# CALIFORNIA PRISON INDUSTRY AUTHORITY

## REPORT TO THE LEGISLATURE

## FISCAL YEAR 2010-2011

Quality Products ★ Changed Lives ★ A Safer California

View this report electronically at www.calpia.ca.gov

**Edmund G. Brown, Jr.**
**Governor**
**State of California**

**California Prison Industry Board**

**Matthew L. Cate, Chair**
**Secretary California Department of Corrections and Rehabilitation**



The Prison Industry Board (PIB) Fiscal Year (FY) 2010-11 Report to the Legislature regarding the California Prison Industry Authority (CALPIA) is submitted pursuant to Chapter 1549, Statutes of 1982, as embodied in paragraph 2808 (k) of the California Penal Code which requires the PIB to report to the Legislature in writing on or before February 1, of each year regarding the following:

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

# Committed to California's Public Safety

## The Prison Industry Board

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

## The Penal Code[1] Established the California Prison Industry Authority (CALPIA) to:

- Develop and operate manufacturing, agricultural, and service enterprises that provide work opportunities for inmates under the jurisdiction of the California Department of Corrections and Rehabilitation (CDCR), and serve governmental agencies with products and services commensurate with their needs.
- Create and maintain working conditions within enterprises, as much like those which prevail in private industry as possible, to assure inmates assigned therein the opportunity to work productively to earn funds, and to acquire or improve effective work habits or occupational skills.
- Operate work programs for inmates that are self-supporting through the generation of sufficient funds from the sale of products and services to pay all its expenses, thereby avoiding the cost of alternative inmate programming by CDCR. CALPIA receives no appropriation from the Legislature.

1. Penal Code Section 2800-2018

## CALPIA Mission Statement

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

## CALPIA Program Goal

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

## Does CALPIA Work?

Over a three year period, beginning in FY 2006-07, CALPIA participants returned to prison on average 24 to 30% less often than inmates released from the CDCR general population, saving the General Fund millions in incarceration cost avoidance. Additionally, offenders who participate in CALPIA's Career Technical Education (CTE) program are 89% less likely to return to prison.

## Does CALPIA Save the State Money?

CALPIA's inmate programming saves the State General fund millions annually through lower recidivism, and saves CDCR millions more in rehabilitation program cost-avoidance.

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

- Achieve Self-Sufficiency
- Build Inmate Success
- Exceed Customer Expectations
- Promote and Support CALPIA

## CALPIA Operates Four Programs:

1. Correctional Industries
2. Joint and Free Venture
3. Career Technical Education
4. Inmate Employability Program

## Correctional Industries

CALPIA manages 60 manufacturing, service, and agriculture industries in 22 CDCR institutions. CALPIA provides employment and programming for approximately 7,000 inmates assigned to 5,039 positions in manufacturing, agricultural, service enterprises, and selling and administration. Administrative offices are located in Folsom, California.

The goods and services produced by CALPIA's operations are sold principally to departments of the State of California, and other government entities. CDCR is CALPIA's largest customer, and accounted for 62.3% of all sales in FY 2010-11. Other major customers include the Department of Motor Vehicles (DMV), Department of Mental Health, Department of Health Care Services, California Department of Transportation, Department of Developmental Services, and the Department of General Services (DGS).

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

## Joint Venture Program

The Joint Venture Program (JVP) is responsible for implementing the Prison Inmate Labor Initiative, Proposition 139, passed by the voters in 1990. Under its provisions, private businesses can set up business operations inside California correctional facilities and hire inmates. This includes only those businesses that are starting a new company, expanding an existing business, or relocating to California.

This unique relationship is a cooperative effort of private industry and the state of California, benefiting businesses, victims, and the State, while preparing inmates for successful reintegration into the community.

Inmates are paid a comparable wage that is then subject to deductions for room and board, crime victim compensation, prisoner family support, government ordered restitution (child support), and mandatory inmate savings for release. In addition, inmate-employees pay federal and state taxes. The JVP disbursed more than $100,000 for crime victim restitution in FY 2010-11. Local government correctional facilities may also participate in the JVP.

## Inmate Employability Program

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

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

The IEP provides transition to employment services and information. Prior to parole, a California Identification Card is issued or an appointment at the DMV arranged. Information and forms are provided for a social security card, birth certificate, child support, and veterans benefits. The IEP also provides access to the CDCR statewide resource guide.

## Career Technical Education[2]

The CTE program, established by CALPIA in 2006, gives inmates an opportunity to gain hands-on experience in real world training, as well as work opportunities performing construction and facility maintenance for institutions and communities. CTE encompasses programs in carpentry, iron working, construction labor, commercial diving, and facilities maintenance. Over the past three years that CALPIA has operated the CTE program, the recidivism rate for graduates who paroled is 7.13%, which is 89% lower than the recidivism rate for general population inmates. Over the same time period, state and local government entities that utilized CTE inmates for maintenance and construction projects realized millions in labor cost avoidance, and the General Fund realized $11.4 million in savings as a result of CTE recidivism reduction. CALPIA is currently exploring alternative means of financing the CTE program since CDCR ceased reimbursing CALPIA for these programs in FY 2011-12.

CALPIA has also established a CTE program at California Men's Colony (CMC) located in San Luis Obispo. The CMC CTE program will complete small construction projects, including lead and asbestos abatement for the California National Guard facility located at Camp Roberts. The CTE program at CMC will allow the Guard to accomplish deferred maintenance that would otherwise be budgetarily prohibited.

CALPIA will disband the CTE program at the California Insitution for Women after five years due to a lack of funded projects.

In October 2011, the PIB authorized a legislative concept that would provide a net savings to the General Fund while providing incentive based funding for the CTE program. CALPIA has not secured a legislative author for this proposal.

## Bureau of State Audits Report

Among its findings, the Bureau of State Audits (BSA) in its May 2011 Report (2010-118) documents ways that CALPIA saves the state money by enhancing the safety of prisons, demonstrating lower recidivism rates among inmates who work in its programs, and in its pricing of products. The BSA reported that in every instance where comparable data exist, the recidivism rate for CALPIA participants is lower than that of CDCR offenders released from the general population. While the BSA identified discrepancies in CALPIA's calculations, the BSA notes that once adjusted, the cost avoidance from a lower recidivism rate of CALPIA participants, to be approximately $8.5 million in FY 2008-09.

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

## CALPIA Reduces Recidivism, Saves Money and Increases Safety

Former inmates who participated in CALPIA programs are less likely to return to prison than general population inmates. They are significantly more likely to become productive citizens that pay taxes instead of costing California taxpayers approximately $49,000 per year.[3]

CALPIA is preparing inmates for productive lives, reducing further incarceration costs.

The recidivism rate of CALPIA participants is an essential measure of the organization's success. Over a three-year period, beginning in FY 2006-07, CALPIA participants returned to prison on average 24 to 30% less often than inmates released from the CDCR general population, saving the General Fund millions in incarnation cost avoidance. Additionally, offenders who participate in CALPIA's CTE program are 89% less likely to return to prison.

CALPIA provides CDCR over 7,000 alternative inmate programming positions, thereby saving CDCR more than $11 million annually in General Fund costs for rehabilitation positions[4] that CDCR does not have to fund.

### CALPIA Reduces Recidivism

| Fiscal Year | Total CALPIA Parolees | Total CDCR Parolees | 1 Year | | | 2 Years | | | 3 Years | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | CALPIA Percent | CDCR Percent | Variance Percent | CALPIA Percent | CDCR Percent | Variance Percent | CALPIA Percent | CDCR Percent | Variance Percent |
| 09/10* | 1,330 | | 12.41% | | | | | | | | |
| 08/09* | 1,571 | | 27.75% | | | 33.86% | | | | | |
| 07/08* | 1,637 | 116,497 | 31.83% | 42.18% | 24.54% | 39.71% | | | 44.95% | | |
| 06/07* | 1,853 | 115,522 | 30.87% | 43.20% | 28.54% | 43.34% | 55.83% | 22.39% | 44.41% | | |
| 05/06 | 1,822 | 108,637 | 32.44% | 49.10% | 27.80% | 43.19% | 62.50% | 26.50% | 43.63% | 67.50% | 30.20% |
| | | | | Average Variance | 26.95% | | Average Variance | 24.45% | | Average Variance | 30.20% |

* Data was unavailable at the time this report was published

3. Legislative Analyst's Office (March 2009) Report to Senate Budget Sub. No. 4.

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

# CALPIA Invests in Rehabilitation

CALPIA invests in curricula for inmates, including 17 programs that offer nationally recognized accredited certification such as optometry, dental technology, food handling, automotive service, laundry, commercial baking, agriculture, welding, and metal stamping. Additionally, CALPIA funds CTE programs in commercial diving, carpentry, construction labor, and ironworking, in partnership with trade unions that offer employment possibilities when inmates are released on parole. CALPIA inmates also earn certificates of proficiency in occupational disciplines which may be utilized upon parole to validate skills and abilities acquired during employment with CALPIA.

In FY 2010-11, 1,443 CALPIA inmates received a certificate of proficiency, and another 334 CALPIA inmates successfully completed an accredited certification program. Of those that completed an accredited certification program, 142 were graduates of CALPIA's CTE program.

American Board of Opticianry
Optician

American Institute of Baking
Science of Baking
Foundations
Ingredient Technician
Bread/Rolls
Cake/Sweet Goods

American Welding Society
GMAW-1
GTAW-1
GTAW-2
GTAW-3

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

Automotive Service Excellence
Medium/Heavy Truck: Gasoline Engines
Medium/Heavy Truck: Diesel Engines
Medium/Heavy Truck: Drive Train
Medium/Heavy Truck: Brakes
Medium/Heavy Truck: Suspension/Steering
Medium/Heavy Truck: HVAC
Medium/Heavy Truck: PMI
Special: Exhaust Systems

CA Department of Food & Agriculture
Artificial Insemination License
Pasteurizer License
Sampler/Weigher License

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

Federal Emergency Management Agency
Decision Making
Effective Communication
Hazardous Materials

International Organization for Standardization
ISO Internal Quality Auditor

Library of Congress – Braille
Literary Transcribing
Literary Proofreading
Mathematics Transcribing
Mathematics Proofreading
Music Transcribing

National Institute of Metalworking Skills
Machining, Level I
Metal Forming, Level I
Metal Stamping, Level II

National Restaurant Association
ServSafe Essentials
ServSafe Employee Guide/Food Handler

North American Technician Excellence
Installation or Service for:
Air Conditioning
Air Distribution
Heat Pumps
Gas Heat
Oil Heat

Overton–Forklift Operator
Warehouse Forklift
Construction Forklift
Pallet Jack Forklift

Printing Industries of America
Sheetfed Offset Press
Web Offset Press
Bindery
Pre-Press

Productivity Training Corporation
Dental Technician

Stiles Machinery Inc.
Intermediate Weeke Machining

# Financial Activity of CALPIA

## Financial Overview

After several years of profitability, CALPIA experienced a $15.3 million (M) decrease in net assets in FY 2010-11. Four factors that contributed to this extraordinary result were a $17.4 M (9.6%) decrease in operating revenues from the prior year, an $8.6 M expense for the anticipated settlement of a lawsuit brought by employee unions for lost wages claimed as a result of state imposed furloughs, a $6.3 M expense for Other Post-Employment Benefits (OPEB), and a $2.8 M expense related to factory closures. If not for the furlough expense, the annual OPEB charge, and the one-time costs associated with factory closures, CALPIA would have continued its profitability in FY 2010-11.

## Operating Revenues

The FY 2011-12 Mid-Year Revise (MYR) anticipates revenues of $160.5 million, a decrease of 2.4% from the FY 2010-11 audited revenues of $164.4 million. The MYR anticipates CALPIA utilizing up to 5,417 inmate positions, compared to 5,039 positions in FY 2010-11. CALPIA anticipates employing 564 free staff in FY 2011-12, which is a 5.7% reduction over the previous year.

In the past three years, CALPIA revenues, reflecting the reduction in government expenditures, has declined 29.8% from $234.2 M in FY 2008-09 to $164.4 M in FY 2010-11. The largest product declines since FY 2008-09 are Modular Construction (24.4 M), Optical (11.2 M), General Fabrication ($8 M), and Furniture ($9.9M).

## Litigation Related to Employee Furloughs

CALPIA was not exempted from furloughs imposed on state agencies. The application of furloughs has resulted in three court cases, the results of which are likely to have a significant financial impact on CALPIA. These cases involve actions filed by labor unions challenging the legality of furloughs imposed upon employees of state agencies which receive funding from sources other than the State's General Fund.

In consideration of this litigation, and after conferring with CALPIA's independent financial auditors, CALPIA accrued $8.6 M as a selling and administrative expense on its FY 2010-11 operating statement, anticipating a court order to compensate its employees back pay, including interest, for furlough time imposed upon employees.

This anticipated settlement cost for furloughs is in addition to the considerable costs CALPIA has already incurred relating to furloughs, including increased vacation balances, liquidation of banked furlough time, and overtime expenses to meet customer demand.

## Postemployment Benefits Other than Pensions

CALPIA is one of only two state agencies that is required to fully fund the cost of their retiree benefits. Under Governmental Accounting Standards Board Statement No. 45—Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), the State is required to recognize the cost of retiree health benefit programs on an accrual basis rather than on a pay-as-you go basis. The State Controller informed CALPIA that its share of the State's net unfunded OPEB obligation is $6.3 M for each of the FYs 2009-10 and 2010-11. The State does not maintain a separate pool of assets to finance future retiree healthcare benefits.

# Financial Activity of CALPIA

## Factory Closures

In FY 2009-10, CALPIA closed two optical factories, two furniture factories, and one dairy. In FY 2010-11, CALPIA closed an additional furniture factory at the Deuel Vocational Institution, near Tracy, California. In addition to the 401 inmate positions eliminated because of these closures, CALPIA will recognize a $2.8 M charge resulting from the deactivation of the various factories in FY 2010-11.

## Other Extraordinary Expenses
## *Pro Rata* Payments to the State

Despite the fact that CALPIA receives no Budget Act appropriation, CALPIA must pay the State its *pro rata* share of costs of State services (Legislature, Department of Finance, Controller, Treasurer, etc.). In FY 2010-11, CALPIA's *pro rata* bill from the State of California was $3.5 M. The FY 2011-12 *pro rata* payment is anticipated to be $3.8 M.

## Application of State Sales Tax

Per the Board of Equalization, unlike any other manufacturer, CALPIA must pay sales tax on purchases of raw materials instead of collecting sales taxes from the end user. Since CALPIA incurs the cost of paying sales tax on materials purchased, those costs must be reflected in the base prices of CALPIA goods and services. CALPIA paid over $4 M in Sales and Use Tax in FY 2010-11.

## No Interest General Fund Loans

Government Code section 16310(a) authorizes the State Treasurer to transfer idle cash from other funds (not to exceed 10% of the fund) to the General Fund to meet the cash needs of the State. In FY 2010-11, CALPIA loaned an average of $22.2 M per day, for 355 days, to the General Fund for which interest is not accrued. At an average daily interest rate of 0.00134%, this translates to over $105,000 of lost interest to CALPIA that is not collectible.

## CALPIA Balance Sheet

Notwithstanding the challenges of FY 2010-2011, CALPIA is financially strong. The CALPIA balance sheet as of June 30, 2011, shows that current assets are almost four times greater than current liabilities, and almost twice the amount of total liabilities. These financial indicators reflect that CALPIA is well positioned to meet its short-term and long-term obligations. Moreover, CALPIA continues to identify additional cost savings and is working to stabilize revenues by identifying new customer needs.

## Future Impacts

In the immediate future, CALPIA must focus on issues which directly affect its ability to operate a business in a correctional environment.

Governor Brown signed Assembly Bill 109 (Chapter 15/2011) which redirects thousands of parolees and new inmates to the jurisdiction of local counties, effective October, 2011. In the next 36 months, CALPIA anticipates revenues will decrease an additional $19.9 M as a result of declining purchases from CDCR as the inmate population declines. This will reduce opportunities to employ inmates with CALPIA. CALPIA estimates that as a result of this revenue reduction, CALPIA will reduce up to 725 inmate positions, and up to 72 civil service positions.

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

# New Programs

## California Identification Project

In a partnership with DMV and CDCR, on December 31, 2011, CALPIA completed an 18-month pilot project that provided a valid California Identification Card (ID) for 8,000 paroling inmates from nine institutions. CALPIA requires that all inmates participating in CALPIA programs obtain a California ID prior to parole, and secure a GED within two years of entering CALPIA, both of which are proven to aid the offender upon release to make a successful transition to the community.

## CALPIA Construction Services and Facilities Maintenance

In April, 2011, the PIB approved the establishment of the Construction Services and Facilities Maintenance (CSFM) enterprise to provide a full range of construction and facility maintenance services. The PIB's action was to recognize CALPIA's long established Industrial Services Branch (ISB) as an enterprise, consistent with the California Penal Code requirements. The ISB had previously been recorded as a selling and administration expense prior to its recording of revenues.

CSFM focuses on the management and timely completion of smaller construction, renovation, or repair projects utilizing skilled inmate labor participants in CALPIA's CTE inmate training program. CALPIA has demonstrated and documented that trained inmates from its CTE program can reduce the operating costs of prisons and other state facilities by using CTE inmates to perform deferred maintenance. The program boasts a recidivism rate that is 89% lower than the rate for the inmate general population. The CTE program produces inmates that are employable upon parole and able to contribute to society through the payment of taxes rather than costing taxpayers by reoffending and being sent back to state prison.

CSFM services include, but are not limited to, new construction, refurbishing structures, making special and emergency repairs, minor capital projects, Americans with Disabilities Act (ADA) access modifications, energy retrofits, and lead and asbestos abatement. CSFM also installs CALPIA's state of the art modular buildings throughout the state. From 2008 through 2010, the former ISB installed over 100,000 square feet of CALPIA modular buildings throughout CDCR institutions.

In 2011, CSFM provided construction services to the CDCR, the California Department of Parks and Recreation and the California Exposition and State Fair.

In FY 2011-12 CALPIA will expand the CSFM enterprise with the addition of a facilities maintenance program at the California Medical Facility at Vacaville, California that will employ 28 inmates.

Utilizing the CSFM greatly reduces the General Fund costs for prisons, parks and public works, and simultaneously provides a proven inmate rehabilitation training option. The CSFM is a concept which should be embraced further by state agencies, including CDCR, in a time of shrinking budgets as they recognize deferred maintenance deficiencies. The CSFM provides an added benefit of inmate rehabilitation training that demonstrates a remarkably low recidivism rate.

The CDCR also operates a similar construction program, the Inmate-Ward Labor program (IWL), but IWL does not include an apprenticeship program as does CALPIA, and IWL restricts their work to correctional facilities.

## Prototype Modular Buildings

CALPIA is currently in development and near completion of several prototype buildings funded by the PIB.

The first pilot Telemedicine Modular Building Project is for the California Correctional Health Care Services (Office of the Federal Receiver). The self-contained telemedicine unit will provide for remote medical examinations by way of video conferencing. The new telemedicine unit will be installed at Pelican Bay State Prison (PBSP). The project will reduce the cost of inmate health care at PBSP by lessening the need to transport inmates to outside health care facilities, and serve as a model for the delivery of health care to prisoners located in remote California prisons.

The second prototype is a "Incident Management System" prototype to be installed at the Green Valley Training Center in Folsom. This will provide a state of the art training facility to demonstrate methodologies for correctional and non-correctional incident management that have been adopted nationally.

The third prototype is a lighter constructed modular which differentiates itself from the higher security (and heavier) modular buildings previously installed throughout the state. This lower weight, lower cost building will still enjoy the same 30 year life span as the previous buildings. The modular units are fabricated by CALPIA inmate workers in the CTE program within the Modular Building Enterprise at Folsom State Prison (FSP).

## 1st Defense- Wildland Fire Protection Gear

CALPIA is launching its newest line of fire protection gear under the name 1st Defense. Developed in partnership with the California Department of Forestry and Fire Protection, 1st Defense garments are designed to provide personal safety, comfort, durability and full range visibility.

CALPIA Fabric Enterprises received International Organization for Standardization (ISO) 9001:2008 and National Fire Protection Agency (NFPA) 1977: 2011 certifications in order to meet obligatory requirements. CALPIA manufactures the 1st Defense line of garments at Mule Creek State Prison.

## Tactile Maps and Signs

The Americans with Disabilities Act and the State of California require that evacuation maps be available in public buildings. Tactile maps are used to help orient vision-impaired individuals around buildings and campuses. Without them, individuals with vision disabilities are unable to read emergency information. CALPIA has recently added tactile maps to its Digital Services enterprise list of products. Digital Services offers dimensional printing, resulting in a tactile maps and images with raised linear surfaces, symbols, and Braille dots. Maps can be selectively digitized according to categories of information on the map, such as buildings, parking, athletic fields, and locations of entrances, bus stops, and obstructions.

## Revitalized Modular Systems Furniture

In support of a greener California, CALPIA offers a product stewardship program for its Modular Systems Furniture (MSF). In support of Management Memo 11-01, released February 11, 2011, CALPIA officially launched its line of Revitalized MSF that provides a way for agencies to effectively recycle office furniture.

When agencies have surplus modular furnishings, CALPIA retrieves its own components and revitalizes them to be offered within other modular furniture projects. This new program reduces warehousing costs and landfill waste while providing agencies cost-effective modular system furniture. In addition to being environmentally friendly, these products provide additional leadership in Energy and Environmental Design (LEED)credits for building certifications.

## Remanufactured Toner Cartridges

CALPIA launched the Remanufactured Toner Cartridges product line in November, 2010, offering an easy recycling opportunity to our customers. Initial offerings began with seven different printer styles, and in less than one year expanded to 13. Customer acceptance has been gratifying in that agencies see the fiscal and environmental value of purchasing previously used and remanufactured printer cartridges. CALPIA remanufactures toner cartridges at Folsom State Prison.

## Individual Prepackaged Meals

After several years of research, CALPIA launched the Individual Prepackaged Meals (boxed lunch) product line in September, 2011, as a pilot to feed approximately 100 CALPIA inmates. CALPIA was asked to develop the boxed lunch product by DGS. The boxed lunch product will be offered to CDCR for feeding inmates. The CALPIA boxed lunch product line will be produced at California State Prison - Corcoran. The product will be limited meal selection consistent with CDCR's correctional dietary requirements.

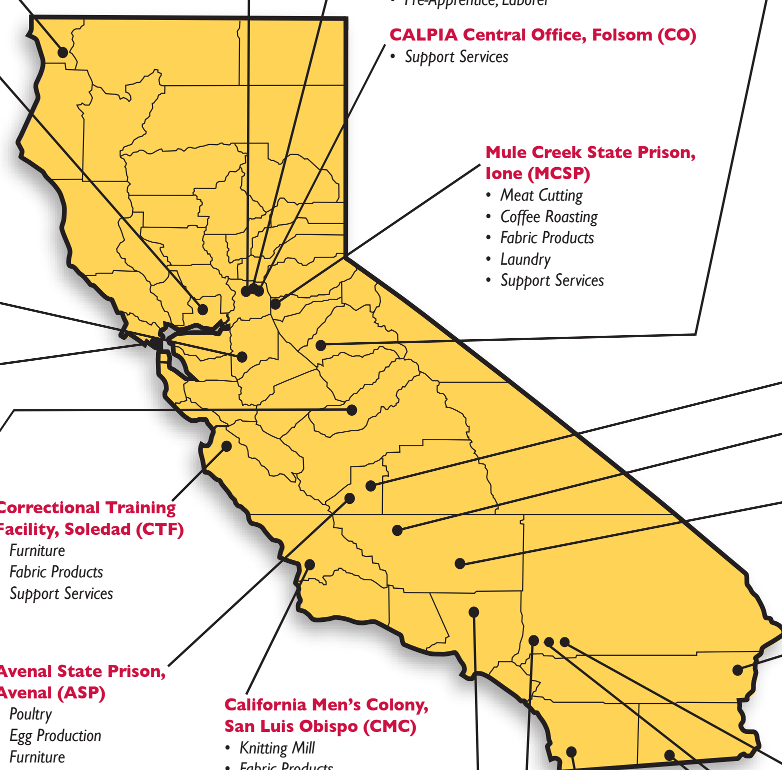
# Improved Processes

## Quality Control

FY 2010-11 was characterized by CALPIA's on-going efforts to adapt to market conditions and improve the overall quality of its products and services. These efforts included expanding the application of International Organization for Standardization (ISO) principles throughout the organization. ISO is the world's largest developer and publisher of International Standards.

CALPIA is one of only two state correctional industries in the nation that has achieved ISO certification, and the only state correctional industry program with inmates that are trained and certified ISO Internal Quality Auditors. In FY 2010-11, 10 additional CALPIA factories received ISO certification (eight fabric factories, one knitting mill, and one mattress factory).

# CALPIA Enterprises by Location



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

**CSP Solano, Vacaville (SOL)**
- *Metal Products*
- *Bindery*
- *Laundry*
- *Optical*
- *Support Services*

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

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

**Central California Women's Facility, Chowchilla & Valley State Prison for Women, Chowchilla (CCWF/VSPW)**
- *Crops*
- *Fabric Products*
- *Dental Lab*
- *Optical*
- *Laundry*
- *Support Services*

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

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

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

**Folsom State Prison, Represa & CSP Sacramento, Represa (FSP)**
- *Metal Products*
- *Metal Signs*
- *License Plates*
- *Printing*
- *Laundry*
- *Modular Building Construction*
- *Construction Services Enterprise & Facilities Maintenance*
- *Digital Services*
- *Support Services*

**CTE Programs**
- *Pre-Apprentice, Carpentry*
- *Pre-Apprentice, Ironworker*
- *Pre-Apprentice, Laborer*

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

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

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

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

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

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

**CTE Program**
- *Pre-Apprentice, Carpentry*

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

**CSP Corcoran & Substance Abuse Treatment Facility, Corcoran (COR)**
- *Dairy*
- *Food & Beverage Packaging*
- *Laundry*
- *Support Services*

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

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

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

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

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

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

**CTE Program**
- *Marine Technology Training Center*

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

*Career Technical Education (CTE) locations appear in blue

# PIB Summary of Adopted Action Items FYs 2009-2011

| | PIB Meeting | Summary 2011 |
|---|---|---|
| Item C | 11-1021-325-AI | CALPIA Regulations, Section 8006, Inmate Pay adopted for promulgation through Administrative Procedure Act (APA). |
| Item D | 11-1021-326-AI | Support legislation providing net General Fund savings, annual performance-based GF appropriation of approx. $1.15M for CTE program |
| Item E | 11-1021-327-AI | Change & place PIB policy in ISO format re: Transcripts of PIB Meetings and Public Hearings as the Official Record |
| Item C | 11-0617-299-AP | Adoption of Annual Plan. Revenues of $158.17M, decrease of 5.2% ($8.65M) from MYR; 5.5% ($6.80M) decrease of total costs of goods sold |
| Item D | 11-0617-300-AP | Adoption of $11,303,533 designation of cash to support capital expenditures for ongoing operations |
| Item B | 11-0406-322-AI | Adoption of Construction Services & Facilities Maintenance Enterprise Statewide; no change to the Revenue Limit of $10M; 20 inmate worker assignments per contact/location. |
| Item C | 11-0406-323-AI | Oppose SB 700 re: allowing CDCR to purchase locally; Reduction by over $4M and up to 60 inmate positions; increase in GF costs to CDCR by $300,000 annually. |
| Item D | 11-0406-324-AI | Support SB 608 re: allowing non-profits to purchase goods & services from CALPIA; possible GF savings $4,900,000 annually. |
| Item C | 11-0113-320-AI | CALPIA Regulations, Sections 8000, 8007, 8008 Inmate Appeals and Health & Safety Complaint for promulgation through APA. |
| Item D | 11-0113-321-AI | Satellite food & beverage packaging Enterprise at CSP-COR; capital investment approx. $800,000; 40 inmate worker assignments anticipated. |
| Item E | 11-0113-322-AI | MYR revenues & expenditures $166.8M; Gross profit decrease of $1.8M; $2.3M to fund CTE; utilizing 6,184 inmate positions – reduction of 149 positions (2.4%); funding 598 civil service positions (12.3% salary savings). |
| Item F | 11-0113-323-AI | Adoption of $13,014,631 MYR designation of cash to support capital expenditures; $1,065,900 increase |
| Item G1 | 11-0113-324-AI | PIB Report to Legislature FY 09-10 |
| | **PIB Meeting** | **Summary 2010** |
| Item B | 10-0629-297-AP | Adoption of Annual Plan. Revenues of $180.4M, decrease of $19.9M (9.9%) from MYR; $19.2M (12.3%) decrease of total costs of goods sold Utilizing approx. 6,333 inmate positions, reduction of 198 positions (3.1%); |
| Item C | 10-0629-298-AP | Adoption of $11,948,731 MYR designation of cash to support capital expenditures; $3.6M increase |
| Item D | 10-0629-201-OP | Adoption of closure of furniture factory at DVI and reduction of the operation at SQ effective 7/1/10 – 40% decrease |
| Item E | 10-0629-297-OP | Adoption to establish a Construction Services Enterprise effective 7/1/10; gross profit est. of $458,000 based on $6M annual revenue; 60 inmate worker positions. |
| Item F | 10-0629-297-OP | Adoption of Toner Cartridge Refurbishing-Printing Enterprise at FSP effective 8/1/10; utilizing 6 inmate positions. |
| Item G | 10-0629-319AI | Oppose SB 1130 (update) re: the elimination of the mandate for CDCR to purchase perishable goods from CALPIA; potential reduction of $3 million to Prison Industries Revolving Fund and loss of 100 inmate positions. |
| Item B | 10-0504-319-AI | Adoption of statewide Food & Beverage Packaging Enterprise revenue limit increase from $14.4 to $23M. |
| Item C | 10-0504-320-AI | Adoption of statewide Cleaning Products Enterprise revenue limit increase from $5.5 to 11.5M. |
| Item A | 10-0505-321-AI* | Oppose Assembly Bill 1771 re: change mandate to purchase CALPIA products to only those contracts and purchases over $25,000; potential reduction of $24 million to Prison Industries Revolving Fund; increased cost to CDCR of $15 million annually. |
| Item B | 10-0505-322-AI | Oppose SB 1130 re: the elimination of the mandate for CDCR to purchase perishable goods from CALPIA; potential reduction of $3 million to Prison Industries Revolving Fund and loss of 100 inmate positions. |
| Item B | 10-0128-3120AI | Adoption of PIB policy re: Destruction of Unofficial Transcripts of PIB Meetings & Public Hearings into ISO format |
| Item C | 10-0128-313-AI | Adoption of Resubmission of regulations, Sections 8000, 8001, 8002 re: PIB and CALPIA Regulatory Authority for promulgation through APA. |
| Item D | 10-0128-314-AI | MYR revenues & expenditures Revenue decrease of $3.3M (1.6%); COGS decrease $2.2M (1.38%); Gross profit decrease of $1.2M (2.5%); Selling & Admin decrease $2.4M (5.6%); Operating increase $1.3M (40.77%) Overall Net Gain $2.7M a decrease of $0.5M (16.6%) |
| Item E | 10-0128-315-AI | Adoption of $9,743,100 designation of cash to support capital expenditures for ongoing operations |
| Item F | 10-0128-316-AI | PIB Report to Legislature FY 09-10 |
| Item G | 10-0128-317-AI | Adoption of discontinuance of employing ICE hold inmates in Certification programs; disallow approx. 46 ICE hold inmates from program; possible GF savings of $588,000. |
| Item H | 10-0128-318-AI | Oppose SB 467 re: enabling State agencies to enter into purchase contracts for less than $25,000 with certified small businesses, micro businesses, or disabled veteran business enterprises; potential reduction of revenue to Prison Industries Fund of $99 million; increase costs to CDCR of $3.5 million. |

*Teleconference

# Financial Overview with FY 2011-12

## Revenues (In Thousands)

| | FY 09-10 Audited Actual | FY 10-11 Audited Actual | FY 11-12 Annual Plan | FY 11-12 Mid-Year Revise |
|---|---|---|---|---|
| Manufacturing | $86,407 | $71,250 | $71,356 | $73,671 |
| Services | 66,631 | 63,889 | 59,896 | 59,896 |
| Agricultural 28,773 | 29,259 | 26,914 | 26,914 | |
| **Total Revenue** | **$181,811** | **$164,398** | **$158,166** | **$160,481** |

## Expenses (In Thousands)

| | FY 09-10 Audited Actual | FY 10-11 Audited Actual | FY 11-12 Annual Plan | FY 11-12 Mid-Year Revise |
|---|---|---|---|---|
| Cost of Goods Sold | | | | |
| Manufacturing | $68,855 | $58,091 | $49,825 | $53,974 |
| Services | 46,295 | 48,269 | 43,757 | 44,109 |
| Agricultural 24,850 | 25,797 | 24,068 | 24,425 | |
| **Total Cost of Goods Sold** | **$140,000** | **$132,157** | **$117,650** | **$122,508** |
| **Gross Profit** | **$41,811** | **$32,241** | **$40,516** | **$37,973** |

## Selling & Administration (In Thousands)

| | FY 09-10 Audited Actual | FY 10-11 Audited Actual | FY 11-12 Annual Plan | FY 11-12 Mid-Year Revise |
|---|---|---|---|---|
| Prison Industry Board | $126 | $157 | $184 | $129 |
| Executive Division | | | | |
| Executive Management | 439 | 382 | 288 | 272 |
| Legal | 943 | 573 | 775 | 695 |
| External Affairs | 129 | 147 | 113 | 135 |
| Operations Division | | | | |
| Operations Management | 2,461 | 2,720 | 2,606 | 2,547 |
| Industrial Services Branch | 2,238 | 1,286 | 1,379 | 1,273 |
| Inmate Employability Program | 339 | 731 | 1,070 | 1,018 |
| Marketing Division | 3,353 | 3,648 | 3,261 | 3,254 |
| Joint Venture/Free Venture | 367 | 354 | 664 | 664 |
| Administration Division | 7,732 | 8,060 | 7,674 | 7,167 |
| Human Resources | 959 | 958 | 1,008 | 943 |
| Staff Development | 295 | 771 | 884 | 855 |
| Career Technical Education Programs (CTE) | 2,020 | 1,348 | 975 | 907 |
| Reimbursements | | | | |
| CTE | (1,543) | (800) | 0 | 0 |
| Joint/Free | (670) | (671) | (664) | (664) |
| IEP | 0 | (253) | (169) | (169) |
| Total Central Office | 19,188 | 19,411 | 20,048 | 19,026 |
| Distribution/Transportation | 11,346 | 11,597 | 10,337 | 10,761 |
| OPEB | 6,316 | 6,270 | 6,318 | 6,270 |
| Furlough Expense | 0 | 8,619 | 0 | 0 |
| **Total Selling and Administration** | **$36,850** | **$45,897** | **$36,703** | **$36,057** |
| **Operating Income/(Loss)** | **$4,961** | **($13,656)** | **$3,813** | **$1,916** |
| **Non-Operating Revenues/Expenses** | **($1,680)** | **($1,620)** | **($411)** | **($495)** |
| **Net Gain/(Loss)** | **$3,281** | **($15,276)** | **$3,402** | **$1,421** |

# Enterprise Overview

| Enterprise | FY 2011-12 Approved Mid-Year Revise | | |
|---|---|---|---|
| | Revenue | Cost of Goods Sold | Gross Profit/ (Loss) |
| Manufacturing | | (In Thousands) | |
| Furniture | $9,500 | $7,718 | $1,782 |
| Metal Products | 4,500 | 4,163 | 337 |
| License Plates | 11,000 | 5,205 | 5,795 |
| General Fabrication (Century Systems) | 9,600 | 8,390 | 1,210 |
| Bindery | 1,896 | 1,513 | 383 |
| Knitting Mill | 1,311 | 1,085 | 226 |
| Fabric Products | 19,900 | 14,562 | 5,338 |
| Shoes | 4,669 | 3,564 | 1,105 |
| Mattresses | 2,600 | 1,919 | 681 |
| Cleaning Products | 6,500 | 3,118 | 3,382 |
| Modular Construction | 2,195 | 2,737 | (542) |
| Sub-total Manufacturing | $73,671 | $53,974 | $19,697 |
| Services | | | |
| Meat Cutting | $8,625 | $7,092 | $1,533 |
| Bakery | 3,080 | 2,443 | 637 |
| Coffee Roasting | 1,878 | 1,269 | 609 |
| Food & Beverage Packaging | 13,735 | 10,520 | 3,215 |
| Metal Signs | 1,100 | 704 | 396 |
| Printing | 7,000 | 3,930 | 3,070 |
| Dental Lab | 500 | 414 | 86 |
| Digital Services | 350 | 290 | 60 |
| Laundry | 14,033 | 11,265 | 2,768 |
| Optical | 9,000 | 5,183 | 3,817 |
| Construction Services & Facilities Maintenance | 595 | 999 | (404) |
| Sub-total Services | $59,896 | $44,109 | $15,787 |
| Agricultural | | | |
| Dairy/Farm | $14,425 | $12,383 | $2,042 |
| Crops | 1,155 | 1,420 | (265) |
| Poultry | 5,337 | 5,089 | 248 |
| Egg Production | 5,997 | 5,533 | 464 |
| Sub-total Agricultural | $26,914 | $24,425 | $2,489 |
| **Total** | **$160,481** | **$122,508** | **$37,973** |

# Inmate Assignments by Enterprise

| Enterprise | FY 09-10 Actuals | FY 10-11 Actuals | FY 11-12 Annual Plan | FY 11-12 Mid-Year Revise |
|---|---|---|---|---|
| Manufacturing | | | | |
| Furniture | 568 | 476 | 439 | 503 |
| Metal Products | 237 | 220 | 323 | 239 |
| License Plates | 96 | 102 | 110 | 102 |
| General Fabrication (Century Systems) | 162 | 133 | 160 | 134 |
| Bindery | 98 | 102 | 140 | 105 |
| Knitting Mill | 87 | 95 | 82 | 91 |
| Fabric Products | 1,307 | 1,273 | 1,355 | 1,297 |
| Shoe | 183 | 170 | 223 | 173 |
| Mattress | 101 | 92 | 98 | 102 |
| Cleaning Products | 43 | 49 | 50 | 50 |
| Modular Construction | 40 | 66 | 40 | 66 |
| Sub-total Manufacturing | 2,922 | 2,778 | 3,020 | 2,862 |
| Services | | | | |
| Meat Cutting | 49 | 60 | 70 | 68 |
| Bakery | 84 | 66 | 76 | 66 |
| Coffee Roasting | 25 | 23 | 40 | 25 |
| Food & Beverage Packaging | 142 | 115 | 155 | 132 |
| Metal Signs | 30 | 28 | 30 | 28 |
| Printing | 124 | 131 | 139 | 131 |
| Dental Lab | 56 | 58 | 50 | 56 |
| Digital Services | 10 | 13 | 20 | 14 |
| Laundry | 830 | 794 | 856 | 829 |
| Optical | 210 | 176 | 178 | 183 |
| Construction Services & Facilities Maintenance | 0 | 0 | 35 | 28 |
| Sub-total Services | 1,560 | 1,464 | 1,649 | 1,560 |
| Agricultural | | | | |
| Dairy/Farm | 232 | 224 | 218 | 222 |
| Crops | 53 | 35 | 64 | 48 |
| Poultry | 58 | 32 | 111 | 81 |
| Egg Production | 80 | 77 | 96 | 96 |
| Sub-total Agricultural | 423 | 368 | 489 | 447 |
| Selling and Administration | | | | |
| Statewide Administrative Support | 307 | 292 | 390 | 347 |
| On-Time Delivery | 23 | 23 | 12 | 25 |
| Central Office | 29 | 27 | 61 | 42 |
| Career Technical Education Programs | 241 | 87 | 120 | 134 |
| Sub-total Selling and Administration | 600 | 429 | 583 | 548 |
| **Total** | **5,505** | **5,039** | **5,741** | **5,417** |

## Inmate Positions by Location

| Location | Average Monthly Filled Inmate Assignments | |
|---|---|---|
| | FY 2009-10 | FY 2010-11 |
| California Institution for Men | 241 | 216 |
| California Men's Colony | 620 | 598 |
| R. J. Donovan Correctional Facility | 282 | 232 |
| Correctional Training Facility | 375 | 381 |
| Avenal State Prison | 482 | 424 |
| Deuel Vocational Institution | 186 | 151 |
| Folsom State Prison/CSP Sacramento/OTD North | 540 | 503 |
| San Quentin State Prison | 292 | 236 |
| California Institution for Women | 178 | 124 |
| California Correctional Institution | 270 | 272 |
| California State Prison, Solano | 410 | 390 |
| Mule Creek State Prison | 350 | 332 |
| Corcoran State Prison/Substance Abuse Treatment Facility | 363 | 334 |
| Chuckawalla Valley State Prison | 52 | 38 |
| Pelican Bay State Prison | 35 | 19 |
| Sierra Conservation Center | 125 | 123 |
| Central California Women's Facility/Valley State Prison for Women | 406 | 402 |
| California State Prison, Lancaster | 91 | 96 |
| Wasco State Prison | 86 | 71 |
| Centinela State Prison | 69 | 70 |
| Central Office | 29 | 27 |
| **Total** | **5,505** | **5,039** |

**CALIFORNIA PRISON INDUSTRY AUTHORITY**

(A Component Unit of the

State of California)

ANNUAL FINANCIAL REPORT

Years Ended June 30, 2011 and 2010

MGO Certified Public Accountants.

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

***Table of Contents***

**INDEPENDENT AUDITOR'S REPORT**

To the California Prison Industry Authority Board
Folsom, California

We have audited the accompanying balance sheets of California Prison Industry Authority ("CALPIA"), a component unit of the State of California, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CALPIA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CALPIA as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2012 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 for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macias Gini & O'Connell LLP

Sacramento, California
January 6, 2012

**CALIFORNIA PRISON INDUSTRY AUTHORITY**

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

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

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

- Develop and operate manufacturing, agricultural, and service enterprises that provide work opportunities for inmates under the jurisdiction of the California Department of Corrections and Rehabilitation ("CDCR");

- Create and maintain working conditions within enterprises, as much like those which prevail in private industry as possible, to assure inmates the opportunity to work productively to earn wages, and to acquire or improve effective work habits or occupational skills;

- Operate a work program for inmates that is self-supporting through the sale of products and services, and reduces the cost of operation of the CDCR.

CALPIA is under the policy direction of an eleven-member board of directors, which reviews and approves the annual budget for the CALPIA. CALPIA manages over 60 manufacturing, agricultural and service factories in 22 institutions. Administrative offices are located in Folsom, California. The goods and services produced by CALPIA's operations are sold principally to departments of the State, and other governmental entities. CDCR is CALPIA's largest customer, and accounted for 62% and 61% of all sales in the years ended June 30, 2011 and 2010, respectively.

**Overview of the Financial Statements**

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

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

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how net assets changed during the most recent two fiscal years. All changes in net assets 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 this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected service charges and earned but unused vacation leave).

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

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

**Financial Overview**

The financial crisis of the past several years continued into fiscal 2011, further suppressing tax revenues and prolonging the fiscal crisis at every level of government. As anticipated, lower spending by both state and local government entities has adversely affected CALPIA.

While CALPIA has aggressively managed its operations through cost containment measures and the identification of new revenue sources in order to fulfill its statutory goal of self-sufficiency, operating results in fiscal 2011 were negatively impacted by several factors. After having recorded net asset gains of $3.3 million and $7.0 million during fiscal years 2010 and 2009, respectively, CALPIA experienced a $15.3 million decrease in net assets in fiscal 2011. The decrease in net assets in fiscal 2011 was primarily due to a reduction in revenue of $17.4 million as compared to fiscal 2010, an accrual of approximately $8.6 million related to the anticipated settlement of a lawsuit brought by employee unions for lost wages claimed as a result of state imposed furloughs and an increase in the amount of impairment loss, from $1.1 million in fiscal 2010 to $1.3 million in fiscal 2011, related to factory closures (see additional discussion below). Additionally, CALPIA’s financial results are negatively impacted by the costs related to its share of the State’s unfunded other post employment benefit (OPEB) obligation. In fiscal 2011 and fiscal 2010, CALPIA recorded $6.3 million in additional expense each year related to this accrual.

Notwithstanding the challenges of fiscal 2011, CALPIA is financially strong. The CALPIA Balance Sheet at June 30, 2011, shows that current assets are almost four times greater than current liabilities and almost twice the amount of total liabilities. These financial indicators reflect that CALPIA is well positioned to meet its short-term and long-term obligations. Moreover, we continue to identify additional cost savings and are working to stabilize our revenues by identifying new customer needs. Adjusted for the settlement accrual and the impairment charge, CALPIA would have recorded a net decrease in assets of $5.3 million.

***Employee Furloughs***

In an effort to reduce State General Fund expenditures, the Governor ordered state workers, including CALPIA employees, to take 55 furlough days without pay between February 2009 and October 2010. Subsequently, through the collective bargaining process, State employees accepted one unpaid personal leave day (PLP) per month between November 2010 and October 2011, to be used at the employee’s discretion. CALPIA realized payroll savings of $2.4 million in fiscal 2011 as a consequence of furlough and PLP days. However, the savings were partially offset by $0.8 million in increased earned employee vacation balances, resulting from employees utilizing their PLP days in lieu of vacation days.

Currently, three court cases related to the State's furlough order are pending, the results of which are likely to have a significant financial impact on CALPIA. These cases involve actions filed by labor unions challenging the legality of furloughs imposed upon employees of State agencies, which receive funding from sources other than the State's General Fund. The trial court ruling for each case was initially in favor of the unions, holding that furloughs were not authorized when special funding was present. The appellate court, however, reversed the trial court decisions stating that to the extent a state agency received any portion of its funding from a General Fund appropriation, the legislature legally ratified the furloughs for those agencies through the Budget Act. The appellate courts carved out an exception for five state agencies, including CALPIA, because there was no apparent General Fund appropriation for these agencies. The matter as it relates to CALPIA and the other four agencies was referred back to the trial court to determine whether these agencies had received an appropriation from the General Fund. CALPIA's budget is approved by the Prison Industry Board, and CALPIA does not receive a General Fund appropriation. As a result, CALPIA has accrued $8.6 million, based on consultation with its legal counsel, representing its estimate of its potential liability related to employee back pay, including interest, for furlough time imposed upon employees.

***Postemployment Benefits Other than Pensions***

Under Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45)—*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, the State is required to recognize the cost of retiree health benefit programs on an accrual basis rather than on a pay as you go basis. The State Controller, who administers GASB 45 accounting requirements for the State, informed CALPIA that its share of the State's net unfunded OPEB obligation is $6.3 million for each of the fiscal years 2011 and 2010. CALPIA recorded these amounts as a selling and administrative expense on the operating statement in addition to the actual payments made for OPEB. The State does not maintain a separate pool of assets to finance future retiree healthcare benefits. As one of the few State agencies required to fund the OPEB obligation from its own proprietary fund, CALPIA actively monitors the costs of retiree health benefits in accordance with generally accepted accounting principles and the funding policies of the State. As of June 30, 2011, the balance sheet reflects a net OPEB obligation of $25.2 million.

***Factory Closures***

In accordance with GASB Statement No. 42—*Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*—CALPIA recorded $1.3 million of impairment losses related to its decision to terminate operations at the Deuel Vocational Institution furniture factory; the California Training Facility dairy; and the Mule Creek State Prison digital services factory. This amount represents the carrying value of the assets at these locations which could not be transferred or sold.

***Strategic Business Plan***

The 2010 edition of the CALPIA Strategic Business Plan emphasizes the dual priorities of providing inmate rehabilitation and operating a self-sufficient business while enumerating objectives and strategies to accomplish CALPIA's mission. In fiscal 2010, in response to decreasing demand for its goods as a result of the State's budget deficit, CALPIA closed two optical factories, two furniture factories and one dairy. In so doing, CALPIA reduced civil service staff by 50 budgeted positions (6.7% of total budgeted positions). In fiscal 2011 CALPIA closed operations at one additional furniture factory in an effort to adjust its operating capacity to lower customer demand. This closure resulted in the elimination of 11 positions (1.6% of total budgeted positions).

Even as CALPIA reduces costs, CALPIA aims to identify new customers and expand product lines in response to changing customer needs. In fiscal 2011, CALPIA launched the "California

Green" line of biodegradable chemical cleaning products and successfully marketed that product to the State Department of Mental Health and the State Department of Parks and Recreation. Additionally, working in conjunction with the California Department of Forestry and Fire Protection (CAL FIRE), CALPIA developed a new line of wild land fire protection clothing, which was designed to the unique specifications of CAL FIRE. Other products launched in fiscal 2011 were remanufactured toner cartridges, and additional fabric products for the California Department of Transportation. In addition, the Prison Industry Board committed nearly $3 million for prototype modular buildings, the first of which to be developed is a tele-medicine facility for the Federal Healthcare Receiver which is overseeing the CDCR's delivery of healthcare to inmates. In fiscal 2011, the Prison Industry Board authorized the creation of a new Construction Services and Facilities Maintenance enterprise (CSFM). The CSFM provides CDCR cost effective solutions for refurbishing existing structures, implementing minor capital outlay projects, and delivering routine maintenance of facilities and grounds.

Fiscal 2011 was characterized by CALPIA's on-going efforts to adapt to market conditions and improve the overall quality of its products and services. These efforts included expanding the application of International Standards Organization (ISO) principles throughout the organization. In preceding years, CALPIA attained ISO certification in its furniture, modular building, and modular furniture factories. In fiscal 2011, CALPIA's wild land fire protective apparel received ISO and National Fire Protection Association (NFPA) certification. This ISO certification enabled CALPIA's new line of fire fighting garments to achieve NFPA certification in September 2011. The NFPA standard is a national standard for firefighting protective clothing. In fiscal 2012, CALPIA will seek ISO certification for cleaning products, printing and laundry enterprises. Implementing and maintaining quality standards affirms CALPIA's commitment to producing superior products while enhancing CALPIA's ability to retain existing customers and attract new customers who may require such certification as a condition of being selected as a vendor.

As previously noted, CALPIA was not created solely to be a business enterprise. CALPIA distinguishes itself as a State program by providing inmates work opportunities and skills they will require to re-enter society as productive citizens. In fiscal 2011, CALPIA employed more than 7,000 inmates assigned to 5,300 positions in manufacturing, agricultural and service enterprises. CALPIA invests in curricula for inmates including 17 programs that offer nationally recognized accredited certifications such as optometry, dental technology, food handling, automotive service, laundry, commercial baking, agriculture, welding and metal stamping. Additionally, CALPIA offers Career Technical Education (CTE) programs in commercial diving, carpentry, and ironworking in partnership with trade unions that offer employment possibilities when inmates are released on parole. CALPIA inmates also can earn certificates of proficiency in occupational disciplines, which may be utilized upon parole to validate skills and abilities acquired during employment with CALPIA. In fiscal 2011, fourteen hundred forty-three (1,443) CALPIA inmates received a certificate of proficiency, and another three hundred thirty-four (334) CALPIA inmates successfully completed an accredited certification program. Of those that completed an accredited certification program, one hundred forty-two (142) were graduates of CALPIA's CTE programs. CALPIA is currently seeking alternative sources of financing its CTE programs as the CDCR ceased funding these programs in fiscal 2011. If no alternative financing sources are found, the CTE programs will be terminated.

In times of economic uncertainty, it is incumbent upon CALPIA to be as responsive as possible to customer demands. In that regard, CALPIA is proud of its contributions to the State. Research indicates that CALPIA saves the State money, both by enhancing the safety of prisons and by demonstrating lower recidivism rates among those inmates who work in its programs. The recidivism rate of CALPIA inmates is 25% lower than general population inmates and even less for CALPIA inmates participating in CTE programs. Incarceration cost avoidance from CALPIA industries saves the General Fund $8.5 million per year (Bureau of State Audits, May 2011.) Further, CALPIA prices are lower than the private sector nearly 60% of the time, which saved CALPIA's five largest customers $3.0 million in fiscal 2010. For the remaining products, CALPIA is competitively priced (Bureau of State Audits, May 2011.)

In fiscal 2012, CALPIA must adapt to the changing correctional environment in the State. Governor Brown signed AB 109 (Chapter 15/2011), which redirects thousands of parolees and new inmates to the jurisdiction of local counties, effective October 2011. The effects of this re-alignment are likely to reduce CDCR's purchases, which currently account for approximately 62% of CALPIA's revenues. Although the exact impact on CALPIA's inmate workforce has not yet been determined; it is likely that there will be some reduction. CALPIA is currently in the process of assessing the impact of AB 109 on its inmate workforce at each institution.

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

**Condensed Balance Sheet**

The following table presents the condensed balance sheets for CALPIA as of June 30, 2011, 2010 and 2009:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 59,682,438 | $ 54,884,348 | $ 44,059,867 |
| Accounts receviable | 7,221,260 | 10,474,952 | 11,258,815 |
| Due from State General Fund | 23,400,000 | 21,000,000 | 20,800,000 |
| Inventories | 42,726,358 | 43,057,538 | 49,114,484 |
| Capital assets, net | 44,850,226 | 47,903,931 | 50,307,712 |
| Other assets | 333,693 | 293,961 | 372,427 |
| Total assets | $ 178,213,975 | $ 177,614,730 | $ 175,913,305 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | $ 31,365,524 | $ 19,566,841 | $ 21,890,749 |
| Deferred revenue | 2,559,843 | 4,753,759 | 10,534,685 |
| Workers' commpensation liability | 14,878,827 | 14,878,827 | 14,669,927 |
| Net OPEB obligation | 25,224,000 | 18,954,000 | 12,638,000 |
| Total liabilities | 74,028,194 | 58,153,427 | 59,733,361 |
| **Net Assets** | | | |
| Invested in capital assets | 44,850,226 | 47,903,931 | 50,307,712 |
| Unrestricted net assets | 59,335,555 | 71,557,372 | 65,872,232 |
| Total net assets | 104,185,781 | 119,461,303 | 116,179,944 |
| Total liabilities and net assets | $ 178,213,975 | $ 177,614,730 | $ 175,913,305 |

***Assets***

Total assets increased by $0.6 million at June 30, 2011 compared to June 30, 2010, which is explained by a $4.8 million increase in cash and cash equivalents and a $2.4 million increase in amount due from State General Fund, offset by a $3.3 million decrease in accounts receivable, a $3.1 million decrease in capital assets, and a $0.3 million decrease in inventories.

Total assets increased by $1.7 million at June 30, 2010 compared to June 30, 2009, which is explained by a $10.8 million increase in cash and cash equivalents, offset by a $6.1 million decrease in inventories, a $2.4 million decrease in capital assets, and a $0.7 million combined decrease in accounts receivable, due from state general fund and other assets.

The $4.8 million increase in cash and cash equivalents at June 30, 2011 is explained by the positive cash flows from operating activities of $13.1 million and investing activities of $0.2 million, offset by the net outflow of $2.4 million in a short-term loan to the State General Fund and $6.1 million from capital asset acquisitions and disposals. The $2.4 million increase in amount due from State General Fund at June 30, 2011 represents an increase in a short-term loan authorized by the State Controller's Office for cash management purposes.

The $3.3 million decrease in accounts receivable at June 30, 2011 is mainly attributable to CDCR, whose balance was higher at June 30, 2010 because of a deficiency in its fiscal 2010 appropriation, which was resolved in fiscal 2011. The decrease in capital assets is attributable to reduced capital outlays, the disposal of older equipment, and the recognition of a $1.3 million impairment loss related to closed factories.

The $10.8 million increase in cash and cash equivalents at June 30, 2010 is explained by the positive cash flows from operating activities of $17.8 million and investing activities of $0.3 million, offset by the net outflow of $0.2 million in a short term loan to the State General Fund and $7.1 million from capital asset acquisitions and disposals.

The decrease in inventories at June 30, 2010 is the result of emphasizing the use of on-hand inventory to satisfy production demands as well as devaluing inventory in the amount of $0.7 million for slow moving and obsolete inventory items. The decrease in capital assets is attributable to the disposal of older equipment throughout CALPIA as well as the recognition of a $1.1 million impairment loss related to factory closures.

***Liabilities***

Total liabilities increased by $15.9 million at June 30, 2011 compared to June 30, 2010. This is explained by a $11.8 million increase in accounts payable and accrued liabilities and a $6.3 million increase in the net liability for OPEB. Additionally, deferred revenue decreased $2.2 million.

Total liabilities decreased by $1.6 million at June 30, 2010 compared to June 30, 2009. The net liability for OPEB increased by $6.3 million, while deferred revenue and accounts payable and accrued liabilities decreased by $5.8 and $2.3 million, respectively. In addition, the liability for workers' compensation reserves increased $0.2 million.

The $11.8 million increase in accounts payable and accrued liabilities at June 30, 2011 is mostly attributable to an $8.6 million expense accrual for the anticipated settlement of a lawsuit brought by employee unions contesting employee furloughs (see discussion in Overview.) In addition, CALPIA recorded a liability of $0.8 million for accrued leave time, which is a consequence of employees utilizing furlough time and unpaid leave days in lieu of vacation. Also contributing to the increase in accounts payable and accrued liabilities, CALPIA reclassified $1.4 million from deferred revenue to customer deposits at June 30, 2011.

The State annually allocates a portion of retiree health benefit costs to the Prison Industries Revolving Fund. The State recognizes the annual required contribution to the plan, which is determined by an actuarial valuation that estimates the present value of future retiree healthcare benefits earned during the employee's working lifetime, including an amortization of the value of unfunded retiree healthcare benefits attributable to employee service earned in prior fiscal years. The State Controller's Office has determined that CALPIA's annual required OPEB cost is $9.9 million for fiscal 2011. Of this amount, CALPIA contributed $3.6 million; the balance of $6.3 million was accrued as a net OPEB long-term liability. CALPIA's annual required OPEB cost for fiscal 2010 was $9.6 million. Of this amount, CALPIA contributed $3.3 million; the balance of $6.3 million was accrued as a net OPEB long term liability.

The $2.2 million decrease in deferred revenue at June 30, 2011 corresponds to the revenue recognition of a prior year advance received from CDCR for the construction of modular buildings as well as a reclassification of $1.4 million from deferred revenue to customer deposits reflecting deposits for which orders have been delayed and no specific delivery date has been established.

The $5.8 million decrease in deferred revenue at June 30, 2010 is primarily attributable to the liquidation of prior year advances received from CDCR for the construction of modular buildings and from the State Department of Transportation for office furniture.

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

The following table presents the condensed statements of revenues, expenses and changes in net assets for the years ended June 30, 2011, 2010 and 2009.

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Operating revenues | $ 164,398,239 | $ 181,811,217 | $ 234,232,997 |
| Cost of goods sold | 132,156,694 | 139,999,941 | 186,304,080 |
| Gross profit | 32,241,545 | 41,811,276 | 47,928,917 |
| Selling and administrative expenses | 45,896,673 | 36,849,774 | 40,819,994 |
| Operating income (loss) | (13,655,128) | 4,961,502 | 7,108,923 |
| Non-operating (expenses) revenues, net | (1,620,394) | (1,680,143) | (149,785) |
| Increase (decrease) in net assets | (15,275,522) | 3,281,359 | 6,959,138 |
| Net assets at beginning of year | 119,461,303 | 116,179,944 | 109,220,806 |
| Net assets at end of year | $ 104,185,781 | $ 119,461,303 | $ 116,179,944 |

***Operating Revenues***

As presented in the table that follows, in fiscal 2011 CALPIA sales decreased $17.4 million (9.6%) from $181.8 million to $164.4 million. Sales in the manufacturing and service enterprises decreased by $15.2 million (17.5%) and $2.7 million (4.1%), respectively, while sales in the agricultural enterprises increased by $.5 million (1.7%). Fiscal 2011 marked the second consecutive year in which operating revenues declined markedly, as sales dropped by $52.4 million (22.4%) in fiscal 2010 from $234.2 million to $181.8 million. This outcome also highlights that CALPIA benefitted from unprecedented sales in fiscal 2009, a period in which revenues jumped $24.7 million (11.8%) from fiscal 2008, largely on the strength of the modular building enterprise.

In manufacturing enterprises, general fabrication (modular office systems) sales decreased $6.2 million (49.2%) in fiscal 2011, while the combined sales of furniture, fabric products, and modular construction fell by $9.0 million (23.2%). The decreasing sales in these enterprises are consistent with the reality that State agencies had fewer discretionary funds to spend in fiscal 2011. In fabric, CDCR looked to consume its existing inventories of inmate clothing during fiscal 2011, reducing CALPIA revenues. Furniture operations were negatively impacted by the Governor's directive for State agencies to procure previously used furniture prior to purchasing new furniture. Despite these undeniable downward trends in State agency spending, CALPIA is encouraged about the future. Sales of license plates increased $0.9 million (8.3%) in fiscal 2011, which indicates California citizens are purchasing new vehicles after a period of depressed auto sales. In the case of modular office systems, CALPIA has installed two major projects in early fiscal 2012 (State Department of Consumer Affairs and the State Department of Food and Agriculture.) Still other modular office projects are in the pipeline that should ensure increased revenues in fiscal 2012. Additionally, CALPIA has developed a new "telemedicine" modular building for CDCR, which CALPIA projects will generate future sales for the modular building enterprise.

Of the $2.7 million decrease in sales in service enterprises in fiscal 2011, $2.1 million (77.8%) occurred in optical, $0.8 million occurred in laundry, and $0.6 million occurred in food packaging. The decrease in optical revenues is primarily due to the State's elimination of Medi-Cal coverage of adult optometric services in fiscal 2010. Under a contract with the State Department of Health Care Services, CALPIA served as the fabricating laboratory for glasses related to this benefit. Though Med-Cal services for adults were eliminated in fiscal 2010, the full effect was not realized until fiscal 2011. It should be noted that CALPIA continues to provide optical services to Med-Cal beneficiaries under the age of 21. Additionally, CALPIA was notified by the State Department of Health Care Services that the Center for Medicare and Medicaid Services has approved a 10% reduction in provider rates for Medi-Cal. This rate reduction will reduce reimbursement to CALPIA's Optical Enterprise by approximately $0.9 million for fiscal year 2012.

The $0.5 million increase in agricultural sales in fiscal 2011 is explained by a $1.2 million increase in dairy sales, offset by a $0.5 million reduction in egg sales and a $0.2 million reduction in the sale of crops. The increase in dairy sales is attributable to price adjustments, which were enacted in January 2011.

In manufacturing, the sales of modular buildings decreased $20.8 million (82.0%) in fiscal 2010, while the combined sales of the furniture, general fabrication (modular office systems), fabric products, and bindery factories decreased by $17.9 million. The reduction in modular building sales reflects both the weakening economy and the fact that CALPIA completed major projects for CDCR in fiscal 2009. The lesser sales in all other enterprises epitomize the limited budgets of State agencies during a depressed economy.

Optical sales decreased by $9.1 million (42.3%) in fiscal 2010 or 66.4% of the total sales decrease in the service enterprises. As noted above, Medi-Cal coverage of adult optometric services was eliminated effective July 1, 2009. In response to the change in Medi-Cal benefits, and the subsequent reduction in demand for optical products, CALPIA closed two optical factories, i.e., R. J. Donovan, San Diego and Pelican Bay in 2010. These factories processed prescription glasses through the first quarter of the fiscal 2010; therefore, the full effect of the loss in Medi-Cal revenues was not realized until fiscal 2011.

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Operating Revenues by Product Line** | | | |
| Manufacturing: | | | |
| Furniture | $ 9,675,374 | $ 12,998,752 | $ 19,547,224 |
| Metal products | 4,085,633 | 4,844,423 | 3,908,571 |
| License plates | 11,940,815 | 11,022,264 | 10,904,074 |
| General fabrication | 6,405,117 | 12,612,758 | 17,226,231 |
| Bindery | 3,186,001 | 2,066,681 | 3,636,349 |
| Knitting mill | 1,493,281 | 1,992,224 | 1,785,709 |
| Fabric products | 19,371,098 | 21,420,228 | 26,587,531 |
| Silk screening | 11,200 | 43,318 | 54,242 |
| Shoe factory | 4,847,206 | 4,819,811 | 5,450,382 |
| Mattress factory | 2,675,061 | 2,890,369 | 2,598,542 |
| Cleaning products | 6,659,033 | 7,132,309 | 6,157,438 |
| Modular construction | 899,808 | 4,564,250 | 25,328,947 |
| Total manufacturing | 71,249,627 | 86,407,387 | 123,185,240 |
| Services: | | | |
| Meat cutting | 9,815,049 | 9,881,990 | 10,792,831 |
| Bakery | 3,292,298 | 3,398,686 | 3,442,818 |
| Coffee roasting | 1,927,558 | 2,100,153 | 2,305,585 |
| Food packaging | 14,544,013 | 15,129,659 | 16,120,041 |
| Metal signs | 1,000,675 | 1,133,797 | 1,324,069 |
| Printing | 7,216,236 | 6,190,498 | 7,573,647 |
| Dental lab | 696,852 | 583,790 | 607,289 |
| Digital services | 155,648 | 33,423 | 5,766 |
| Laundry | 14,977,315 | 15,784,548 | 16,665,143 |
| Optical | 10,263,855 | 12,394,351 | 21,488,391 |
| Total services | 63,889,499 | 66,630,895 | 80,325,580 |
| Agriculture: | | | |
| Dairy/farm | 15,608,918 | 14,444,550 | 15,193,773 |
| Crops | 1,193,557 | 1,428,491 | 1,341,100 |
| Poultry | 6,087,415 | 6,027,188 | 6,746,286 |
| Egg production | 6,369,223 | 6,872,706 | 7,441,018 |
| Total agriculture | 29,259,113 | 28,772,935 | 30,722,177 |
| Total operating revenues | $ 164,398,239 | $ 181,811,217 | $ 234,232,997 |

***Cost of Goods Sold***

Cost of goods sold decreased by $7.8 million (5.6%) in fiscal 2011 from $140.0 million to $132.2 million. The decrease in cost of goods sold corresponds to reduced sales throughout CALPIA. Overall, cost of goods sold as a percentage of sales were 80.4% and 77.0% in fiscal years 2011 and 2010, respectively. This increase is primarily due to a lower level of revenues to cover the fixed cost components of cost of goods sold, increases in certain raw material costs and increased labor costs related to a reduction of the number of employee furlough days, from three per month to one per month.

Gross profit decreased by $9.6 million (22.9%) from $41.8 million to $32.2 million. The decrease in gross profit is comprised of a $4.7 million decrease in service enterprises, a $4.4 million decrease in manufacturing enterprises, and a $0.5 million decrease in agricultural enterprises. Specifically, in the service enterprises, gross profit decreased by $1.0 million in meat cutting, $1.0 million in optical and $0.9 million in laundry. Additionally, in fiscal 2011 CALPIA inaugurated the construction services and facilities maintenance enterprise, which completed its first year of operation with a gross loss of $1.1 million. In the manufacturing enterprises, gross profit decreased by $1.9 million in fabric products, $1.2 million in modular construction, $0.9 million in furniture, and $0.7 million in metal products. In the agricultural enterprises, gross profit increased by $1.0 million in the dairies; however, the crops, poultry, and egg production enterprises experienced a combined decrease in gross profit of $1.6 million.

Cost of goods sold decreased by $46.3 million (24.9%) in fiscal year 2010 from $186.3 million in fiscal 2009 to $140.0 million. As a percentage of sales, cost of goods sold were 77.0% and 79.5% in fiscal years 2010 and 2009, respectively. The decrease in cost of goods sold is primarily due to a reduced level of revenues in fiscal 2010. Gross profit decreased by $6.1 million (12.8%) primarily as the result of reduced sales levels. The decrease in gross profit was generally consistent throughout CALPIA's operations with a decrease in gross profit of $3.9 million in manufacturing enterprises, $4.9 million in service enterprises as partially offset by a $2.7 million increase in agricultural enterprises gross profit.

In manufacturing enterprises, gross profit decreased primarily due to decreases in gross profit of $2.7 million in general fabrication and $2.2 million in modular construction, partially offset by a gross profit increase of $1.2 million in cleaning products. In service enterprises, the decrease was primarily attributable to a gross profit reduction of $4.0 million in optical. In agricultural enterprises, the increase was primarily due to a gross profit increase of $1.8 million in dairy operations. Notwithstanding the dramatic sales decreases in fiscal year 2010, CALPIA's gross profit as a percentage of sales (gross margin percentage) improved slightly because of pricing adjustments and cost containment measures, including closing factories. Of note, Governor Schwarzenegger ordered three furlough days per month for the State workforce for the entire 2010 fiscal year, which created salary savings compared to the prior year. (In fiscal year 2009, Governor Schwarzenegger initiated two unpaid furlough days, effective February 2009.) Additionally, the assessment CALPIA receives for statewide administrative costs decreased by $1.0 million in fiscal year 2010 from $4.2 million to $3.2 million. The majority of this assessment is allocated to cost of goods sold.

***Selling and Administrative Expenses***

Selling and administrative expenses are comprised of distribution and transportation expenses and central office costs. In fiscal 2011, selling and administrative expenses contain a charge of $8.6 million for the anticipated settlement of a lawsuit brought by employee unions contesting employee furloughs (see Overview.). After giving effect to the settlement accrual, selling and administrative expenses for fiscal year 2011 remained consistent with fiscal 2010 levels. and 2010 remained level. Selling and administrative expenses for fiscal 2010 were $4.0 million less than fiscal 2009 levels. This is primarily due to the implementation of staffing reductions and increased efficiency in the distribution program, including increased utilization of CALPIA trucks over common carriers. While some of these initiatives were begun in fiscal 2009, only a portion of that year benefited from the changes.

Fiscal year 2010 selling and administrative expenses consist of distribution and transportation charges of $11.3 million, central office costs of $19.2 million, and an OPEB charge of $6.3 million. Overall, selling and administrative expenses decreased by $4.0 million (9.7%) in fiscal year 2010 from $40.8 million to $36.8 million. The decrease is primarily explained by reduced payroll costs as a result of furloughs and reduced freights costs as a consequence of fewer sales.

### *Non-Operating Revenues (Expenses)*

Non-operating revenues (expenses) consist primarily of loss on disposal of capital assets, interest income (expense) and other expenses. Total non-operating revenues (expenses) of $1.6 million for fiscal year 2011 were consistent with total non-operating revenues (expenses) of $1.7 million for fiscal 2010.

### *Request for Information*

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

# CALIFORNIA PRISON INDUSTRY AUTHORITY

## BALANCE SHEETS

**June 30, 2011 and 2010**

**A S S E T S**

| CURRENT ASSETS | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | $ 48,378,905 | $ 42,935,617 |
| Cash designated for capital assets expenditures | 11,303,533 | 11,948,731 |
| Accounts receivable | 4,156,041 | 4,916,290 |
| Related party receivable | 3,065,219 | 5,558,662 |
| Inventories | 42,726,358 | 43,057,538 |
| Due from state general fund | 23,400,000 | 21,000,000 |
| Interest receivable | 71,352 | 68,736 |
| Other | 262,341 | 225,225 |
| TOTAL CURRENT ASSETS | 133,363,749 | 129,710,799 |
| NONCURRENT ASSETS: | | |
| Capital assets not being depreciated | 432,889 | 48,128 |
| Capital assets being depreciated,net | 44,417,337 | 47,855,803 |
| TOTAL ASSETS | $ 178,213,975 | $ 177,614,730 |

**L I A B I L I T I E S A N D N E T A S S E T S**

| CURRENT LIABILITIES | 2011 | 2010 |
|---|---|---|
| Accounts payable | $ 9,605,261 | $ 8,491,762 |
| Accrued expenses and other liabilities | 13,141,591 | 11,075,079 |
| Accrued furlough liability | 8,618,672 | - |
| Workers' compensation liability-current portion | 2,383,232 | 2,383,232 |
| Deferred revenue | 2,559,843 | 4,753,759 |
| TOTAL CURRENT LIABILITIES | 36,308,599 | 26,703,832 |
| LONG-TERM LIABILITIES | | |
| Workers' compensation liability | 12,495,595 | 12,495,595 |
| Net OPEB obligation | 25,224,000 | 18,954,000 |
| TOTAL LONG-TERM LIABILITIES | 37,719,595 | 31,449,595 |
| TOTAL LIABILITIES | 74,028,194 | 58,153,427 |
| NET ASSETS | | |
| Invested in capital assets | 44,850,226 | 47,903,931 |
| Unrestricted net assets | 59,335,555 | 71,557,372 |
| TOTAL NET ASSETS | 104,185,781 | 119,461,303 |
| TOTAL LIABILITIES AND NET ASSETS | $ 178,213,975 | $ 177,614,730 |

See Notes to Basic Financial Statements

# CALIFORNIA PRISON INDUSTRY AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

### Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| OPERATING REVENUES | | |
| Manufacturing | $ 71,249,627 | $ 86,407,387 |
| Services | 63,889,499 | 66,630,895 |
| Agriculture | 29,259,113 | 28,772,935 |
| TOTAL OPERATING REVENUES | 164,398,239 | 181,811,217 |
| COST OF GOODS SOLD | 132,156,694 | 139,999,941 |
| GROSS PROFIT | 32,241,545 | 41,811,276 |
| SELLING AND ADMINISTRATIVE EXPENSES | 37,278,001 | 36,849,774 |
| ACCRUED FURLOUGH LIABILITY EXPENSES | 8,618,672 | - |
| OPERATING INCOME (LOSS) | (13,655,128) | 4,961,502 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest income | 235,966 | 280,134 |
| Interest expense | (13,933) | (18,786) |
| Loss from disposal of capital assets | (429,362) | (588,794) |
| Loss from impairments of capital assets | (1,308,501) | (1,141,401) |
| Other expenses | (104,564) | (211,296) |
| TOTAL NON-OPERATING (EXPENSES) REVENUES | (1,620,394) | (1,680,143) |
| Change in net assets | (15,275,522) | 3,281,359 |
| NET ASSETS - BEGINNING OF YEAR | 119,461,303 | 116,179,944 |
| NET ASSETS - END OF YEAR | $ 104,185,781 | $ 119,461,303 |

See Notes to Basic Financial Statements

# CALIFORNIA PRISON INDUSTRY AUTHORITY

## STATEMENTS OF CASH FLOWS

### Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts from customers | $ 165,458,014 | $ 176,814,154 |
| Cash receipts from interfund services provided by the reporting entity | 1,764,899 | 2,229,343 |
| Cash payments for interfund services used by the reporting entity | (9,748,903) | (11,162,631) |
| Cash payments to employees for services | (53,276,130) | (51,721,301) |
| Cash payments to suppliers of goods and services | (90,977,446) | (98,151,300) |
| Cash payments for other services | (104,564) | (211,296) |
| Net cash provided by operating activities | 13,115,870 | 17,796,969 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Due from state general fund | (2,400,000) | (200,000) |
| Interest expense | (13,933) | (18,786) |
| Net cash flows used in noncapital financing activities | (2,413,933) | (218,786) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisitions of capital assets | (6,689,225) | (7,551,749) |
| Proceeds from sale of capital assets | 552,028 | 476,301 |
| Net cash flows used in capital and related financing activities | (6,137,197) | (7,075,448) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 233,350 | 321,746 |
| Net increase in cash and cash equivalents | 4,798,090 | 10,824,481 |
| Cash and cash equivalents at beginning of year | 54,884,348 | 44,059,867 |
| Cash and cash equivalents at end of year | $ 59,682,438 | $ 54,884,348 |

# CALIFORNIA PRISON INDUSTRY AUTHORITY

## STATEMENTS OF CASH FLOWS (CONTINUED)

### Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | $ (13,655,128) | $ 4,961,502 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 7,453,039 | 7,749,035 |
| Other expenses | (104,564) | (211,296) |
| Net effect of changes in: | | |
| Accounts and related party receivables | 3,253,692 | 783,863 |
| Inventories | 331,180 | 6,056,944 |
| Other assets | (37,116) | 36,854 |
| Accounts payable | 1,113,499 | (2,136,152) |
| Accrued expenses and other liabilities | 2,066,512 | (187,756) |
| Accrued furlough liability | 8,618,672 | - |
| Workers' compensation liability | - | 208,900 |
| Deferred revenue | (2,193,916) | (5,780,925) |
| Net OPEB obligation | 6,270,000 | 6,316,000 |
| Net cash provided by operating activities | $ 13,115,870 | $ 17,796,969 |

See Notes to Basic Financial Statements

## ( 1 ) ORGANIZATION

The California Prison Industry Authority ("CALPIA") was established in 1983, as the successor to the California Correctional Industries ("CCI"). It is under the policy direction of an eleven-member board of directors ("Prison Industry Board") and is a component unit of the State of California. CALPIA manages over 60 manufacturing, service, and agriculture factories in 22 institutions that employ inmates at California's penal institutions within the California State Department of Corrections and Rehabilitation ("CDCR"). Administrative offices are located in Folsom, California. The products manufactured by CALPIA's operations are sold principally to departments of the State of California and other governmental entities.

## ( 2 ) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Governmental Accounting Standards Board ("GASB") Statement No. 20 ("GASB No. 20"), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, established standards for accounting and financial reporting for proprietary funds. In accordance with GASB No. 20, CALPIA's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as the following pronouncements issued on, or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARB") of the Committee of Accounting Procedures. CALPIA has elected not to apply applicable FASB pronouncements (which are now codified in the Accounting Standards Codification and the Accounting Standards Updates) issued subsequent to November 30, 1989.

*Revenue Recognition* - Revenues and receivables are recorded when earned, usually upon the shipment of orders, other than modular furniture and building construction. Revenue on modular furniture and building construction is recognized using a method which materially approximates the percentage-of-completion method of accounting, in accordance with Statement of Position ("SOP") 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* Under this method, CALPIA recognizes revenue at the end of each period using output measures in terms of results achieved, to measure the extent of progress toward completion under the contract, on the basis of units of work completed.

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

## ( 2 ) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The investments in SMIF are reported at amortized cost, which approximates fair value. As of June 30, 2011 and 2010, the weighted average maturity of PMIA investments administered by the State Treasurer's Office was approximately 237 days and 203 days, respectively. Weighted averaged maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from the evaluation date to stated maturity. Neither SMIF nor PMIA are rated by credit rating agencies.

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

At June 30, 2011, $56,014,000 was invested in SMIF and $3,668,438 was held in operating accounts in the State Treasury pooled investment program. At June 30, 2010 $51,070,000 was invested in SMIF and $3,814,348 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 property and equipment acquisitions) with original or remaining maturities of three months or less.

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

*Cash designated for capital asset expenditures* - CALPIA segregates its cash which is designated as to use. Designated funds at June 30, 2011 and 2010 represent designations of cash by the Prison Industry Board for certain capital expenditures. The Board designated funds amounting to $11,303,533 and $11,948,731 for certain capital expenditures to be made during the years ended June 30, 2012 and 2011, respectively.

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

CALPIA's customer base includes departments of the State of California and other governmental entities. CDCR is the largest customer of CALPIA and accounted for approximately 62% of sales for the year ended June 30, 2011 and 61% of sales for the year ended June 30, 2010. As of June 30, 2011 and 2010, CDCR accounted for 42% and 53%, respectively, of total accounts receivable. Management does not believe significant credit risk exists at June 2011 and 2010, as the goods and services produced by CALPIA's operations are sold principally to departments of the State of California and other governmental entities.

## ( 2 ) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

*Accounts receivable* - CALPIA has no formal policy regarding the extension of credit and does not use an allowance for doubtful accounts because their customer base is primarily made up of state and local government agencies. As of June 30, 2011 and 2010, CALPIA has receivables of $364,439 and $403,875, respectively, from non-governmental agencies. Historically, CALPIA has not experienced significant losses related to such accounts receivable.

*Due from state general fund* - During the course of normal operations, the State Controller's Office periodically loans funds from CALPIA's deposits held in the custody of the State Treasurer to the state general fund on a short-term basis for cash management reasons. These transactions are reported as "due from state general fund." As of June 30, 2011 and 2010, due from state general fund totaled $23,400,000 and $21,000,000, respectively.

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

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

Interest expense (net of interest income on unexpended tax-exempt debt proceeds) related to the cost of construction of certain assets is capitalized whenever debt is outstanding and the assets are constructed for use by CALPIA. Capitalized interest is amortized over the related assets' estimated useful lives. CALPIA did not recognize any capitalized interest expense for the years ended June 30, 2011 and 2010.

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

For those facilities which have been closed and will be transferred to CDCR, the related assets are transferred at net book value and a gain or loss is recognized upon the transfer. There were no such transfers during the fiscal years ended June 30, 2011 and 2010.

## ( 2 ) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Impaired capital assets are written down to reduce the related assets to the lower of carrying value or fair value. At June 30, 2011, CALPIA determined that there were capital assets with a net book value of $1,308,501 that were impaired and recorded an impairment charge of $1,308,501 for the year ended June 30, 2011. At June 30, 2010, CALPIA determined that there were capital assets with a net book value of $1,141,401 that were impaired and recorded an impairment charge of $1,141,401 for the year ended June 30, 2010.

*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 balance sheet. CALPIA employees are not compensated for unused sick leave, but instead are credited with pension service time for unused sick leave. Accordingly, such convertible sick leave is not reflected in the accrued liability for compensated absences. Instead, it is reflected over time in the employer's pension contribution.

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

*Net Assets* - The difference between assets and liabilities in the balance sheet is labeled as Net Assets and is subdivided into two categories as follows:

> Invested in capital assets - This component of net assets consists of capital assets, net of accumulated depreciation and amortization.
>
> Unrestricted - This component of net assets consists of net assets not restricted for any project or any other purpose.

*Operating and non-operating activities* - Operating revenues are charges to customers for sales of products and services. Operating expenses consist of cost of sales and selling and administrative expenses. Selling and administrative expenses are comprised of distribution and transportation costs, central office costs, and the annual net unfunded OPEB obligation. 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 years ended June 30, 2011 and 2010, such costs were $11,596,884 and $11,345,950, respectively.

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

## ( 2 ) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*New accounting pronouncements* - Effective July 1, 2009, CALPIA adopted the provisions of GASB Statement No 51, *Accounting and Financial Reporting for Intangible Assets* ("GASB No. 51"). This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets are not capitalizable until certain criteria are met. Outlays incurred prior to meeting these criteria are expensed as incurred.

This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. The adoption of GASB No. 51 did not have a material impact on CALPIA's results of operations, cash flows or financial position.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. CALPIA has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for CALPIA's fiscal year ending June 30, 2013.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***.** CALPIA has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for CALPIA's fiscal year ending June 30, 2013.

In June 2010, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. CALPIA has not determined what impact, if any, this pronouncement will have on the financial statements. The requirements of this Statement are effective for CALPIA's fiscal year ending June 30, 2013.

## ( 3 ) INVENTORIES

Inventories consist of the following:

| | June 30, 2011 | June 30, 2010 |
|---|---|---|
| Raw materials | $24,744,420 | $25,488,788 |
| Work-in-process | 8,884,590 | 8,527,688 |
| Finished goods | 9,097,348 | 9,041,062 |
| Total inventories | $42,726,358 | $43,057,538 |

## ( 4 ) CAPITAL ASSETS

A summary of changes in capital assets during fiscal years 2011 and 2010 is as follows:

| | **Balance June 30, 2010** | **Additions** | **Deletions** | **Balance June 30, 2011** |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Construction in process | $ 48,128 | $384,761 | - | $ 432,889 |
| Total capital assets, not being depreciated | 48,128 | 384,761 | - | 432,889 |
| Capital assets, being depreciated: | | | | |
| Equipment | 102,737,178 | 4,293,146 | (3,491,998) | 103,538,326 |
| Buildings and leasehold improvements, net of transfers | 37,518,937 | 609,387 | (2,233,137) | 35,895,187 |
| Livestock | 5,063,942 | 1,110,776 | (1,674,700) | 4,500,018 |
| Orchards | 874,716 | - | - | 874,716 |
| Intangible assets | 3,352,863 | 291,155 | - | 3,644,018 |
| Total capital assets, being depreciated | 149,547,636 | 6,304,464 | (7,399,835) | 148,452,265 |
| Accumulated depreciation and amortization | (101,691,833) | (7,453,039) | 5,109,944 | (104,034,928) |
| Capital assets, net | $47,903,931 | $ (763,814) | $(2,289,891) | $44,850,226 |

## ( 4 ) CAPITAL ASSETS (CONTINUED)

| | Balance June 30, 2009 | Additions | Deletions | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Construction in process | - | $ 48,128 | - | $ 48,128 |
| Total capital assets, not being depreciated | - | 48,128 | - | 48,128 |
| Capital assets, being depreciated: | | | | |
| Equipment | $108,530,749 | 4,635,778 | (10,429,349) | 102,737,178 |
| Buildings and leasehold improvements, net of transfers | 38,085,040 | 1,150,961 | (1,717,064) | 37,518,937 |
| Livestock | 5,275,060 | 1,716,882 | (1,928,000) | 5,063,942 |
| Orchards | 874,716 | - | - | 874,716 |
| Intangible assets | - | 3,352,863 | - | 3,352,863 |
| Total capital assets, being depreciated | 152,765,565 | 10,856,484 | (14,074,413) | 149,547,636 |
| Accumulated depreciation and amortization | (102,457,853) | (7,749,035) | 8,515,055 | (101,691,833) |
| Capital assets, net | $50,307,712 | $3,155,577 | $(5,559,358) | $47,903,931 |

Depreciation expense for the years ended June 30, 2011 and 2010 was $7,453,039 and $7,749,035, respectively. Depreciation expense includes amortization of intangible assets.

The Prison Industry Board authorized the closure of certain factories because of excess capacity and reduced customer demand for products that were manufactured by such factories. Management has identified certain factory equipment held at the closed factories that will be relocated and placed in service at other factories to replace older equipment currently in service and improve operational efficiency. All other factory equipment and leasehold improvements held at the closed factories, for which management has no plans for continued use, were determined to be impaired capital assets. For the years ended June 30, 2011 and 2010, the impairment loss recognized on capital assets held at the various closed factories totaled $1,308,501 and $1,141,401, respectively. The impairment loss has been reported as a loss from impairments of capital assets in the statements of revenues, expenses, and changes in net assets. Management does not consider this event to be unusual in nature or infrequent in occurrence.

## ( 5 ) ACCRUED EXPENSES AND OTHER LIABILITIES

| | June 30, 2011 | June 30, 2010 |
|---|---|---|
| Accrued leave time | $9,771,084 | $9,004,672 |
| Customer deposits | 1,416,899 | - |
| Support charges due to CDCR | 987,410 | 1,180,731 |
| Inmate pay | 332,554 | 310,060 |
| Personal services | 296,749 | 290,836 |
| Sales and use tax | 317,450 | 283,558 |
| Accrued service and expenses | 19,445 | 5,222 |
| Total accrued expenses and other liabilities | $13,141,591 | $11,075,079 |

## ( 6 ) ACCRUED FURLOUGH LIABILITY

In February 2009, at the request of the Governor's office, CALPIA and other state agencies instituted involuntary furloughs of substantially all of their employees. Under the arrangement, employees received 3 unpaid furlough days per month. The arrangement ceased in October 2010. Unions representing the furloughed employees have sued CALPIA and other state agencies seeking repayment of the lost wages. At June 30, 2011, based on the status of those lawsuits (see Note 11), CALPIA has accrued $8.6 million representing its estimate of the wages and interest to be repaid to the involuntarily furloughed employees.

## ( 7 ) WORKERS' COMPENSATION LIABILITY

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

The amount of these liabilities was a discounted value of $14,878,827 at June 30, 2011 and 2010.. The interest rate used to discount the value of the liabilities for the years ended June 30, 2011 and 2010, 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 |
|---|---|---|---|---|---|
| 2010-2011 | $14,878,827 | $2,306,992 | $(1,910,026) | $(396,966) | $14,878,827 |
| 2009-2010 | $14,669,927 | $2,592,132 | $(1,990,131) | $(393,101) | $14,878,827 |

## ( 8 ) DEFINED BENEFIT PENSION PLAN

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

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

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

## ( 8 ) DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Funding policy* - Active members who participate in Social Security under the State Industrial Tier 1 category are required to contribute 5% of their annual covered salary after excluding the first $513 of gross monthly pay. Active members who do not participate in Social Security under the State Safety and Industrial Tier 1 categories are required to contribute 6% of their annual covered salary after excluding the first $317 of gross monthly pay. Active members who participate in Social Security under the State Industrial Tier 2 category are not required to make contributions to CalPERS.

CALPIA is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2011 was 18.183% and 20.672% for State Industrial and Safety categories, respectively. The required employer contribution rate for the year ended June 30, 2010 was 17.251% and 18.099% for State Industrial and Safety categories, respectively. The contribution requirements of the plan members are established by State statute and the employer contributions rate is established and may be amended by CalPERS.

*Annual pension costs* - For the years ended June 30, 2011, 2010 and 2009, CALPIA's annual pension cost and CALPIA's actual contribution amounted to $5,322,401, $5,128,593, and $6,078,739 respectively. The required contribution for State Industrial and Safety categories for the 2011 fiscal year was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.45 to 9.55%, (c) 3.25% overall payroll growth, and (d) 3.0% inflation adjustment.

The actuarial value of CALPIA's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a 15 year period. The plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level of percentage of projected payroll on a closed basis. The remaining amortization periods at June 30, 2010 the date of the most recent actuarial valuation, were 14 to 30 years for both the State Industrial Plans and 13 to 30 years for State Safety Plans.

## ( 9 ) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

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

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

## ( 9 ) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

*Funding policy* - The State has historically been on a "pay-as-you-go" funding and allocation policy; however, pursuant to the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB No. 45") effective for fiscal year 2008, the State amended its allocation methodology to include amortization of its accumulated unfunded postemployment obligations. The State has determined CALPIA's June 30, 2011 and 2010 funding requirements as well as its related 2011 and 2010 contribution credit. The amount allocated to CALPIA at June 30, 2011 and 2010 representing the annual OPEB cost was $9,904,000 and $9,590,000 respectively. Of this amount, $3,634,000 was contributed for 2011 and the balance of $6,270,000 was accrued as a liability. The contribution made for 2010 was $3,274,000 and the balance of $6,316,000 was accrued as a liability.

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

| | 2011 | 2010 |
|---|---|---|
| Annual required contribution | $9,809,000 | $9,527,000 |
| Interest on net OPEB obligation | 770,000 | 515,000 |
| Adjustment to annual required contribution | (675,000) | (452,000) |
| Annual OPEB cost (expense) | 9,904,000 | 9,590,000 |
| Contributions made | (3,634,000) | (3,274,000) |
| Increase in net OPEB obligation | 6,270,000 | 6,316,000 |
| Net OPEB obligation - beginning of year | 18,954,000 | 12,638,000 |
| Net OPEB obligation - end of year | $25,224,000 | $18,954,000 |

CALPIA's allocation of the annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2011, 2010 and 2009 were as follows:

| Fiscal Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2011 | $9,904,000 | 36.7% | $25,224,000 |
| 2010 | $9,590,000 | 34.1% | $18,954,000 |
| 2009 | $9,422,000 | 36.3% | $12,638,000 |

## ( 9 ) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)

Based on information provided to CALPIA by the State, in the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. A pay-as-you go funding scenario was used by the State. Under the pay-as-you-go funding scenario, the State is assumed to finance retiree healthcare benefits from assets available in the general fund. The State's actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of actual increases for 2011 and of 9.0% in 2012, initially, decreasing each year over the next seven years until the ultimate rate of 4.5% is reached. Both rates included a 3.0% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The UAAL is being amortized as a level percentage of projected payroll on an open basis over thirty years.

The schedule of funding progress and employer contributions for the State of California for the year ended June 30, 2011 can be found in the State's basic financial statements included in its comprehensive annual financial report.

## ( 10) RELATED PARTY TRANSACTIONS

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

| | 2011 | 2010 |
|---|---|---|
| Assets: | | |
| Accounts receivable | $3,065,219 | $5,558,662 |
| Liabilities: | | |
| Accrued expenses and other liabilities | (987,410) | (1,180,731) |
| Deferred revenue and customer deposits | (1,396,542) | (2,175,729) |
| Revenues: | | |
| Sales | 102,376,854 | 110,726,793 |
| Expenses: | | |
| Support charges paid | (4,915,162) | (5,271,998) |

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

CALPIA has transactions with other agencies of the State in addition to CDCR. As of June 30, 2011 and 2010, CALPIA had accounts receivable from other state agencies of $3,636,744 and $4,072,227, respectively.

## ( 11 ) CONTINGENCIES

Litigation – In February 2009, at the request of the Governor's office, CALPIA and other state agencies instituted involuntary furloughs of substantially all of their employees. Under the arrangement, employees received 3 furlough days per month in exchange for a prorated reduction in their pay. The arrangement ceased in October 2010. Three unions representing the furloughed employees have filed individual lawsuits against CALPIA and other state agencies seeking repayment of the lost wages.

The cases challenge the legality of the furloughs imposed upon employees of state agencies which receive funding from sources other than the State's General Fund, such as CALPIA, referred to as "special fund" agencies. The trial court ruling for each case was initially in favor of the unions, holding that furloughs were not authorized when special funding was present. The appellate court, however, clarified the trial court decisions stating that to the extent a state agency received any portion of its funding from a General Fund appropriation, the legislature legally ratified the furloughs for those agencies through the Budget Act. The appellate court referred the cases against CALPIA and four other state agencies back to the trial court to determine whether these agencies had received an appropriation from the General Fund. While a final determination of that matter is pending before the trial court, management of CALPIA, based on consultation with counsel representing it in this matter, has determined that it's probable that it will be required to compensate its employees for backpay and interest. As a result, CALPIA has accrued $8.6 million related to this matter as of June 30, 2011.

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

## ( 12 ) COMMITMENTS

*Warranties* - CALPIA provides a warranty on its office and miscellaneous furniture and bedding products for a period of five years. CALPIA has not established a reserve for warranty expense. The affect on operations are deemed by management to be immaterial. Such costs are expensed when incurred

*Rental payments* - Future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year was $195,048 as of June 30, 2011. The remaining terms of all such leases expire on or before June 30, 2012. Total rental expense for all operating leases was $570,096 and $591,645 for the years ended June 30, 2011 and 2010, respectively.

# SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT**
**ON SUPPLEMENTAL INFORMATION**

To the California Prison Industry Authority Board
Folsom, California

We have audited the basic financial statements of California Prison Industry Authority ("CALPIA") as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated January 6, 2012. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows as of and for the years ended June 30, 2011 and 2010, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records use to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Sacramento, California
January 6, 2012

**CALIFORNIA PRISON INDUSTRY AUTHORITY**
**INTERNAL SERVICE FUND**

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

June 30, 2011 and 2010
(in thousands)

| A S S E T S | 2011 | 2010 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and pooled investments | $ 59,683 | $ 54,884 |
| Receivables, (net) | 1,003 | 969 |
| Due from other funds | 29,628 | 30,176 |
| Due from other governments | 61 | 400 |
| Prepaid items | 262 | 225 |
| Inventories, at cost | 42,726 | 43,057 |
| TOTAL CURRENT ASSETS | 133,363 | 129,711 |
| NONCURRENT ASSETS | | |
| Nondepreciable capital assets: | | |
| Construction in process | 433 | 48 |
| Depreciable capital assets: | | |
| Buildings | 5,288 | 5,666 |
| Leasehold improvements | 30,607 | 31,852 |
| Equipment | 103,538 | 102,737 |
| Livestock | 4,500 | 5,064 |
| Orchards | 875 | 875 |
| Intangible assets | 3,644 | 3,353 |
| TOTAL CAPITAL ASSETS | 148,885 | 149,595 |
| Accumulated depreciation: | | |
| Buildings | (3,097) | (3,092) |
| Leasehold improvements | (22,402) | (22,268) |
| Equipment | (74,005) | (72,549) |
| Livestock | (576) | (682) |
| Orchards | (670) | (629) |
| Intangible assets | (3,285) | (2,471) |
| TOTAL ACCUMULATED DEPRECIATION | (104,035) | (101,691) |
| TOTAL NONCURRENT ASSETS | 44,850 | 47,904 |
| TOTAL ASSETS | $ 178,213 | $ 177,615 |

| L I A B I L I T I E S A N D N E T A S S E T S | 2011 | 2010 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable and other | $ 9,605 | $ 8,492 |
| Due to other funds | 1,949 | 2,065 |
| Deferred revenue | 2,560 | 4,754 |
| Compensated absences payable | 9,771 | 9,005 |
| Other current liabilities | 12,423 | 2,388 |
| TOTAL CURRENT LIABILITIES | 36,308 | 26,704 |
| NONCURRENT LIABILITIES | | |
| Net OPEB obligation | 25,224 | 18,954 |
| Other non-current liabilities | 12,496 | 12,496 |
| TOTAL NONCURRENT LIABILITIES | 37,720 | 31,450 |
| TOTAL LIABILITIES | 74,028 | 58,154 |
| NET ASSETS | | |
| Invested in capital assets | 44,850 | 47,904 |
| Unrestricted net assets | 59,335 | 71,557 |
| TOTAL NET ASSETS | 104,185 | 119,461 |
| TOTAL LIABILITIES AND NET ASSETS | $ 178,213 | $ 177,615 |

**CALIFORNIA PRISON INDUSTRY AUTHORITY**
**INTERNAL SERVICE FUND**

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

Years Ended June 30, 2011 and 2010
(in thousands)

| OPERATING REVENUES | 2011 | 2010 |
|---|---|---|
| Services and sales | $ 164,398 | $ 181,811 |
| OPERATING EXPENSES | | |
| Personal services | (68,908) | (59,073) |
| Supplies | (2,124) | (2,130) |
| Services and charges | (99,568) | (107,898) |
| Depreciation | (7,453) | (7,749) |
| Total operating expenses | (178,053) | (176,850) |
| OPERATING INCOME (LOSS) | (13,655) | 4,961 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 235 | 280 |
| Interest expense | (14) | (19) |
| Loss on disposal of capital assets | (1,738) | (1,730) |
| Other expense | (104) | (211) |
| Total nonoperating (expenses) revenues | (1,621) | (1,680) |
| Change in net assets | (15,276) | 3,281 |
| NET ASSETS AT BEGINNING OF YEAR | 119,461 | 116,180 |
| Net cash provided by operating activities | $ 104,185 | $ 119,461 |

**CALIFORNIA PRISON INDUSTRY AUTHORITY**
**INTERNAL SERVICE FUND**

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

Years Ended June 30, 2011 and 2010
(in thousands)

| | 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 165,458 | $ 176,814 |
| Receipts from interfund services provided | 1,765 | 2,229 |
| Payments for interfund services used | (9,749) | (11,163) |
| Payments to employees | (53,276) | (51,721) |
| Payments to suppliers | (90,978) | (98,151) |
| Payments for other services | (104) | (211) |
| **Net cash provided by operating activities** | 13,116 | 17,797 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Change in interfund receivable | (2,399) | (200) |
| Interest expense | (14) | (19) |
| **Net cash flows used in noncapital financing activities** | (2,413) | (219) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisitions of capital assets | (6,689) | (7,552) |
| Proceeds from sale of capital assets | 552 | 476 |
| **Net cash flows used in capital and related financing activities** | (6,137) | (7,076) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest on investments | 233 | 322 |
| Net increase (decrease) in cash and pooled investments | 4,799 | 10,824 |
| Cash and pooled investments, beginning of year | 54,884 | 44,060 |
| Net cash provided by operating activities | $ 59,683 | $ 54,884 |

**CALIFORNIA PRISON INDUSTRY AUTHORITY**
**INTERNAL SERVICE FUND**

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

Years Ended June 30, 2011 and 2010
(in thousands)

| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | **2011** | **2010** |
|---|---|---|
| Operating income | $ (13,655) | $ 4,961 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 7,453 | 7,749 |
| Other fees | (104) | (211) |
| Net effect of changes in: | | |
| Receivables | (34) | 1,082 |
| Due from other funds | 2,949 | (188) |
| Due from other governments | 339 | (111) |
| Prepaid items | (37) | 37 |
| Inventories | 331 | 6,057 |
| Accounts payable and other | 1,113 | (2,903) |
| Due to other funds | (116) | (287) |
| Deferred revenue | (2,194) | (5,781) |
| Other current liabilities | 10,035 | 336 |
| Compensated absenses payable | 766 | 862 |
| Other liabilities | 6,270 | 6,194 |
| Total adjustments | 26,771 | 12,836 |
| Net cash provided by operating activities | $ 13,116 | $ 17,797 |