

ARIZONA CORRECTIONAL INDUSTRIES



Achieving Balance

2020 ANNUAL REPORT

ACI VALUES

Teamwork

Work positively together to achieve goals

Safety/Security

Always be conscious of where we work and help identify and prevent issues

Responsibility

Take accountability for our actions no matter if those actions are good or bad

Respect

Treat others the way you wish to be treated

Professionalism

Maintain mutual respect and support among all levels of staff

Integrity

Do the right thing in all circumstances

Courage

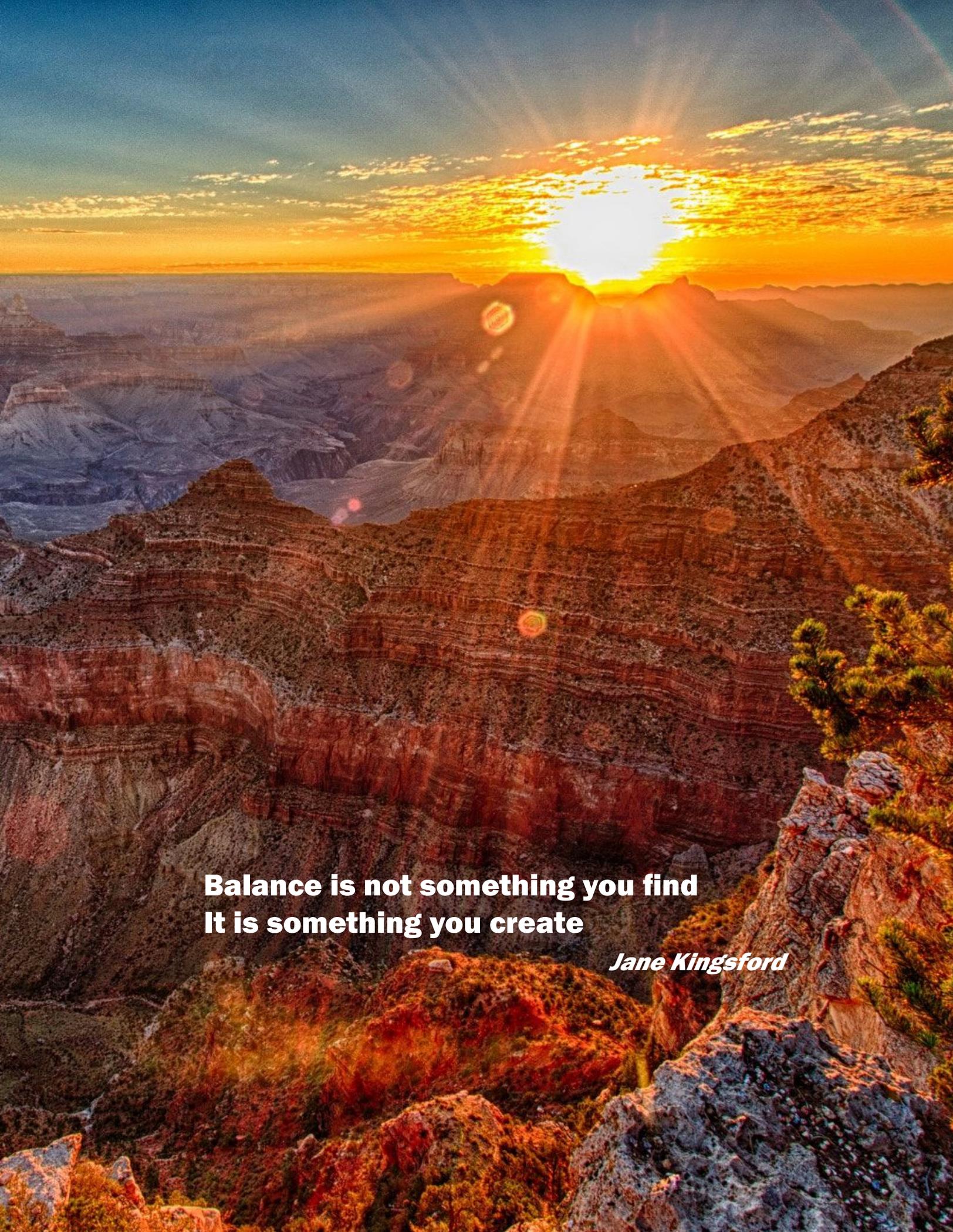
Take action despite fear

Efficiency

Make every action count and continuously improve the way we do business

Leadership

**Communicate and inspire others by following the ACI
Mission, Vision, and Values**



**Balance is not something you find
It is something you create**

Jane Kingsford

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From the Governor



In the midst of this challenging period, Arizona Correctional Industries (ACI) has risen to the challenge and shifted operations to meet the needs of the community. One great example was successfully adjusting their sewing operations to produce face masks for state employees and every member and inmate within the Arizona Department of Corrections, Rehabilitation and Reentry (ADCRR).

ACI continues to strengthen valuable training programs and provide opportunities for inmates to gain work experience as they produce high quality products. ACI is dedicated to meeting the needs of its community partners on job readiness and vocational education to provide employment opportunities for inmates upon release.

The determination of the staff and inmates to continue the ACI mission during COVID-19 ensures that job training opportunities will be available for years to come. Operating without taxpayer dollars, ACI provides a true second chance to inmates through collaborative partnerships with private businesses across the state.

For more than 30 years, ACI has been a model for how efficient government agencies can operate, making a positive financial impact and contributing to the creation of thousands of skilled Arizona workers each year. Arizona is grateful for the efforts and contributions of the ACI.

Douglas A. Ducey, Governor
State of Arizona

From the Director

Each and every day our great men and women of ACI strive for excellence, innovation, and quality customer service. The opportunities provided by ACI, intrinsically cultivate a tangible opportunity for a second chance and successful reentry through training and skill development that enable employment once released.

For every business entity we work with, your investment and public private partnership create a priceless opportunity for offenders to transform their lives which directly translates to a safer Arizona.

I am pleased to recognize the many successes ACI has had this year and to speak to the real change and opportunities it has provided for our inmate population to achieve successful reentry as they return to our communities.

A recent analysis compared the reentry outcomes for inmates who worked in ACI programs with those who did not. The data suggests that ACI reduces recidivism compared to inmates who did not work ACI jobs by as much as 26.8% over a 3 year period.

For the last 34 years, inmates in ACI programs have learned the technical and soft skills employers look for in employees. Many inmates have earned welding certifications and learned in-demand skills in construction, graphic design and computer software programs. Most importantly, the opportunity to work in jobs with real impact gives them the confidence to successfully return to the workforce, obtain housing, and provide for their families.

I am unwavering in my commitment to continue to work with community partners to address the critical needs of our state and our business community. I encourage and will facilitate further partnerships within the business community to achieve this goal.

More than ever, Correctional Industries across the country remain critical to the successful reentry and reintegration of an offender back into society. ACI is our crucial resource for doing that.

David Shinn, Director
Arizona Department of Corrections, Rehabilitation and Reentry



From the Deputy Director

To enhance staff safety, this year the Arizona Department of Corrections, Rehabilitation & Reentry (ADCRR) began implementing some significant changes to improve the operational safety of our institutions.

These changes and improvements are made possible in part, due to the steady competence of the ACI team, delivering increased revenue, profit, and inmate work hours. They also provide crucial support by taking on the security function surrounding the inmates in their programs.

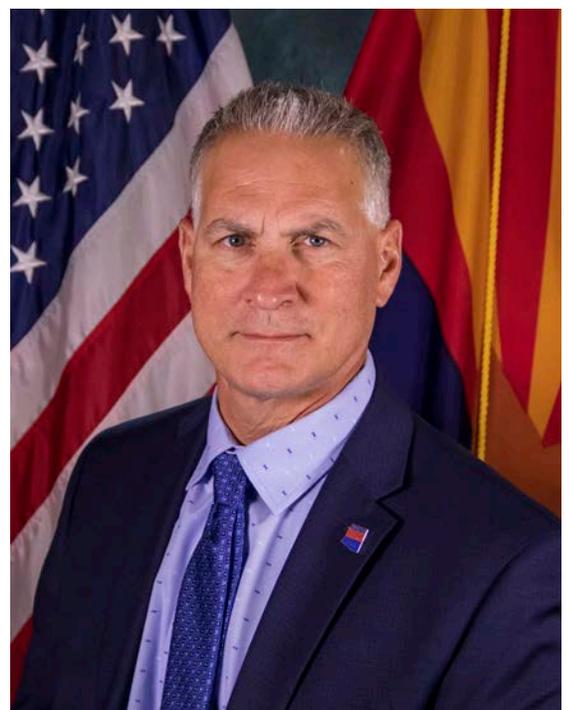
Faced with COVID-19, ACI was skillfully able to pivot with eagerness to produce and deliver critical products, such as face coverings and gowns, for all state employees as well as the entire inmate population, and other external stakeholders. They continue to fulfill customer orders and meet new demands every day.

Serving the greater community, ACI stepped up to partner with Hickman's Family Farms to establish a new, temporary housing unit enabling 140 inmates to continue the important work they do. The decision to temporarily house inmates on-site was necessary to ensure a stable food supply while also protecting public health and the health of those in our custody in a non-secure facility.

ACI fulfills an essential function for the ADCRR by aiding in the rehabilitation of the inmate population. Inmates are allowed to learn critical skills in support of successful reentry.

I know that I can count on ACI to help us succeed in these mission-critical areas.

Frank Strada, Deputy Director
Arizona Department of Corrections, Rehabilitation and Reentry



From the Assistant Director

Fiscal year 2020 began with continued growth trends in all key areas. But as the COVID-19 pandemic descended on the country, several areas of ACI's business were upended and are discussed later in this report.

New urgency was brought to our ongoing efforts to ensure that our worksites are competitively sound while providing a safe environment for the inmates and staff who work in them as COVID-19 protocols were instituted. Many ACI team members helped in these improvement efforts by using the Arizona Management System (AMS).

Even with the COVID-19 crisis ACI financially had an impressive year with sales of \$46.5 million and a net income of \$5.5 million. Our third metric for success, 3.8 million inmate work hours, made a huge contribution toward reducing recidivism.

Our work with the National Correctional Industries Association (NCIA) continued as two staff members were scheduled to present workshops at the annual conference in Austin. Like so many events this year, it had to be canceled because of safety concerns. One of the proposed workshops was revised and later presented as part of an NCIA webinar.

We continued to benefit from our resolute staff members, who embrace its mission and makes success possible. There were many staff changes in 2020 as we said goodbye to a few. The annual staff meeting last October included several training sessions on using upgraded Epicor and ACIS computer systems. The event also provided us with an opportunity to recognize and thank the entire ACI team for keeping us on track toward accomplishing our mission.

Important third-party analysis from the Arizona State University W.P. Carey School of Business Seidman Research Institute annual study estimates the economic impact of ACI on the State of Arizona this year to be \$172 million, with the creation of 1,762 private sector jobs potentially generating millions more in state tax revenues.

No one knows how long this health crisis will be affecting business, so ACI's plans for reaching its long-term growth targets will no doubt undergo many revisions to meet short-term needs. Whatever issues come our way, I am sure the dedicated ACI team will ensure its efficient operations well into the future.

Throughout this difficult year we could always depend on the ADCRR executive staff, ACI Advisory Board, associates, business partners, customers, and suppliers to work with us to provide opportunities for inmates to become valued employees and productive citizens.

Sincerely,



Brian Radecki, CEO/Assistant Director



Administration



New Strategic Plan Outlines Five-Year Goals

For the last several years, ACI has enjoyed steady growth in every key measurement. Though the effects of COVID-19 have made a negative impact on these key indicators, and may continue to do so for many months, ACI hopes to continue fulfilling its mission as it strives to reach challenging, but attainable goals in four distinct areas.



Finances – Profitably Grow Business

Re-coup, and grow labor contract business all over Arizona.

Continue to improve operational efficiencies to reduce production costs and schedules.

Work with the Arizona procurement office to find more dependable and affordable suppliers for raw materials in all ACI operations.

Re-engage with all past customers to show them again ACI's many unique production capabilities.

Find ways to connect with decision-makers in new markets who can benefit from ACI's production capabilities, such as contractors, property managers, engineers, and architects.

Connect with top managers at appropriate state agencies who might benefit from ACI's production capabilities and ask for their endorsement of ACI as a trusted provider.

Investigate, do cost-benefit analysis and, if it makes financial sense - create new operations capabilities:

- Manufacturing new metal fabrication products.

- Exploring possible product options with Keefe, such as premium pillows, mattress toppers, etc.

- Adding PPE, such as sewing product line and investigating alcohol free hand sanitizer.

- Investigating farm operations expansion.

GOAL – Realize \$65 million in annual revenue by 2025.



Inmates – Reduce ACI Offender Recidivism

Establish an ACI Staff Reentry Coordinator position to work with inmate staff as they near release.

Work with ADCRR to ensure all vacant inmate positions are filled.

Create ten new inmate certification programs that can improve inmate job prospects after release.

Continue to aggressively grow the business and inmate employment opportunities.

Create mechanisms to better document outcomes for inmates after their release.

GOAL – reduce the recidivism rate for these ex-offenders to 20 percent by 2025.



Staff – Develop High Performing Staff

Seek more qualified applicants jointly with ADCRR recruiting to fill all open positions.

Create documented succession plans for all key ACI positions.

Provide training opportunities to prepare staff for promotions.

Increase use of ASU and outside training like Certified Public Manager.

GOAL – Fill every ACI position with qualified staff. Have clear career paths mapped out for each team member and clearly developed succession plans for key positions by 2025.



Customers – Increase Customer Satisfaction

Restart customer satisfaction surveys and measure results monthly.

Make necessary adjustments to processes and procedures in response to customer feedback from surveys.

GOAL – Insure 95 percent of customers “very satisfied” by 2025.



Personnel Developments Between July 1, 2019 and June 30th, 2020

NEW HIRES/RE-HIRE/INTER-AGENCY TRANSFER

| NAME | POSITION | LOCATION | EFFECTIVE DATE |
|---------------------|---------------------------------|-------------------------------|----------------|
| Keith Davis | IPS | ASPC-Perryville: Hickman's | 8/12/2019 |
| Scott Duncan | IPS | ASPC-Perryville: Taylor Farms | 8/12/2019 |
| Dustin Baker | Industry Product Sales Rep | ACI Central: Sales | 8/12/2019 |
| Theresa Anaya | Industry Product Sales Rep | ACI Central: Sales | 8/12/2019 |
| Don Walker | CIP Specialist | ASPC-Florence: ACI Delivery | 8/26/2019 |
| Tom Marshall | Accountant 1 | ACI Central: Accounting | 9/9/2019 |
| Brian Barclay | IPS | ASPC-Lewis: Operations | 9/23/2019 |
| David Hymes | Program Project Specialist 1 | ACI Central: HR | 10/5/2019 |
| Michael Wiley | IPS | ASPC-Winslow: Ballard Truss | 10/21/2019 |
| David Randall | CIP Specialist | ASPC-Florence: ACI Delivery | 10/21/2019 |
| Michael Pugh | IPS | ASPC-Perryville: Hickman's | 11/4/2019 |
| David Ray | IPS | ASPC-Florence: Hickman's | 11/18/2019 |
| Andrew Canada | CIP Specialist | ASPC-Florence: ACI Delivery | 12/2/2019 |
| Joshua Briningstool | CIP Specialist | ASPC-Perryville: Graphic Arts | 12/30/2019 |
| Mickey Rivera | IPS | ASPC-Lewis: Continental Tire | 1/13/2020 |
| Robert Maher | IPS | ASPC-Perryville: Hickman's | 1/13/2020 |
| Jackie Jozwiak | Industry Product Sales Rep | ACI Central: Sales | 1/27/2020 |
| Jacob Ward | Industry Product Sales Rep | ACI Central: Sales | 1/27/2020 |
| Rami Shajrawi | Accounting Specialist | ACI Central: Accounting | 3/9/2020 |
| Heather Johnson | Executive Staff Asst/HR Liaison | ACI Central: HR | 4/20/2020 |
| Derrick Hoskins | Compliance Officer | ACI Central: Labor Ops | 5/18/2020 |
| Thomas Gutierrez | IPS | ASPC-Florence: Central Region | 6/1/2020 |
| Albert Litwa | Purchasing Manager | ACI Central: Purchasing | 6/29/2020 |

PROMOTIONS WITHIN ACI

| NAME | POSITION | LOCATION | EFFECTIVE DATE |
|-----------------------|------------------------------|-------------------------------|----------------|
| Corinne Hines-Samuels | Program Project Specialist 1 | ACI Central: Labor Ops | 7/13/2019 |
| Mark Brenner | CIP Manager | ASPC-Florence: Transportation | 8/10/2019 |
| Allen Drury | CIP Manager | ASPC-Perryville: Print Shop | 8/24/2019 |
| James Robideau | CIP Manager | ASPC-Florence: Metal Fab | 9/21/2019 |
| Curtis Rice | CIP Supervisor | ASPC-Florence: Upholstery | 1/25/2020 |
| Richard Krietemeyer | CIP Supervisor | ASPC-Eyman: Bakery | 2/8/2020 |
| William Hanna | CIP Manager | ASPC-Florence: Tag Plant | 2/22/2020 |
| Joshua Delgado | Graphic Designer II | ASPC-Florence: Engineering | 5/30/2020 |

RETIREMENTS

| NAME | POSITION | LOCATION | EFFECTIVE DATE |
|--------------------|---------------------------|-----------------------------|----------------|
| Randy Bialkowski | CIP Manager | ASPC-Perryville: Print Shop | 7/31/2019 |
| Polly Putnam | CIP Specialist | ASPC-Perryville: Print Shop | 9/6/2019 |
| Vicki Fitzpatrick | Purchasing Manager | ACI Central: Purchasing | 1/31/2020 |
| Malinda Strom | Executive Staff Assistant | ACI Central: HR | 2/28/2020 |
| Terrance Winn | IPS | ASPC-Perryville: Great Auto | 4/10/2020 |
| Virginia Hernandez | IPS | ASPC-Florence: Hickman's | 4/12/2020 |

EMPLOYEE PASSING

| NAME | POSITION | LOCATION | DATE OF PASSING |
|-------------|-------------|---------------------|-----------------|
| Albert Vaca | CIP Manager | ASPC-Eyman - Bakery | 5/22/2020 |



Brian Radecki, Assistant Director

2019 Annual Meeting In Our Own Backyard

On Thursday, October 3, 2019 ACI held its annual employee meeting at its administrative offices in Phoenix. With more than 110 people in attendance, the day-long event included breakfast, training, presentations, lots of time to reconnect, a wonderful lunch buffet, and an awards ceremony.

They event was organized by Customer Services Manager Tom Brown and Purchasing Manager Vicki Fitzpatrick and their team of inmate and civilian staff members who miraculously converted the empty warehouse into the perfect meeting venue.

Training

Courtney Gottschalk, quality assurance coordinator in the Inmate Programs and Reentry Division, started the program off with a refresher on “Criminal Thinking.” This important security training is updated annually with new insights and examples of actual cases where inmates were able to manipulate corrections staff... and the tragic results.

The ACI team was then split into two separate groups for specialized training.

All of the security staff assembled in the conference room, where Labor Programs Regional Manager, Eric Cole, went over details on the many duties of these important staff members. From counts to tool control, ACI security personnel help keep shops and labor programs running safely.





AIMS II Overview presented by Joseph Lankford.

The remainder of the staff was walked through the various changes in the AIMS II (since renamed ACIS) inmate, tracking software. ACI Florence Warehouse Manager, Joe Lankford had been learning how to use the new program and shared its ins and outs with the rest of the team. Numerous staff members had questions about the many new features, and Joe helped answer most of them in anticipation of the new version going live in the coming months.

After a short break, the entire ACI team reconvened to continue the training sessions on the meeting program.

Another major program update to ACI's Enterprise Resource Planning (ERP) software is EPICOR. The move from its 9th version to its 10th version involved many changes, including a move from local services to the cloud. Network Specialist David Barbee has taken the lead to enable the migration to the new version and walked the ACI staff through many of its new features. For the next few months staff members were encouraged to test the new version on a pilot platform, and when the switchover occurred in April, most users were able to seamlessly move to using the new version.



ACI staff participate in annual training.



Patrick Lundberg, Jackson Cabrera, Josh Delgado, Brooks George

Updates

Assistant Director Brian Radecki updated the team on major Arizona Management System (AMS) accomplishments during the year. Many ACI areas experienced great success in using the huddle boards to improve processes and efficiency. The most visible successes were several 5S projects that cleared up the ACI warehouse (where the meeting itself was held), reorganized several storage areas within the administrative offices, and streamlined operations at the sign shop in Tucson.

Inmate Programs and Reentry Division Director Karen Hellman thanked the team for its work throughout the year. She acknowledged the many ways that ACI supports the rehabilitation and reentry success mission of the division. She pointed out two printed pieces that were created by the staff and inmate graphic design team: the **FY2019 Annual Report** and the impressive **Inmates Letter** booklet, which includes hundreds of testimonials from inmates who have participated in various ACI programs.



Christiana Bayode and Brenda Smith



Annette Anaya and Carlos Esparza

Marketing Director Clark DesSoye discussed some projects that ACI worked with the National Correctional Industries Association (NCIA) to create. A new promotional video for NCIA was put together with some video provided by ACI and filmed with its videographer in Scottsdale. He provided copies of NCIA's new employer flyer, featuring success stories of companies that have hired former offenders. These projects were created by the NCIA Marketing Committee, which was chaired by ACI's own Brian Radecki.

Awards Presentation

Labor Operations Administrator Mario Diaz then presented the Partner of the Year Award to Sam Seagren from Hickman's Family Farms. The award recognized Hickman's for their "outstanding commitment to teaching, training, and employing current and formerly incarcerated individuals."

Assistant Director Brian Radecki then concluded the program as he announced the Employee of the Year, "Again this year, our employees of the quarter and the year were determined by a committee of ACI staff members representing every area of the organization. We appreciate the work of this committee for encouraging all team members to submit nominations in recognition of the hard work of their peers. We have learned about some truly extraordinary people through this process and appreciate their dedication toward helping ACI fulfill its mission."



Karen Hellman, Inmate Programs and Reentry



Sam Seagren Hickman's Family Farms, and Mario Diaz



Brian Radecki and Jesus Martinez

"One such individual helped us nearly double the inmate staff at a labor contract program in Tucson; an effort that has earned him recognition as ACI's Employee of the Year" said Brian Radecki. "Please join me in congratulating Jesus Martinez!"



Arizona Correctional Industries new corporate headquarters 4441 E. McDowell Road, Phoenix Arizona.

ACI Plans Strategic Move

After the successful completion of its first 5S project in the spring of 2019 to reduce waste in its administrative warehouse in Phoenix, ACI was left with a large warehouse space that was now 90% empty. Upon seeing how successful the project was, Assistant Director Brian Radecki decided not to reload the warehouse and instead began to look ahead to the expiration of ACI's first five year lease at the headquarters on Harbour Drive in August of 2020.

Seeing that ACI's administrative footprint was changing, he began the process of looking for a new, smaller home for ACI, while trying to stay within the same area as the current location, but with more focus on office rather than warehouse space.

Real estate in the commercial corridors of metro Phoenix made for a limited selection, but over the course of the next six months several possibilities presented themselves. After some evaluation from members of the ACI executive staff, negotiations began on a property at 4441 East McDowell Road in Phoenix. The new building enjoys a number of location advantages: a five-mile,

ten-minute drive to the Harbour Drive location; direct frontage on McDowell Road; excellent proximity to the Loop 202 and SR143 freeways; and a five-minute drive to Sky Harbor Airport.

The office building was completed in 2004 and was modified in 2011 with a state-of-the-art solar panel system that will greatly decrease current electrical costs. The addition of two skylights in the main bull pen area bring welcome natural light to the center of the building. With the addition of four new offices that are being constructed, the twenty office spaces will be a good fit for ACI's administrative staff and inmate workers. Two conference rooms, two break rooms, and an outdoor patio will provide ample space for the Executive staff, Accounting, Sales & Customer Service, and Labor Contract personnel.





Arizona Correctional Industries former corporate headquarters 3279 E. Harbour Drive.

An added benefit of the new space will be the covered parking spaces for all staff, which is a welcome amenity during the Arizona summers.

By the middle of March ACI's inmate workers were not able to come out to work, and much of the staff started working from home. This has made for a challenging time of packing up the whole office in preparation for the move in September. ACI staff members deserve special thanks for coming into the office everyday to take on the challenge of starting this massive packing job.



Arizona Correctional Industries' former headquarters, customer service department.

A person is silhouetted against a bright, orange and yellow sunset sky. They are standing on a sandy dune and holding a large, dark, irregular shape above their head with both hands. The word "Financial" is written in white, bold, sans-serif font across the center of the dark shape.

Financial

FY2020 Focus on Financial Flexibility

Through the first three quarters of FY2020, ACI was on track for its best year ever financially. Traditionally, the fourth quarter is the best one for owned and operated shops, as the Arizona Department of Corrections, Rehabilitation and Reentry purchases inmate clothing and bedding to replace worn-out supplies. There were also a few new private business partnerships poised to come online in the quarter.

Excluding these considerations and simply using the year-to-date trends, ACI management was projecting the highest financial results in its history: revenue of \$50m and net income nearly \$8m.

Despite these many challenges, the owned and operated shops surpassed their revenue projections in the fourth quarter. The labor contracts operation was only able to provide 38% of its projected labor force and 43% of its projected net income.

Many of the security staff from the labor programs were reassigned to other ACI and ADCRR operations (reducing costs). To date, no ACI staff members have been furloughed or laid off because of the negative impact of COVID-19.

However, with the quarantines surrounding the COVID-19 pandemic, all of that changed. The 800 inmates who daily worked outside prison complexes across the state, were locked in their units to reduce the possibility of exposure to the virus. As virus cases were discovered, many shops and labor programs within prison complexes were shut down for weeks at a time, as inmates were treated and monitored for possible infection.

With many private businesses shut down, such as the markets for ACI's fish farm, many regular customers were no longer buying. Most state agencies' budgets were frozen as state revenue streams from these businesses were severely cut. Projects with ACI were put on hold or canceled altogether.

| | FY 2020 | | FY 2019 | |
|--------------------------------------|----------------------|----------------------|---------------------|---------------------|
| | Revenue | Net Income | Revenue | Net Income |
| Owned & Operated Shops | \$4,437,370 | \$114,350 | \$4,758,395 | -\$29,583 |
| Labor Contracts | \$7,612,121 | \$3,061,704 | \$6,283,530 | \$2,079,356 |
| 1st Quarter | \$12,049,491 | \$3,176,053 | \$11,041,924 | \$2,049,772 |
| Percentage Change from FY2019 | 9.1% | 54.9% | | |
| Owned & Operated Shops | \$5,350,303 | \$612,743 | \$4,807,998 | \$44,000 |
| Labor Contracts | \$7,636,287 | \$2,251,693 | \$6,765,888 | \$2,426,690 |
| 2nd Quarter | \$12,986,590 | \$2,864,436 | \$11,573,887 | \$2,470,689 |
| Percentage Change from FY2019 | 12.2% | 15.9% | | |
| Owned & Operated Shops | \$5,148,182 | \$379,063 | \$4,765,045 | \$67,721 |
| Labor Contracts | \$7,552,518 | \$2,529,445 | \$6,999,012 | \$2,717,846 |
| 3rd Quarter | \$12,700,700 | \$2,908,507 | \$11,764,057 | \$2,785,567 |
| Percentage Change from FY2019 | 8.0% | 4.4% | | |
| Year-to-date thru 3rd Quarter | \$37,736,780 | \$8,948,997 | \$34,379,868 | \$7,306,029 |
| Percentage Change from FY2019 | 9.8% | 22.5% | | |
| March Projections | | | | |
| Owned & Operated Shops* | \$ 4,978,618 | \$ 368,719 | | |
| Labor Contracts* | \$ 7,600,309 | \$ 2,614,280 | | |
| Projected 4th Quarter | \$ 12,578,927 | \$ 2,982,999 | | |
| Projected FY Total | \$ 50,315,707 | \$ 11,931,996 | | |
| Percentage Change from FY2019 | 4.9% | 17.6% | | |
| Owned & Operated Shops | \$5,976,946 | \$51,642 | \$6,083,379 | \$198,490 |
| Labor Contracts | \$2,854,158 | \$1,114,725 | \$7,510,780 | \$2,637,752 |
| Actual 4th Quarter | \$8,831,104 | \$1,166,367 | \$13,594,159 | \$2,836,242 |
| Actual FY Total | \$46,567,885 | \$10,115,364 | \$47,974,027 | \$10,142,271 |
| Percentage Change from FY2019 | -2.9% | -0.3% | | |
| CONSOLIDATED TOTALS | \$46,696,351 | \$6,456,911 | \$48,194,288 | \$6,464,499 |
| Percentage Change from FY2019 | -3.1% | -0.1% | | |

*Average per quarter (1-3)

**Consolidated totals include investment income and administrative costs.



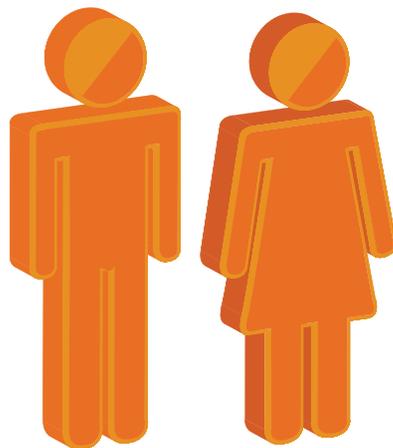
FY2020 Top Ten Customers*



| | |
|--------------------------------------|-------------|
| Hickman's Egg Ranch | \$7,031,011 |
| Trinity - Canteen | \$4,086,029 |
| Arizona Department of Transportation | \$3,694,257 |
| Televerde/Pegasus | \$2,784,752 |
| Taylor Farms | \$2,231,519 |
| Hometown Hero Project | \$1,977,316 |
| Common Market Equipment | \$1,844,996 |
| Keefe Commissary | \$1,426,527 |
| Safety Services | \$865,170 |
| Erickson Construction | \$853,645 |

* All customers except ADOT are private sector businesses.

Inmate Workers



FY2020
1720

Inmate Hours Worked

FY2020
3.82
Million



**Department of Corrections
Rehabilitation & Reentry**

ARIZONA CORRECTIONAL INDUSTRIES
FINANCIAL
STATEMENTS (unaudited)
YEAR ENDING JUNE 30, 2020

BALANCE SHEET

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| CASH IN BANK & ON HAND | 81,331 | 51,172 |
| CASH AND DEPOSIT WITH TREASURER | 8,564,883 | 10,788,127 |
| ACCOUNTS RECEIVABLE - NET | 5,013,636 | 6,563,897 |
| INVENTORIES | 4,265,611 | 4,881,615 |
| PREPAID EXPENSES | 304,923 | 71,819 |
| TOTAL CURRENT ASSETS | \$ 18,230,383 | \$ 22,356,630 |
| PROPERTY & EQUIPMENT - NET | 7,801,094 | 7,550,883 |
| LONG TERM - OTHER ASSETS: | | |
| DEFERRED EMPLOYER CONTRIB. | 610,201 | 1,236,701 |
| TOTAL LONG TERM - OTHER ASSETS | \$ 610,201 | \$ 1,236,701 |
| TOTAL ASSETS | \$ 26,641,678 | \$ 31,144,213 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| ACCOUNTS PAYABLE | 316,863 | 1,135,004 |
| ACCRUED PAYROLL & BENEFITS | 845,374 | 718,583 |
| ACCRUED COMPENSATION | 743,939 | 643,149 |
| ACCRUED LIABILITIES | 2,631,247 | 2,537,939 |
| TOTAL CURRENT LIABILITIES | \$ 4,537,423 | \$ 5,034,675 |
| NONCURRENT LIABILITIES | | |
| DEFERRED REVENUE | 173,355 | 161,090 |
| NET PENSION/OPEB LIABILITY | 9,893,573 | 9,828,174 |
| TOTAL NONCURRENT LIABILITIES | \$ 10,066,928 | \$ 9,989,264 |
| LONG-TERM PENSION | | |
| DEFERRED PENSION/OPEB INFLOW | 1,306,726 | 1,609,982 |
| TOTAL-LONG TERM PENSION | \$ 1,306,726 | \$ 1,609,982 |
| TOTAL LIABILITIES | \$ 15,911,077 | \$ 16,633,920 |
| EQUITY | | |
| CONTRIBUTED CAPITAL | 2,463,077 | 2,463,077 |
| CONTRIBUTED LAND/BUILDING | 741,162 | 741,162 |
| RETAINED EARNINGS | 2,005,595 | 4,841,366 |
| CURRENT PROFIT (LOSS) | 5,520,767 | 6,464,689 |
| TOTAL EQUITY | \$ 10,730,601 | \$ 14,510,293 |
| TOTAL LIABILITIES & EQUITY | \$ 26,641,678 | \$ 31,144,213 |

STATEMENT OF OPERATIONS

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| SALES | 46,519,340 | 47,974,027 |
| COST OF GOODS SOLD | 36,984,740 | 37,831,566 |
| GROSS PROFIT | \$ 9,534,599 | \$ 10,142,461 |
| OPERATING EXPENSES | | |
| SELLING | 834,898 | 862,158 |
| GENERAL AND ADMINISTRATIVE | 3,307,401 | 3,035,874 |
| TOTAL OPERATING EXPENSES | \$ 4,142,299 | \$ 3,898,032 |
| NON-OPERATING REVENUE/(EXPENSE) | | |
| INVESTMENT INCOME | 101,098 | 189,620 |
| MISC. INCOME | 4,207 | 3,590 |
| NET GAIN/(LOSS) ON EQUIPMENT DISPOSAL | 23,162 | 27,050 |
| NET NON-OPERATING REVENUE/(EXPENSE) | \$ 128,468 | \$ 220,260 |
| INCOME BEFORE TRANSFERS | \$ 5,520,768 | \$ 6,464,689 |
| TRANSFERS TO STATE OF ARIZONA FUNDS | (9,300,460) | (9,000,000) |
| TOTAL NET ASSETS, JULY 1 | 14,510,293 | 17,045,604 |
| TOTAL NET ASSETS, JUNE 30 | \$ 10,730,601 | \$ 14,510,293 |

STATEMENT OF CASH FLOWS

| | 2020 | 2019 |
|--|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Operating Income | \$ 5,392,300 | \$ 6,244,429 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 1,435,227 | 1,242,840 |
| (Increase)/Decrease in accounts receivable | 1,550,240 | (308,888) |
| (Increase)/Decrease in inventories | 616,004 | 4,250 |
| (Increase)/Decrease in prepaid expenses | (233,104) | 7,357 |
| Increase/(Decrease) in accounts payable | (818,139) | (57,694) |
| Increase/(Decrease) in accrued payroll & employee benefits | 126,791 | (388,330) |
| Increase/(Decrease) in accrued compensation | 100,790 | 25,534 |
| Increase/(Decrease) in deferred revenue | 12,265 | 95,296 |
| Increase/(Decrease) in other accrued liabilities | 93,329 | 1,161,971 |
| (Increase)/Decrease in long-term deferred pension contribution | 626,500 | (7,991) |
| Increase/(Decrease) in long-term pension liability | (237,856) | 612,046 |
| Net cash provided (used) by operating activities | \$ 8,664,347 | \$ 8,630,820 |
| Cash flows from noncapital financing activities: | | |
| Cash transfer (to) from DOC | (9,300,460) | (9,000,000) |
| Net cash provided (used) for noncapital financing activities | \$ (9,300,460) | \$ (9,000,000) |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of property, plant and equipment | (1,685,439) | (2,419,443) |
| Gain on disposal of fixed assets | 23,162 | 27,050 |
| Misc. cash proceeds | 4,207 | 3,590 |
| Net cash provided (used) for capital and related financing activities | \$ (1,658,070) | \$ (2,388,803) |
| Cash flows from investing activities: | | |
| Interest receipts on investments | 101,098 | 189,620 |
| Net cash provided (used) by investing activities | \$ 101,098 | \$ 189,620 |
| Net increase (decrease) in cash & cash equivalents | (2,193,085) | (2,568,363) |
| Beginning cash & cash equivalents balance | 10,839,300 | 13,407,663 |
| Ending cash & cash equivalents balance | \$ 8,646,215 | \$ 10,839,300 |



Marketing



Marketing

Marketing and Sales Strategy

Again this year, the marketing and sales teams were able to make presentations to various business and chamber groups around the state. These types of interactions make it possible to use ACI's greatest strength: success stories

**Projects
successfully
completed
to customer
specifications**

**Innovative
solutions delivered
to solve customer
needs**

**Lives positively
changed by
learning the soft
skills employers
desire**

**Careers started
through learning
marketable job
skills**

**Self-esteem
renewed from the
recognition of a
job well done**

**Successful
transitions back
to civilian life**

There are many other advantages to these types of presentations. Generally the attendees are there because they are open to learning about other businesses. They are also more likely to be key decision-makers for the types of projects that ACI can fulfill. Because these business leaders are actively participating in a business group, they likely take their organization's social responsibilities seriously and recognize the importance of partnering with ACI in its mission to help transform lives.

The responses to these presentations are universally positive, with attendees asking many insightful questions about the various ACI programs discussed. Many times they will unwittingly mimic ACI's brand strategy by asking, "Can ACI manufacture a particular type of product or deliver a unique service?" Most times we are able to answer "Yes. We can." We do this by offering an example of how ACI has solved for it in the past.

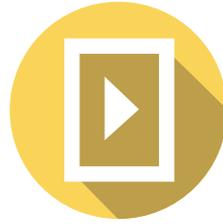
Moving forward, we will continue to find targeted opportunities to make these types of presentations, modifying them to suite each audience profile and as new products and services are added. They will need to take different forms, such as Zoom meetings and webinars during the continuing COVID-19 crisis.

Marketing

To reach wider markets, we will adapt this “story telling” - type experience into other media that can easily be shared online, through email, and in one-on-one sales calls:



Buyers can easily relate to case studies illustrating how ACI has fulfilled similar needs for related businesses.



Videos make it easy to learn how ACI can be an effective resource.



How-to and subject expert-type articles (print and online) in industry/association publications can be highly effective.

As inmates become available and shops reopen, schedules for the creation of these communications pieces will focus on key ACI capabilities, targeting the decision-makers in different markets.

| Services/Products | Differentiators | Market Industries | Job Titles |
|--------------------------------------|---------------------------------------|--|-------------------------------------|
| Mill work (Cabinets) | Customize, Install, Deliver | Construction | Contractors, Architects, Engineers |
| Furniture (OEI) | Install, Deliver | Schools, Gov. Agencies | Purchasers, Facilities Managers |
| Outdoor, Infrastructure (Metal) | Customized, Install, Deliver | Construction, Municipalities, Parks | Purchasers, Facilities Managers |
| Refurbishing (Metal/Wood/Upholstery) | Pick Up, Multi-Shop, Install, Deliver | Schools, Gov. Agencies | Facilities Managers |
| Printing and Design | One-Stop Solution, Delivery | Schools, Gov. Agencies | Administrators |
| Signs and Engraving | Delivery | Schools, Gov. Agencies | Administrators, Facilities Managers |
| Inmate Labor | Reliability | Small Businesses | Business Owners, CEOs |
| Safety Products | Locally Sourced | Schools, Gov. Agencies, Small Businesses | Purchasers, Facilities Managers |





Labor

How a company comes together in the



For more than 25 years ACI has provided inmate labor for some of the best known companies in Arizona. Last year alone, ACI provided over 2.8 million hours of labor to private sector companies. Inmate crews come in and out of the prison gates at locations throughout Arizona. But at approximately 11:00 a.m. on March 25, 2020, all of that changed.

Mario Diaz, Labor Operations Administrator, was notified per a directive from ADCRR Director David Shinn, that in response to the ongoing coronavirus pandemic, the ADCRR will immediately pull back all off-site work crews until national and local public health experts consider the COVID-19 virus no longer a threat – including the thirty inmates from ACI’s Administrative Headquarters.



Arizona Correctional Industries former headquarters, customers service department.

The Labor Contracts team had met two weeks prior to the shutdown and came up with a proposed contingency plan in the event of a shutdown. They knew that five industry program specialist’s (IPS) in Tucson would be displaced, two IPSs in Douglas and two in Winslow.

Mario asked if these IPS salaries could be taken over by the prison operations budget to fill vacant CO positions at the designated complex where they would otherwise pull their crews from. This would then assist us at ACI with avoiding having to layoff staff, and also help the complex with additional experienced staff to augment vacant slots.

fight against the COVID-19 pandemic



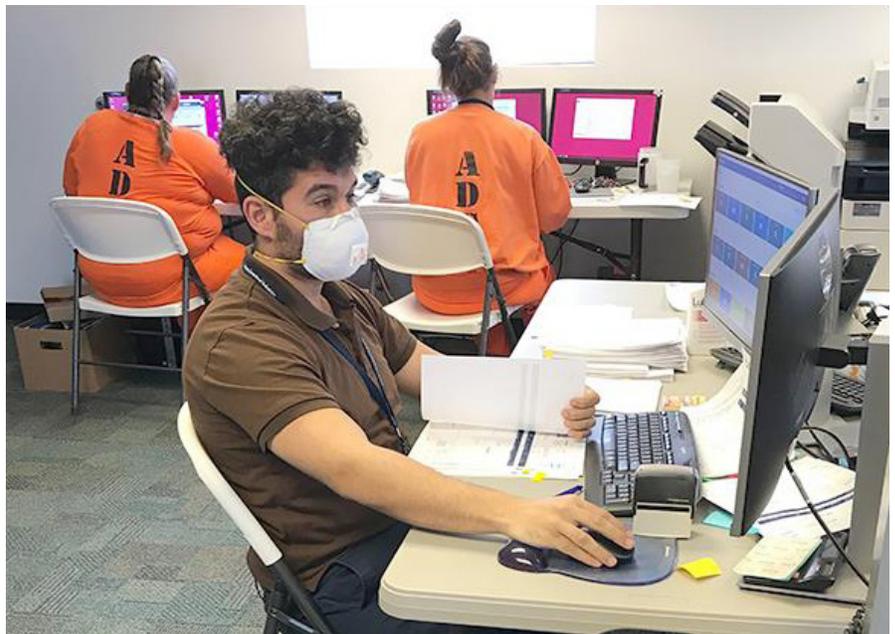
This plan was approved and was executed immediately by talking with the executive teams of the complexes. We also had a handful of IPS staff who were displaced here in the Phoenix metro area from outside crews being shut down. However, when Hickman's was approved to house inmates at an off-site location we took on the duties of providing and augmenting the Perryville prison with security functions at that location with four IPS staff— two on a day shift turn and two on a graveyard turn as housing unit security.

On the day of the shutdown Mark Brenner, Transportation Manager, called and asked what we were going to do with our Florence IPS staff. We stated that we were looking at having them fill vacant CO positions at the Florence complex. Mark

immediately said he would take all of them, as he would need help given no inmates were going to be able to leave the complex. To date the Labor Contract IPS staff in this geographical location have been assigned to work the farm, fish farm, industrial yard, tag plant, warehouse, transportation, install, and any other place they are needed to help keep our operation moving forward in this time where we have no inmate workforce available.

As Mario met with all his staff to strategize this announcement and try to place all of the security personnel as well as office staff in assignments to avoid any loss of jobs, in other parts of the company plans were quickly made to cover the vacancies that the inmate workers would create for all of Arizona Correctional Industries.

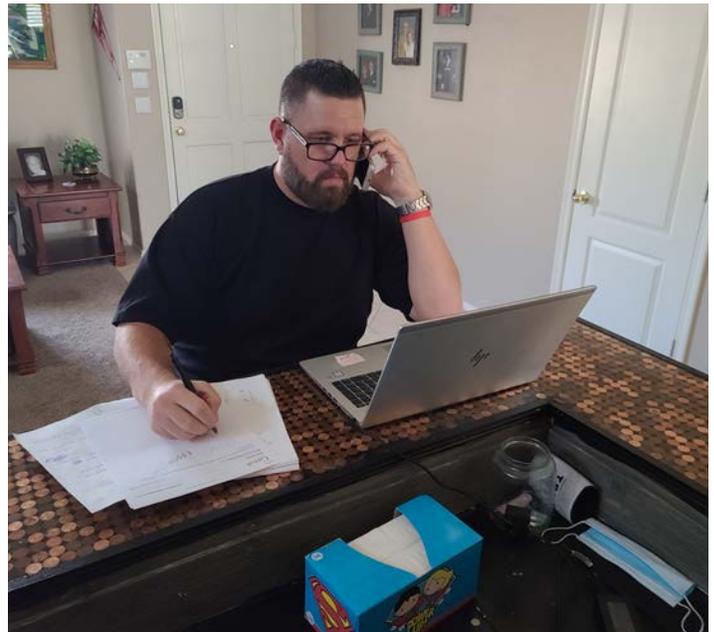
ACI's Central Office operations are filled with inmates from the Arizona State Prison at Perryville. They work in all functional areas of ACI's business — sales, accounting, inventory control, purchasing, inmate payroll, and customer



Rami Shajrawi at Arizona Correctional Industries satellite office, Perryville.



Corinne Hines-Samuelson, labor contracts working from home.



Kyle Pettibone, account representative working from home.

service. Without their presence, daily operations would fall onto supervisors and department heads. Brian Radecki, Assistant Director, immediately started to look for a temporary solution and was able to secure the use of a training bungalow at the Piestewa Unit at ASPC Perryville that could be converted to a temporary ACI inmate work area. While ACI central staff worked closely with prison IT staff, data lines were installed, and computers, copiers, and related equipment were moved out to the facility. Inmates from all areas work on a rotating schedule to keep daily operations going. Arrin McCoy, Inmate Payroll Supervisor, has semipermanently transferred to the new location, and other staff members from sales and purchasing rotate on a weekly basis to supervise. This facility has been up and running since mid-April and once again highlights the ingenuity and cooperation of ACI personnel to keep daily operations open.

The spread of COVID-19 has thrown work life and home life into uncertain waters, with many parts of the nation recently going into lock-down in an effort to flatten the curve. It says a lot about the severity of the situation when we need to take such drastic measures to keep everyone safe.

With all nonessential services shut, Arizona Correctional Industries has made the decision to allow some employees to begin working from home. While remote working is a well-established part of corporate work policies, it has never been attempted at Arizona Correctional Industries until now. Purchasing quickly ordered laptops and docking stations and soon Labor Contract staff, Marketing, Human Resources, and all of Sales were out of the office working from home. This left our Administrative Headquarters with significantly less staff, thereby creating a more socially distanced workplace. The ability to achieve this relies on the highly connected digital world in which we live with plenty of business tools, apps, and platforms to help us navigate these challenges.

Google Meet and ZOOM replaced the conference room for our meetings, and webinars replaced our training rooms. The technology we have today gives us an edge that our country did not have in the past—we can get work done, be innovative, and keep in touch with our co-workers and customers, using a stronger virtual presence.

In light of the COVID-19 health crisis, many organizations are trying to find ways to make their workplaces safer for their employees and customers. To meet that response ACI has already revamped a couple of its manufacturing facilities to make much, needed Personal Protective Equipment (PPE).

At the sewing shop at the Arizona State Prison Complex at Perryville supervisor Kandy Smith is to be commended for her outstanding efforts to provide face masks and gowns during the COVID-19 pandemic. Kandy and her crew worked tirelessly through sixteen-hour shifts seven days a week to help meet the imperative needs of the public and health-care workers by providing them the necessary equipment to stay safe and healthy. Throughout this period,



Arizona Correctional Industries sewing shop, Perryville.

Kandy also gave numerous job opportunities to inmates who had previously lost their jobs due to the pandemic.

In the Industrial Yard at the Arizona State Prison Complex in Florence, Shop Manager Paul Sabel worked with the sales and marketing divisions to design five types of safety screens made of industrial-grade PVC. These screens have high light transmission and water-like clarity, excellent ink adhesion for screen printing, better fire resistance than acrylic, and are impact-resistant and durable.

When the majority of our outside workforce was unavailable, ACI relied on the ingenuity and dedication of the staff to somehow maintain daily operations. Farm Manager Richard Carpenter began living on the ACI farmland in Florence to make sure crops were maintained. Volunteers from all parts of the company took turns working at the fish farm – some taking the long overnight shifts to ensure that the temperature of the water was kept at the right levels to keep our tilapia and catfish alive. More volunteers would stop by before their regular shifts to help feed the horses and burros at our program in Florence.

With the ACI installation crew made up of inmate workers who were unable to leave the prison, Install Manager Jose Ruiz assembled an install crew made up of sales reps, regional managers, labor contract personnel, and IPS security officers to make sure that customers still got furniture installed.

A letter dated Tuesday, March 24, written by ADCRR Director David Shinn and Hickman’s Family Farms CEO Glenn Hickman, it announced first that COVID-19 had “caused a strain on our nation’s food supply,” and that food and agriculture workers, including those at Hickman’s, have been designated as critical infrastructure.



Gregg Hillebrand, VP Western Region assists on modular installation.



Eric Cole, Labor Operations Manager assists on modular installation.



New female inmate housing located at Hickman's Family Farms.



Bunk installation at Hickman's Family Farms

“Hickman’s has requested that due to its need to keep its critical operations running, it still needs the labor provided by ADCRR inmates,” the letter said.

Continuing, the letter revealed that “in order to protect the health and safety of ADCRR’s inmate population, and ensure the health and welfare of the state, ADCRR and Hickman’s have determined that it is necessary to temporarily house approximately 140 female inmates who presently work at Hickman’s on-site for the duration of the COVID-19 public health emergency.”

It said that the move was necessary “to ensure a stable food supply” and added that the women “represent a low risk to the public and staff” and that they would be “closely monitored and supervised” at all times.

Glenn Hickman told *The Arizona Republic* that the inmates will be staying in a new 6,000-square-foot warehouse building that has air conditioning, and that Arizona Correctional Industries is providing bunk beds for the women.

As soon as the agreement was announced, Arizona Correctional Industries went to work to fabricate and deliver the bunks. In a coordinated effort between ACI Transportation and the installation crew, the 140 bunks were delivered to the Jackrabbit Hickman’s headquarters location, and installed in record time. With a twenty-five-year history of ADCRR, ACI, and Hickman’s Family Farms continue to strengthen our partnership.

In just a few months the COVID-19 pandemic has changed the way companies operate in an unprecedented manner. As Arizona Correctional Industries staff and inmates navigate the new normal, we have learned to adapt on the fly to stay operating. Administration has had to implement large organizational changes in just a matter of weeks just to keep the organization running smoothly.

Overall we have discovered new levels of dedication and ingenuity and on all levels are fighting to keep going to regain the trajectory we had been on prior to March. Going forward the world will not be the same as it was, – but Arizona Correctional Industries will continue its mission and looks forward to a successful FY2021.

Balance is
only a moment
between two extremes

Doug Cooper



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CORRECTIONAL
INDUSTRIES



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