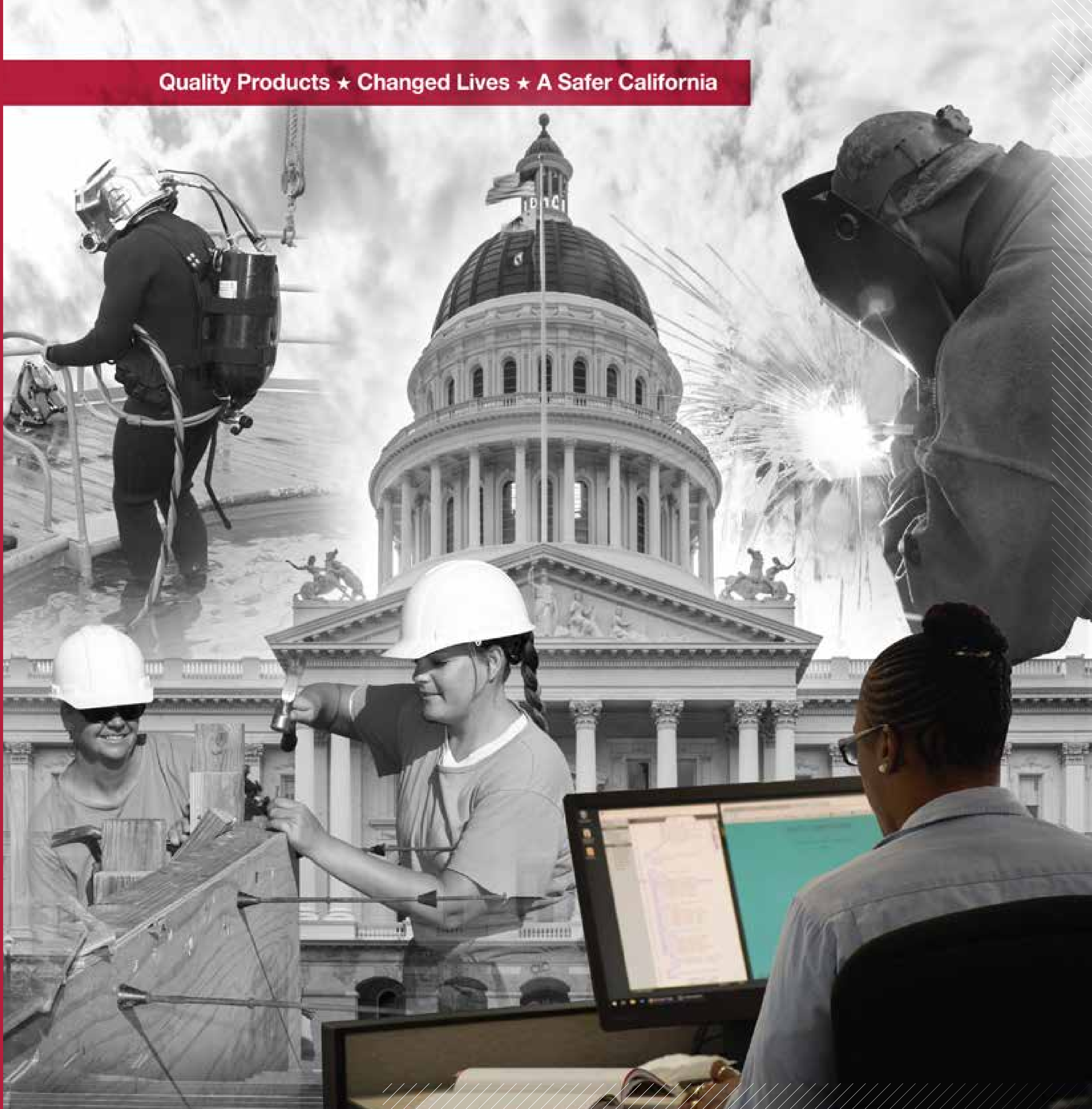

CALIFORNIA PRISON INDUSTRY AUTHORITY

REPORT TO THE LEGISLATURE

FISCAL YEAR 2016–17

FEBRUARY 1, 2018

CALPIA

Quality Products ★ Changed Lives ★ A Safer California

Edmund G. Brown Jr.

Governor
State of California

California Prison Industry Board

Scott Kernan, Chair

Secretary
California Department of Corrections and Rehabilitation

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Michele Steeb (G)*

Charles L. Pattillo
Executive Officer

The Prison Industry Board's Fiscal Year 2016-17 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, requiring the Board 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 authority, said number to indicate the number of prisoners which are not working full time.

*(S) Statutory Appointee (A) Assembly Appointee (G) Governor's Appointee (SR) Senate Rules Committee Appointee

First graduating class of CALPIA's Code.7370 program and their instructor Jon Gripshover

Committed to California's Public Safety

The Prison Industry Board

The Prison Industry Board was established in 1983, pursuant to Chapter 1549, Statutes of 1982, to oversee the California Prison Industry Authority (CALPIA). The same legislation reconstituted the former California Correctional Industries Commission as today's CALPIA.

The Prison Industry Board oversees CALPIA operations, much like a corporate board of directors. It 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 Chief Executive Officer/ General Manager. The Prison Industry Board also serves as a public hearing body, ensuring that CALPIA enterprises are both self-sufficient and do not have an adverse impact upon the private sector. The Board actively solicits public input for the decisions it makes to expand existing or develop new prison industries.

On July 1, 2005, pursuant to the passage of Senate Bill 737, the California Department of Corrections and Rehabilitation (CDCR) underwent reorganization. Under the reorganization, CALPIA was to continue its existence within CDCR but as a separate entity, with the General Manager being the hiring authority for all CALPIA employees.

CALPIA Statutory Objectives[1]

- To develop and operate industrial, agricultural and service enterprises that provide work opportunities for offenders under the jurisdiction of the California Department of Corrections and Rehabilitation and serve government agencies with products and services commensurate with their needs.

- To create and maintain working conditions within CALPIA enterprises as much like 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.

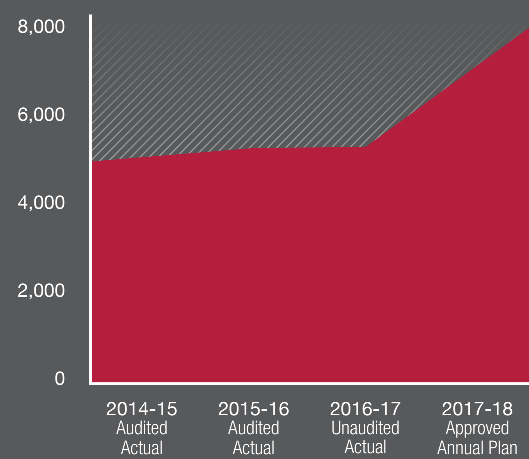
- To operate work programs for offenders that are self-supporting through the generation of sufficient funds from the sale of products and services to pay all its expenses, thereby avoiding the cost of alternative offender programming by CDCR. CALPIA receives no annual appropriation from the Legislature.

1. Penal Code Section 2800-2818

CALPIA Mission Statement

CALPIA is a self-supporting, customer-focused business that reduces recidivism, increases prison safety, and enhances public safety by providing offenders productive work and training opportunities.

Number of Offender Assignments by Fiscal Year



Source: Offender Assignments (page 31)

CALPIA Program Goal

CALPIA's program goal support CDCR's public safety mission, by producing trained offenders who have job skills, good work habits, basic education and job support in the community, so that, when they are released, they never return to prison. CALPIA offenders receive industry-accredited certifications that employers seek.

Does CALPIA Work?

Yes. Over a three-year period, beginning in Fiscal Year (FY) 2008-09, CALPIA participants returned to prison, on average, 26 to 38% less often than offenders released from the CDCR general population, saving the General Fund millions in incarceration costs[2]. Additionally, CALPIA's Career Technical Education (CTE) programs have some of the lowest recidivism rates in the country, with a cumulative recidivism rate of 7.13%[3]. In 2018, CALPIA will report the recidivism among offenders who have participated in CALPIA programs between FYs 2010-11 and 2014-15.

Does CALPIA Save the State Money?

Yes. CALPIA's offender programming saves the State's General Fund millions of dollars annually through lower offender recidivism. It also saves CDCR millions by providing over 7,000 alternatively funded programming slots for offenders that CDCR does not have to fund.

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

1. Reduce Offender Recidivism
2. Maintain Self-Sufficiency
3. Develop High Performing Staff and Organization
4. Increase Customer Satisfaction

> "CALPIA... saves the State's General Fund millions annually through lower recidivism..."

2. CALPIA Economic Impact Report FY 2012-13
www.calpia.ca.gov/news/publications/economic-impact-report-2012-13/

3. Prison Industry Board CTE Report FY 2007-2008 to FY 2010-2011
www.calpia.ca.gov/news/publications/cte-education-assessment-report-fy-2007-2008-to-2010-2011/

Correctional Industries

CALPIA manages over 100 manufacturing, service and consumable enterprises in 34 CDCR institutions, with over 7,500 offender assignments in manufacturing, agricultural, consumable, service and support functions, including warehouse and administration. CALPIA's 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 and other government entities. CDCR is CALPIA's largest customer and accounted for $138.2 million (59.2%) of all sales in FY 2016-17, $130.6 million (59.7%) of all sales in FY 2015-16, and $123.6 million (59.6%) of all sales in FY 2014-15.

Other major State customers include the Department of Motor Vehicles, the Department of State Hospitals, the Department of Healthcare Services, the Department of Transportation, the Department of Forestry and Fire Protection, the California Highway Patrol, the Department of Veterans Affairs, the Department of General Services, the California Military Department, and the California Department of Parks and Recreation.

> "CALPIA manages over 100 manufacturing, service and consumable enterprises in 34 CDCR institutions..."

An offender welds material at Folsom State Prison

Career Technical Education

CALPIA established its CTE program[4] in 2006. The program began as a pre-apprenticeship program with instruction administered by journeyman instructors under contract from local trade labor unions, representing Carpentry, Construction Labor, and Iron Working. When released, program graduates can obtain employment in their specific apprenticeship fields. CALPIA provides graduates trade tools and pays their first year of union dues.

The CTE program grew to include Marine Technology (Deep Sea Diving) and Facilities Maintenance, and in 2014, CALPIA added a technology component to its CTE portfolio, with Autodesk Computer-Aided Design (AutoCAD) and Computer Coding (Code.7370). In 2016 and 2017, CALPIA added Culinary and Roofing. The Governor's 2015-16 Budget Act included $2.6 million in CDCR's base budget for rehabilitative program contracts with CALPIA. In 2017, CDCR and CALPIA entered into additional CTE development and operations agreements for an additional $3.3 million.

To date, CALPIA's CTE program has been one of the most effective rehabilitation programs in the United States. Since 2006, more than 2,000 offenders have graduated with an accreditation from a CALPIA CTE program. In 2012, the Prison Industry Board approved an assessment report of CALPIA's CTE program, using offender data gathered from FYs 2007–08 through 2010-11. The report shows, cumulatively, that CALPIA's CTE graduates from that time period have an overall recidivism rate of 7.13%. The full study is available on CALPIA's website at calpia.ca.gov. CALPIA currently has an independent third party follow-up study in progress to update the recidivism data during FY 2017–18.

4. 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's CTE program offers training in the following fields:

1. Carpentry
2. Iron Working
3. Construction Labor
4. Commercial Diving
5. Facilities Maintenance
6. AutoCAD (Computer-Aided Design)
7. Code.7370 (Computer Coding)
8. Culinary
9. Roofing

Culinary Instructors help women prepare a five-course meal

Culinary graduate receiving certification and college credits

Joint and Free Venture Program

On behalf of CDCR, CALPIA manages California's Joint and Free Venture Programs. The Joint and Free Venture Programs were established in 1990 upon passage of Proposition 139, "The Prison Inmate Labor Initiative." The initiative created rehabilitative opportunities for offenders in both adult institutions and juvenile facilities to gain valuable work experience and job-skills training. The Joint Venture Program (JVP) operates in California's adult correctional institutions and the Free Venture Program (FVP) operates within California's juvenile facilities. Offenders work for private companies while serving their time and are able to earn comparable industry wages. The programs are available to businesses that plan to expand, open a new enterprise or division, return from offshore, or relocate to California from another state. Both programs prepare offenders for successful reintegration into the community. As of October 2012, local government correctional facilities also could participate in the JVP.

The wages an offender earns through this program are subject to deductions for room and board, crime victim restitution, prisoner family support, trust account, and mandatory offender savings for release. In addition, offender-employees pay federal and state taxes. State law mandates the deduction of 20% of the offenders' net wages to compensate programs that benefit victims of crimes. The JVP disbursed more than $60,798 for crime victim restitution in FY 2016–17.

Participants in the Free Venture Program, Merit Partners, help refurbish computers

Inmate Employability Program

IEP

Enhancing Opportunities for Successful Re-Entry

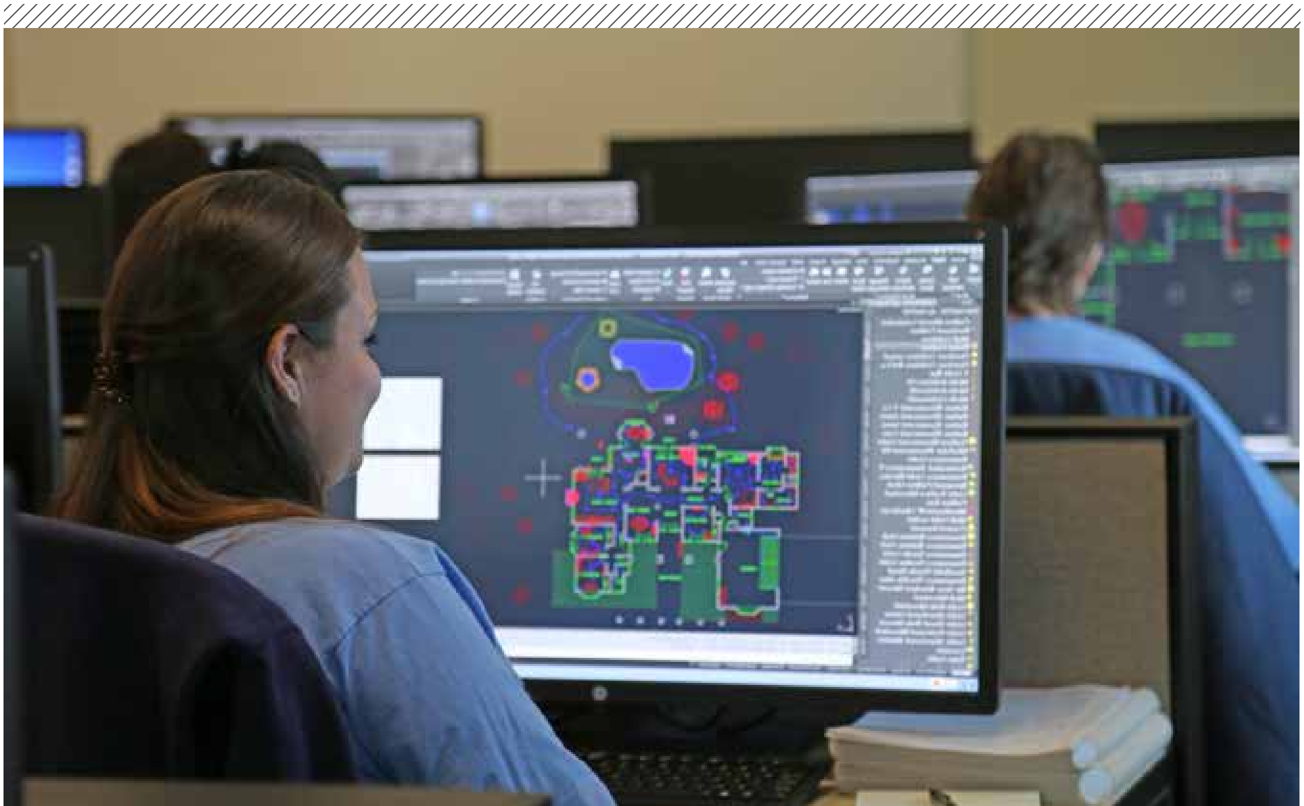
Industry Employment Program

The Industry Employment Program (IEP) enhances the ability of offenders to obtain meaningful jobs upon release. IEP helps offenders successfully transition from prison to the community and the workforce. The program is a vital part of CALPIA's efforts to reduce recidivism and contribute to safer communities.

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

All CALPIA offenders must earn a high school diploma or equivalency within two years of joining CALPIA to continue participating in CALPIA programs.

IEP provides transition-to-employment services and information. An appointment at the Department of Motor Vehicles is arranged to provide valid identification within a week after release. Information and request forms are provided for a Social Security card, birth certificate, child support, and veteran's benefits. IEP also educates offenders on how to obtain copies of birth certificates and provides them and their families access to a statewide community resource guide to assist in their successful transition home.



A female offender works on a landscape design project as part of CALPIA's AutoCAD program at the Green Valley Training Center

Code.7370 participants discuss their assignment

Code.7370 expands to the California Institution for Women

CALPIA Prepares Offenders for Productive Lives and Reduces Incarceration Costs

Released offenders who participated in CALPIA programs are less likely to return to prison. Although there may be other relevant factors that contribute to lowering recidivism, CALPIA participants are significantly more likely to become productive citizens who are able to support themselves, instead of costing California taxpayers by returning to prison.

Future Measurement of Recidivism

In 2017, CALPIA began collecting return-to custody data of CALPIA participants. CALPIA is utilizing the services of an independent research university to compile and assess the data. This measurement will provide both CALPIA and the public the most accurate evaluation of the rate of recidivism among participants of both traditional CALPIA correctional industry programs and CTE programs.

Accredited Certifications

CALPIA invests in curriculum for offenders, offering more than 120 nationally recognized accredited certifications, such as AutoCAD, computer coding, dental technology, food-handling, laundry, 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.

In FY 2016-17, 559 CALPIA participants received a certificate of proficiency and/or Standard Occupational Code Proficiency certification, and 4,540 participants successfully completed an accredited certification program — a 9% overall increase for both from FY 2015-16. The increase was caused primarily by the opening of IEP enrollment to all CALPIA offenders into TPC Training Systems course 109.1 Industrial Safety and Health and the ongoing activation of the Healthcare Facilities Maintenance program at all institutions.

American Board of Opticianry
- Optician

American Welding Society
- Gas Metal Arc Welding (GMAW-1Mig)
- Gas Tungsten Arc Welding (GTAW-1Tig)
- Gas Tungsten Arc Welding (GTAW-2)
- Gas Tungsten Arc Welding (GTAW-3)

Association for Linen Management
- Certified Linen Technician
- Certified Washroom Technician
- Certified Laundry Linen Manager

CA Department of Food & Agriculture
- Pasteurizer License
- Sampler/Weigher License

Career Technical 7370 Computer Coding
- 7370 Computer Coding Track 1
- 7370 Computer Coding Track 2

Career Technical AutoCAD
- AutoCAD Drafting
- Inventor
- Revit

Career Technical Ironworker
- Core-Classroom Curriculum
- Career Technical Carpentry

Career Technical Culinary
- Core-Classroom Curriculum

Career Technical Laborers
- Lead Worker/Mentor Training

Career Technical Diving
- Rigger Course Program
- Top Side Welder Course Program
- Dive Tender Course Program
- Mixed Gas Operator Course
- Commercial Diver/Commercial Dive

Electronics Technicians Association
- Customer Service Specialist
- Certified Electronics Technician
- Journeyman (Industrial)

Accredited Certifications continued on pages 8 and 9.

Accredited Certifications continued...

Library of Congress – Braille
- Literary Transcribing
- Literary Proofreading
- Mathematics Transcribing
- Mathematics Proofreading
- Music Transcribing
- National Braille Association, Inc.
- Braille Formats - Textbook Formatting

National Braille Association
- Braille Formats - Textbook Formatting

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 and Service for:
- Air Conditioning
- Air Distribution
- Heat Pumps
- Gas Heat
- Oil Heat

Overton Safety Training, Inc. Industrial Forklift
- Hand Truck Forklift
- Construction Forklift

Printing Industries of America
- Sheet-fed Offset Press
- Web Offset Press
- Bindery
- Pre-Press

Productivity Training Corporation
- Dental Technician

Stiles Machinery Inc.
- Intermediate Weeke Machining

TCP Training Systems
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

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

Type: Mechanical System (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

Type: Packaging Machinery (Series 310)
- 311 Introduction to Packaging
- 312 Packaging Machinery
- 313 Casing Machinery

Type: Machine Shop Practices
(Series 320)
- 315 Machine Shop Practice
- 316 Machine Shop Turning Operations
- 317 Machine Shop Shaping Operations
- 323 Machine Shop Job Analysis
- 324 Lathe-Turning Work Between Centers
- 325 Lathe-Machining Work in a Chuck
- 326 Basic Milling Practices
- 327 Indexed Milling Procedures
- 328 Multiple-Machine Procedures

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 System Protection

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

Type: Welding
(Series 420)
- 416 Blueprint Reading for Welders
- 417 Welding Principles
- 418 Oxyfuel Operations
- 419 Arc Welding Operations

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

“CALPIA invests in... **offering more than 120 nationally recognized accredited certifications...**”

Commercial Diving Program at the California Institution for Men

Code.7370 graduates stand proudly with their certificates at a March 2017 graduation

The first graduates from CALPIA's Culinary program at the Folsom Women's Facility

Training Highlights

Expansion of Rehabilitative Programs

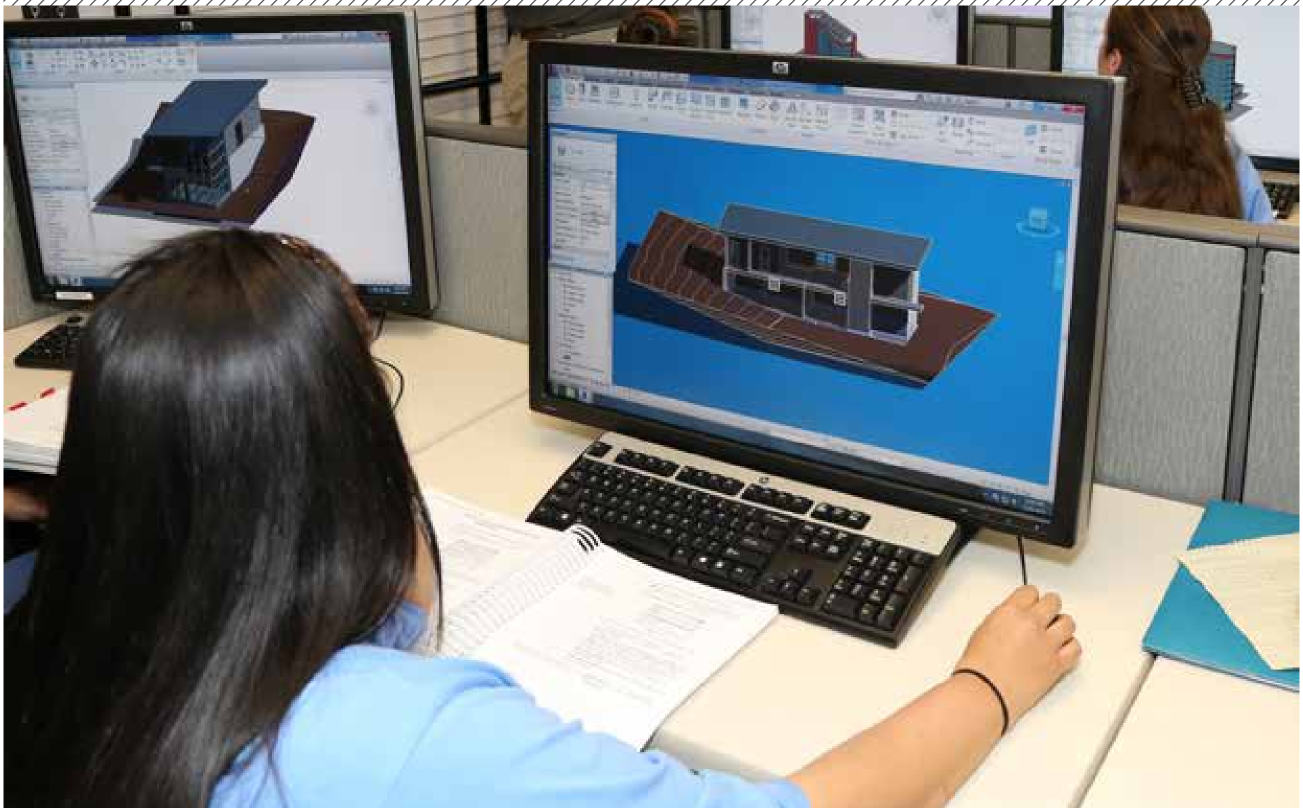
At its June 29, 2017 meeting, the Prison Industry Board approved $11.8 million for CALPIA to expand CTE programs as part of the agency's $237.7 million budget for FY 2017-18. The CTE program expansion funds enable CALPIA to extend the highly successful Code.7370 Computer Coding program to Pelican Bay State Prison, California Institution for Women, Central California Women's Facility, and Ventura Youth Correctional Facility; expand the Facilities Maintenance Program to all institutions statewide; and increase the number of pre-apprentice programs CALPIA has in place in partnership with trade unions throughout the State. In FY 2017-18, more offenders will benefit from the expansion of CTE programs, as budgeted offender positions will increase by more than 133%, from 488 to 1,136. Programs that CALPIA will establish or expand include:

- **Code.7370**

  This 18-month, technology-based training program operates under the supervision of CALPIA instructors, technology business professionals and volunteers with the non-profit organization The Last Mile. Offenders learn basic computer skills, coding instruction, and website and application design. The Code.7370 program curriculum utilizes proprietary program architecture to simulate a live coding environment without internet access. To date, CALPIA's Code.7370 program is offered at San Quentin State Prison but will expand, in partnership with CDCR, to Pelican Bay State Prison, California Institution for Women, Central California Women's Facility, and Ventura Youth Correctional Facility during FY 2017-18.


Representatives from CDCR, CALPIA, and The Last Mile open new Code.7370 program at the California Institution for Women

Offenders in CALPIA's Code.7370 work on projects while community business leaders visit the program at San Quentin State Prison



CALPIA participant from the Folsom Women's Facility works on Revit, a 3-D modeling software application

- **AutoCAD**
  CALPIA's AutoCAD program curriculum includes instruction in CAD, Revit, and Inventor. This 3-12 month technology based training program is the first of its kind in the nation since it is the only Autodesk Authorized Training Center (ATC) at a state prison. The AutoCAD program based at the Folsom Women's Facility provides industry-accredited certifications. The certifications earned by graduates help them obtain jobs in architectural, mechanical, and engineering fields. In FY 2017-18, CALPIA will expand this program to the Central California Women's Facility and Pelican Bay State Prison.

- **General Facilities Maintenance and Repair (GFMR)**
  This six-month training program offers offender-participants to receive training in a diverse curriculum regarding building maintenance and repair. The training enables offenders to qualify to take state employment examinations and apply for positions such as Custodian or Maintenance Technician with the Department of General Services upon release. This new program will be established statewide.

> "This 3-12 month technology based, training program is the first-of-its kind in the nation since it is the only Autodesk Authorized Training Center (ATC) at a state prison."

CALPIA's Pre-Apprentice Roofing program

- **Pre-Apprentice Roofing**

  This six-month training program operates under the supervision of CALPIA instructors and journeymen affiliated with United Union of Roofers, Waterproofers and Allied Workers. Offenders will learn principles of general safety, roofing repair, and familiarity with tools and materials of the trade. Graduates of the program may ultimately obtain employment with the Union upon release. This new program will be offered at Folsom State Prison, California State Prison-Solano, San Quentin State Prison, Wasco State Prison, and the Substance Abuse Treatment Facility.

- **Pre-Apprentice Construction Labor**

  This six-month offender training program works under the supervision of journeyman professionals from the Northern and Southern California Construction and General Laborers Unions. Pre-Apprentice Construction Labor graduates earn accredited certifications and are eligible for placement in full-scale apprenticeship programs upon release. This program is already operating at Folsom Women's Facility, California Institution for Women, San Quentin State Prison, and Folsom State Prison. The program is currently being expanded to California Institution for Men, Central California Women's Facility, and N.A. Chaderjian Youth Correctional Facility.

- **Pre-Apprentice Carpentry**

  This six-month training program operates under the supervision of journeyman professionals working with the Northern and Southern California Carpenters unions. Offenders learn blueprint reading, framing and general carpentry skills. After completion of training, graduates are eligible for placement in full-scale apprenticeship programs. This program is already operating at Folsom Women's Facility, California Institution for Women, Folsom State Prison, and Central California Women's Facility and will expand to California Institution for Men.

Pre-Apprentice Carpentry program at Green Valley Training Center

Building New Technology Training Centers

In 2017, CALPIA completed construction of the new Autodesk-Authorized Training Center at CALPIA's Green Valley Training Center. The new technology center provides programming to 56 offenders from Folsom Women's Facility. The program curriculum includes instruction in CAD, Revit, Inventor, and Coding. Certifications in these programs will help offenders obtain jobs upon release in architectural, mechanical, and engineering fields. The new center offers an efficient learning environment with technology capabilities to accommodate future computer advancements. Inmates at Folsom State Prison and Folsom Women's Facility designed and constructed the new state-of-the-art building.

CALPIA and CDCR continue to construct and manage a new technology training center at San Quentin State Prison, which will provide more technology-based rehabilitation programs. The center includes the addition of a new Joint Venture Program, The Last Mile Works. The new technology center uses sophisticated computer hardware assembly that enables stand-alone delivery of all customer projects in a realistic, internet-like fashion while maintaining absolute separation from any offender internet connectivity. CALPIA also contracted to have a Learning Management System on a canvas platform, which enables instructors to deliver the same lesson and video content from San Quentin to remote locations, such as Pelican Bay State Prison in Crescent City.

Substance Use Disorder Treatment Program

In 2016, CALPIA continued its partnership with CDCR to pilot an integration of work and treatment programs at co-located sites. The pilot Substance Use Disorder Treatment (SUDT) program allows offenders the opportunity to participate in a CALPIA program on a half-time basis and also receive needed treatment to address their substance use disorder needs during the other half of their day. The six-month SUDT component is administered by a contracted provider. All participants who complete the program are partnered with a transitional counselor to plan for after-incarceration and treatment. The SUDT program is now available at Folsom State Prison, Avenal State Prison, California Correctional Institution, California Institution for Men, California Men's Colony, California State Prison-Corcoran, and Valley State Prison. More than 100 offenders are taking part in the SUDT program.

Culinary College Credits

CALPIA expanded its CTE portfolio to include a new Culinary Arts Management program at the Folsom Women's Facility in FY 2016–17. CALPIA partners with Cosumnes River College in which graduates earn up to 13 college credits. This 6-12 month program offers courses in Introduction to Culinary Arts Management, Culinary Sanitation & Safety, Quantity Food Production, Food Theory and Preparation, and Culinary Customer Service.

CALPIA's Culinary program offers up to 13 college credits

Financial Activity of CALPIA

Financial Activity

In January 2018, accounting firm Macias Gini & O'Connell (MGO), issued its audit report of CALPIA's financial statements for FY 2016-17 with a qualified opinion due to the inability to audit the net pension liability as of June 30, 2016. MGO did not identify any material weaknesses or significant deficiencies with CALPIA's financial statements.

Financial Overview

CALPIA recorded a loss in net position of $53.9 million in FY 2016-17 and a gain in net position of $10.6 million in FY 2015-16, for a total $64.5 million decrease in net position between the two years. This decrease of $64.5 million in net position primarily results from a $62.6 million cash transfer by the Department of Finance from the Prison Industry Revolving Fund to the General Fund during FY 2016-17, contributing to a significant increase in expenses and a financial loss for CALPIA.

In FY 2016-17, CALPIA revenues increased by $14.7 million, or 6.7% from FY 2015-16 to $233.5 million. Gross profit increased by $2.9 million to $59.9 million, consistent with the increase in revenue.

The FY 2017-18 CALPIA Annual Plan predicts revenues of $237.7 million, an increase of $4.2 million from FY 2016-17. The budget anticipates a net position of $0.9 million, compared to the $53.9 million loss in FY 2016–17.

Operating Revenues

CALPIA's revenues increased $14.7 million, or 6.7%, between FY 2015-16 and FY 2016–17.

Statement of Net Position

CALPIA's Statement of Net Position at June 30, 2017, reflects current assets of $115.6 million, which is approximately five times greater than current liabilities of $21.8 million, and approximately 0.7 times the amount of total liabilities of $173.6 million. These ratios are financial indicators that CALPIA is well-positioned to meet its short-term and long-term obligations and is 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.

Offender Positions

For FY 2017-18, CALPIA's Annual Plan includes 7,729 offender positions.

Civil Service Positions

In FY 2017-18, CALPIA anticipates employing 1,246 civil service positions, a 1.6% increase from the previous year; the increase is due to the continued expansion of the Healthcare Facilities Maintenance program and the establishment of General Facilities Maintenance and Repair program statewide.

CALPIA's Pre-Apprentice programs partner with local trade unions including Laborers 185

Successful Outcomes

CALPIA wants the men and women in its programs to be successful and never return to prison. CALPIA ensures offenders have job skills, good work habits, basic education, and job support when they are released. Offenders receive industry accredited certifications that translate to employment. Thousands of offenders have received training through CALPIA and those men and women now have jobs in the community.

Aly Tamboura

Aly Tamboura graduated from the first class Code.7370 at San Quentin State Prison in 2014 and was one of the first men hired by the software development Joint Venture Program, *The Last Mile Works*. During his time in the computer program he met Facebook CEO Mark Zuckerberg.

After being released, Zuckerberg hired Tamboura who now works as Manager of Technology and Program Delivery for the Chan Zuckerberg Initiative.

Former CALPIA Code.7370 graduate Aly Tamboura works for the Chan Zuckerberg Initiative

"*By promoting collaboration and creativity, Code.7370 prepared me for employment in software engineering and for tech culture. I commend CALPIA, CDCR and The Last Mile for having the vision to look for new and innovative programs to offer career training in correctional facilities.*"

— Aly Tamboura

Aly Tamboura meets Facebook founder Mark Zuckerberg during Zuckerberg's visit to Code.7370

Christopher Schuhmacher learns how to code in CALPIA's Code.7370 program at San Quentin State Prison

Christopher Schuhmacher

Chris Schuhmacher also graduated from that first class of computer coders at San Quentin State Prison and was also hired by The Last Mile Works while in prison. He now works as a Software Engineer at Fandom, a global entertainment media company powered by fan passion.

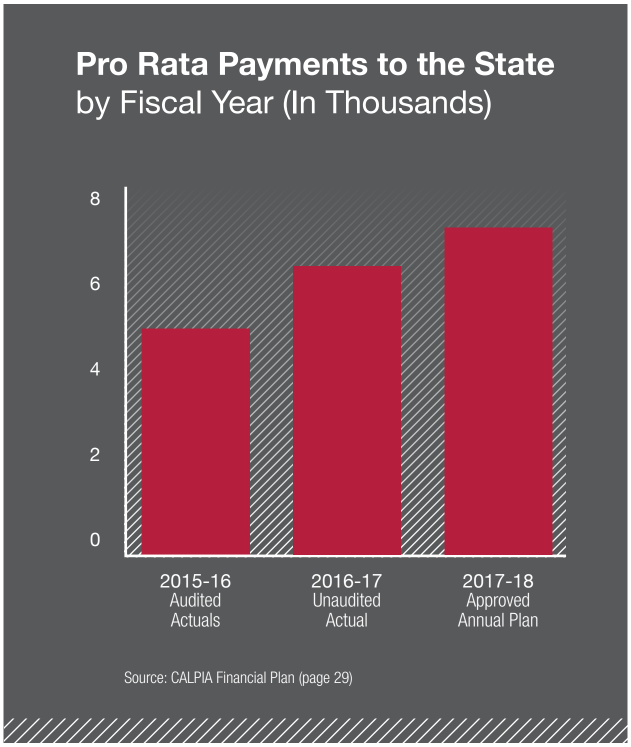
"During my time at San Quentin, CALPIA and The Last Mile's Code.7370 gave me the opportunity to realize my dreams of becoming a Software Engineer for FANDOM. No matter where you're at, nothing is impossible. Continue to work hard and 'Believe in the Process!'"

— **Christopher Schuhmacher**

Schuhmacher visits with business leaders

Schuhmacher now works as a Software Engineer for FANDOM

"No matter where you're at, nothing is impossible. Continue to work hard and 'Believe in the Process!'"



Pro Rata Payments to the State

CALPIA receives no Budget Act appropriation. However, CALPIA must pay the State a pro rata share of overall costs of State services (Legislature, Department of Finance, Controller, Treasurer, etc.). CALPIA's FY 2016-17 actual pro rata payment was \$6.4M and is anticipated to be \$7.3M for FY 2017-18, an increase of \$0.9M.

Postemployment Benefits Other than Pensions (OPEB)

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. The State Controller's Office (SCO), which administers GASB 45 accounting requirements for the State of California, assessed CALPIA's share of the State's net unfunded OPEB obligation at \$9.5 million in FY 2016-17, an increase of \$0.6 million from the prior year of \$8.9 million. CALPIA records these amounts as a Selling and Administrative expense on the operating statement in addition to the actual payments made for OPEB. CALPIA is one of the few State agencies to fund the OPEB obligation from its own proprietary fund.

As of June 30, 2017, CALPIA's balance sheet reflected a net OPEB obligation of \$72.2 million. CALPIA has funded this obligation through cash reserves. However, per the FY 2017-18 Budget Act, CALPIA is no longer authorized to set aside funds for these future liabilities.

GASB 68, Accounting and Financial Reporting for Pensions

Effective FY 2014-15, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, issued an amendment of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, which requires state and local governments to report their Net Pension Liability (NPL). The primary objective of GASB 68 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 related to financial support for pensions 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 inter-period equity, and creating additional transparency.

As of June 30, 2017, CALPIA reported a total liability of \$54.3 million for its proportionate share of the State's Net Pension Liability. Since the SCO is record keeper of state employees' pensionable compensation information, the SCO chose to use the prior year-end as the measurement date, thus measuring the NPL as of June 30, 2016. The SCO did not use retirement contributions paid by each state entity and employee as a basis for determining the percentage calculations because these contributions are based on different plan rates and are identified at the fund level rather than at the retirement plan level.

Significant Impacts

Offender Vacancies

With the continuing shift of the CDCR adult offender population at institutions as well as recent voter propositions, CALPIA continues to experience vacancies in its training programs. CALPIA works closely with CDCR to ensure that any potential impacts to CALPIA enterprises are minimized and that training and employment opportunities are maximized utilizing the remaining population of offenders. In FY 2016-17, the average monthly vacancy for CALPIA offender positions was 1,903 positions statewide, or 26.8%.

CALPIA Not Obligated to Fund OPEB or NPL

Since FY 2006-07, CALPIA had accrued its OPEB liability on an annual actuarial basis, as apportioned by the SCO. However, unlike any other state agency, CALPIA took the additional step of funding its OPEB liability annually through an appropriation by the Prison Industry Board. On June 30, 2016, the SCO calculated CALPIA's share of this unfunded liability to be $62.6 million. On February 10, 2017, the SCO transferred the $62.6 million from the Prison Industry Revolving Fund to the General Fund. The transfer was approved by the Department of Finance, contributing to an increase in expenses and causing a loss for CALPIA. The Department of Finance opined that CALPIA is not obligated in the future to fund either OPEB or NPL.

Application of State Sales Tax

Per the Board of Equalization, unlike any other manufacturer, CALPIA pays sales tax on purchases of raw materials. CALPIA paid over $5.7 million in Sales and Use Tax to its vendors in FY 2016-17, a 4.5% increase from FY 2015-16. CALPIA does not charge state customers sales tax on their purchases.

Cash for Designated Liabilities

CALPIA maintains cash levels to meet liabilities, OPEB, NPL, accrued employee vacation, and workers compensation liabilities. In FY 2017-18, CALPIA will no longer set aside funds for OPEB or NPL unfunded liabilities, as instructed by the Department of Finance, which has opined that CALPIA is not obligated to fund these specific liabilities.

CALPIA Does Not Set State Employee Wages

For FY 2016-17, the California Department of Human Resources (CalHR) approved a 5.0% General Salary Increase (GSI) for excluded, non-statutory exempt employees for Bargaining Units 9 and 10 effective July 1, 2016. In addition, CalHR approved a 3.0% GSI for exempt employees, effective October 1, 2016. The combined increase in salary expenses for CALPIA is estimated to be $3.1 million. CalHR approved a one-time bonus of $2,500 for state workers represented by Services Employees International Union (SEIU) Local 1000, with an expense of approximately $0.9 million for CALPIA.

For FY 2017-18 CalHR approved a 4.0% GSI for excluded, non-statutory exempt employees. Bargaining Units 9, 2, and 10 will receive a GSI of 2.0%, 5.0%, and 2.0% respectively. SEIU and International Union of Operating Engineers (IUOE) members will receive a GSI of 4.0%, except for Bargaining Unit 12 which will receive a 3.5% increase. The combined estimated increase in CALPIA's salary expense is $2.4 million.

For FY 2018-19, the effects of the SEIU 1000 contract ratification could increase salary expenses for CALPIA by as much as $2.1 million.

STATE SALES TAX

UNLIKE ANY OTHER MANUFACTURER, CALPIA PAYS SALES TAX ON PURCHASES OF RAW MATERIALS

CALPIA PAID OVER $5.7 MILLION IN SALES AND USE TAX TO ITS VENDORS

CALPIA DOES NOT CHARGE SALES TAX TO STATE CUSTOMERS

Significant Future Changes

Expansion of Tech Programs

CALPIA continues to expand technology programs at additional prisons. At its June 29, 2017 meeting, the Prison Industry Board approved $11.8 million to invest in CTE program expansions. The new program expansions include Code.7370 and AutoCAD.

CALPIA partners with CDCR, the San Francisco-based non-profit organization The Last Mile, and software provider Autodesk to make great strides in inserting technology into offender rehabilitative programs. Expanding technology programs is an integral part of the State's efforts to bring offenders into the 21st century prior to their release.

Code.7370 has expanded to four other institutions, with the most recent expansion at the California Institution for Women. In 2018, CALPIA and CDCR will expand coding and Autodesk technology-based rehabilitative programs to offenders in other California institutions, including Pelican Bay State Prison, Central California Women's Facility, and Ventura Youth Correctional Facility.

U.S. Department of Labor Apprenticeship

CALPIA continues to expand training opportunities for offenders through a partnership with the United States Department of Labor and the California Department of Industrial Relations. Federal and state certified apprenticeship certificates are available to offenders for achieving proficiency in various CALPIA programs and enterprises. Journey workers are offenders working in CALPIA enterprises who meet the hour requirements for both classroom education and on-the-job training and whom CALPIA's Industrial Supervisors rate as proficient in the skills required to successfully perform their jobs.

New Learning Management System

CALPIA plans to offer a new Learning Management System. CALPIA and CDCR contracted with the Joint Venture Program The Last Mile Works to develop the new software system to facilitate technology course instruction in all facilities. The prison environment is often not conducive to high-tech learning due to safety and security concerns and also access to qualified trainers because of the remoteness of some prison facilities. The new Learning Management System enhances the ability to distribute Code.7370 course content to institutions utilizing the curriculum statewide. The new software utilizes the open-source platform Canvas and has been customized to work in the non-connected environments in prison. All sites that offer Code.7370 will have access to the system to ensure students are provided with consistent teaching materials, resources and course content. The Learning Management System will also operate as a customized off-line search engine that will allow offenders access to a large array of resource content provided by outside companies.

> “Expanding technology programs is an integral part of the State's efforts to bring offenders into the 21st century prior to their release.”

CTE Viticulture Program

CALPIA plans to establish a new CTE offender training program in viticulture in FY 2017-18. The Viticulture program will provide more training opportunities for offenders at Salinas Valley State Prison in all aspects of vineyard planning and management. The full curriculum will be administered in partnership with Hartnell Community College.

E-Waste Program

On June 29, 2017, the Prison Industry Board approved the expansion of CALPIA's Electronic Waste (E-Waste) Collection and Computer-Refurbishment program as a statewide enterprise to two facilities in southern California, for a total of four locations statewide. Through a collaborative effort between CALPIA, CDCR, the Department of General Services, and the California Department of Technology, this statewide enterprise will ensure a cost-effective information technology solution for State agencies and provide for a coordinated comprehensive e-waste and surplus information technology disposal plan.

CALPIA's alliance with the Department of Technology allows for refurbished computers to be provided to schools and non-profit organizations at no cost to help bridge the digital divide. Since 2013, female offenders from the Folsom Women's Facility have participated in the program at the recycling center in Sacramento County and receive industry-recognized certifications. Items that can be refurbished are sent to N.A. Chaderjian Youth Correctional Facility's Free Venture Program, where non-profit Merit Partners employ wards to refurbish and package computers. The Free Venture Program provides on-the-job training for participants in electronic asset reclamation and helps prepare them for successful community reentry upon release. With the Board-approved program expansion, CALPIA's E-Waste program has expanded to include an E-Waste collection point at the California Institution for Men in Chino and a collection point of computer refurbishing at the Ventura Youth Correctional Facility in Ventura.

CALPIA's E-Waste program expands providing more jobs for offenders

Enterprise Improvements

General Facilities Maintenance and Repair Program

The General Facilities Maintenance and Repair program will operate in all 34 CDCR institutions by the end of FY 2017-18. The program will provide over 400 offender assignments statewide. CALPIA received Board approval to activate this new statewide CTE program. A six-month training program utilizing recognized accredited source material, the General Facilities Maintenance and Repair programs provides offenders up to 21 weeks of milestone credits and utilizes work orders in health care facilities for practical application. Upon graduation from the program, trained offenders can be assigned to CDCR's Plant Operations and Inmate Ward Labor programs to assist institutions in addressing needed infrastructural repairs in a cost-effective manner.

Healthcare Facilities Maintenance

CALPIA's Healthcare Facilities Maintenance program continues to expand as additional health care space and projects have been added. The Healthcare Facilities Maintenance program supports CDCR's Health Care Facility Improvement Projects, an endeavor that makes needed renovations and additions to existing health care facilities within institutions. The projects and potential spaces are part of the Statewide Medication Distribution Improvements. The projects are divided into sub-projects and managed by CDCR's Facility Planning, Construction and Management. There are 225 sub-projects statewide, resulting in an increase of areas requiring maintenance by almost 800,000 square feet upon completion.

Water Conservation for Laundry

CALPIA's Laundry enterprise continues to operate more efficiently and reduce its environmental impact. CALPIA committed to new laundry water reclamation projects at the California Men's Colony, Richard J. Donovan Correctional Facility, Wasco State Prison, and California State Prison-Corcoran. The new systems will reclaim approximately 60-65% or more than 35 million gallons of waste water annually produced by laundry operations.

Optical Automation

CALPIA moves towards providing automation equipment in the Optical enterprise. The Optical lab at the California State Prison-Solano recently installed a fully automated lens surfacing solution. Offenders are currently receiving training on day-to-day maintenance and operation of this new equipment which is available at major optical labs all over the world. Automation is gaining rapid growth in optical eyewear manufacturing operations. Moving towards automation will have a profound effect in helping offenders with post-release employment. Offenders in the optical lab will learn not only conventional methods, but the latest and most prevalent technologies of automation helping them with a well-rounded resume.

"The new systems will reclaim approximately 60-65% or over 35 million gallons of waste water annually produced by laundry operations."

New optical automation equipment helps offenders learn the latest technologies

CALPIA operates new laundry reclamation systems

New Products

License Plates

CALPIA's long term relationship with the Department of Motor Vehicles continued to flourish in FY 2016-17. Both organizations achieved record license plate revenue as new car sales continued its strong pace and specialty plate sales bolstered the growth. The Legacy Plate option for vehicles exceeded sales forecasts, as many Californians made the choice to display the "vintage inspired" black and yellow plates from the past on their new vehicles. In FY 2016-17, Legacy Plate unit sales nearly tripled from the previous year as over 535,000 plates were sold representing 10.6% of total license plate units sold. A continued strong rate of Legacy Plate sales is expected for FY 2017-18. Another new and exciting California specialty plate promoting Breast Cancer Awareness is scheduled for roll out in FY 2017-18.

Metal Products

CALPIA Metal Products showed another year of overall strong sales revenue in FY 2016-17. CDCR Institutional Metal volume was driven mostly by CDCR's ongoing Health Care Facility Improvement Project efforts, and in addition, one segment of the Metal Products enterprise that saw explosive growth last year was the Vehicle Operating Unit (VOU), located at California State Prison-Solano.

"The Legacy Plate option for vehicles exceeded sales forecasts."

535,000
LEGACY PLATES SOLD

During FY 2016-17, CDCR and CALPIA partnered together to generate nearly a million dollars in revenue as 132 vehicles were outfitted to meet CDCR design requirements. The VOU will continue to move through the current demand of CDCR's fleet acquisitions and new purchases in FY 2017-18.

Sustainability in Products and Manufacturing

In 2016, CALPIA received the highest standard of certification for sustainability under the leading Business and Institutional Furniture Manufacturers Association (BIFMA). BIFMA creates international standards for the creation and safety of furniture products. CALPIA's Manufactured Systems Furniture lines of Century Systems and Legion were both awarded level®, BIFMA's evaluation and certification system for environmentally-preferable and socially-responsible office furniture. The level® program has three performance tiers: level® 1, 2, and 3. The higher the number, the more criteria are considered and met. In 2017, CALPIA progressed from level® 1 to level® 2. Also, CALPIA's systems furniture and Height Adjustable Table line achieved the most transparent Indoor Air Quality (IAQ) standard for furniture building, SCS Indoor Advantage Gold.

Height-adjustable tables

Height Adjustable Tables

CALPIA continues to support the ergonomic needs of state employees by selling height-adjustable tables. With technology improvements and cost reductions, CALPIA awarded a new contract for the tables and is able to offer a higher quality product at a lower price. CALPIA sells height-adjustable tables both as a stand-alone product and also as part of the space planning of cubicles, meeting the goal of the Department of General Services for delivering office spaces and cubicles of the future.

Ergonomic seating

Seating

CALPIA introduced new ergonomic seating to meet the increasing customer demand for chairs that combine striking design with exceptional comfort. The new chairs come with a variety of options including two headrest styles and mesh back styling. In addition to new chairs, CALPIA updated the seating upholstery offering to include classic colors and patterns. The upholstery is Greenguard Gold Certified and meets stringent environmental standards. The Quickship chair stocking program reached record sales numbers due to increased marketing efforts. Now in its second year, the CALPIA Showroom located in Sacramento, California, features Quickship chairs. Every customer who visits the showroom receives information on the benefits of the program.

Fabric

CALPIA continues to expand its fabric product line with key customers. CALPIA updates sizing, patterns, and specifications to ensure the needs of its customers are met. Some of these products include the fire protectant shroud worn by firefighters from the Department of Forestry and Fire Protection's brown twill pants for the California Conservation Corps, and maintenance uniform garments for the Department of Transportation. Fabric continues to be an integral component of CALPIA's mission, with eight institutions producing garments, socks, flags, and a multitude of items.

For a copy of the 2016–21 Strategic Business Plan, please visit:

https://www.calpia.ca.gov/about/2016-2021-calpia-strategic-business-plan/

ISO 9001:2008

Improved Processes

Strategic Business Plan

In January 2016, CALPIA launched a refresh of its Strategic Business Plan for the period 2016-2021. The plan sets the course of future goals based on CALPIA's mission and core values. To view a copy of CALPIA's 2016-2021 Plan, please visit www.calpia.ca.gov/about/2016-2021-calpia-strategic-business-plan/

ACA Accreditation

CALPIA gained accreditation by the American Correctional Association (ACA) in January 2018. CALPIA achieved 100% compliance for all standards assessed. The audit involved assessments of CALPIA operations and processes based on national standards that represent fundamental correctional industries best practices. These best practices ensure staff and inmate safety and security, enhance staff morale, improve record maintenance and data management capabilities, assist in protecting the agency against litigation and improve the function of the agency at all levels.

ISO Certification

CALPIA is one of three state correctional industries in the nation that is certified by the International Organization for Standardization (ISO). ISO sets international standards and best practices to ensure product and service continuity. Founded in 1947, ISO is a worldwide federation of national standards bodies from 162 countries, with one standards body representing each member country. The United States is represented by the American National Standards Institute (ANSI). The ISO member organizations collaborate in the development and promotion of international standards.

ISO is the foundation of the CALPIA's management systems that guide quality management and services, prevent problems, and provide confidence over time to ensure intended results are achieved. Furthermore, ISO provides strategic tools to reduce costs by minimizing waste and errors, increasing productivity, and ensuring the continual improvement of CALPIA business processes.

Currently, CALPIA is ISO 9001:2008 certified in the following business lines: modular office furniture, wood furniture and dormitory furniture, modular buildings, cleaning products, mattresses, textiles, and wildland fire protection apparel. In FY 2015-16, CALPIA obtained ISO certification for the management of the Healthcare Facilities Maintenance program. In FY 2016-17 and FY 2017-18, CALPIA will seek ISO certification for the Laundry Services enterprise.

E-Waste

In support of the Governor and Legislature's goal of 75% recycling, composting or source reduction of solid waste by 2020, CALPIA started a computer-recycling and refurbishing program. This program provides California State agencies and departments a comprehensive, seamless solution for disposing of e-waste. CALPIA recently obtained ISO 14001, Environmental; OHSAS 18001, Health and Safety; and R2, Responsible Recycling certifications. These certifications emphasize quality, safety, environmental performance, and transparency.

Lean Manufacturing

CALPIA continues training and implementation of Lean Manufacturing in various enterprises, including the furniture enterprises at San Quentin State Prison and Avenal State Prison.

Lean Manufacturing is a process-improvement system that identifies and eliminates waste, understands customer needs, analyzes business processes, and institutes proper measurement methods. CALPIA continues training and implementation of Lean Manufacturing in various enterprises.

CALPIA ISO 9001:2008 Certifications:

- Modular Office Furniture
- Wood Furniture and Dormitory Furniture
- Modular Buildings
- Cleaning Products
- Mattresses
- Textiles
- Wildland Fire Protection Apparel

Vehicle Procurement Authority

On June 29, 2017, the Prison Industry Board approved the implementation of new policy and regulations with respect to vehicle purchases and usage for CALPIA industries. These regulations augment the PIB's existing authority, established pursuant to Senate Bill 1574, passed in 1982 and codified under Penal Code Section 2808(g), to establish and implement procedures for procuring any goods and services needed for the operation of CALPIA enterprises. The Prison Industry Board had previously approved and established general independent procurement authority for CALPIA in May 2005.

Refurbished computers delivered to a local school in need

Summary of Prison Industry Board Action Items – 2017

MEETING DATE	ITEM NUMBER		ACTION ITEMS
01/30/17	17-0130-383-AI	**A**	Approval of CALPIA's Report to the Legislature, FY 2015-2016
04/12/17	17-0412-384-AI	**A**	Designation of Cash, Fiscal Year 2016-2017
	17-0412-385-AI	**B**	Sensitive Positions Designation for CALPIA Employees for the Purpose of Substance Abuse Testing
06/29/17	17-0629-386-AI	**A**	CALPIA Establishment of a Statewide Electronic Waste (E-Waste) Collection and Computer-Refurbishment Enterprise
	17-0629-387-AI	**B**	Approval of CALPIA's Proposed Annual Plan for Fiscal Year 2017-2018
	17-0629-388-AI	**C**	Approval of Designation of Cash to Support CALPIA's Fiscal Year 2017-2018 Budget Proposal
	17-0629-389-AI	**D**	Recommended Action: Assembly Bill 1092, "Medi-Cal: eyeglasses" (Cooley)
	17-0629-390-AI	**E**	Recommended Action: Assembly Bill 1068, "An act to add and repeal Section 2819 of the Penal Code, relating to the Prison Industry Authority" (Gonzalez Fletcher)
09/29/17	17-0920-391-AI	**A**	Amend Regulations: Title 15, Division 8, Section 8004 "Participation" and Section 8004.1 "CALPIA Inmate Worker Hiring Standards and Requirements"
	17-0920-392-AI	**B**	Proposed Regulation: Title 15, Division 8.5, Section 8902 "Procurement"
	17-0920-393-AI	**C**	Approval of CALPIA Procurement Policy and Procedure for the Purchase of Vehicles and Maintenance & Repair of Vehicles
12/19/17	17-1219-394-AI	**A**	Approval of CALPIA's Proposed Mid-Year Revise for Fiscal Year 2017-2018
	17-1219-395-AI	**B**	Approval of Designation of Cash to Support CALPIA's Fiscal Year 2017-2018 Mid-Year Review Budget Proposal

Financial Plan (In Thousands)	FY 2014-15 Audited Actual	FY 2015-16 Audited Actual	FY 2016-17 Unaudited Actual	FY 2017-18 Approved Annual Plan
REVENUES				
Manufacturing	$83,185	$91,402	$100,240	$87,875
Services	95,854	100,901	110,460	122,851
Agricultural	28,240	26,501	22,836	26,987
TOTAL REVENUE	**$207,279**	**$218,804**	**$233,536**	**$237,713**
EXPENSES				
Cost of Goods Sold				
Manufacturing	$60,632	$66,208	$69,666	$61,211
Services	63,382	68,339	78,424	94,184
Agricultural	24,909	24,229	21,001	23,366
Total Cost of Goods Sold	$148,923	$158,776	$169,091	$178,761
GROSS PROFIT	**$58,356**	**$60,028**	**$64,445**	**$58,952**
SELLING AND ADMINISTRATION				
Central Office				
Prison Industry Board	$169	$135	$148	$293
Executive Management	404	383	569	373
Legal	740	821	803	662
External Affairs	181	223	232	248
Operations Division	3,107	3,082	3,191	3,781
Health & Safety	449	449	423	513
Marketing Division	3,929	5,022	4,934	5,620
Administration Division				
Administration Mgmt	263	301	435	341
Business Services	950	1,286	1,548	1,255
Management Information Systems	3,815	5,020	5,256	6,272
Human Resources	1,503	1,618	1,602	1,856
Staff Development	812	791	958	1,338
Fiscal Services Division	3,049	3,854	4,306	4,899
Sub-total Central Office	$19,371	$22,985	$24,405	$27,451
Offender Development Programs				
Industry Employment Program	$655	$703	$745	$1,178
Reimbursement	0	0	0	0
Joint Venture/Free Venture	448	624	768	738
Reimbursement	(734)	(647)	(719)	(738)
Career Technical Education	2,310	2,757	3,806	11,847
Reimbursement	(2,159)	(2,599)	(2,599)	(2,761)
Total Offender Development Programs	$520	$838	$2,001	$10,264
Distribution/Transportation	$12,393	$12,672	$13,745	$13,167
State Pro Rata *	4,068	4,872	6,352	7,331
Other Post Employment Benefits **	6,945	8,896	9,535	0
TOTAL SELLING AND ADMINISTRATION	**$43,297**	**$50,263**	**$56,038**	**$58,213**
OPERATING INCOME/(LOSS)	**$15,059**	**$9,765**	**$8,407**	**$739**
Non-Operating Revenues/Expenses	($81)	$561	$441	$326
Legal Settlements ***	$0	($144)	($276)	($150)
Grants	$0	$375	$125	$0
Penal Code 2806 Transfer	$0	$0	($62,600)	$0
NET GAIN/(LOSS)	**$14,978**	**$10,557**	**($53,903)**	**$915**

* The display of Actual and Annual Plan data reflects State Pro Rata removed from Expenses for Cost of Goods Sold, Central Office, Offender Development Programs, and Distribution/Transportation; and displays it on the State Pro Rata line item.

** On June 27, 2017, Assembly Bill No. 103, Sections 37 and 38 were approved by the Governor, pursuant to its authority, and Penal Code Sections 2801 and 2808 were amended. Pursuant to amendments, CALPIA is not required to fund its Other Post Employment Benefits liability.

*** Legal settlements are part of non-operating revenue/expenses, separated for display purposes.

Designation of Cash (In Thousands)	FY 2014-15 Actuals Audited	FY 2015-16 Actuals Audited	FY 2016-17 Approved Annual Plan	FY 2016-17 April 12, 2017 PIB Meeting[1]	FY 2017-18 Approved Annual Plan
Beginning Cash	$83,635	$98,536	$85,895	$110,733	$45,262
Net Cash - Beginning of Year	**$83,635**	**$98,536**	**$85,895**	**$110,733**	**$45,262**
Cash Flows from Operating Activities					
Revenue	$207,279	$218,804	$232,165	$232,165	$237,713
Operating Expenses	(192,220)	(209,183)	(229,671)	(229,821)	(237,124)
Total Operating Income (Loss)	$15,059	$9,621	$2,494	$2,344	$589
Adjustments to Reconcile Operating Income (Loss) to Cash:					
Depreciation	6,388	6,813	7,801	7,801	8,167
Net Effect of Changes In:					
Inventory	(2,119)	774	0	0	0
Deferred Revenue	(437)	(189)	0	0	0
OPEB Obligation	6,945	8,896	10,937	10,937	0
Other	(2,670)	(1,106)	0	0	0
Net Cash Flows from Operating Activities	**$23,166**	**$24,809**	**$21,232**	**$21,082**	**$8,756**
Net Cash Flows - Other					
Capital Expenditures	($8,184)	($13,851)	($9,846)	($9,846)	($15,774)
April 12, 2017 Capital Expenditures	0	0	0	(14,379)	0
Previously Appropriated Capital		0	0	0	(22,001)
Grant Appropriation	0	375	(150)	125	0
Non-Operating Revenues (Expenses)	(81)	561	147	147	326
Miscellaneous Cash Flows[2]	0	303	0	0	0
Penal Code 2806 Adjustment	0	0	0	(62,600)	0
Net Cash Flows - Other	**($8,265)**	**($12,613)**	**($9,849)**	**($86,553)**	**($37,449)**
Net Change in Cash	**$14,901**	**$12,196**	**$11,383**	**($65,471)**	**($28,693)**
Cash on Hand Before Commitments	**$98,536**	**$110,733**	**$97,278**	**$45,262**	**$16,569**
Long Term Liabilities / Commitments					
Accrued Leave Time	$8,435	$9,859	$8,435	$9,859	$9,859[3]
Workers' Compensation Liability	16,415	17,358	16,415	17,358	17,358[3]
Net OPEB Obligation	53,753	62,649	73,933	0	0[4]
Net Pension Liability	25,171	39,717	25,171	0	0[4]
Net Long Term Liabilities	**$103,774**	**$129,582**	**$123,954**	**$27,217**	**$27,217**
Total Cash After Commitments	**($5,238)**	**($18,850)**	**($26,676)**	**$18,045**	**($10,648)**

[1] April 12, 2017 PIB Meeting incorporates FY 2016-17 Approved Mid-Year Designation of Cash.

[2] Interest expense + Proceeds from sale of assets + Interest on Investments - Non-Operating Revenues (Expenses).

[3] FY 2015-16 Actuals Audited used as new data is not available until after the completion of the FY 2016-17 Fiscal Year.

[4] FY 2017-18 Governor's Budget Trailer Bill Language was introduced stating CALPIA does not need to set aside immediate cash for funding retiree health care and pension liabilities above the amounts established

Enterprise Overview (In Thousands)	FY 2017-18 Approved Annual Plan		
	Revenue	Cost of Goods Sold	Gross Profit (Loss)
MANUFACTURING			
Furniture	$14,100	$11,063	$3,037
Metal Products	7,175	$5,538	1,637
License Plates	18,000	$8,209	9,791
General Fabrication	11,000	$8,047	2,953
Bindery	1,700	$1,344	356
Knitting Mill	1,350	$941	409
Fabric Products	22,000	$16,751	5,249
Shoes	3,900	$3,104	796
Mattresses	2,600	$1,947	653
Cleaning Products	5,450	$3,738	1,712
Modular Construction	600	$529	71
SUB-TOTAL MANUFACTURING	**$87,875**	**$61,211**	**$26,664**
SERVICES			
Meat Cutting	$10,483	$8,896	$1,587
Bakery	3,000	1,931	1,069
Coffee Roasting	2,000	1,516	484
Food & Beverage Packaging	25,550	20,853	4,697
Metal Signs	1,700	1,062	638
Printing	5,400	3,293	2,107
Dental Lab	800	488	312
Digital Services	640	383	257
Laundry	14,000	10,456	3,544
Optical	13,000	7,037	5,963
Construction Services & Facilities Maintenance	46,278	38,269	8,009
SUB-TOTAL SERVICES	**$122,851**	**$94,184**	**$28,667**
AGRICULTURAL			
Dairy / Farm	$13,850	$11,533	$2,317
Crops	862	1,440	(578)
Poultry	5,425	5,039	386
Egg Production	6,850	5,354	1,496
SUB-TOTAL AGRICULTURAL	**$26,987**	**$23,366**	**$3,621**
TOTAL	**$237,713**	**$178,761**	**$58,952**

Offender Assignments	FY 2014-15 Audited Actual	FY 2015-16 Audited Actual	FY 2016-17 Unaudited Actual	FY 2017-18 Approved Annual Plan
MANUFACTURING				
Furniture	486	446	406	514
Metal Products	220	225	241	289
License Plates	105	100	114	114
General Fabrication	118	122	126	147
Bindery	69	64	76	100
Knitting Mill	69	68	55	75
Fabric Products	1,143	1,087	1,093	1,270
Shoes	126	130	128	135
Mattresses	33	34	35	41
Cleaning Products	35	38	40	50
Modular Construction	27	14	17	12
SUB-TOTAL MANUFACTURING	**2,431**	**2,328**	**2,331**	**2,747**
SERVICES				
Meat Cutting	62	55	58	66
Bakery	49	56	56	60
Coffee Roasting	16	12	17	23
Food & Beverage Packaging	179	182	241	270
Metal Signs	38	43	34	45
Printing	118	114	105	127
Dental Lab	57	59	59	63
Digital Services	15	16	16	19
Laundry	621	620	589	675
Optical	194	195	189	251
Construction Services & Facilities Maintenance	497	780	836	1,561
SUB-TOTAL SERVICES	**1,846**	**2,132**	**2,200**	**3,160**
AGRICULTURAL				
Dairy / Farm	126	148	139	238
Crops	11	7	4	32
Poultry	36	34	42	47
Egg Production	14	10	12	25
SUB-TOTAL AGRICULTURAL	**187**	**199**	**197**	**342**
SELLING AND ADMINISTRATION				
Statewide Administrative Support	200	182	178	251
On-Time Delivery	20	18	11	46
Central Office	26	29	27	47
Career Technical Education Programs	138	211	239	1,136
SUB-TOTAL SELLING AND ADMINISTRATION	**384**	**440**	**455**	**1,480**
TOTAL	**4,848**	**5,099**	**5,183**	**7,729**

Offender Positions by Location	Average Monthly Filled Offender Assignments			
Institution	FY 2014-15 Audited Actual	FY 2015-16 Audited Actual	FY 2016-17 Unaudited Actual	FY 2017-18 Approved Annual Plan
Avenal State Prison	411	390	409	503
California City Correctional Facility	0	11	14	29
California Correctional Center	8	17	21	57
California Correctional Institution	265	239	239	311
California Health Care Facility Stockton	0	0	0	32
California Institution for Men / On-Time Delivery (South)	169	183	186	316
California Institution for Women	97	139	159	222
California Men's Colony	574	565	534	654
California Rehabilitation Center	16	17	18	47
California State Prison, Lancaster	95	94	99	141
California State Prison, Sacramento	47	57	60	93
California State Prison, Solano / California Medical Facility	396	426	457	658
Calipatria State Prison	18	22	22	53
Centinela State Prison	84	93	89	135
Central California Women's Facility / Valley State Prison	317	345	327	509
Central Office	26	29	25	47
Chuckawalla Valley State Prison	43	43	45	72
Corcoran State Prison / Substance Abuse Treatment Facility / On-Time Delivery (Central)	344	377	315	591
Correctional Training Facility	387	363	332	441
Deuel Vocational Institution	68	81	86	144
Folsom State Prison	394	397	415	571
Folsom Women's Facility / On-Time Delivery (North)	87	87	79	228
High Desert State Prison	18	16	21	38
Ironwood State Prison	11	23	23	51
Kern Valley State Prison	14	22	22	53
Mule Creek State Prison	329	318	416	515
North Kern State Prison	11	18	19	49
Pelican Bay State Prison	35	38	41	121
Pleasant Valley State Prison	18	18	20	55
Richard J. Donovan Correctional Facility	169	182	182	251
Salinas Valley State Prison	0	17	16	56
San Quentin State Prison	188	253	266	352
Sierra Conservation Center	141	140	141	195
Wasco State Prison	68	79	85	139
TOTALS	**4,848**	**5,099**	**5,183**	**7,729**

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CALIFORNIA PRISON INDUSTRY AUTHORITY

(A Component Unit of the State of California)

Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016

Certified Public Accountants

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

Table of Contents

Certified Public Accountants

Independent Auditor's Report

To the Prison Industry Board
Folsom, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Prison Industry Authority (CALPIA), a component unit of the State of California (State), as of and for the fiscal years ended June 30, 2017 and 2016, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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.

Basis for Qualified Opinion

CALPIA employees participate in three single-employer State defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Specifically, CALPIA employees participate in the State Miscellaneous Plan, State Safety Plan, and State Industrial Plan (the Plans.) The State allocates pension amounts to participating State agencies. CALPIA's net pension liability of $39,716,782, deferred outflows of resources of $13,895,856, deferred inflows of resources of $1,079,848 as of June 30, 2016, and pension expense of $7,175,960 for the fiscal year then ended is based on its proportionate share of total compensation of State employees participating in the Plans. While the California State Auditor audited the census data, pension amounts and related allocations of the State Miscellaneous Plan, they did not audit the pension amounts and allocations for the State Safety Plan and State Industrial Plan. Due to certain privacy and legal restrictions, CALPIA was not able to obtain access to census data or total compensation expense for the other State agencies participating in the State Safety Plan and the State Industrial Plan. As a result, we were not able to audit the allocated net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for those two plans as of and for the fiscal year ended June 30, 2016. Further, we are not able to audit pension expense of $11,534,418 for the fiscal year ended June 30, 2017, because that amount is derived, in part, from the allocated net pension liability as of June 30, 2016, which we were not able to audit.

Qualified Opinion

In our opinion, except for the effects on the 2017 and 2016 financial statements of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of CALPIA as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 18, the schedules of proportionate share of the net pension liability on page 42 and the schedules of contributions on page 43 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. Except for the schedules of proportionate share of the net pension liability as of June 30, 2016, for the State Safety Plan and the State Industrial Plan, 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 audits 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. We were unable to apply certain limited procedures to the schedules of proportionate share of the net pension liability as of June 30, 2016, for the State Safety Plan and the State Industrial Plan, in accordance with auditing standards generally accepted in the United States of America because of the matter discussed in the "Basis for Qualified Opinion" paragraph. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2018, 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 solely 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 effectiveness of CALPIA's 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
January 11, 2018

CALIFORNIA PRISON INDUSTRY AUTHORITY
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016 (Unaudited)

INTRODUCTION

This section presents Management's Discussion and Analysis (MD&A) of the California Prison Industry Authority's (CALPIA) financial performance during the fiscal years (FY) ended June 30, 2017, and June 30, 2016. This is a narrative overview and analysis and should be read in conjunction with the basic financial statements of CALPIA as presented in this report.

The MD&A provides an introduction to, and overview of, the basic financial statements comprised of the following components: The Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, and Notes to the Basic Financial Statements. The basic financial statements are supplemented with Required Supplementary Information. Collectively, this information presents all of the business activities of CALPIA as prescribed by pronouncements of the Governmental Accounting Standards Board (GASB). Furthermore, CALPIA presents Supplemental Information required by the State Controller's Office (SCO).

In addition to historical information, the MD&A contains forward-looking statements that involve certain risks and uncertainties. CALPIA's actual results, performance, and achievements expressed or implied in such forward-looking statements may be changed due to a range of factors, including changes in general economic conditions and statutory changes.

Management Responsibility for Financial Reporting

Management prepared the financial statements in this report for FY 2016-17 and FY 2015-16. Management is responsible for the integrity and fairness of the information presented. The accounting policies used to prepare these financial statements conform to Generally Accepted Accounting Principles (GAAP). Financial information presented throughout this annual report is consistent with these accounting principles.

CALPIA maintains a system of internal controls designed to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed, and financial statements are reliable. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Executive management regularly reports to the Prison Industry Board's (PIB) Audit Committee.

CALPIA's independent external auditors, Macias Gini & O'Connell LLP, have conducted an audit of the basic financial statements presented in accordance with GAAP, performing such tests and other procedures as they deem necessary to express an opinion on the basic financial statements in their report to the PIB. The external auditors also have full and unrestricted access to the Board to discuss their audit and related findings regarding the integrity of the financial reporting and the adequacy of internal control systems.

Accounting System and Reports

Responsibility for the accuracy, completeness, and fair presentation of the financial information, and all disclosures, rests with CALPIA. CALPIA prepared the basic financial statements and presented them in accordance with GAAP. Pursuant to GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, in preparing MD&A, management presents a narrative introduction, overview, and analysis to accompany the basic financial statements and should be read in conjunction with them.

CALPIA Overview

CALPIA is a self-supporting, customer-focused business that reduces recidivism, increases prison safety, and enhances public safety by providing offenders productive work and training opportunities. CALPIA is a proprietary component unit of the State of California (State) and is accounted for in the Prison Industries Revolving Fund (PIRF), an internal service fund in the State's basic financial statements. CALPIA does not receive a General Fund appropriation. Accordingly, as an internal service fund, CALPIA provides and charges fees for goods and services to government agencies and a limited number of non-profits.

Chapter 1549, Statutes of 1982, created CALPIA as a self-supporting state agency. Enacted in 1983 as California Penal Code Sections 2800 to 2818, the statute mandates CALPIA to:

- Develop and operate manufacturing, service, and agricultural enterprises to offer 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 the enterprises, as much like those which prevail in private industry as possible, to allow offenders the opportunity to work productively to earn wages, and to acquire or improve effective work habits or occupational skills; and

- Operate a self-supporting offender work program by selling products and services, and to reduce the cost of the CDCR operations.

The statute also established the PIB. The eleven-member PIB oversees the operations of CALPIA much like a corporate board of directors. The PIB sets general policy for CALPIA, oversees the performance of existing CALPIA enterprises, determines new enterprises to establish, arranges for an independent annual audit, and appoints and monitors the performance of the General Manager/CEO.

CALPIA manages over 100 manufacturing, service, and agriculture enterprises and Career Technical Education (CTE) programs in 34 CDCR institutions. CALPIA provides over 7,000 offender assignments in these enterprises, programs, and support functions including warehouse and administration. CALPIA's administrative offices are located in Folsom, California.

CALPIA's Mission and Goal

CALPIA is a self-supporting, customer-focused business that reduces recidivism, increases prison safety, and enhances public safety by providing offenders productive work and training opportunities. CALPIA's goal is to support the CDCR mission, by producing trained offenders who have job skills, good work habits, basic education and job support in the community, so when they are released they never return to prison. CALPIA offenders receive industry-accredited certifications.

Correctional Industries

The goods and services produced by CALPIA's enterprises are sold predominately to departments of the State and other government entities. CDCR is CALPIA's largest customer and accounted for 59.2% of all sales in FY 2016-17 and 59.7% in FY 2015-16. In FY 2017-18, CDCR is expected to remain CALPIA's top customer at over 59.0% of sales.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016 (Unaudited)

Correctional Industries (continued)

Other major State customers include the Department of Motor Vehicles (DMV), the Department of Transportation (Caltrans), the Department of State Hospitals (DSH), the Department of Health Care Services (DHCS), the Department of Forestry and Fire Protection (CAL FIRE), the California Highway Patrol (CHP), the Department of Veterans Affairs (CALVET), the Department of General Services (DGS), the California Military Department (Calguard), the Department of Education (CDE), the Department of Parks and Recreation (PARKS), and the Employment Development Department (EDD).

Proven Results

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 CALPIA programs. Over a three-year period, beginning in FY 2008-09, CALPIA participants returned to prison, on average, 26% to 38% less often than the 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 93% less likely to return to prison.**

CALPIA provides over 7,000 offender assignments, and in FY 2016-17, CALPIA employed a monthly average of 5,183 offenders in manufacturing, service, and agricultural enterprises. During FY 2015-16, CALPIA employed approximately 5,083 offenders assigned to over 7,000 positions.

CALPIA offenders earn certificates of proficiency in occupational disciplines to utilize upon parole. The certificates validate skills and abilities acquired during employment with CALPIA. During FY 2016-17, 559 CALPIA offenders received a certificate of proficiency, and another 4,540 successfully completed an accredited certification program. In FY 2015-16, 608 CALPIA offenders received a certificate of proficiency, and another 4,169 successfully completed an accredited certification program. CALPIA provides curricula for offenders, including over 120 nationally recognized accredited certifications within 22 programs, such as dental technology, food handling, laundry, agriculture, and welding.

Career Technical Education (CTE)

CALPIA also offers CTE programs in commercial diving, pre-apprentice carpentry, pre-apprentice construction labor, pre-apprentice iron working, facilities maintenance, culinary, AutoCAD, and computer coding. CALPIA's CTE programs partner with trade unions that facilitate employment possibilities when offenders are released from prison. The CALPIA CTE programs are partially funded via contractual agreement with CDCR's Division of Rehabilitative Programs, and the 2017-2018 Budget Act included $5.9 million to continue the contractual arrangement.

To date, CALPIA's CTE programs have been one of the most effective rehabilitation programs in the United States. In 2012, the PIB approved an assessment report of CALPIA CTE programs from FYs 2007-08 through 2010-11. The report shows that CALPIA CTE graduates have a cumulative recidivism rate of 7.13%**.

* *CALPIA recidivism data based on updated Recidivism Methodology August 16, 2012*
** *Assessment Report of the CALPIA CTE program approved by PIB November 19, 2012*

Strategic Business Plan

The CALPIA 2016-2021 Strategic Business Plan continues to support and guide CALPIA's goals of reducing recidivism, operating a self-sufficient business, developing an organization with high-performing staff, and delivering exceptional customer service. CALPIA uses key performance measures to assess the strategic planning process and tracks progress via Business Initiative Plans updated approximately every quarter. CALPIA focuses on creating positive customer experiences while continuously strengthening and improving products and services. The Strategic Business Plan provides the framework for CALPIA to continually implement best practices, collaborate with customers, and leverage resources.

Quality Management System

In 2005, CALPIA initiated its quality management system to meet customer quality demands. CALPIA built its quality management system on the International Organization for Standardization (ISO) 9001 standard.

The ISO 9001 standard provides a framework to establish, maintain, and continually improve processes throughout all ISO-certified departmental units and business lines. The standard specifies how management operations maintain conformity to best-practice standards for design, creation, manufacturing, and delivery of products and services. ISO strategic tools reduce costs by minimizing waste and errors, and increasing productivity. CALPIA's quality management audits show the ISO quality management system works.

In FY 2015-16, CALPIA launched an initiative to obtain ISO certification of its Laundry Enterprise. The CALPIA Laundry Enterprise is in the final stages to become accredited to the ISO 9001 Quality Management System standard with an expected certification date of March 2018. Also, the agency has conducted statewide internal quality auditor training for over 175 CALPIA staff and offenders in CALPIA work programs.

Customer Feedback Portal

CALPIA remains focused on delivering the highest-quality products and services to customers. To improve tracking of customer feedback, CALPIA implemented the Green Checkmark in 2012. The Green Checkmark is a web-based communication tool for customer feedback and support. Through the Green Checkmark portal on the CALPIA website, customer feedback is tracked and analyzed to ensure all requests or concerns are handled quickly and effectively. The process benefits CALPIA in numerous ways, including improving processes, product and service quality, customer satisfaction, and transparency.

CALPIA customers benefit from the Green Checkmark in the form of quality products and services and the immediate resolution of any issues.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016 (Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

CALPIA's operations are recorded in the PIRF, which is an internal service fund used to account for revenue from the sale of goods and services to other State departments and for the reimbursement of costs. The focus is on determining financial position, operating and non-operating income, cash flows, and changes in net position for the fiscal year ended June 30, 2017, along with comparative information for the fiscal year ended June 30, 2016. CALPIA prepares the financial statements on the accrual basis in accordance with GAAP.

The Statements of Net Position include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of CALPIA. CALPIA recognizes revenue and receivables when services are rendered. Likewise, expenses and liabilities are recognized when incurred, regardless of when cash is paid for the service.

The Statements of Revenues, Expenses and Changes in Net Position present comparative information reflecting how CALPIA's 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 expenditures of CALPIA during the two most recent fiscal years. The statements provide information with the sources and uses of cash during the fiscal periods. When used with related disclosures and information in the other financial statements, the Statements of Cash Flows help CALPIA to assess its ability to generate future net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The Notes to the Basic Financial Statements provide additional information essential to understand the information in the financial statements. The Notes immediately follow the Basic Financial Statements in this report.

FINANCIAL ANALYSIS

CALPIA recorded a loss in net position of $53.9 million in FY 2016-17 and a gain in net position of $10.6 million in FY 2015-16. When comparing the two fiscal years, the $64.5 million decrease in net position is primarily resulting from a $62.6 million cash transfer by the Department of Finance (DOF) from the PIRF to the General Fund in FY 2016-17, contributing to a significant increase in expenses and a financial loss for CALPIA.

CALPIA recorded a gain in net position of $10.6 million in FY 2015-16 and a gain in net position of $15.0 million in FY 2014-15. The $4.4 million decrease in gain in net position during FY 2015-16 primarily resulted from a decrease in agriculture revenue, an increase in GASB 68 pension expense, and an increase in salary expenses.

Transfer from Prison Industry Revolving Fund to the General Fund

Penal Code Section 2806 authorizes the CDCR Secretary and the DOF Director to jointly request the transfer of funds from the PIRF 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 February 10, 2017, pursuant to the joint request, $62.6 million was transferred from the PIRF to the State's General Fund account.

GASB Statement No. 45 Other Postemployment Benefits (OPEB), not including Pensions

Pursuant to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB 45), the State recognizes the cost of retiree health-benefits programs on an accrual basis. SCO administers GASB 45 accounting requirements for the State and allocates a portion of the State's unfunded OPEB obligation to state agencies. The State funds OPEB liabilities on a pay-as-you-go basis. CALPIA's allocated OPEB cost is $14.8 million and $13.7 million for FYs 2016-17 and 2015-16, respectively.

Cash Reserves for Future Liabilities: Net OPEB Obligations and Net Pension Liability

CALPIA is required by the California Penal Code Section 2801(c) to be a self-sustaining program. GASB 68 requires CALPIA to record its proportionate share of the State's net pension liability. As of June 30, 2017, CALPIA recorded a net pension liability of $54.3 million, an increase of $14.6 million from $39.7 million as of June 30, 2016.

As one of the few State agencies that is self-funded, CALPIA actively monitors the costs of retiree health-benefits in accordance with GAAP and the funding policies of the State. As of June 30, 2017, CALPIA's Statement of Net Position reflects a net OPEB obligation of $72.2 million and net pension liability of $54.3 million. However, as noted in the following paragraph, CALPIA is no longer obligated to set aside funds for these future liabilities.

On June 27, 2017, Assembly Bill No. 103, Sections 37 and 38, were approved, and Penal Code Sections 2801 and 2808 were amended to read: "(1) This subdivision does not require immediate cash availability for funding retiree health care and pension liabilities above amounts established in the Budget Act, or as determined by the Board of Administration of the Public Employees' Retirement System, or the Director of Finance for the fiscal year. (2) The Prison Industry Authority shall not establish cash reserves to support funding retiree health care and pension liabilities above the amounts specified in paragraph (1)".

However, CALPIA will continue its contribution to these liabilities in the Statewide budget through DOF's annual pro rata allocation requirement. By statute, CALPIA is self-funded and must cover all its operating costs. While CALPIA continues to accrue its allocated share of the State's retirement obligation, it is anticipated that liabilities will exceed assets in future years. DOF has negotiated a long-term funding solution, and the California Public Employees' Retirement System (CALPERS) and the State are ultimately responsible for the payment of these long-term retirement obligations.

Pro Rata Payments to State

CALPIA pays the State its pro rata share of costs of State services, including for the Legislature, DOF, SCO, the State Treasurer's Office (STO), etc. Annually, DOF allocates pro rata expenses. CALPIA's pro rata payment of $6.4 million in FY 2016-17 increased by $1.5 million from $4.9 million paid in FY 2015-16. CALPIA's pro rata payment of $4.9 million in FY 2015-16 increased by $0.8 million from $4.1 million paid in FY 2014-15.

Employee Pay Increase

In FY 2016-17, California Department of Human Resources (CalHR) approved a 5.0% General Salary Increase (GSI) for excluded, non-statutory exempt employees for Bargaining Unit (BU) 9 and 10 effective July 1, 2016. In addition, the CalHR approved a 3.0% GSI for exempt employees, effective October 1, 2016. The combined estimated increase in salary expense was $3.1 million for CALPIA.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Management's Discussion and Analysis
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Employee Pay Increase (continued)

CalHR approved a one-time bonus of $2,500 for the State workers represented by Services Employees International Union (SEIU) Local 1000 resulting in an expense of approximately $0.9 million for FY 2016-17.

In FY 2015-16, SEIU Local 1000 and International Union of Operating Engineers (IUOE) members received a 2.5% and 3.0% salary increase, respectively, resulting in an estimated increase in salary expenses of $0.9 million for CALPIA.

For FY 2017-18, CalHR approved a 4.0% GSI for excluded, non-statutory exempt employees. BU 9, 2, and 10 will receive a GSI of 2.0%, 5.0%, and 2.0%, respectively. SEIU and IUOE members will receive a GSI of 4.0%, except for Bargaining Unit 12 who will receive a 3.5% increase. The combined estimated increase in CALPIA's salary expense is $2.4 million.

Enterprise Closures

In FY 2016-17 and FY 2015-16, CALPIA neither closed nor idled any of its field enterprises.

Condensed Statements of Net Position

The following table presents the condensed statements of net position for CALPIA as of June 30, 2017, 2016, and 2015.

	2017	2016	2015
ASSETS			
Cash and Cash Equivalents	$ 61,119,644	$ 110,732,148	$ 98,536,218
Accounts and Other Receivables	11,013,500	11,932,978	9,541,927
Inventories	42,564,067	39,150,315	39,924,079
Capital Assets, Net	61,151,379	52,726,288	46,041,249
Other	856,090	351,103	499,531
Total Assets	176,704,680	214,892,832	194,543,004
DEFERRED OUTFLOWS OF RESOURCES *	24,718,972	13,895,856	6,713,052
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 201,423,652	$ 228,788,688	$ 201,256,056

**Deferred outflow of resources - a consumption of net assets by the government that is applicable to a future reporting period*

Condensed Statements of Net Position (continued)

	2017	2016	2015
LIABILITIES			
Accounts Payables and Accrued Liabilities	$ 28,027,173	$ 23,394,533	$ 23,301,336
Unearned Revenue	557,639	270,081	459,371
Workers' Compensation	18,540,656	20,085,256	18,609,502
Net OPEB Obligation	72,184,000	62,649,000	53,753,000
Net Pension Liability	54,325,884	39,716,782	25,170,556
Total Liabilities	173,635,352	146,115,652	121,293,765
DEFERRED INFLOWS OF RESOURCES**	98,181	1,079,848	8,926,103
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	173,733,533	147,195,500	130,219,868
NET POSITION			
Net Investment in Capital Assets	61,151,379	52,726,288	46,041,249
Unrestricted	(33,461,260)	28,866,900	24,994,939
Total Net Position	27,690,119	81,593,188	71,036,188
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 201,423,652	$ 228,788,688	$ 201,256,056

*** Deferred inflows of resources – an acquisition of net assets by the government that is applicable to a future reporting period.*

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Assets

Total assets decreased by $38.2 million as of June 30, 2017, when compared to June 30, 2016. The $38.2 million decrease results from a $49.6 million decrease in cash and cash equivalents; a $0.9 million decrease in accounts and other receivables; and is offset by an $8.4 million increase in net capital assets; a $3.4 million increase in inventories; and $0.5 million increase in other assets.

The $49.6 million decrease in cash and cash equivalents resulted primarily from a $62.6 million cash transfer from the PIRF to the State of California General Fund, approved by CDCR and DOF per California Penal Code Section 2806. The increase in net capital assets of $8.4 million between FY 2016-17 and FY 2015-16 is primarily attributable to the acquisition of new equipment at cost, offset by scheduled depreciation.

Total assets increased by $20.4 million as of June 30, 2016, when compared to June 30, 2015. The $20.4 million increase results from a $12.2 million increase in cash and cash equivalents; a $2.4 million increase in accounts and other receivables; a $6.7 million increase in net capital assets; and is offset by a $0.8 million decrease in inventories and $0.1 million decrease in other assets. The $12.2 million increase in cash and cash equivalents resulted primarily from an $8.8 million increase in cash receipts from customers. The increase in net capital assets of $6.7 million between FY 2015-16 and FY 2014-15 is primarily attributable to the acquisition of new equipment at cost, offset by scheduled depreciation.

Deferred Outflows of Resources

Deferred outflows of resources at June 30, 2017 and 2016, represent CALPIA's pension contributions made subsequent to the measurement date of the net pension liability, changes in proportion and differences between expected and actual experience in accordance with GASB 68. Total deferred outflows of resources increased by $10.8 million at June 30, 2017, when compared to June 30, 2016, primarily due to the increase in differences between expected and actual experience. Total deferred outflows of resources increased by $7.2 million at June 30, 2016, when compared to June 30, 2015, primarily due to the increase in changes in proportion.

Liabilities

Total liabilities increased by $27.5 million as of June 30, 2017, when compared to June 30, 2016. The increase was primarily attributable to an increase of $14.6 million in net pension liability; an increase of $9.5 million in net OPEB obligation, an overall $4.9 million increase in accounts payable, accrued liabilities, and unearned revenue, and offset by a $1.5 million decrease in workers' compensation liability.

Total liabilities increased by $24.8 million as of June 30, 2016, when compared to June 30, 2015. The increase was primarily attributable to an increase of $14.5 million in net pension liability, an increase of $8.9 million in net OPEB obligation, a $1.5 million increase in workers' compensation liability, and offset by an overall $0.1 million decrease in accounts payable, accrued liabilities, and unearned revenue.

Deferred Inflows of Resources

Deferred inflows of resources at June 30, 2017 and 2016, represent CALPIA's proportionate share of the State's net unamortized difference between projected and actual earnings on pension plan investments in accordance with GASB 68.

Net OPEB Obligation (GASB 45)

The State annually allocates a portion of retiree health-benefit costs to the PIRF. The State recognizes the annual contribution to the plan based on 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.

For FY 2016-17, the SCO determined CALPIA's annual actual OPEB cost was $14.8 million, of which CALPIA contributed $5.3 million; and the balance of $9.5 million was recorded as an increase in the net OPEB obligation. CALPIA's OPEB cost for FY 2015-16 was $13.7 million, of which CALPIA contributed $4.8 million, and the balance of $8.9 million increased the net OPEB obligation.

Net Pension Liability (GASB 68)

In FY 2016-17, CALPIA accrued its proportionate share of the State's three single-employer pension plans' unfunded net pension liability, which represents the plans' actuarially determined total pension liability reduced by the plans' fiduciary net position. CALPIA recorded an increase of $14.6 million of net pension liability for a total of $54.3 million in FY 2016-17 from $39.7 million in FY 2015-16.

In FY 2015-16, CALPIA accrued its proportionate share of the State's three single-employer pension plans' unfunded net pension liability, which represents the plans' actuarially determined total pension liability reduced by the plans' fiduciary net position. CALPIA recorded an increase of $14.5 million of net pension liability for a total of $39.7 million in FY 2015-16 from $25.2 million in FY 2014-15.

Workers' Compensation Liabilities

In FY 2016-17 and FY 2015-16, the $1.5 million decrease and $1.5 million increase in workers' compensation liability, respectively, are attributable to the payments, new incurred losses, and changes in prior estimates in total positions and claims for both civil service and offender staff.

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 fiscal years ended June 30, 2017, 2016, and 2015.

	2017	2016	2015
Operating Revenues	$ 233,536,464	$ 218,804,489	$ 207,279,076
Costs of Goods Sold	173,626,165	161,833,488	151,280,453
Gross Profit	59,910,299	56,971,001	55,998,623
Selling and Administrative Expenses	51,778,899	47,349,650	40,939,660

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Condensed Statements of Revenues, Expenses and Changes in Net Position (continued)

	2017	2016	2015
Operating Income	8,131,400	9,621,351	15,058,963
Non-Operating (Expenses) Revenues, Net	(62,159,439)	560,739	(80,814)
Capital contributions	124,970	374,911	-
Increase/(Decrease) in Net Position	(53,903,069)	10,557,001	14,978,149
Net Position at Beginning of Year	81,593,188	71,036,187	*56,058,038
Net Position at End of Year	$ 27,690,119	$ 81,593,188	$ 71,036,187

*Restated

Operating Revenues

CALPIA's operating revenue increased by $14.7 million (6.7%) to $233.5 million in FY 2016-17 from $218.8 million in FY 2015-16. The change resulted from increases in manufacturing enterprises sales of $8.8 million (9.7%), service enterprises sales of $9.6 million (9.5%), and decreases in agriculture enterprises sales of $3.7 million (13.8%).

In FY 2016-17, the manufacturing enterprises had an overall increase in revenue of $8.8 million (9.7%) when compared to the prior fiscal year. The increase in revenue is due to increase in sales in several business lines. Fabric products increased $4.4 million (19.6%) due to an increase in CAL FIRE product demand for National Fire Protection Association (NFPA) approved garments. General fabrication increased $1.9 million (20.2%) due to an increase in modular panel sales and a new product line consisting of QuickStand height-adjustable workstations. License plates increased $3.0 million (17.0%) due to the increase in customer demand for the DMV sequential and legacy plates.

In FY 2016-17, the service enterprises had an overall increase in revenue of $9.6 million (9.5%) when compared to the prior fiscal year. The increase in revenue is primarily due to the increase in customer demand for construction services and facilities maintenance of $8.0 million (28.7%) and the increase in food and beverage packaging of $1.9 million (8.7%) due to opening an additional location.

For FY 2016-17, the agricultural enterprises had an overall decrease of $3.7 million (13.8%) when compared to the prior fiscal year. This is primarily due to the reduction in egg production revenue of $3.7 million (45.0%) caused by a decline in selling prices which are based on industry market prices and a reduction in dairy revenue of $0.8 million (6.1%) attributable to promotional pricing.

CALPIA's operating revenue increased by $11.5 million (5.6%) to $218.8 million in FY 2015-16 from $207.3 million in FY 2014-15. The change resulted from increases in manufacturing enterprises sales of $8.2 million (9.9%), services enterprises sales of $5.0 million (5.3%), and decreases in agriculture enterprises sales of $1.7 million (6.2%).

Operating Revenues (continued)

In FY 2015-16, the manufacturing enterprises had an overall increase in revenue of $8.2 million (9.9%) when compared to the prior fiscal year. The increase in revenue is primarily due to increase in sales in several business lines. Fabric products increased $5.0 million (29.3%) due to an increase in demand for Caltrans' moisture wicking, American National Standards Institution (ANSI)-approved T-shirts, a new product offering for ANSI jeans, as well as an increase in CAL FIRE demand for NFPA approved garments. Metal increased $1.8 million (28.7%) primarily due to bunk beds and wardrobe cabinets sold to the Calguard. General fabrication increased $1.8 million (24.5%) due to an increase in modular panel and communication product sales. License plates increased $1.5 million (8.9%) due to the increase in customer demand for the DMV legacy plate. Modular construction revenues increased $1.4 million (472.1%) due to an increase in sales for modular buildings.

In FY 2015-16, the service enterprises had an overall increase in revenue of $5.0 million (5.3%) when compared to the prior fiscal year. The increase in revenue is primarily due to the increase in customer demand for construction services and facilities maintenance of $6.6 million (30.9%). This increase was primarily offset by a decrease in meat cutting revenue of $1.1 million (10.5%) due to a reduction in selling prices, which are based on industry market prices.

For FY 2015-16, the agricultural enterprises had an overall decrease of $1.7 million (6.2%) when compared to the prior fiscal year. This is due to the reduction in poultry revenue of $1.0 million (18.0%) caused by a decline in selling prices, which are based on industry market prices, a reduction in crops revenue of $0.5 million (73.8%), and a reduction in egg production revenue of $0.2 million (2.0%).

Operating Revenue by Product Line	**2017**	**2016**	**Change**
Manufacturing:			
Furniture	$ 16,066,341	$ 16,388,760	$ (322,419)
Metal	7,377,741	8,261,289	(883,548)
License Plates	20,968,948	17,923,138	3,045,810
General Fabrication	11,102,097	9,233,849	1,868,248
Bindery	2,781,404	2,566,976	214,428
Knitting Mill	1,335,905	1,323,859	12,046
Fabric Products	26,648,330	22,283,174	4,365,156
Shoe Factory	4,298,293	3,668,654	629,639
Mattress Factory	3,192,493	2,670,339	522,154
Cleaning Products	5,718,862	5,426,513	292,349
Modular Construction	750,000	1,655,723	(905,723)
Total Manufacturing	$ 100,240,414	$ 91,402,274	$ 8,838,140

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Operating Revenues (continued)

	2017	2016	Change
Services:			
Meat Cutting	$ 9,919,359	$ 9,549,911	$ 369,448
Bakery	2,576,252	3,079,033	(502,781)
Coffee Roasting	1,697,121	1,645,068	52,053
Food & Beverage Packaging	23,571,847	21,693,821	1,878,026
Metal Signs	1,933,075	1,654,658	278,417
Printing	6,128,348	5,599,381	528,967
Dental Lab	811,704	806,106	5,598
Digital Services	817,504	1,001,263	(183,759)
Laundry	13,639,884	14,070,815	(430,931)
Optical	13,509,669	13,951,733	(442,064)
Construction Services & Facilities Maintenance	35,855,733	27,849,774	8,005,959
Total Services	$ 110,460,496	$ 100,901,563	$ 9,558,933
Agriculture:			
Dairy / Farm	$ 12,716,008	$ 13,537,356	$ (821,348)
Crops	646,078	189,329	456,749
Poultry	4,921,123	4,500,628	420,495
Egg Production	4,552,345	8,273,339	(3,720,994)
Total Agriculture	$ 22,835,554	$ 26,500,652	$ (3,665,098)
Total Operating Revenue	$ 233,536,464	$ 218,804,489	$ 14,731,975

Cost of Goods Sold/Gross Profit

In FY 2016-17, the cost of goods sold was $173.6 million, an increase of $11.8 million (7.3%) from $161.8 million in FY 2015-16. Gross profit increased by $2.9 million (5.2%) to $59.9 million in FY 2016-17 from $57.0 million in FY 2015-16. The increase in gross profit is comprised of a $5.1 million increase in manufacturing enterprises, which is offset by a $0.7 million decrease in agricultural enterprises, and a $1.5 million decrease in service enterprises.

Cost of Goods Sold/Gross Profit (continued)

Manufacturing enterprises experienced an overall gross profit increase of $5.1 million in FY 2016-17 from FY 2015-16. This increase primarily resulted from $2.5 million gross profit for fabric products due to an increase in demand for CAL FIRE NFPA fire garments; $2.3 million gross profit for license plates because of the increased demand for DMV sequential and legacy plates; and $0.7 million gross profit for bindery due to sales to DMV for placards, which is a biennial purchase. These increases were offset primarily by decreases in gross profit in modular construction of $1.0 million and furniture of $0.6 million.

Service enterprises had a gross profit decrease of $1.5 million in FY 2016-17 from FY 2015-16. The service enterprises gross profit decrease primarily resulted from a drop of $1.0 million in optical due to an increase in operational costs and $0.6 million in meat cutting attributable to an increase in raw material costs. This is offset primarily by an increase of $0.6 million in the Healthcare Facilities Maintenance (HFM) program.

Agricultural enterprises had a gross profit decrease of $0.7 million in FY 2016-17 from FY 2015-16. The agricultural enterprises gross profit decrease is primarily comprised of $0.7 million in dairy and $0.5 million in egg production due to promotional pricing. These decreases were offset by gross profit increases of $0.6 million in crops.

In FY 2015-16, the cost of goods sold was $161.8 million, an increase of $10.5 million (7.0%) from $151.3 million in FY 2014-15. Gross profit increased by $1.0 million (1.7%) to $57.0 million in FY 2015-16 from $56.0 million in FY 2014-15. The increase in gross profit is comprised of a $2.6 million increase in manufacturing enterprises, which is offset by a $0.5 million decrease in service enterprises, and a $1.1 million decrease in agricultural enterprises.

Manufacturing enterprises experienced an overall gross profit increase of $2.6 million in FY 2015-16 from FY 2014-15. This increase primarily resulted from $1.6 million gross profit for fabric products due to an increase in demand for NFPA fire garments, ANSI reflective t-shirts, and the new line of ANSI reflective jeans; $1.3 million gross profit for license plates because of the increased demand for DMV legacy plates; and $1.2 million gross profit for modular construction. These increases were offset primarily by decreases in gross profit in bindery of $1.2 million, due to a decrease in sales to DMV for placards as these items are a biennial purchase, and furniture of $0.5 million.

Services enterprises had a gross profit decrease of $0.5 million in FY 2015-16 from FY 2014-15. The services enterprises decrease primarily resulted from a drop of $1.1 million in food and beverage packaging revenues due to a $1.0 million purchase credit given to CDCR in exchange for construction services at San Quentin Technology Center, and $0.5 million in laundry. This is offset primarily by increases of $0.5 million in HFM.

Agricultural enterprises had a gross profit decrease of $1.1 million in FY 2015-16 from FY 2014-15. The agricultural enterprises gross profit decrease is comprised of $1.4 million in crops due to a smaller yield of almonds caused by water irrigation issues and $0.6 million in dairy. These decreases were offset by gross profit increases of $0.6 million in egg production and $0.3 million in poultry.

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Selling and Administrative Expenses

Selling and administrative expenses support CALPIA's daily operations and customer services, both internally and externally. In FY 2016-17, selling and administrative expenses consisted of distribution and transportation costs of $14.1 million, OPEB expenses of $9.5 million, and Central Office costs of $28.2 million, which primarily consists of expenses for personal services, facility and general operations such as rent, utilities, information technology software and service purchases, depreciation, and training. In FY 2015-16, selling and administrative expenses consisted of distribution and transportation costs of $13.0 million, OPEB expenses of $8.9 million, and Central Office costs of $25.4 million, which include all support staff in Central Office divisions.

The selling and administrative expenses had an overall increase of $4.4 million in FY 2016-17 when compared to FY 2015-16 primarily attributed to $0.6 million increase for OPEB expenses, $1.7 million increase in operating costs, $2.2 million increase in personal services. Selling and administrative expenses had an overall increase of $6.4 million in FY 2015-16 when compared to FY 2014-15 primarily attributed to $2.0 million increase for OPEB expenses, $1.6 million increase in operating costs, $1.1 million increase in personal services, and $0.6 million increase in pension expense.

Non-Operating Revenues (Expenses)

The non-operating revenues (expenses) had an overall decrease of $62.7 million in FY 2016-17 when compared to FY 2015-16 primarily attributed to the approved DOF $62.6 million cash transfer from the PIRF to the State's General Fund. Non-operating revenues (expenses) increased by $0.6 million in FY 2015-16 to $0.5 million from $(0.1) million in FY 2014-15. The increase in FY 2015-16 was due to $0.2 million in SMIF interest income and $0.4 million net gain in property.

Request for Information

For questions concerning any information in this report or for additional financial information, contact Michele Kane, Chief of External Affairs, at (916) 358-1802 or ExternalAffairs@calpia.ca.gov.

CALIFORNIA PRISON INDUSTRY AUTHORITY

Statements of Net Position

June 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS	2017	2016
Cash and cash equivalents	$ 23,319,644	$ 93,986,403
Cash designated for capital assets expenditures	37,800,000	16,745,745
Accounts receivable:		
State Department of Corrections and Rehabilitation	7,662,702	5,964,449
Other state agencies	2,221,831	4,489,805
Other state governments	95,309	176,869
Federal government	-	7,365
Surplus (non-governmental)	39,874	60,984
Abatements	169,344	154,514
Reimbursements	684,697	930,192
Inventories	42,564,067	39,150,315
Interest receivable	139,743	148,800
Other	856,090	351,103
Total current assets	115,553,301	162,166,544
NONCURRENT ASSETS		
Capital assets not being depreciated	1,594,554	1,838,421
Capital assets being depreciated, net	59,556,825	50,887,867
Total noncurrent assets	61,151,379	52,726,288
Total assets	176,704,680	214,892,832
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	24,718,972	13,895,856
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 201,423,652	$ 228,788,688

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 14,251,207	$ 9,376,466
Workers' compensation liability-current portion	3,135,828	2,727,111
Unearned revenue	557,639	270,081
Accrued expenses and other liabilities	3,841,149	4,159,552
Total current liabilities	21,785,823	16,533,210
LONG-TERM LIABILITIES		
Accrued leave time	9,934,817	9,858,515
Workers' compensation liability	15,404,828	17,358,145
Net OPEB obligation	72,184,000	62,649,000
Net pension liability	54,325,884	39,716,782
Total long-term liabilities	151,849,529	129,582,442
Total liabilities	173,635,352	146,115,652
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	98,181	1,079,848
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	173,733,533	147,195,500
NET POSITION		
Net investment in capital assets	61,151,379	52,726,288
Unrestricted	(33,461,260)	28,866,900
Total net position	27,690,119	81,593,188
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 201,423,652	$ 228,788,688

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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Manufacturing	$ 100,240,414	$ 91,402,274
Services	110,460,496	100,901,563
Agriculture	22,835,554	26,500,652
TOTAL OPERATING REVENUES	233,536,464	218,804,489
COST OF GOODS SOLD	173,626,165	161,833,488
GROSS PROFIT	59,910,299	56,971,001
SELLING AND ADMINISTRATIVE EXPENSES	51,778,899	47,349,650
OPERATING INCOME	8,131,400	9,621,351
NON-OPERATING REVENUES (EXPENSES)		
Investment income	692,671	445,387
Interest expense	(16,065)	(18,240)
Gain (loss) from disposal of capital assets	(178,643)	169,416
Other revenue (expenses), net	(57,402)	(35,824)
TOTAL NON-OPERATING REVENUES (EXPENSES)	440,561	560,739
Transfer to State General Fund	(62,600,000)	-
Contributed Capital - Water Grant	124,970	374,911
CHANGE IN NET POSITION	(53,903,069)	10,557,001
NET POSITION, BEGINNING OF YEAR	81,593,188	71,036,187
NET POSITION, END OF YEAR	$ 27,690,119	$ 81,593,188

See Notes to Basic Financial Statements

CALIFORNIA PRISON INDUSTRY AUTHORITY

Statements of Cash Flows

For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 234,734,444	$ 216,310,048
Cash receipts from interfund services provided to other funds of the state	3,786,887	3,425,682
Cash payments for interfund services provided by other funds of the state	(15,003,731)	(10,116,236)
Cash payments to employees for services	(80,210,239)	(70,894,106)
Cash payments to suppliers of goods and services	(114,812,405)	(113,880,795)
Cash payments for other services	(57,402)	(35,824)
Net cash provided by/(used in) operating activities	28,437,554	24,808,769
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to State General Fund	(62,600,000)	-
Interest expense	(16,065)	(18,240)
Net cash used in noncapital financing activities	(62,616,065)	(18,240)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets	(16,644,826)	(13,851,356)
Contributed capital - water grant	124,970	374,911
Proceeds from sale of capital assets	384,135	522,359
Net cash used in capital and related financing activities	(16,135,721)	(12,954,086)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	701,728	359,487
Net increase/(decrease) in cash and cash equivalents	(49,612,504)	12,195,930
Cash and cash equivalents at beginning of year	110,732,148	98,536,218
Cash and cash equivalents at end of year	$ 61,119,644	$ 110,732,148

See Notes to Basic Financial Statements

CALIFORNIA PRISON INDUSTRY AUTHORITY

Statements of Cash Flows (Continued)

For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by/(used in) operating activities:		
Operating income	$ 8,131,400	$ 9,621,351
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,656,956	6,813,374
Other revenue (expenses), net	(57,402)	(35,824)
Net effect of changes in:		
Accounts and other receivables	910,419	(2,305,153)
Inventories	(3,413,752)	773,764
Other assets	(504,987)	148,429
Accounts payable	4,874,741	(365,400)
Unearned revenue	287,558	(189,290)
Accrued expenses and other liabilities	(318,403)	(964,832)
Accrued leave time	76,305	1,423,429
Workers' compensation liability	(1,544,600)	1,475,754
Net OPEB obligation	9,535,000	8,896,000
Net pension liability and related deferred outflows / inflows	2,804,319	(482,833)
Net cash provided by/(used in) operating activities	$ 28,437,554	$ 24,808,769

See Notes to Basic Financial Statements

(1) ORGANIZATION

The California Prison Industry Authority (CALPIA) was established in 1983, as the successor to 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 100 manufacturing, service, and agriculture enterprises and Career Technical Education (CTE) programs throughout California and employs offenders at 34 California penal institutions operated by the California Department of Corrections and Rehabilitation (CDCR). The CALPIA administrative offices are located in Folsom, California. The products manufactured and services rendered by CALPIA are provided 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, with the exception of 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 (STO) 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 monies 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 qualifying institutions, 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, 2017 and 2016, the weighted average maturity of PMIA investments administered by the STO was approximately 194 days and 167 days, respectively. Weighted average 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.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At June 30, 2017, $52,863,000 was invested in SMIF and $8,256,644 was held in operating accounts in the State Treasury pooled investment program. At June 30, 2016, $107,879,000 was invested in SMIF and $2,853,148 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 and funds designated for capital assets expenditures) 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 Statement 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 assets expenditures - CALPIA segregates its cash, which is designated as to use. Designated funds at June 30, 2017 and 2016 represent designations of cash by the Prison Industry Board for certain capital expenditures for the subsequent year. The Board approved funds amounting to $37,800,000 and $16,745,745 for certain capital expenditures to be made during the fiscal years ended June 30, 2018 and 2017, respectively.

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

CALPIA's customer base includes departments of the State and other governmental entities. CDCR is the largest customer of CALPIA and accounted for approximately 59.2% of sales for the fiscal year ended June 30, 2017 and 59.7% of sales for the fiscal year ended June 30, 2016. As of June 30, 2017 and 2016, CDCR accounted for 76.5% and 55.7%, respectively, of total accounts receivable. Management does not believe significant credit risk exists at June 30, 2017 and 2016, as the goods and services produced by CALPIA's operations are provided principally to departments of the State of California and other governmental entities.

CALPIA and other State and local agencies' deposits are held in the pooled money account in the custody of the STO, in which the deposits are primarily supported by collateral held by an agent of the STO 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 its customer base is primarily made up of State and local government agencies. As of June 30, 2017 and 2016, CALPIA has receivables of $39,874 and $60,984, 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 (SCO) periodically loans funds from CALPIA's deposits held in the custody of the STO 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, 2017 and 2016, no such amounts were due from the state general fund.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories - Inventories are stated at the lower of cost (as determined using the average cost method) or market. Inventories consist of raw materials, component parts, work-in-process, 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 to10 years for equipment, 20 years for buildings, 15 years for leasehold improvements, 2 to 3 years for livestock, 20 years for orchards, and 5 years for intangible assets.

In the ordinary course of business, CALPIA opens and closes manufacturing facilities based on economic conditions and customer demand for products. Based on CALPIA's closure policy, management may recommend that a 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 whether the factory has alternative uses; (2) transfer equipment to operating factories; or (3) pursue other alternatives for disposal. Factories that are closed temporarily are retained in the property accounts as idle facilities and are not depreciated during the temporary closure. At June 30, 2017 and 2016, there are no idle factories.

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, 2017 and 2016, CALPIA determined there were no capital assets 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.

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

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

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and amortization.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2017 and 2016, there was no restricted component of net position.
- 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, annual Other Postemployment Benefits (OPEB) costs, and pension 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, 2017 and 2016, such costs were $14,094,929 and $13,022,574, respectively.

Use of estimates in the preparation of financial statements - The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

New accounting pronouncements - In June 2017, GASB issued Statement No. 87, Leases. This statement is to recognize in the financial statements certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for CALPIA's fiscal year ending June 30, 2021. CALPIA has not determined the impact, if any, of this statement on its financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement were effective for CALPIA's fiscal year ended June 30, 2017. The adoption of this statement did not have a material effect on CALPIA's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB), as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

defined benefit OPEB also are addressed. The statement is effective for fiscal years beginning after June 15, 2017 although early adoption is permitted. CALPIA has not determined the impact, if any, of this statement on its financial statements.

(3) INVENTORIES

Inventories consist of the following:

	June 30, 2017	June 30, 2016
Raw materials	$ 23,325,405	$ 20,727,230
Component parts	4,906,073	4,607,187
Work-in-process	911,066	549,203
Finished goods	13,421,523	13,266,695
Total inventories	$ 42,564,067	$ 39,150,315

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

(4) CAPITAL ASSETS

A summary of changes in capital assets during fiscal years 2017 and 2016 are as follows:

	Balance June 30, 2016	Additions	Deletions	Transfers in & out	Balance June 30, 2017
Capital assets, not being depreciated:					
Construction in process	$ 1,838,421	$ 1,222,485	$ -	$ (1,466,352)	$ 1,594,554
Capital assets, being depreciated:					
Equipment	127,923,119	11,672,497	(1,016,973)	9,577	138,588,220
Buildings and leasehold improvements, net of transfers	42,061,114	2,683,440	-	1,449,996	46,194,550
Livestock	3,372,440	817,083	(831,897)	-	3,357,626
Orchards	1,093,626	-	-	-	1,093,626
Intangible assets	3,671,738	256,100	-	-	3,927,838
Total capital assets, being depreciated	178,122,037	15,429,120	(1,848,870)	1,459,573	193,161,860
Accumulated depreciation and amortization	(127,234,170)	(7,656,956)	1,284,720	1,372	(133,605,034)
Total capital assets, being depreciated, net	50,887,867	7,772,164	(564,150)	1,460,945	59,556,826
Capital assets, net	$ 52,726,288	$ 8,994,649	$ (564,150)	$ (5,407)	$ 61,151,380

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

(4) CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2015	Additions	Deletions	Transfers in & out	Balance June 30, 2016
Capital assets, not being depreciated:					
Construction in process	$ 1,810,941	$ 511,492	$ -	$ (484,012)	$ 1,838,421
Capital assets, being depreciated:					
Equipment	116,691,445	12,503,720	(1,276,890)	4,844	127,923,119
Buildings and leasehold improvements, net of transfers	41,307,709	274,237	-	479,168	41,061,114
Livestock	3,553,556	561,908	(743,024)	-	3,372,440
Orchards	1,093,626	-	-	-	1,093,626
Intangible assets	3,671,738	-	-	-	3,671,738
Total capital assets, being depreciated	166,318,074	13,339,865	(2,019,914)	484,012	178,122,037
Accumulated depreciation and amortization	(122,087,766)	(6,813,374)	1,418,641	248,329	(127,234,170)
Total capital assets, being depreciated, net	44,230,308	6,526,491	(601,273)	732,341	50,887,867
Capital assets, net	$ 46,041,249	$ 7,037,983	$ (601,273)	$ 248,329	$ 52,726,288

Depreciation expense for the fiscal years ended June 30, 2017 and 2016, was $7,656,956 and $6,813,374, respectively. Depreciation expense includes amortization of intangible assets.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

(5) ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30, 2017	June 30, 2016
Accrued leave time	$ 775,000	$ 775,000
Customer deposits	583,554	755,895
Support charges due to CDCR	709,621	1,149,126
Inmate pay	357,347	344,615
Personal services	719,434	528,642
Sales and use tax	686,139	379,092
Accrued service and expenses	10,054	227,182
Accrued expenses and other liabilities	$ 3,841,149	$ 4,159,552

(6) 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 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 $18,540,656 at June 30, 2017, and $20,085,256 at June 30, 2016. The interest rate used to discount the value of the liabilities as of June 30, 2017 and 2016, was 3.5%. 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
2016-2017	$20,085,256	$1,591,228	$(2,355,582)	$(780,246)	$18,540,656
2015-2016	$18,609,502	$4,202,865	$(2,152,730)	$(574,381)	$20,085,256

(7) DEFINED BENEFIT PENSION PLANS

Plan description – All of the employees of CALPIA participate in the California Public Employees' Retirement System (CalPERS), which is included in the State's basic financial statements as a fiduciary component unit. CalPERS administers the Public Employees' Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit pension plan. CALPIA participates in the State Miscellaneous Plan, State Safety Plan, and State Industrial Plan (the Plans) in cost-sharing arrangements in which all risks and costs are shared proportionately by participating State agencies. The significant actuarial assumptions used a discount rate of 7.50% to compute the 2017 and 2016 actuarially determined State contribution requirements, which differs from the discount rate of 7.65% used to compute the State's 2017 and 2016 total pension liability as defined by GASB Statement No. 68. CalPERS issues a publicly available comprehensive annual financial report that may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS website at www.calpers.ca.gov under Forms and Publications.

Benefits Provided – The benefits for the Plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The Plans' provisions and benefits in effect at June 30, 2017 and 2016 are summarized as follows:

Miscellaneous and Industrial Plans:			
Hire date	**Prior to January 15, 2011**	**January 15, 2011 to December 31, 2012**	**On or after January 1, 2013**
First Tier:			
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.1% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Hire date	**Prior to January 1, 2013**	**On or after January 1, 2013**	
Second Tier:			
Benefit formula	1.25% @ 65	1.25% @ 67	
Benefit vesting schedule	10 years of service	10 years of service	
Benefit payments	Monthly for life	Monthly for life	
Retirement age	50 to 67	52 to 67	
Monthly benefits, as a % of eligible compensation	0.5% to 1.25%	0.65% to 1.25%	

CALIFORNIA PRISON INDUSTRY AUTHORITY
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For the Fiscal Years Ended June 30, 2017 and 2016

(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

Safety Plan:	**Classic members**	**New classic members**
Hire date	Prior to January 15, 2011	January 15, 2011 to December 31, 2012
Benefit formula	2.0% @ 55	2.0% @ 55
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 to 67	50 to 67
Monthly benefits, as a % of eligible compensation	1.7% to 2.5%	1.426% to 2.0%
	New classic members	**New PEPRA members**
Hire date	January 15, 2011 to December 31, 2012	On or after January 1, 2013
Benefit formula	2.0% @ 55 **or** 2.5% @ 60	2.0% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 to 67	50 to 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.0% **or** 1.426% to 2.5%	1.426% to 2.0%

Contributions – Section 20814(a) of the California Public Employees' Retirement Law (PERL) requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1st following notice of a change in the rate. The total plan contributions are determined through CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. CALPIA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal years ended June 30, 2017 and 2016, the contribution rates applied to payroll and the additional statutory contribution to offset increased member contributions were:

	2017		2016	
	Actuarially Required Employer Contribution Rate	Additional Statutory Contribution to Offset Increased Member Contributions	Actuarially Required Employer Contribution Rate	Additional Statutory Contribution to Offset Increased Member Contributions
State Miscellaneous Plan:				
Tier 1	25.068%	0.082%	24.198%	0.082%
Tier 2	24.389%	0.889%	23.510%	0.727%
State Safety Plan	18.082%	1.182%	18.156%	1.182%
State Industrial Plan	17.775%	.0881%	17.286%	0.848%

(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

For the fiscal years ended June 30, 2017 and 2016, pension contributions were $8,730,099 and $7,658,793, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions – As of June 30, 2017, CALPIA reported net pension liabilities for its proportionate share of the Plans' net pension liabilities in the amount of $54,325,884 compared to $39,716,782 as of June 30, 2016.

CALPIA's net pension liability is measured as the proportionate share of the net pension liability of the Plans. The net pension liabilities of the Plans are measured as of June 30, 2016, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. In FY 2015-16, the net pension liabilities of the Plans were measured as of June 30, 2015, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. CALPIA's proportionate share of the net pension liabilities of the Plans was based on the SCO allocation. The SCO identified a total of 29 entities that are reported in the State's basic financial statements, which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these funds/organizations with their allocated pensionable compensation percentages by Plan. CALPIA's proportionate share of the net pension liabilities for the Plans as of June 30, 2016, was 0.000041% (State Miscellaneous), 1.287381% (State Safety), and 2.102480% (State Industrial). CALPIA's proportionate share of the net pension liabilities for the Plans as of June 30, 2015, was 0.000264% (State Miscellaneous), 1.238437% (State Safety), and 1.812706% (State Industrial).

For the fiscal year ended June 30, 2017, CALPIA recognized pension expense of $11,534,418. At June 30, 2017, CALPIA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2017	State Miscellaneous		State Safety		State Industrial	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
CALPIA's contributions subsequent to the measurement date	$ 2,188		$ 6,020,902		$ 2,707,009	
Change in proportion	1,643		4,193,490		2,158,021	
Differences between expected and actual experience			5,928,062		338,799	
Net difference between projected and actual earnings on pension plan investments		$ 46,958		$ 51,223	3,368,858	
	$ 3,831	$ 46,958	$ 16,142,454	$ 51,223	$ 8,572,687	$ -

CALIFORNIA PRISON INDUSTRY AUTHORITY
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For the Fiscal Years Ended June 30, 2017 and 2016

(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

For the fiscal year ended June 30, 2016, CALPIA recognized pension expense of $7,175,960. At June 30, 2016, CALPIA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	State Miscellaneous		State Safety		State Industrial	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
CALPIA's contributions subsequent to the measurement date	$ 1,207		$ 5,208,565		$ 2,449,020	
Change in proportion	563		4,712,245		1,177,725	
Differences between expected and actual experience	1,361				345,170	
Net difference between projected and actual earnings on pension plan investments		1,626		689,268		388,954
	$ 3,131	$ 1,626	$ 9,920,810	$ 689,268	$ 3,971,915	$ 388,954

The amounts reported above as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the respective following fiscal year. As of June 30, 2017, deferred outflows of resources of $8,730,099, represent pension contributions made after the measurement date of June 30, 2016 (contributions made during the fiscal year ended June 30, 2017). As of June 30, 2016, deferred outflows of resources of $7,658,792 represent pension contributions made after the measurement date of June 30, 2015 (contributions made during the fiscal year ended June 30, 2016). Other amounts reported as deferred outflows of resources and inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	State Miscellaneous	State Safety	State Industrial
2018	$ (15,299)	$ 2,541,156	$ 1,787,360
2019	(15,326)	2,541,156	1,392,842
2020	(15,083)	3,408,281	1,821,614
2021	393	1,579,736	863,862
Total	$ (45,315)	$ 10,070,329	$ 5,865,678

Actuarial Assumptions – For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability using standard update procedures.

For the measurement period ended June 30, 2015 (measurement date), the total pension liability was determined by rolling forward the June 30, 2014, total pension liability using standard update procedures. The actuarial methods and assumptions used in the June 30, 2015 and 2014, actuarial valuations are set forth in Chart A below:

(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

CHART A

	June 30, 2015 Valuation	June 30, 2014 Valuation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Salary Inflation	Varies [1]	Varies [1]
Investment Rate of Return	7.65% [2]	7.65% [2]
Mortality [3]	CalPERS' Membership Data	CalPERS' Membership Data
Post Retirement Benefit Increase	Up to 2.75% [4]	Up to 2.75% [4]

(1) Depending on age, service and type of employment
(2) As per GASB Statement No. 68, this rate is net of pension plan investment expenses, including inflation
(3) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 CalPERS Experience Study and Review of Actuarial Assumptions report available on CalPERS website under Forms and Publications.
(4) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2015 and June 30, 2014, valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for all Plans at both the June 30, 2015 and June 30, 2014, measurement dates. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress-tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the fund's asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

2016 Measurement Period Asset Class	Current Target Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	20.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

2015 Measurement Period Asset Class	Current Target Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents CALPIA's proportionate share of the net pension liabilities of the Plans as of the measurement date, calculated using the discount rate of 7.65%, as well as what CALPIA's proportionate share of the net pension liabilities would be if it were calculated using a discount rate 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current discount rate:

2017	**State Miscellaneous**		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
CALPIA's proportionate share of plan's net pension liability	$ 18,540	$ 13,618	$ 9,487
	State Safety		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
CALPIA's proportionate share of plan's net pension liability	$ 53,525,223	$ 35,056,455	$ 19,733,703
	State Industrial		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
CALPIA's proportionate share of plan's net pension liability	$ 30,035,802	$ 19,255,811	$ 10,336,727

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

(7) DEFINED BENEFIT PENSION PLANS (CONTINUED)

2016	**State Miscellaneous**		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
CALPIA's proportionate share of plan's net pension liability	$ 105,222	$ 74,501	$ 48,725
	State Safety		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
CALPIA's proportionate share of plan's net pension liability	$ 43,664,146	$ 26,770,544	$ 13,061,590
	State Industrial		
	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
CALPIA's proportionate share of plan's net pension liability	$ 21,673,194	$ 12,871,737	$ 5,592,979

(8) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Plan description - CALPIA employees also participate in the State's OPEB plan under which the State provides medical, prescription drug, and dental benefits to retired statewide employees. The authority for establishing and amending benefits, as well as 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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (GASB No. 45), the State amended its allocation methodology to include amortization of its accumulated unfunded postemployment obligations. The State has determined CALPIA's June 30, 2017 and 2016, funding requirements as well as its related 2017 and 2016 contribution credit. The amount allocated to CALPIA for the fiscal years ended June 30, 2017 and 2016, representing the annual OPEB cost were $14,818,000 and $13,742,000, respectively. Of this amount, $5,283,000 was contributed for 2017 and the balance of $9,535,000 was accrued as a liability. The contribution made for 2016 was $4,846,000 and the balance of $8,896,000 was accrued as a liability.

Annual OPEB cost and Net OPEB obligation - The State's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, 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 years, the amount credited to the plan, and changes in the net OPEB obligation as of June 30:

(8) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

	2017	2016
Annual required contribution	$ 14,618,000	$ 13,578,000
Interest on net OPEB obligation	2,814,000	2,312,000
Adjustment to annual required contribution	(2,614,000)	(2,148,000)
Annual OPEB cost	14,818,000	13,742,000
Contributions made	(5,283,000)	(4,846,000)
Increase in net OPEB obligation	9,535,000	8,896,000
Net OPEB obligation - beginning of year	62,649,000	53,753,000
Net OPEB obligation - end of year	$ 72,184,000	$ 62,649,000

CALPIA's allocation of the annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$ 14,818,000	35.7%	$ 72,184,000
2016	$ 13,742,000	35.3%	$ 62,649,000
2015	$ 11,157,000	37.8%	$ 53,753,000

Based on information provided to CALPIA by the State, in the June 30, 2016, actuarial valuation, the individual entry age normal cost method was used. A pay-as-you-go funding scenario was used by the State. Under this 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 4.25% investment rate of return and an annual healthcare cost trend rate of actual increases for 2017 and of 8.00% in 2018, initially, reduced to an ultimate rate of 4.50% in 2023. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. The unfunded actuarial accrued liability is being amortized as a level percentage of active member 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, 2017, can be found in the State's basic financial statements included in its Comprehensive Annual Financial Report.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Notes to Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

(9) CASH RESERVES FOR FUTURE LIABILITIES: NET OPEB OBLIGATION AND NET PENSION LIABILITY

As one of the few State agencies that is self-funded, CALPIA actively monitors the costs of retiree health-benefits and pension benefits in accordance with generally accepted accounting principles and the funding policies of the State. As of June 30, 2017, CALPIA's Statement of Net Position reflects a net OPEB obligation of $72.2 million and net pension liability of $54.3 million. However, CALPIA is no longer obligated to set aside funds for these future liabilities.

On June 27, 2017, Assembly Bill No. 103, Sections 37 and 38 were approved by the Governor, pursuant to its authority, and Penal Code Sections 2801 and 2808 were amended to read "(1) This subdivision does not require immediate cash availability for funding retiree health care and pension liabilities above amounts established in the Budget Act, or as determined by the Board of Administration of the Public Employees' Retirement System, or the Director of Finance for the fiscal year. (2) The Prison Industry Authority shall not establish cash reserves to support funding retiree health care and pension liabilities above the amounts specified in paragraph (1)".

However, CALPIA will continue its contribution to these liabilities in the Statewide budget through Department of Finance's (DOF) annual pro rata allocation requirement. By statute, CALPIA is self-funded and must cover all its operating costs. While CALPIA continues to accrue its allocated share of the State's retirement obligations, it is anticipated that its liabilities will exceed assets in future years. DOF has negotiated a long-term funding solution and CALPERs and the State are ultimately responsible for the payment of these long-term retirement obligations.

(10) RELATED PARTY TRANSACTIONS

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

		2017	2016
Assets:			
	Accounts receivable	$ 7,662,702	$ 5,964,559
Liabilities:			
	Accrued expenses and other liabilities	$ (709,621)	$ (1,149,125)
Revenues:			
	Sales	$ 138,190,073	$ 130,564,070
Expenses:			
	Support charges paid	$ (6,144,665)	$ (4,073,706)

The Secretary of CDCR is Chair of the Prison Industry Board. In the chart above, 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.

CALPIA has transactions with other agencies of the State in addition to CDCR. For the fiscal years ended June 30, 2017 and 2016, sales to such agencies were $92,569,908 and $85,370,593 respectively. As of June 30, 2017 and 2016, CALPIA had accounts receivable from other state agencies of $2,221,831 and $4,489,805, respectively. Additionally, CALPIA received an assessment for statewide administrative costs, which were $6,352,677 and $4,872,536 for the fiscal years ended June 30, 2017 and 2016, respectively.

(11) CONTINGENCIES

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 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 its customers a warranty period of five years for office furniture and mattress products and ten years for residential hall furniture. CALPIA has not established a reserve for warranty expense as such expenses and liabilities are deemed to be immaterial by management. Such costs are expensed when incurred.

Rental payments - Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2017, are as follows:

Fiscal Year Ended June 30,	Real Estate
2018	$ 536,671
2019	546,823
2020	384,459
2021	150,906
2022	150,906
2023	88,029
Total	$ 1,857,794

Total rental expense for all operating leases was $524,728 and $512,784 for the fiscal years ended June 30, 2017 and 2016, respectively.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Required Supplementary Information - Unaudited
Schedules of CALPIA's Proportionate Share
of the Net Pension Liability
Last Three Years*

Fiscal Year	Measurement Period	CALPIA's Proportion of the Net Pension Liability	CALPIA's Proportionate Share of the Net Pension Liability	CALPIA's Covered Payroll**	CALPIA's Proportionate Share of the Net Pension Liability as a Percentage of Their Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
State Miscellaneous Plan:						
2017	2016	0.00004%	$ 13,618	$ 4,602	295.91%	66.81%
2016	2015	0.00026%	$ 74,501	$ 28,070	265.41%	70.68%
2015	2014	0.00024%	$ 56,452	$ 23,758	237.61%	74.17%
State Safety Plan:						
2017	2016	1.28738%	$ 35,056,455	$ 27,038,787	129.65%	75.31%
2016	2015	1.23844%	$ 26,770,544	$ 24,815,521	107.88%	79.03%
2015	2014	1.13518%	$ 16,779,429	$ 21,582,485	77.75%	84.14%
State Industrial Plan:						
2017	2016	2.10248%	$ 19,255,811	$ 13,145,123	146.49%	76.00%
2016	2015	1.81271%	$ 12,871,737	$ 10,472,208	122.91%	80.25%
2015	2014	1.53930%	$ 8,334,675	$ 8,196,627	101.68%	83.92%

Notes to Schedule:
Changes of benefit terms:
In 2017, 2016 and 2015, there were no changes to the benefit terms.

Changes in assumptions:
In 2017, 2016 and 2015, there were no changes in assumptions.

* - GASB 68 was implemented in 2015 (2014 measurement period).
** - GASB 82 was implemented in 2017 for reporting periods beginning after June 15, 2016.
This changed covered-employee payroll to covered payroll.
Prior year amounts were not restated.

CALIFORNIA PRISON INDUSTRY AUTHORITY
Required Supplementary Information - Unaudited
Schedules of CALPIA's Contributions
Last Three Years*

Fiscal Year	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency	CALPIA's Covered Payroll**	Contributions as a Percentage of Covered-Employee Payroll
State Miscellaneous Plan:					
2017	$ 2,188	$ 2,188	$ -	$ 8,147	26.857%
2016	$ 1,207	$ 1,207	$ -	$ 6,289	19.192%
2015	$ -	$ -	$ -	$ -	0.000%
State Safety Plan:					
2017	$ 6,020,902	$ 6,020,902	$ -	$ 30,202,664	19.935%
2016	$ 5,208,565	$ 5,208,565	$ -	$ 27,779,013	18.750%
2015	$ 5,104,888	$ 5,104,888	$ -	$ 27,197,479	18.770%
State Industrial Plan:					
2017	$ 2,707,009	$ 2,707,009	$ -	$ 14,065,307	19.246%
2016	$ 2,449,020	$ 2,449,020	$ -	$ 12,760,858	19.192%
2015	$ 1,608,164	$ 1,608,164	$ -	$ 8,566,923	18.772%

Notes to Schedule:

The actuarial methods and assumptions used to determine contributions for the fiscal year ended June 30, 2017 were from the June 30, 2015 valuation reports as follows:

Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Inflation	2.75%
Salary increases	Varies depending on entry age and service.
Payroll growth	3.00%
Investment rate of return	7.50% net of pension plan investment expense, includes inflation, and administrative expense.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* - GASB 68 was implemented in 2015 (2014 measurement period).
** - GASB 82 was implemented in 2017 for reporting periods beginning after June 15, 2016.
This changed covered-employee payroll to covered payroll.
Prior year amounts were not restated.

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SUPPLEMENTAL INFORMATION AND REPORTS

MGO Certified Public Accountants

**Independent Auditor's Report
on Supplemental Information**

To the Prison Industry Board
Folsom, California

We have audited the basic financial statements of California Prison Industry Authority (CALPIA) as of and for the fiscal years ended June 30, 2017 and 2016, and our report thereon dated January 11, 2018, which expressed a qualified opinion on the 2017 and 2016 financial statements, appears on pages 1-3. Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows as of and for the fiscal years ended June 30, 2017 and 2016, 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the 2017 and 2016 supplementary information of the matter described in the "Basis for Qualified Opinion" paragraph of our report referenced above, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Sacramento, California
January 11, 2018

Macias Gini & O'Connell LLP
3000 S Street, Suite 300
Sacramento, CA 95816

www.mgocpa.com

CALIFORNIA PRISON INDUSTRY AUTHORITY

Internal Service Fund
Statements of Net Position
Classified in Accordance with the State Controller's Instructions
June 30, 2017 and 2016
(in thousands)
*** Unaudited ***

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
CURRENT ASSETS		
Cash and pooled investments	$ 61,120	$ 110,732
Receivables, (net)	894	1,146
Due from other funds	10,024	10,603
Due from other governments	95	184
Prepaid items	856	351
Inventories, at cost	42,564	39,150
TOTAL CURRENT ASSETS	115,553	162,166
NONCURRENT ASSETS		
Nondepreciable capital assets:		
Construction in process	1,595	1,838
Depreciable capital assets:		
Buildings	8,182	8,182
Leasehold improvements	38,013	33,879
Equipment	138,588	127,923
Livestock	3,358	3,373
Orchards	1,093	1,094
Intangible assets	3,928	3,672
TOTAL CAPITAL ASSETS	194,757	179,961
Accumulated depreciation:		
Buildings	(4,926)	(4,615)
Leasehold improvements	(28,449)	(27,464)
Equipment	(95,486)	(90,329)
Livestock	(184)	(323)
Orchards	(894)	(881)
Intangible assets	(3,666)	(3,622)
TOTAL ACCUMULATED DEPRECIATION	(133,605)	(127,234)
TOTAL NONCURRENT ASSETS	61,152	52,727
TOTAL ASSETS	176,705	214,893
DEFERRED OUTFLOWS OF RESOURCES	24,719	13,896
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 201,424	$ 228,789
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and other	$ 14,251	$ 9,376
Due to other funds	2,482	2,410
Unearned revenue	558	270
Other current liabilities	4,495	4,477
TOTAL CURRENT LIABILITIES	21,786	16,533
NONCURRENT LIABILITIES		
Compensated absences payable	9,935	9,859
Net OPEB obligation	72,184	62,649
Other non-current liabilities	15,405	17,358
Net pension liability	54,326	39,717
TOTAL NONCURRENT LIABILITIES	151,850	129,583
TOTAL LIABILITIES	173,636	146,116
DEFERRED INFLOWS OF RESOURCES	98	1,080
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	173,734	147,196
NET POSITION		
Net investment in capital assets	61,151	52,727
Unrestricted	(33,461)	28,866
TOTAL NET POSITION	27,690	81,593
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 201,424	$ 228,789

CALIFORNIA PRISON INDUSTRY AUTHORITY
INTERNAL SERVICE FUND
Statements of Revenues, Expenses and Changes in Net Position
Classified in Accordance with the State Controller's Instructions
For the Fiscal Years Ended June 30, 2017 and 2016
(in thousands)
*** Unaudited ***

OPERATING REVENUES	2017	2016
Services and sales	$ 233,536	$ 218,804
OPERATING EXPENSES		
Personal services	(90,750)	(81,396)
Supplies	(5,017)	(4,601)
Services and charges	(121,981)	(116,373)
Depreciation	(7,657)	(6,813)
Total operating expenses	(225,405)	(209,183)
OPERATING INCOME (LOSS)	8,131	9,621
NONOPERATING REVENUES (EXPENSES)		
Investment income	693	445
Interest expense	(16)	(18)
Gain (loss) on disposal and impairment of capital assets	(179)	170
Other expense	(57)	(36)
TOTAL NON-OPERATING REVENUES (EXPENSES)	441	561
Transfer to State General Fund	(62,600)	-
Contributed Capital - Water Grant	125	375
Change in net position	(53,903)	10,557
NET POSITION, BEGINNING OF YEAR	81,593	71,036
NET POSITION, END OF YEAR	$ 27,690	$ 81,593

CALIFORNIA PRISON INDUSTRY AUTHORITY
INTERNAL SERVICE FUND
Statements of Cash Flows
Classified in Accordance with the State Controller's Instructions
For the Fiscal Years Ended June 30, 2017 and 2016
(in thousands)
*** Unaudited ***

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 234,734	$ 216,310
Receipts from interfund services provided	3,787	3,426
Payments for interfund services used	(15,004)	(10,116)
Payments to employees	(80,210)	(70,894)
Payments to suppliers	(114,812)	(113,881)
Payments for other services	(57)	(36)
Net cash provided by operating activities	28,438	24,809
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to State General Fund	(62,600)	-
Interest expense	(16)	(18)
Net cash flows used in noncapital financing activities	(62,616)	(18)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets	(16,520)	(13,476)
Proceeds from sale of capital assets	384	522
Net cash flows used in capital and related financing activities	(16,136)	(12,954)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	702	359
Net increase/(decrease) in cash and pooled investments	(49,612)	12,196
Cash and pooled investments, beginning of year	110,732	98,536
Cash and pooled investments, end of year	$ 61,120	$ 110,732

CALIFORNIA PRISON INDUSTRY AUTHORITY
INTERNAL SERVICE FUND
Statements of Cash Flows (Continued)
Classified in Accordance with the State Controller's Instructions
For the Fiscal Years Ended June 30, 2017 and 2016
(in thousands)
*** Unaudited ***

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	2017	2016
Operating income	$ 8,131	$ 9,621
Adjustments to reconcile operating income to net cash provided by/(used in) operating activities:		
Depreciation	7,657	6,813
Other fees	(57)	(36)
Net effect of changes in:		
Receivables	252	270
Due from other funds	579	(2,673)
Due from other governments	89	12
Prepaid items	(505)	149
Inventories	(3,414)	774
Accounts payable and other	4,875	(366)
Due to other funds	72	342
Unearned revenue	288	(189)
Other current liabilities	18	(774)
Compensated absences payable	76	1,424
Other liabilities and deferred outflows/inflows	10,377	9,442
Total adjustments	20,307	15,188
Net cash provided byoperating activities	$ 28,438	$ 24,809

Certified
Public
Accountants

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*

To the Prison Industry 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), a component unit of the State of California, as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise CALPIA's basic financial statements, and have issued our report thereon dated January 11, 2018. Our opinion on the 2017 and 2016 financial statements was qualified due to a scope limitation as described in our report and we were not able to audit the allocated net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense as of and for the fiscal year ended June 30, 2016, and the pension expense for the fiscal year ended June 30, 2017, for the State Safety Plan and the State Industrial Plan.

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 than 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.

Macias Gini & O'Connell LLP
3000 S Street, Suite 300
Sacramento, CA 95816

www.mgocpa.com

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
January 11, 2018

CALPIA Enterprises and Career Technical Education (CTE) Locations

1 Pelican Bay State Prison (PBSP)
- Laundry
- Construction Services & Facilities Maintenance
- Support Services

2 California Correctional Center (CCC)
- Construction Services & Facilities Maintenance

3 High Desert State Prison (HDSP)
- Construction Services & Facilities Maintenance
- Support Services

4 Folsom State Prison (FSP)
- Metal Products
- Metal Signs
- License Plates
- Printing
- Digital Services
- Modular Building
- Construction Services & Facilities Maintenance
- Support Services

CTE Programs
- Pre-Apprentice Carpentry
- Pre-Apprentice Construction Labor
- Pre-Apprentice Iron Worker

Folsom Women's Facility (FWF)
CTE Programs
- Pre-Apprentice Carpentry
- Pre-Apprentice Construction Labor
- Construction Services & Facilities Maintenance
- Computer-Aided Design
- Culinary Arts

5 CSP Sacramento (SAC)
- Laundry
- Construction Services & Facilities Maintenance

6 California Medical Facility (CMF)
- Construction Services & Facilities Maintenance

7 CSP Solano (SOL)
- Metal Products
- Laundry
- Optical
- Bindery
- Construction Services & Facilities Maintenance
- Support Services

8 Mule Creek State Prison (MCSP)
- Meat Cutting
- Coffee Roasting
- Food & Beverage Packaging
- Laundry
- Fabric Products
- Construction Services & Facilities Maintenance
- Support Services

9 CSP San Quentin (SQ)
- Furniture
- Mattress
- Construction Services & Facilities Maintenance
- Support Services

CTE Programs
- Pre-Apprentice Construction Labor
- Computer Coding

10 California Health Care Facility (CHCF)
- (No Enterprises)

11 Sierra Conservation Center (SCC)
- Fabric Products
- Construction Services & Facilities Maintenance

12 Deuel Vocational Institution (DVI)
- Dairy
- Construction Services & Facilities Maintenance
- Support Services

13 Central California Women's Facility (CCWF)
- Crops
- Dental Lab
- Fabric Products
- Construction Services & Facilities Maintenance
- Support Services

CTE Program
- Pre-Apprentice Carpentry

14 Valley State Prison (VSP)
- Laundry
- Optical
- Construction Services & Facilities Maintenance
- Support Services

15 Correctional Training Facility (CTF)
- Furniture
- Fabric Products
- Construction Services & Facilities Maintenance
- Support Services

16 Salinas Valley State Prison (SVSP)
- Construction Services & Facilities Maintenance

17 Pleasant Valley State Prison (PVSP)
- Construction Services & Facilities Maintenance

18 CSP Corcoran (COR)
- Dairy
- Food & Beverage Packaging
- Laundry
- Construction Services & Facilities Maintenance
- Support Services

19 Substance Abuse Treatment Facility (SATF)
- Food & Beverage Packaging
- Construction Services & Facilities Maintenance
- Support Services

20 Avenal State Prison (ASP)
- Poultry
- Egg Production
- Furniture
- Laundry
- General Fabrication
- Construction Services & Facilities Maintenance
- Support Services

21 North Kern State Prison (NKSP)
- Construction Services & Facilities Maintenance

22 Wasco State Prison (WSP)
- Laundry
- Construction Services & Facilities Maintenance

23 Kern Valley State Prison (KVSP)
- Construction Services & Facilities Maintenance
- Support Services

24 California Men's Colony (CMC)
- Laundry
- Printing
- Fabric Products
- Knitting Mill
- Shoes
- Construction Services & Facilities Maintenance
- Support Services

25 California Correctional Institution (CCI)
- Fabric Products
- Construction Services & Facilities Maintenance
- Support Services

26 CSP Los Angeles County (LAC)
- Laundry
- Cleaning Products
- Construction Services & Facilities Maintenance
- Support Services

27 California Institution for Men (CIM)
- Food & Beverage Packaging
- Laundry
- Construction Services & Facilities Maintenance
- Support Services

CTE Programs
- Marine Technology Training Center
- Pre-Apprentice Carpentry
- Pre-Apprentice Construction Labor

28 California Institution for Women (CIW)
- Fabric Products
- Construction Services & Facilities Maintenance

CTE Programs
- Pre-Apprentice Carpentry
- Pre-Apprentice Construction Labor
- Facilities Maintenance
- Computer Coding

29 California Rehabilitation Center (CRC)
- Construction Services & Facilities Maintenance

30 Chuckawalla Valley State Prison (CVSP)
- Laundry
- Construction Services & Facilities Maintenance

31 Ironwood State Prison (ISP)
- Construction Services & Facilities Maintenance

32 Calipatria State Prison (CAL)
- Construction Services & Facilities Maintenance

33 Centinela State Prison (CEN)
- Fabric Products
- Construction Services & Facilities Maintenance
- Support Services

34 RJ Donovan Correctional Facility (RJD)
- Bakery
- Laundry
- Shoes
- Construction Services & Facilities Maintenance
- Support Services

35 California City Correctional Facility (CAC)
(Leased)
- Construction Services & Facilities Maintenance

Quality Products ★ Changed Lives ★ A Safer California

CALIFORNIA PRISON INDUSTRY AUTHORITY
506 E Natoma Street
Folsom, CA 95630
916.358.1802

Approved by the California Prison Industry Board
on January 29, 2018

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