565,093	44,850,226
Other	180,628	260,103	333,693
Total Assets	$ 175,207,292	$ 166,092,646	$ 178,213,975
LIABILITIES AND NET POSITION			
Accounts Payable and Accrued Liabilities	$ 22,687,293	$ 21,278,485	$ 31,365,524
Unearned Revenues	1,984,609	1,686,676	2,559,843
Workers' Compensation Liability	15,841,448	15,541,448	14,878,827
Net OPEB Obligation	39,449,000	32,258,000	25,224,000
Total Liabilities	79,962,350	70,764,609	74,028,194
Net Position			
Net Investment in Capital Assets	42,983,821	44,565,093	44,850,226
Restricted	13,000,000	-	-
Unrestricted	39,261,121	50,762,944	59,335,555
Total Net Position	95,244,942	95,328,037	104,185,781
TOTAL LIABILITIES & NET POSITION	$ 175,207,292	$ 166,092,646	$ 178,213,975

Assets

Total assets increased by $9.1 million at June 30, 2013, compared to June 30, 2012, which is explained by a $8.9 million increase in cash and cash equivalents and restricted cash, and a $2.8 million increase in accounts receivable, which is offset by a $1.6 million decrease in capital assets, and a $0.9 million decrease in inventories.

The $2.8 million increase in accounts receivable at June 30, 2013 is explained primarily by a $2.6 million increase in receivables related to the sale of capital goods.

The $8.9 million increase in cash and cash equivalents, including designated and restricted cash, at June 30, 2013 is explained by $0.2 million investing activities and $14.0 million cash provided by operating activities less $5.3 million for net capital asset acquisitions. On May 24, 2013, at the request of the Department of Finance of the State of California, CALPIA was directed that $13 million was going to be transferred from CALPIA's Prison Industry Revolving Fund (PIRF) in accordance with California Penal Code Section 2806 to the State of California's General Fund. However, on June 21, 2013, $13 million was transferred by the State Controller from the Prison Industry Revolving Fund to the Prison Industry General Fund because the transfer lacked a appropriation into the State's General Fund. The funds transferred to the Prison Industry's General Fund are not appropriated for CALPIA's operational expenditures and have been classified as restricted cash. The funds are expected to transfer to the State's General Fund within two years which began in fiscal year ending June 30, 2013, but the exact date is not known.

The $0.9 million decrease in inventories at June 30, 2013 is primarily attributable to a $1.3 million write-off of slow moving and obsolete inventory, a $0.4 million lower of cost or market (LCM) adjustment, and a $0.04 million fiscal year end adjustment. The decrease in capital assets of $1.6 million is mainly attributable to the depreciation of fixed assets and the disposal of obsolete equipment.

Total assets decreased by $12.1 million at June 30, 2012, compared to June 30, 2011, which is explained by a $23.4 million decrease in due from State General Fund, a $1.1 million decrease in inventories, and a $0.3 million decrease in capital assets, which is offset by a $11.2 increase in cash and cash equivalents, and a $1.5 million increase in accounts receivable.

The $11.2 million increase in cash and cash equivalents at June 30, 2012, is explained by the repayment of a $23.4 million short-term loan to the State General Fund and $0.3 million investing activities less $6.2 million cash used by operating activities, and $6.3 million for net capital asset acquisitions. The $1.5 million increase in accounts receivable is mainly attributable to CDCR Department of Juvenile Justice, purchase of modular buildings to be paid in four monthly installments. The decrease in capital assets is attributable to reduced capital outlays and the disposal of older equipment. The decrease in inventories is the outcome of utilizing on-hand inventory to satisfy production demands as well as reducing inventory in the amount of $ $0.2 million due to slow moving and obsolete inventory items.

Liabilities

Total liabilities increased by $9.2 million at June 30, 2013, compared to June 30, 2012. This is explained primarily by a $7.2 million increase in the net liability for OPEB, a $1.4 million increase in accounts payable and accrued liabilities, a $0.3 million increase in worker's compensation liability, and $0.3 million increase in unearned revenues.

The State annually allocates a portion of retiree health benefit costs to the Prison Industries Revolving Fund. The State recognizes the annual required contribution to the plan which is determined by an actuarial valuation that estimates the present value of future retiree healthcare benefits earned during the employee's working lifetime, including an amortization of the value of unfunded retiree healthcare benefits attributable to employee service earned in prior fiscal years. The State Controller's Office has determined that CALPIA's annual required OPEB contribution is $ 11.1 million for fiscal 2013. Of this amount, CALPIA contributed $3.9 million; the balance of $7.2 million was accrued as a net OPEB long term liability. CALPIA's annual required OPEB contribution for fiscal 2012 was $10.8 million. Of this amount, CALPIA contributed $ 3.8 million; the balance of $ 7.0 million was accrued as a net OPEB long term liability.

The $1.4 million increase in accounts payable and accrued liabilities at June 30, 2013 is primarily attributable to a delay in the State Controller's Office (SCO) processing of CALPIA claim schedules which increased the liability by $1.1 million.

The $0.3 million increase in unearned revenue at June 30, 2013 can be contributed to advance billings.

Under current accounting rules, CALPIA is obligated to record as a liability any difference between its annual pension cost and its annual contribution amount. Historically, CALPIA has fully funded the annual pension cost. As a result, at June 30, 2013 and 2012, it has not recorded a pension liability.

In accordance with GASB No. 68, CALPIA anticipates that effective June 30, 2015, it will have to accrue its

actuarially determined unfunded pension obligation. As CALPIA participates in the State of California's multi-employee pension system, it is unable to determine the specific impact on its net position at this time. However, it believes that the effect is potentially material to its net position.

At June 30, 2012 total liabilities decreased by $3.3 million, compared to June 30, 2011. This is explained by a $10.1 million decrease in accounts payable and accrued liabilities offset by a $7.0 million increase in the net liability for OPEB.

The $10.1 million decrease in accounts payable and accrued liabilities at June 30, 2012, is mostly attributable to the settlement of a lawsuit brought by employee unions contesting employee furloughs, resulting in the $7.8 million issuance of employee back-pay. In addition, CALPIA had a $1.6 million decrease in open claims.

The $0.9 million decrease in unearned revenue at June 30, 2012 corresponds to the return of $1.0 million of unused advanced funds to CDCR at the customer's request as well as a balance sheet reclassification of $0.4 million from unearned revenue to customer deposits offset by $0.5 million increase in unearned revenues from other customers.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table presents the condensed statements of revenues, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011.

	2013	2012	2011
Operating Revenues	$ 180,246,012	$ 172,669,580	$ 164,398,239
Cost of Goods Sold	141,653,634	143,232,093	132,156,694
Gross Profit	38,592,378	29,437,487	32,241,545
Selling and Administrative Expenses	38,089,843	38,983,323	45,896,673
Operating Income/(Loss)	502,535	(9,545,836)	(13,655,128)
Non-Operating (Expenses) Revenues, Net	(585,630)	688,092	(1,620,394)
Increase/(Decrease) in Net Position	(83,095)	(8,857,744)	(15,275,522)
Net Position at Beginning of Year	95,328,037	104,185,781	119,461,303
Net Position at End of Year	$ 95,244,942	$ 95,328,037	$ 104,185,781

Operating Revenues

As presented in the table below, CALPIA sales increased $7.6 million (4.4%) to $180.2 million in fiscal 2013 from $172.7 million in fiscal 2012, resulting from increases in manufacturing and service enterprises, of $ 7.7 million (9.8%) and $0.6 million (1.0%), respectively, offset by a decreases in agricultural enterprises of $0.7 million (2.6%).

The increase in manufacturing sales for fiscal 2013 was the result of an increase in sales of metal products, furniture, license plates, fabric products, knitting mill, mattress, bindery, and cleaning products of $13.6 million (23.6%), offset by a decrease in general fabrication sales of $3.4 million (24.7%) and modular construction of $ 2.0 million (95.5%) in fiscal 2013 due to a reduction in customer demand.

Specifically, metal products had a $4.5 million (108.4%) sales increase in fiscal 2013 primarily due to major projects for the California Healthcare Facility and Caltrans sales of truck bodies. In furniture, the $3.2 million (31.6%) increase in fiscal 2013 is due to major projects for the California Healthcare Facility and California Veterans Home. In license plates, the fiscal 2013 increase of $2.4 million (19.0%) is due to California's improved car sales as well as a new program to stock license plate inventory at car dealerships. Fabric sales increased $2.2 million (11.0%) in fiscal 2013 due to increased sales to California Department of Forestry and Fire Protection (CAL FIRE) and California Department of Transportation (Caltrans) and because CALPIA did not experience a fourth quarter reduction in CDCR Centralized Procurement Program (CPP) sales as in fiscal 2012.

Service enterprises had an overall increase in sales of $0.6 million in fiscal 2013. Sales increased by $3.1 million (18.7%) in food packaging, $0.8 (8.8%) million in meat cutting, and $0.3 (10.7%) million in bakery. The food packaging revenue increase is attributable to the introduction of pre-packaged lunches in fiscal 2013, increased juice and 4-pack bread sales and additional customers CALPIA was able to retain.

The Service enterprise revenue increases were offset by $4.3 million in decreases of which $2 million (13.4%) was in laundry due to the reduction in the offender population, a $1.2 million (18.9%) decrease in printing due to CDCR's budget reductions and CDCR's ability to make forms available online, an optical decrease of $0.5 million (4.1%) due in part to overpayments from the prior fiscal year from Health Services that CALPIA paid back during fiscal 2013, as well as a decrease in metal signs of $.3 million (21.3%) and dental of $.2 million (27.5%).

Agriculture sales decreased in total by $0.7 million in fiscal 2013 of which $0.3 million (4.0%) related to poultry, $0.3 million (4.5%) to egg production, $ 0.1 million (0.7%) in dairy, and $0.1 million (8.9%) in crops all as a result of the reductions in prison population.

Fiscal 2012, CALPIA sales increased $8.3 million (5.03%) from $164.4 million to $172.7 million. This increase in revenue is largely attributable to increases in manufacturing and service enterprises, of $6.8 million (9.53%) and $2.5 million (3.84%), respectively, while sales in the agricultural enterprises decreased by $1.0 million (3.31%).

In manufacturing enterprises, general fabrication (modular office systems) sales increased $7.2 million (112.7%), in fiscal 2012, while the combined sales of furniture, metal products, license plates, fabric products, and modular construction also increased by $3.5 million (7.5%)

Of the $2.5 million increase in sales in service enterprises in fiscal 2012, $2.1 million (14.3%) occurred in food packaging, $0.7 million occurred in optical, and $0.5 million occurred in metal signs. The increase in food packaging revenues are attributable to the introduction of maple syrup packaging, $0.7 million, individual serving packets of peanut butter, $0.9 million, and $0.5 million increased sale of 2-pack cookies. The $0.7 million increase in optical revenue is due to the movement of the Healthy Families Program to Medi-Cal which generated approximately 8,000 additional optical orders each month. The $0.5 million increase in metal signs is largely due to increased orders from the Department of Parks and Recreation, the Department of Motor Vehicles (DMV) and the California Highway Patrol (CHP) for decals.

The $1.0 million decrease in agricultural sales in fiscal 2012, is explained by a $1.3 million decrease in dairy sales, offset by a $0.4 million increase in poultry sales. Egg production and crops revenue decreased by less than 1.0%.

	2013	2012	2011
Operating Revenues by Product Line			
Manufacturing:			
Furniture	$ 13,487,601	$ 10,250,388	$ 9,675,374
Metal	8,706,798	4,177,527	4,085,633
License Plates	15,257,567	12,836,502	11,940,815
General Fab.	10,252,030	13,621,163	6,405,117
Bindery	2,120,162	1,887,726	3,186,001
Knitting Mill	1,381,854	1,043,224	1,493,281
Fabric Products	22,285,994	20,056,748	19,371,098
Silk Screening	-	-	11,200
Shoe Factory	3,775,483	4,362,484	4,847,206
Mattress Factory	2,394,996	2,105,064	2,675,061
Cleaning Prod	5,953,468	5,582,873	6,659,034
Modular Construction	95,775	2,113,820	899,808
Total Manufacturing	**$ 85,711,728**	**$ 78,037,519**	**$ 71,249,627**
Services			
Meat Cutting	$ 10,377,158	$ 9,537,937	$ 9,815,049
Bakery	3,310,375	2,989,955	3,292,298
Coffee Roasting	1,900,648	1,863,219	1,927,558
Food & Beverage Packaging	19,723,505	16,617,295	14,544,013
Metal Signs	1,141,915	1,450,890	1,000,675
Printing	5,305,856	6,539,715	7,216,236
Dental Lab	647,814	894,000	696,852
Digital Services	357,484	310,975	155,648
Laundry	13,012,320	15,034,273	14,977,315
Optical	10,514,288	10,965,547	10,263,855
Construction Services & Facilities Maintenance	695,651	137,800	-
Total Services	**$ 66,987,014**	**$ 66,341,606**	**$ 63,889,499**
Agriculture			
Dairy / Farm	$ 14,220,179	$ 14,313,987	$ 15,608,918
Crops	1,078,896	1,184,295	1,193,557
Poultry	6,223,872	6,483,583	6,087,415
Egg Production	6,024,323	6,308,590	6,369,223
Total Agriculture	**$ 27,547,270**	**$ 28,290,455**	**$ 29,259,113**
Total Operating Revenues	**$180,246,012**	**$172,669,580**	**$164,398,239**

Cost of Goods Sold

Cost of goods sold decreased by $1.6 million (1.10%) in fiscal 2013 from $ 143.2 million to $141.7 million. Overall, cost of goods sold as a percentage of sales were 78.6% and 83.0% in fiscal years 2013 and 2012, respectively. Gross profit increased by $9.2 million (31.1%) from $29.4 million in fiscal 2012 to $38.6 million in fiscal 2013. The increase in gross profit is primarily comprised of an $8.4 million increase in manufacturing enterprises, $0.5 million increase in service enterprises, and a $0.2 million increase in agricultural enterprises.

Specifically, in the service enterprises, gross profit increased $0.5 million in fiscal 2013 from fiscal 2012. The service enterprise increase can be contributed to $2.2 million in food packaging, $1.1 million in meat cutting, $0.4 million in construction services and facilities maintenance, $0.3 million in coffee roasting, and $0.3 million in bakery. These increases were offset by gross profit decreases of $1.4 million in laundry, $1.3 million in printing, $0.7 million in optical, and $0.3 million decrease in metal signs.

Manufacturing enterprises experienced a gross profit increase of $8.4 million of which $3.3 million related to metal products, $2.1 million to furniture, $2.0 million to fabric products, $1.7 million to license plates, and $.5 million to mattress factory. This increase was offset by decreases in general fabrication of $1.2 million, cleaning products $0.4 million, and shoes $0.2 million.

Agricultural enterprises had a gross profit increase of $0.2 million of which $0.3 million was in crops, $0.1 million in dairy, and $0.1 million in egg production while poultry had a decrease of $0.3 million in gross profit.

In fiscal 2013, the increase in gross profit is primarily due to increases in revenues due to higher sales demand and the reduction of cost of goods sold. Production was increased to meet the additional sales demands, primarily related to food packaging, metal, furniture, fabric, and license plates. The increase in production enabled fixed overhead costs to be allocated across an increased volume, resulting in improved gross profit margin in various enterprises. In addition, overall cost of goods sold was reduced by making changes to procurement processes and improving manufacturing efficiencies. Metal raw material costs reduced for aluminum resulting in savings in license plates, metal products and metal signs. In addition, there were changes in the procurement method for food raw materials that decreased costs for food products as well as significant reductions in staff for cost savings, consulting services, maintenance and repair, and indirect materials.

In fiscal 2012, cost of goods sold increased by $11 million (8.4%) from $132.2 million in 2011 to $143 million in 2012. Overall, cost of goods sold as a percentage of sales were 83.0% and 80.4% in 2012 and 2011, respectively.

Selling and Administrative Expenses

Selling and administrative expenses are comprised of distribution and transportation costs of $12.5 million and central office costs of $25.6 million which include all support staff in Central Office divisions. These devisions include Board of Directors, Executive, Operations, Administration and Marketing. Selling and administrative expenses between fiscal years 2013 and 2012 decreased by $0.9 million, primarily due to reduced expenses in the Operations Division by $0.8 million, Administration Division reductions of $0.7 million due to a decrease in facility and general operation expenses. Expenses in distribution and transportation increased by $0.3 million due to increases in fuel and oil costs as well as increases in customer deliveries. The Marketing Division had an increase of $0.1 million largely due to a one-time expense for CALPIA showroom rent in the amount of $0.1 million.

Fiscal year 2012 selling and administrative expenses consist of distribution and transportation costs of $12.2 million, central office costs $19.8 million, and OPEB expense of $7.0 million.

Selling and administrative expenses between fiscal years 2012 and 2011 increased by $1.7 million, after considering the one-time charge of $8.6 million for an anticipated settelment of a lawsuit in 2011. This is explained by the fact that distribution expenses increased $0.5 million due to increased fuel and oil costs and higher sales. Operations Division expenses increased $0.9 million due to absorbing costs associated with Career Technical Education (CTE) programs in absence of reimbursement funding from CDCR in fiscal 2012. Also contributing to the increase in selling and administrative expenses is the unanticipated increase of $0.7 million of OPEB costs. These increases are offset by a $0.8 million decrease in Administrative Division largely due to salary savings for vacant positions and elimination of paid overtime.

Non-Operating Revenues (Expenses)

Non-operating revenues (expenses) consist primarily of a loss on disposal of capital assets, interest income (expense) and other expenses. The $1.3 million decrease in Non-operating revenues (expenses) compared to fiscal 2012, is due to a loss of $0.4 million from the disposal of property in fiscal 2013 and a non-recurring gain in fiscal 2012 of $0.9 million due to the settlement of the furlough litigation.

Non-operating revenue (expenses) for fiscal year 2012, consist primarily of a loss on disposal of capital assets, interest income (expense) and other expenses. Fiscal 2012 non-operating revenues were $0.7 million as compared to $1.6 million total non-operating expenses in fiscal year 2011, due to $1.4 million less in disposal of capital assets and a $0.8 million gain due to the settlement of the furlough litigation.

Product Recall

CALPIA uses an outside consultant to periodically review its product formulations. Subsequent to such a review in July 2012, it was determined that certain fragrance formulations used by CALPIA in its scented bar soap products had been changed by the product supplier and contained an ingredient that has been identified for further study under California's Proposition 65 to determine the maximum level of safe human exposure. As a precautionary measure, on July 27, 2012, CALPIA issued a product recall to its customers for all CALPIA bar-soap products. All CALPIA on-hand inventory was also removed from stock and quarantined. In connection with the issuance of its financial statements for fiscal 2012, CALPIA considered the risk and amount of potential loss associated with the inventory recall and determined that its exposure to loss was not material. In fiscal 2013, CALPIA determined that it would not be able to recover its costs associated with inventory and recorded a loss of $1.1 million associated with the recall. While certain lawsuits have been filed against CALPIA and it is unknown if additional filings will occur, CALPIA does not believe that the exposure related to these lawsuits will be material.

Request for Information

The financial report is designed to provide a general overview of CALPIA's finances. For questions concerning any information in this report or for additional financial information, contact Eric Reslock, Chief of External Affairs, at 916-358-1802 or email at Eric.Reslock@calpia.ca.gov.

CALIFORNIA PRISON INDUSTRY AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 51,293,816	$ 57,553,119
Cash designated for capital assets expenditures	15,425,037	13,285,410
Restricted cash	13,000,000	-
Accounts receivable	3,777,976	4,238,731
Related party receivable	7,692,412	4,427,148
Inventories	40,808,675	41,693,682
Interest receivable	44,927	69,360
Other	180,628	260,103
Total currrent assets	132,223,471	121,527,553
NONCURRENT ASSETS:		
Capital assets not being depreciated	1,122,289	1,233,251
Capital assets being depreciated, net	41,861,532	43,331,842
TOTAL ASSETS	$ 175,207,292	$ 166,092,646

LIABILITIES AND NET POSITION

	2013	2012
CURRENT LIABILITIES		
Accounts payable	$ 9,435,523	$ 7,856,498
Accrued expenses and other liabilities	2,852,534	3,509,557
Accrued furlough liability	126,866	126,866
Workers' compensation liability-current portion	2,497,999	1,928,647
Unearned revenue	1,984,609	1,686,676
TOTAL CURRENT LIABILITIES	16,897,531	15,108,244
LONG TERM LIABILITIES		
Accrued leave time	10,272,370	9,785,564
Workers' compensation liability	13,343,449	13,612,801
Net OPEB obligation	39,449,000	32,258,000
TOTAL LONG TERM LIABILITIES	63,064,819	55,656,365
TOTAL LIABILITIES	79,962,350	70,764,609
NET POSITION		
Net investment in capital assets	42,983,821	44,565,093
Restricted	13,000,000	-
Unrestricted	39,261,121	50,762,944
TOTAL NET POSITION	95,244,942	95,328,037
TOTAL LIABILITIES AND NET POSITION	$ 175,207,292	$ 166,092,646

See Notes to Basic Financial Statements

CALIFORNIA PRISON INDUSTRY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For The Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Manufacturing	$ 85,711,728	$ 78,037,519
Services	66,987,014	66,341,606
Agriculture	27,547,270	28,290,455
TOTAL OPERATING REVENUES	180,246,012	172,669,580
COST OF GOODS SOLD	141,653,634	143,232,093
GROSS PROFIT	38,592,378	29,437,487
SELLING AND ADMINISTRATIVE EXPENSES	38,089,843	38,983,323
OPERATING INCOME (LOSS)	502,535	(9,545,836)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	209,089	260,845
Interest expense	(2,530)	(1,277)
Loss from disposal of capital assets	(678,656)	(312,018)
Other revenue (expenses)	(113,533)	740,542
TOTAL NON-OPERATING REVENUES (EXPENSES)	(585,630)	688,092
Change in net position	(83,095)	(8,857,744)
NET POSITION - BEGINNING OF YEAR	95,328,037	104,185,781
NET POSITION - END OF YEAR	$ 95,244,942	$ 95,328,037

See Notes to Basic Financial Statements

CALIFORNIA PRISON INDUSTRY AUTHORITY

STATEMENTS OF CASH FLOWS

For The Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 177,739,437	$ 170,351,793
Cash receipts from interfund services provided by other funds of the state	657,604	778,658
Cash payments for interfund services used by other funds of the state	(11,146,341)	(9,291,945)
Cash payments to employees for services	(51,546,210)	(60,691,470)
Cash payments to suppliers of goods and services	(101,649,391)	(107,296,662)
Cash payments for other services	(113,533)	(67,867)
Net cash provided by (used in) operating activities	13,941,566	(6,217,493)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from state general fund	-	23,400,000
Interest expense	(2,530)	(1,278)
Net cash provided by (used in) noncapital financing activities	(2,530)	23,398,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets	(6,026,045)	(6,838,510)
Proceeds from sale of capital assets	733,811	550,535
Net cash used in capital and related financing activities	(5,292,234)	(6,287,975)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	233,522	262,837
Net increase in cash and cash equivalents	8,880,324	11,156,091
Cash and cash equivalents at beginning of year	70,838,529	59,682,438
Cash and cash equivalents at end of year	$ 79,718,853	$ 70,838,529

CALIFORNIA PRISON INDUSTRY AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

For The Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 502,535	$ (9,545,836)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	6,194,851	6,261,090
Other expenses	(113,533)	(67,867)
Net effect of changes in:		
Accounts and related party receivables	(2,804,509)	(1,444,619)
Inventories	885,007	1,032,676
Other assets	79,475	2,238
Accounts payable	1,579,024	(1,748,763)
Accrued expenses and other liabilities	(170,217)	153,531
Accrued furlough liabilities	-	(7,683,397)
Workers' compensation liability	300,000	662,621
Unearned revenue	297,933	(873,167)
Net OPEB obligation	7,191,000	7,034,000
Net cash provided by (used in) operating activities	$ 13,941,566	$ (6,217,493)

See Notes to Basic Financial Statements

(1) ORGANIZATION

The California Prison Industry Authority ("CALPIA") was established in 1983, as the successor to the California Correctional Industries ("CCI"). It is under the policy direction of an eleven-member board of directors ("Prison Industry Board") and is a component unit of the State of California. CALPIA manages over 57 manufacturing, service, and agriculture factories in 25 institutions that employ offenders at California's penal institutions within the California State Department of Corrections and Rehabilitation ("CDCR"). Administrative offices are located in Folsom, California. The products manufactured by CALPIA's operations are sold principally to departments of the State of California and other governmental entities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - CALPIA uses the accrual basis of accounting. Under this method, revenues and receivables are recorded when earned, and expenses and liabilities are recorded when incurred.

Revenue Recognition - Revenues and receivables are recorded when earned, usually upon the shipment of orders, other than modular furniture and building construction. Revenue on modular furniture and building construction is recognized using a method which materially approximates the percentage-of-completion method of accounting. Under this method, CALPIA recognizes revenue at the end of each period using output measures in terms of results achieved, to measure the extent of progress toward completion under the contract, on the basis of units of work completed.

Cash and cash equivalents - Cash consists of deposits in the custody of the State of California Treasurer. CALPIA's deposits are subject to the California Government Code and the State Treasurer's Office investment policy for the Pooled Money Investment Account ("PMIA"). Cash not required for current use is invested in the Surplus Money Investment Fund ("SMIF"), while non-SMIF funds are held in operating accounts, all of which are part of the State Treasurer's pooled investment program.

These funds are invested through the PMIA and at the direction of the Pooled Money Investment Board, which provides regulatory oversight of such funds. PMIA moneys are limited by State statute to the following investments: U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest-bearing time deposits in California banks and savings and loans, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposits, and other qualifying investments.

The investments in SMIF are reported at amortized cost, which approximates fair value. As of June 30, 2013 and 2012, the weighted average maturity of PMIA investments administered by the State Treasurer's Office was approximately 278 days and 270 days, respectively. Weighted averaged maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from the evaluation date to stated maturity. Neither SMIF nor PMIA are rated by credit rating agencies.

Interest earned on cash invested in the SMIF and other pooled funds are prorated to CALPIA based on its average daily balance.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At June 30, 2013, $64,041,000 was invested in SMIF and $2,677,853 was held in operating accounts in the State Treasury pooled investment program. At June 30, 2012 $67,164,000 was invested in SMIF and $3,674,529 was held in operating accounts in the State Treasury pooled investment program. Cash and cash equivalents include cash on hand and temporary cash investments (including SMIF,funds designated for property and equipment acquisitions and restricted cash) with original or remaining maturities of three months or less.

Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB No. 3* ("GASB No. 40") requires that governmental entities provide disclosures regarding deposit and investment credit risk, custodial credit risk, interest rate risk, and concentration of credit risk. CALPIA's deposits in the PMIA are not subject to GASB No. 40 risk disclosures except for the disclosures provided above. Additional information regarding investment risks, including interest rate risk, credit risk and concentration of credit risk of the PMIA can be found in the State's basic financial statements included in its comprehensive annual financial report.

Cash designated for capital asset expenditures - CALPIA segregates its cash which is designated as to use. Designated funds at June 30, 2013 and 2012 represent designations of cash by the Prison Industry Board for certain capital expenditures. The Board designated funds amounting to $15,425,037 and $13,285,410 for certain capital expenditures to be made during the fiscal years ended June 30, 2014 and 2013, respectively.

Restricted cash - On March 24, 2013, at the request of the Department of Finance of the State of California, CALPIA was directed that $13 million was to be transferred from CALPIA's Prison Industry Revolving Fund (F0678) in accordance with California Penal Code Section 2806, to the State of California's General Fund. However, on June 21, 2013, $13 million was transferred by the State Controller from the Prison Industry Revolving Fund to the Prison Industry General Fund because the transfer lacked an appropriation into the State's General Fund. The funds transferred to the Prison Industry's General Fund are not appropriated for CALPIA's operational expenditures and have been classified as restricted cash. These funds are expected to transfer to the State's General Fund within two years, which began in fiscal year ended June 30, 2013, but the exact date is not known.

Concentrations of credit risk - Financial instruments which potentially expose CALPIA to concentrations of credit risk consist primarily of trade accounts receivable.

CALPIA's customer base includes departments of the State of California and other governmental entities. CDCR is the largest customer of CALPIA and accounted for approximately 57.4% of sales for the fiscal year ended June 30, 2013 and 57.6% of sales for the fiscal year ended June 30, 2012. As of June 30, 2013 and 2012, CDCR accounted for 67% and 51%, respectively, of total accounts receivable.. Management does not believe significant credit risk exists at June 2013 and 2012, as the goods and services produced by CALPIA's operations are sold principally to departments of the State of California and other governmental entities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CALPIA and other state and local agencies' deposits are held in the pooled money account in the custody of the State Treasurer's Office, in which the deposits are insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

Accounts receivable - CALPIA has no formal policy regarding the extension of credit and does not use an allowance for doubtful accounts because their customer base is primarily made up of state and local government agencies. As of June 30, 2013 and 2012, CALPIA has receivables of $445,120 and $436,457, respectively, from non-governmental agencies. Historically, CALPIA has not experienced significant losses related to such accounts receivable.

Due from state general fund - During the course of normal operations, the State Controller's Office periodically loans funds from CALPIA's deposits held in the custody of the State Treasurer to the state general fund on a short-term basis for cash management reasons. These transactions are reported as "due from state general fund." As of June 30, 2013 and 2012, due from state general fund totaled $0.

Inventories - Inventories are stated at the lower of cost (as determined using the average cost method) or market. Inventories consist of raw materials, components and subassemblies and finished goods held for sale.

Capital assets - Capital assets are stated at historical cost, net of accumulated depreciation. CALPIA has established a threshold of $5,000 for capitalization of depreciable assets. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives range from 5 to 20 years for equipment, 5 to 30 years for buildings and leasehold improvements, 2 to 3 years for livestock, and 20 years for orchards and 5 years for intangible assets.

Interest expense (net of interest income on unexpended tax-exempt debt proceeds) related to the cost of construction of certain assets is capitalized whenever debt is outstanding and the assets are constructed for use by CALPIA. Capitalized interest is amortized over the related assets' estimated useful lives. CALPIA did not recognize any capitalized interest expense for the fiscal years ended June 30, 2013 and 2012.

In the ordinary course of business, CALPIA opens and closes manufacturing facilities based on economic conditions and industry demand for products. Based on CALPIA's closure policy, management may recommend that the factory remain idle if at a later date it is probable that product demand will increase resulting in the factory being reactivated. If management determines not to reactivate a factory, CALPIA will take one of the following actions: (1) determine if the factory has alternative uses, (2) transfer equipment to operating factories, or (3) pursue other alternatives for disposal. Factories which are closed temporarily are retained in the property accounts as idle facilities and are not depreciated during the temporary closure. At June 30, 2013 and 2012, the net book value of such factories was not material.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset impairment - As required by GASB Statement No. 42, management periodically reviews long-lived assets for impairments whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly.

Impaired capital assets are written down to reduce the related assets to the lower of carrying value or fair value. At June 30, 2013 and 2012, CALPIA determined that there were no capital assets that are impaired.

Compensated absences - It is CALPIA's policy to accrue for personal leave time, holiday pay and vacation pay that has been earned but not yet taken by employees. A liability for compensated absences is accrued when incurred and reported in accrued liabilities on the statements of net position. CALPIA employees are not compensated for unused sick leave, but instead are credited with pension service time for unused sick leave. Accordingly, such convertible sick leave is not reflected in the accrued liability for compensated absences. Instead, it is reflected over time in CALPIA's pension contribution.

Unearned revenue - Unearned revenues represent advance payments from customers for the future delivery of products and services.

Net Position - The difference between assets and liabilities in the statements of net position is labeled as Net Position and is subdivided into three categories as follows:

> Invested in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and amortization.
>
> Restricted – This component of net position consists of the restricted cash balance.
>
> Unrestricted - This component of net position consists of amounts not restricted for any project or any other purpose.

Operating and non-operating activities - Operating revenues are charges to customers for sales of products and services. Operating expenses consist of cost of sales and selling and administrative expenses. Selling and administrative expenses are comprised of distribution and transportation costs, central office costs, and the annual OPEB costs. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses. Distribution and transportation costs include shipping and handling costs related to the delivery of merchandise sold by CALPIA. For the fiscal years ended June 30, 2013 and 2012, such costs were $12,484,710 and $12,159,338, respectively.

Use of estimates in the preparation of financial statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting pronouncements:

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. CALPIA adopted this statement for the fiscal year ended June 30, 2013. The effect of the adoption was not material to the financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance found in the following pronouncements issue on or before November 30, 1989:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- The Accounting Principles Board Opinions, and
- The Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure.

CALPIA adopted this statement for the fiscal year ended June 30, 2013. The effect of the adoption was not material to the financial statements.

In June 2010, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. As a component unit of the State of California, CALPIA adopted this statement and applied its requirements to its financial statements for the years ended June 30, 2013 and 2012. The effect of this adoption was not material to the financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. CALPIA has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for CALPIA's fiscal year ending June 30, 2014.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting pronouncements (continued):

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. CALPIA has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for CALPIA's fiscal year ending June 30, 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. As CALPIA participates in the State of California's multi-employer pension system, it is unable to determine the specific impact of this statement on its net position. However, it believes that the effect is potentially material to its net position. The requirements of this Statement are effective for CALPIA's fiscal year ending June 30, 2015.

(3) INVENTORIES

Inventories consist of the following:

	June 30,	
	2013	2012
Raw materials	$ 24,769,741	$ 23,898,145
Work-in-process	5,629,461	5,964,847
Finished goods	10,409,473	11,830,690
Total inventories	$ 40,808,675	$ 41,693,682

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2013 and 2012

(4) CAPITAL ASSETS

A summary of changes in capital assets during fiscal years 2013 and 2012 is as follows:

	Balance June 30, 2012	Additions &Transfers-in	Deletions & Transfers-out	Balance June 30, 2013
Capital assets, not being depreciated:				
Construction in process	$ 1,232,251	$ 844,773	$ (955,735)	$ 1,122,289
Total capital assets, not being depreciated	1,233,251	844,773	(955,735)	1,122,289
Capital assets, being depreciated:				
Equipment	105,339,902	3,116,821	(1,316,119)	107,140,604
Buildings and leasehold improvements, net of transfers	36,973,613	2,163,472	(295,268)	38,841,817
Livestock	4,312,144	828,995	(1,436,471)	3,704,668
Orchards	874,716	-	-	874,716
Intangible assets	3,644,018	27,720	-	3,671,738
Total capital assets, being depreciated	151,144,393	6,137,008	(3,047,858)	154,233,543
Accumulated depreciation and amortization	(107,812,551)	(6,194,850)	1,635,390	(112,372,011)
Total capital assets, being depreciated, net	43,331,842	(57,842)	(1,412,468)	41,861,532
Capital assets, net	$ 44,565,093	$ 786,931	$ (2,368,203)	$ 42,983,821

(4) CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2011	Addition & Transfers-in	Deletions & Transfers-out	Balance June 30, 2012
Capital assets, not being depreciated:				
Construction in process	$ 432,889	$ 995,449	$ (195,087)	$ 1,233,251
Total capital assets, not being depreciated	432,889	995,449	(195,087)	1,233,251
Capital assets, being depreciated:				
Equipment	103,538,326	3,861,664	(2,060,088)	105,339,902
Buildings and leasehold improvements, net of transfers	35,895,187	1,171,558	(93,132)	36,973,613
Livestock	4,500,018	1,004,926	(1,192,800)	4,312,144
Orchards	874,716	-	-	874,716
Intangible assets	3,644,018	-	-	3,644,018
Total capital assets, being depreciated	148,452,265	6,038,148	(3,346,020)	151,144,393
Accumulated depreciation and amortization	(104,034,928)	(6,261,090)	2,483,467	(107,812,551)
Total capital assets, being Depreciated, net	44,417,337	(222,942)	(862,553)	43,331,842
Capital assets, net	$ 44,850,226	$ 772,507	$ (1,057,640)	$ 44,565,093

Depreciation expense for the fiscal years ended June 30, 2013 and 2012 was $6,194,851 and $6,261,090, respectively. Depreciation expense includes amortization of intangible assets.

(5) ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30, 2013	June 30, 2012
Accrued leave time	$ 10,519,495	$ 10,272,371
Customer deposits	698,301	387,909
Support charges due to CDCR	771,398	1,586,489
Inmate pay	258,623	275,382
Personal services	325,835	235,198
Sales and use tax	229,858	297,620
Accrued service and expenses	321,394	240,152
	13,124,904	13,295,121
Long term accrued leave time	(10,272,370)	(9,785,564)
Current accrued expenses and other liabilities	$ 2,852,534	$ 3,509,557

(6) ACCRUED FURLOUGH LIABILITY

In February 2009, at the request of the Governor's office, CALPIA and other state agencies instituted involuntary furloughs of substantially all of their employees. Under the arrangement, employees received 3 unpaid furlough days per month. The arrangement ceased in October 2010. Unions representing the furloughed employees sued CALPIA and other state agencies seeking repayment of the lost wages. At June 30, 2011, based on the status of those lawsuits, CALPIA accrued $8.6 million representing its estimate of the wages and interest to be repaid to the involuntarily furloughed employees.

In late January 2012 a settlement agreement was reached in which substantially all CALPIA employees would receive reimbursement of all wages withheld during the furlough period, but would waive any right to accrued interest. Two unions representing five CALPIA employees did not consent to the settlement and their civil case remains pending in the Court of Appeals following a judgment entered in the trial court in their favor. In June 2012, back-pay in the amount of $7,683,397 was distributed to CALPIA employees, excluding the five employees noted above. At June 30, 2013 and 2012, a reserve of $126,866 remains related to the employees for which a settlement has not been reached. Non-operating income includes $808,409 representing the difference between the original accrual and the sum of the settlement amount and the remaining reserve for the year ended June 30, 2012.

(7) WORKERS' COMPENSATION LIABILITY

CALPIA is exposed to risk of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The State of California self-insures its workers' compensation claims. CALPIA's workers' compensation claims are administered by the State Compensation Insurance Fund as part of the overall State program. CALPIA currently reports claims, expenses and liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported and related loss adjustment expenses. Consulting actuaries assist CALPIA in determining its liability for workers' compensation self-insured claims.

The amount of these liabilities was a discounted value of $15,841,448 at June 30, 2013 and $15,541,448 at June 30, 2012. The interest rate used to discount the value of the liabilities for the fiscal years ended June 30, 2013 and 2012, was 3.5 percent. This liability represents CALPIA's best estimate of its ultimate exposure based on available actuarial information.

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Legal and Administrative Expenses Paid	End of Fiscal Year Liability
2012-2013	$15,541,448	$2,797,999	$(2,029,143)	$(468,856)	$15,841,448
2011-2012	$14,878,827	$2,591,268	$(1,487,073)	$(441,574)	$15,541,448

(8) DEFINED BENEFIT PENSION PLAN

Plan description - The State is a member of the California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer pension system, which provides a contributory defined benefit pension for substantially all State employees. CALPIA employees are employees of the State. CALPIA is included in the State Industrial and Safety categories within CalPERS, thereby limiting the availability of certain CALPIA pension data. CalPERS functions as an investment and administrative agent for participating public agencies within the State of California. Departments and agencies within the State of California, including CALPIA, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies.

CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. A copy of that report may be obtained by writing CalPERS, Central Supply, P.O. Box 942715, Sacramento, California 94229-2705, or by logging onto the CalPERS web site at www.calpers.ca.gov/.

The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age and final compensation. Vesting occurs after five years of credited service except for second tier benefits, which require 10 years of credited service. Employees who retire at or after 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Several survivors benefit options, which reduce a retiree's unmodified benefit, are available.

(8) DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding policy - Active members who participate in Social Security under the State Industrial Tier 1 category are required to contribute 8% to 10% of their annual covered salary after excluding the first $513 of gross monthly pay. Active members who do not participate in Social Security under the State Safety and Industrial Tier 1 categories are required to contribute 9% to 11%% of their annual covered salary after excluding the first $317 of gross monthly pay. Active members who participate in Social Security under the State Industrial Tier 2 category are not required to make contributions to CalPERS. Effective July 1, 2013, active members who participate in Social Security under the State Industrial Tier 2 category are required to begin making contributions of 1.5% to CalPERS.

CALPIA is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013 was 16.302% and 17.503% for State Industrial and Safety categories, respectively. The required employer contribution rate for the year ended June 30, 2012 was 14.934% and 16.428% for State Industrial and Safety categories, respectively. The contribution requirements of the plan members are established by State statute and the employer contributions rate is established and may be amended by CalPERS.

Annual pension costs - For the fiscal years ended June 30, 2013, 2012 and 2011, CALPIA's annual pension cost and CALPIA's actual contribution amounted to $5,051,147, $4,959,743, and $5,322,401 respectively. The required contribution for State Industrial and Safety categories for the 2013 and 2012 fiscal years were determined as part of the June 30, 2011 and 2010, actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. For the June 30, 2011 actuarial valuation, the actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.20 to 9.30%, (c) 3.00% overall payroll growth, and (d) 2.75% inflation adjustment. For the fiscal year ended June 30, 2012, The actuarial assumptions for the June 30, 2010 valuation included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.45 to 9.55%, (c) 3.25% overall payroll growth, and (d) 3.00% inflation adjustment.

The actuarial value of CALPIA's assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a 15 year period. The plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level of percentage of projected payroll on a closed basis. The remaining amortization periods at June 30, 2011, the date of the most recent actuarial valuation, were 12 to 30 years for the State Industrial Plan and 11 to 30 years for State Safety Plan.

Three-year trend information for CalPERS- State Industrial and Safety Plans:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation (NPO)
2013	$5,051,147	100%	$ -
2012	$4,959,793	100%	$ -
2011	$5,322,401	100%	$ -

(9) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Plan description - CALPIA employees also participate in the State other postemployment benefit ("OPEB") plan. The State OPEB plan is a single-employer defined benefit plan and the Authority participates in the State' plan on a cost-sharing basis. A separate actuarial valuation was not performed for CALPIA. The State's OPEB plan does not issue a separate report.

The State provides medical, prescription drug, and dental benefits to retired statewide employees. The authority for establishing and amending benefits lies with CalPERS and the State Legislature while the authority for establishing and amending the funding policy lies solely with the Legislature.

Funding policy - The State has historically been on a "pay-as-you-go" funding and allocation policy; however, pursuant to the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB No. 45") effective for fiscal year 2008, the State amended its allocation methodology to include amortization of its accumulated unfunded postemployment obligations. The State has determined CALPIA's June 30, 2013 and 2012 funding requirements as well as its related 2013 and 2012 contribution credit. The amount allocated to CALPIA at June 30, 2013 and 2012 representing the annual OPEB cost was $11,056,000 and $10,920,000 respectively. Of this amount, $3,865,000 was contributed for 2013 and the balance of $7,191,000 was accrued as a liability. The contribution made for 2012 was $3,886,000 and the balance of $7,034,000 was accrued as a liability.

Annual OPEB cost and Net OPEB obligation - The State of California's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined by the State in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The State determines the allocation for CALPIA based upon the relationship of active employee health benefit costs for CALPIA as compared to the total State active employee health benefit costs. The following table shows the components of CALPIA's allocation of the State's annual OPEB cost for the year, the amount credited to the plan, and changes in the net OPEB obligation as of June 30:

	2013	2012
Annual required contribution	$ 10,898,000	$ 10,794,000
Interest on net OPEB obligation	1,290,000	1,026,000
Adjustment to annual required contribution	(1,132,000)	(900,000)
Annual OPEB cost (expense)	11,056,000	10,920,000
Contributions made	(3,865,000)	(3,886,000)
Increase in net OPEB obligation	7,191,000	7,034,000
Net OPEB obligation - beginning of year	32,258,000	25,224,000
Net OPEB obligation - end of year	$ 39,449,000	$ 32,258,000

(9) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

CALPIA's allocation of the annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2013, 2012 and 2011 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 11,056,000	35.0 %	$ 39,449,000
2012	$ 10,920,000	35.6%	$ 32,258,000
2011	$ 9,904,000	36.7%	$ 25,224,000

Based on information provided to CALPIA by the State, in the June 30, 2012 actuarial valuation, the individual entry age normal cost method was used. A pay-as-you go funding scenario was used by the State. Under the pay-as-you-go funding scenario, the State is assumed to finance retiree healthcare benefits from assets available in the general fund. The State's actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of actual increases for 2013 and of 9.0% in 2014, initially, decreasing each year over the next seven years until the ultimate rate of 4.5% is reached. Both rates included a 3.0% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis over thirty years.

The schedule of funding progress and employer contributions for the State of California for the fiscal year ended June 30, 2013 can be found in the State's basic financial statements included in its comprehensive annual financial report.

(10) RELATED PARTY TRANSACTIONS

Related party transactions with CDCR consisted of the following for the fiscal years ended June 30:

	2013	2012
Assets:		
Accounts receivable	$ 7,692,412	$ 4,427,148
Liabilities:		
Accrued expenses and other liabilities	(868,758)	(1,586,489)
Unearned revenue and customer deposits	(367,551)	(367,551)
Revenues:		
Sales	103,368,053	98,955,438
Expenses:		
Support charges paid	(4,304,458)	(4,741,321)

The secretary of CDCR is the chairman of the Prison Industry Board. Accounts receivable are for the sale of goods and services delivered to CDCR. Accrued expenses and other liabilities represent expenses incurred for rent and utilities associated with the space owned by CDCR, and used by CALPIA to operate the offender work programs. Unearned revenue and customer deposits primarily consist of payments received in advance of future delivery of goods and services.

(10) RELATED PARTY TRANSACTIONS (CONTINUED)

CALPIA has transactions with other agencies of the State in addition to CDCR. For the fiscal years ended June 30, 2013 and 2012 sales to such agencies were $72,055,585 and $69,719,623 respectively. As of June 30, 2013 and 2012, CALPIA had accounts receivable from other state agencies of $3,041,252 and $3,493,806, respectively. Additionally, CALPIA receives an assessment for statewide administrative costs which were $4,788,789 and $3,797,590 for the fiscal years ended June 30, 2013 and 2012, respectively.

(11) CONTINGENCIES

In Fiscal 2013, CALPIA voluntarily recalled certain varieties of bar soap manufactured. A loss of $1.1 million was incurred in fiscal 2013, due to this recall. While certain lawsuits have been filed against CALPIA, and it is unknown if additional filings will occur, we do not believe that the exposure related to these lawsuits will be material.

Under current accounting rules, CALPIA is obligated to record as a liability any difference between its annual pension cost and its annual contribution amount. Historically, CALPIA has fully funded the annual pension cost. As a result, at June 30, 2013 and 2012, it has not recorded a pension liability.

In accordance with GASB No. 68, CALPIA anticipates that effective June 30, 2015, it will have to accrue its actuarially determined unfunded pension obligation. As CALPIA participates in the State of California's multi-employer pension system, it is unable to determine the specific impact on its net position at this time. However, it believes that the effect is potentially material to its net position.

CALPIA is involved in various legal actions arising in the ordinary course of business. In the opinion of management, after consulting with legal counsel, CALPIA intends to defend these other cases vigorously and believes that the ultimate liability, if any, will not be material to the financial position of CALPIA.

(12) COMMITMENTS

Warranties - CALPIA provides a warranty on its office furniture and mattress products for a period of five years and residential hall furniture is warranted for ten years. CALPIA has not established a reserve for warranty expense. The effect on operations is deemed by management to be immaterial. Such costs are expensed when incurred

(12) COMMITMENTS (CONTINUED)

Rental payments - Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year expiring in January 2020 as of June 30, 2013, are as follows:

Fiscal Year Ended June 30,	Real Estate
2014	$ 386,232
2015	378,600
2016	377,328
2017	384,960
2018	392,592
2019	400,229
2020	236,068
Total	$ 2,556,009

Total rental expense for all operating leases was $394,104 and $506,769 for the fiscal years ended June 30, 2013 and 2012, respectively.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the California Prison Industry Authority Board
Folsom, California

We have audited the basic financial statements of California Prison Industry Authority ("CALPIA") as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated November 15, 2013. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows as of and for the fiscal years ended June 30, 2013 and 2012, classified in accordance with the State Controller's Office Instructions (collectively the "SCO financial statements") are presented for purposes of additional analysis and are not a required part of the financial statements. The SCO financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Macias Gini & O'Connell LLP

Sacramento, California
November 22, 2013

CALIFORNIA PRISON INDUSTRY AUTHORITY
INTERNAL SERVICE FUND

BALANCE SHEETS
CLASSIFIED IN ACCORDANCE WITH THE STATE CONTROLLER'S INSTRUCTIONS

June 30, 2013 and 2012
(in thousands)

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and pooled investments	$ 66,719	$ 70,839
Restricted cash	13,000	-
Receivables, (net)	952	744
Due from other funds	10,359	7,760
Due from other governments	204	231
Prepaid items	181	260
Inventories, at cost	40,809	41,694
TOTAL CURRENT ASSETS	132,224	121,528
NONCURRENT ASSETS		
Nondepreciable capital assets:		
Construction in process	1,122	1,233
Depreciable capital assets:		
Buildings	5,962	5,288
Leasehold improvements	32,880	31,686
Equipment	107,140	105,340
Livestock	3,705	4,312
Orchards	875	875
Intangible assets	3,672	3,644
TOTAL CAPITAL ASSETS	155,356	152,378
Accumulated depreciation:		
Buildings	(3,554)	(3,322)
Leasehold improvements	(24,526)	(23,458)
Equipment	(79,654)	(76,503)
Livestock	(457)	(447)
Orchards	(751)	(711)
Intangible assets	(3,430)	(3,372)
TOTAL ACCUMULATED DEPRECIATION	(112,372)	(107,813)
TOTAL NONCURRENT ASSETS	42,984	44,565
TOTAL ASSETS	$ 175,208	$ 166,093

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Accounts payable and other	$ 9,436	$ 7,856
Due to other funds	1,687	2,416
Deferred revenue	1,985	1,687
Compensated absences payable	10,519	10,273
Other current liabilities	3,544	2,662
TOTAL CURRENT LIABILITIES	27,171	24,894
NONCURRENT LIABILITIES		
Net OPEB obligation	39,449	32,258
Other non-current liabilities	13,343	13,613
TOTAL NONCURRENT LIABILITIES	52,792	45,871
TOTAL LIABILITIES	79,963	70,765
NET ASSETS		
Invested in capital assets	42,984	44,565
Restricted net assets	13,000	-
Unrestricted net assets	39,261	50,763
TOTAL NET ASSETS	95,245	95,328
TOTAL LIABILITIES AND NET ASSETS	$ 175,208	$ 166,093

CALIFORNIA PRISON INDUSTRY AUTHORITY
INTERNAL SERVICE FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS CLASSIFIED IN ACCORDANCE WITH THE STATE CONTROLLER'S INSTRUCTIONS

Years Ended June 30, 2013 and 2012
(in thousands)

	2013	2012
OPERATING REVENUES		
Services and sales	$ 180,246	$ 172,670
OPERATING EXPENSES		
Personal services	(59,454)	(61,084)
Supplies	(2,187)	(2,211)
Services and charges	(111,908)	(112,659)
Depreciation	(6,195)	(6,261)
Total operating expenses	(179,744)	(182,215)
OPERATING INCOME (LOSS)	502	(9,545)
NONOPERATING REVENUES (EXPENSES)		
Interest income	209	261
Interest expense	(2)	(1)
Loss on disposal and impairment of of capital assets	(678)	(312)
Other revenue (expenses)	(114)	740
Total nonoperating (expenses) revenues	(585)	688
Change in net assets	(83)	(8,857)
NET ASSETS AT BEGINNING OF YEAR	95,328	104,185
NET ASSETS AT END OF YEAR	$ 95,245	$ 95,328

CALIFORNIA PRISON INDUSTRY AUTHORITY
INTERNAL SERVICE FUND

STATEMENTS OF CASH FLOWS
CLASSIFIED IN ACCORDANCE WITH THE STATE
CONTROLLER'S INSTRUCTIONS

Years Ended June 30, 2013 and 2012
(in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 177,739	$ 170,352
Receipts from interfund services provided	658	779
Payments for interfund services used	(11,146)	(9,292)
Payments to employees	(51,546)	(60,692)
Payments to suppliers	(101,650)	(107,297)
Payments for other services	(114)	(68)
Net cash provided by (used in) operating activities	13,941	(6,218)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in interfund receivable	-	23,400
Interest expense	(2)	(1)
Net cash provided by (used in) noncapital financing activities	(2)	23,399
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets	(6,027)	(6,839)
Proceeds from sale of capital assets	734	551
Net cash used in capital and related financing activities	(5,293)	(6,288)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	234	263
Net increase (decrease) in cash and pooled investments	8,880	11,156
Cash and pooled investments, beginning of year	70,839	59,683
Cash and pooled investments, end of year	$ 79,719	$ 70,839

CALIFORNIA PRISON INDUSTRY AUTHORITY
INTERNAL SERVICE FUND

STATEMENTS OF CASH FLOWS
CLASSIFIED IN ACCORDANCE WITH THE STATE
CONTROLLER'S INSTRUCTIONS

Years Ended June 30, 2013 and 2012
(in thousands)

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2013	2012
Operating loss	$ 502	$ (9,545)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	6,195	6,261
Other fees	(114)	740
Net effect of changes in:		
Receivables	(208)	259
Due from other funds	(2,623)	(1,534)
Due from other governments	27	(170)
Prepaid items	79	2
Inventories	885	1,032
Accounts payable and other	1,580	(1,749)
Due to other funds	(729)	467
Deferred revenue	298	(873)
Other current liabilities	882	(9,761)
Compensated absenses payable	246	502
Other liabilities	6,921	8,151
Total adjustments	13,439	3,327
Net cash provided by (used in) operating activities	$ 13,941	$ (6,218)

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the California Prison Industry Authority Board
Folsom, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Prison Industry Authority (CALPIA) as of and for the fiscal years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise CALPIA's basic financial statements, and have issued our report thereon dated November 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered CALPIA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CALPIA's internal control. Accordingly, we do not express an opinion on the effectiveness of CALPIA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CalPIA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Sacramento, California
November 22, 2013