

Arizona Correctional Industries



2021 Annual Report

ACI CORE VALUES



FROM THE ASSISTANT DIRECTOR

Facing the adversities and trials of the past year, Arizona Correctional Industries (ACI) continues to fulfill its mission to aid in the successful reentry of offenders by providing the training and support which has guided our program for the past 34 years. Our commitment, coupled with the mission of the Arizona Department of Corrections Rehabilitation and Reentry (ADCRR) ensures ACI will emerge from the COVID-19 pandemic more resilient and ready for the challenges of fiscal year 2022.

Despite the fact the pandemic caused production delays in many key areas, we still managed to end the fiscal year with total sales of \$35.3 million. Thanks to a strong fourth quarter, ACI was able to make a \$778,000 profit for the year. Even with COVID-19 affecting all aspects of our operations, ACI still employed 1,174 inmate workers, and those workers put in an impressive 2,416,423 hours during the year.

Highlighted during the past year was the ingenuity and agility of ACI's workforce to adapt and change in a volatile economic time. Responding to the call for COVID-19-related items, ACI pivoted quickly by manufacturing masks, gowns, and protective shields. Our shops created bio shields, floor decals, and social distancing signage, all while keeping the safety of staff and incarcerated individuals a top priority.

ACI's successes would not be possible without the valued guidance and cooperation of the ADCRR staff, ACI Advisory Board, associates, business partners, customers, and suppliers. I would also like to thank the ACI staff for their dedication and the fact they went above and beyond during the challenging course of this past year.

Sincerely,



Brian Radecki, CEO/Assistant Director



Drive to Innovate

From product launch delays to business expansions placed on hold, COVID-19 has caused manufacturing organizations to develop new skill sets in dealing with these challenges. ACI's owned and operated businesses were also caught up in this uncertainty, which dictated the development of new flexibility in production processes, supply chains, and market demand. Investments in equipment, new technology, and strategic alliances drove the focus of the past fiscal year.

To foster increased innovation, ACI added Gail Fenkell, deputy assistant director, to ACI's Executive Management Team. Last summer her team developed a COVID-19 kit, featuring PPE, bioshields, classroom and office barriers, and directional signage and decals. Seeking to build new business operations that provide vocational training for in-demand work skills, Gail also focused on three new business collaboration proposals for the upcoming year: vinyl wrapping, biochar, and automotive upfitting.

VINYL WRAPPING

In collaboration with the Arizona Department of Corrections Rehabilitation and Reentry ACI began vinyl wrapping vans in April 2021. The department had a fleet of white vans in varying stages of wear that needed some cosmetic updating. ACI was already doing decal and vinyl work on fire and emergency vehicles at its Tucson sign shop.

According to a report from San Francisco-based Grand View Research, the global automotive wrap-films market is projected to grow from US\$1.6 billion in 2015 to more than US\$10.8 billion by 2025 (Grand View Research-May 2021).

By building on services the sign shop was already providing, a vinyl wrapping component seemed to be a valuable addition to the operation. This sought-after skill set will provide even more opportunity for inmates to gain employment upon release. Advancing technology and versatility in the vinyl material has created an industry that makes it an affordable option for both business and personal applications. The additional opportunity of providing a certification in vinyl application is also being researched for inmates in the program.

During FY21-22, ACI anticipates completing over 122 more vans for the Arizona Department of Corrections Rehabilitation and Reentry.



ADCRR fleet vans before and after vinyl wrapping

BIOCHAR

Forest lands in the southwest are overgrown and vulnerable to devastating wildfires and attacks by insects and disease. Years of drought have intensified the problem and further contribute to overall deterioration of the forest.

Regimens to thin the forests, decrease fuel loads, and clear out insect-and-disease ridden trees have proven costly. Previous methods that called for slash piles of residual materials burned on site contributed to smoke, air pollution, and excess greenhouse gas emissions.



DFFM and inmate wildland fire crews performing prescribed burning

In FY2021, Governor Ducey's enacted the Healthy Forest Initiative (HFI). This collaborative venture between the Department of Forestry and Fire Management (DFFM) and ADCRR consists of hazardous vegetation removal. This program will expand opportunities for state inmates to learn crucial skills for employment by treating our state's land and wildlife. Over a two-year period, hundreds of ADCRR inmates will address the need to remove fire-prone vegetation from Arizona communities. The crews will learn about vegetation management, earn certifications with tools and gear, build teamwork, and improve soft skills.

The repurposing of this harvested vegetation into biochar would generate additional work opportunities and training for ACI inmates. Biochar is a charcoal that is produced from the thermal decomposition of forest biomass and is used to improve soil health. Biochar, in large "...socks, much..." like a giant water filter, reduces toxic materials from natural waterways by capturing heavy metals. Applying biochar to soil reduces the water requirements by up to 90% significantly reducing water usage for both public and private usage statewide. This technology also contributes to farming and food security by increasing crop yields and retaining water in areas prone to drought.

Located relatively close to the potential HFI planned operations would be the Prison at Fort Grant. ACI could set up a satellite facility consisting of a large kiln to process the large amounts of biomass into biochar. This facility would provide agricultural training for inmates and create biochar products that can be sold across the state.

Producing biochar would not only support Governor Ducey's HFI and DFFM forest thinning efforts but also restore soil, lower the cost of water filtration, and help reduce waste for farmers throughout Arizona.



Both farm lands and waterways can benefit as a result of using biochar products



Police vehicle shown upfitted with cage and light kits

AUTOMOTIVE UPFITTING

What is an upfit? An upfit is a set of vehicle accessories or additions for an existing vehicle that are customized to the customer's needs. Seeing another potential area to provide valuable vocational training and in-demand skills, ACI recognizes the potential of expanding into more areas of automotive services. In Collaboration with other state and county facilities, ACI would like to renovate and expand an existing facility to upfit law enforcement vehicles with patrol package equipment, in addition to providing vehicle maintenance services.

The goal in developing new programs like this one is to create more opportunities for inmate workers to gain valuable job skills and earn certifications as automotive service technicians. The current demand for trained technicians is occurring at the same time many high schools are cutting back on vocational programs primarily because of budget constraints.

LOOKING AHEAD

We will continue to pursue more innovative business opportunities and partnerships that expand our capabilities and broaden the vocational training we will provide to inmates at each prison complex.



Arizona Correctional Industries



**FINANCIAL STATEMENTS
YEAR ENDING JUNE 30, 2021
(unaudited)**

**Department of Corrections
Rehabilitation & Reentry**

Balance Sheet

	2021	2020
ASSETS		
CURRENT ASSETS		
CASH IN BANK & ON HAND	2,035	81,313
CASH AND DEPOSIT WITH TREASURER	11,553,270	8,565,067
ACCOUNTS RECEIVABLE - NET	4,912,489	4,992,281
INVENTORIES	5,682,509	4,265,611
PREPAID EXPENSES	416,408	304,923
TOTAL CURRENT ASSETS	\$ 22,566,711	\$ 18,209,195
PROPERTY & EQUIPMENT - NET	6,910,099	7,799,868
LONG TERM - OTHER ASSETS:		
DEFERRED EMPLOYER CONTRIB.	2,696,677	1,778,905
TOTAL LONG TERM - OTHER ASSETS	\$ 2,696,677	\$ 1,778,905
TOTAL ASSETS	\$ 32,173,487	\$ 27,787,968
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE	876,310	316,863
ACCRUED PAYROLL & BENEFITS	707,227	719,470
ACCRUED COMPENSATION	705,928	743,939
ACCRUED LIABILITIES	2,521,228	2,633,659
TOTAL CURRENT LIABILITIES	\$ 4,810,693	\$ 4,413,931
NONCURRENT LIABILITIES		
DEFERRED REVENUE	173,355	173,355
NET PENSION/OPEB LIABILITY	12,368,546	11,115,628
TOTAL NONCURRENT LIABILITIES	\$ 12,541,901	\$ 11,288,983
LONG TERM PENSION		
DEFERRED PENSION/OPEB INFLOW	525,767	1,336,012
TOTAL LONG TERM PENSION	\$ 525,767	\$ 1,336,012
TOTAL LIABILITIES	\$ 17,878,361	\$ 17,038,926
EQUITY		
CONTRIBUTED CAPITAL	2,463,077	2,463,077
CONTRIBUTED LAND/BUILDING	741,162	741,162
RETAINED EARNINGS	10,312,217	2,005,595
CURRENT PROFIT(LOSS)	778,670	5,539,208
TOTAL EQUITY	\$ 14,295,126	\$ 10,749,042
TOTAL LIABILITIES & EQUITY	\$ 32,173,487	\$ 27,787,968

Statement of Operations

	2021	2020
SALES	35,278,743	46,498,041
COST OF GOODS SOLD	31,240,900	37,133,758
GROSS PROFIT	\$ 4,037,843	\$ 9,364,283
OPERATING EXPENSES		
SELLING	700,624	797,830
GENERAL AND ADMINISTRATIVE	2,600,481	3,151,219
TOTAL OPERATING EXPENSES	\$ 3,301,105	\$ 3,949,049
NON-OPERATING REVENUE/(EXPENSE)		
INVESTMENT INCOME	36,628	101,098
MISC. INCOME	(256)	4,207
NET GAIN/(LOSS) ON EQUIPMENT DISPOSAL	5,560	18,669
NET NON-OPERATING REVENUE/(EXPENSE)	\$ 41,932	\$ 123,974
INCOME BEFORE TRANSFERS	\$ 778,670	\$ 5,539,208
TRANSFERS TO STATE OF ARIZONA FUNDS	2,767,414	(9,300,460)
TOTAL NET ASSETS, JULY 1	10,749,042	14,510,294
TOTAL NET ASSETS, JUNE 30	\$ 14,295,126	\$ 10,749,042

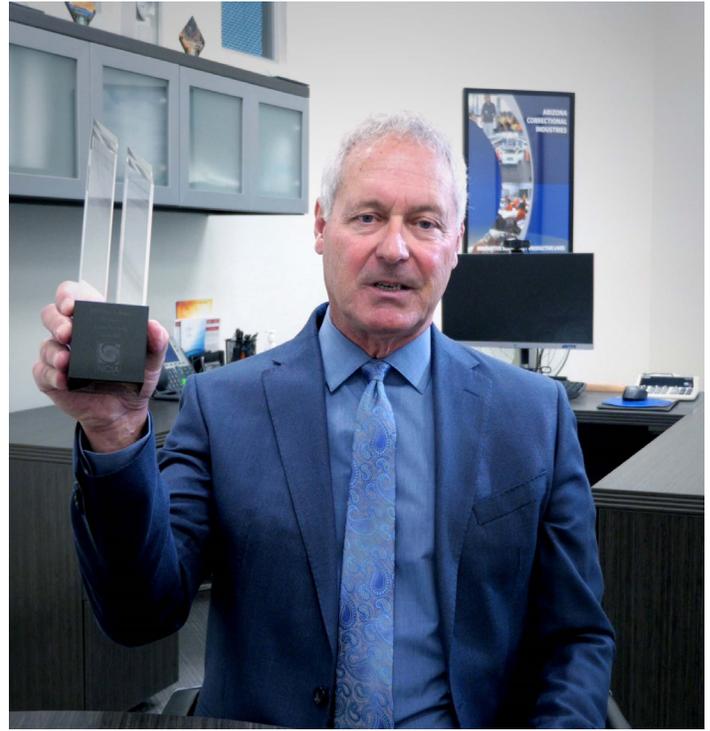
Statement of Cash Flows

	2021	2020
Cash flows from operating activities:		
Operating Income	\$ 735,617	\$ 5,392,300
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,454,070	1,435,227
(Increase)/Decrease in accounts receivable	79,278	1,550,240
(Increase)/Decrease in inventories	(1,416,898)	616,004
(Increase)/Decrease in prepaid expenses	(111,485)	(233,104)
Increase/(Decrease) in accounts payable	559,447	(818,139)
Increase/(Decrease) in accrued payroll & employee benefits	(12,243)	126,791
Increase/(Decrease) in accrued compensation	(38,011)	100,790
Increase/(Decrease) in deferred revenue	0	12,265
Increase/(Decrease) in other accrued liabilities	(112,431)	93,329
(Increase)/Decrease in long term deferred pension contribution	(810,245)	626,500
Increase/(Decrease) in long term pension liability	335,146	(237,856)
Net cash provided (used) by operating activities	\$ 662,245	\$ 8,664,347
Cash flows from noncapital financing activities:		
Cash transfer (to) from DOC	2,767,414	(9,300,460)
Net cash provided (used) for noncapital financing activities	\$ 2,767,414	\$ (9,300,460)
Cash flows from capital and related financing activities:		
Acquisition and construction of property, plant and equipment	(562,666)	(1,685,439)
Gain on disposal of fixed assets	5,560	23,162
Misc cash proceeds	(256)	4,372
Net cash provided (used) for capital and related financing activities	\$ (557,362)	\$ (1,657,905)
Cash flows from investing activities:		
Interest receipts on investments	36,628	101,098
Net cash provided (used) by investing activities	\$ 36,628	\$ 101,098
Net increase (Decrease) in cash & cash equivalents	2,908,925	(2,192,920)
Beginning cash & cash equivalents balance	8,646,380	10,839,300
Ending cash & cash equivalents balance	\$ 11,555,305	\$ 8,646,380

ACI ASSISTANT DIRECTOR AWARDED PRESTIGIOUS HONOR

The National Correctional Industries Association (NCIA) created the Rodli Award to recognize a correctional industries director who has made sustained, outstanding contributions to the correctional industries field. In 2020 the NCIA awarded the Rodli Award to Brian Radecki. Because of the ongoing pandemic, the national NCIA conference was canceled, but Brian is being recognized at the Indiana conference in 2021.

Through the support of his staff and the desire to research new ideas and visit other correctional industries and his active participation on the board of the NCIA, Brian has demonstrated his passion for the mission of reentry and the value of the skills that highlight our important work. Congratulations Brian from the staff and inmates of Arizona Correctional Industries.



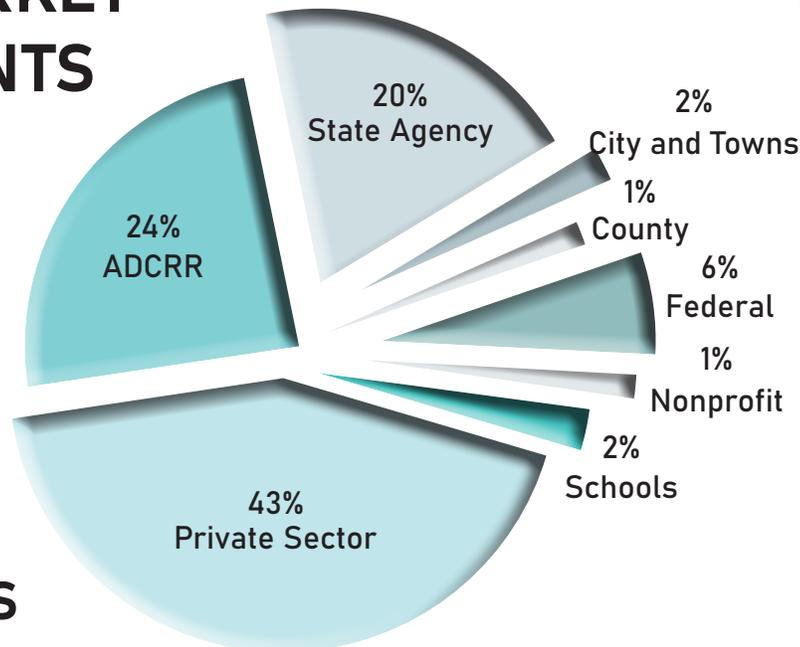
Brian Radecki receives Rodli Award

FY 2021 STATS

2.41M

INMATE HOURS WORKED

ACI MARKET SEGMENTS



1,174

INMATE WORKERS EMPLOYED



Designed by ACI Customer Service
4441 E. McDowell Rd. Phoenix, AZ 85008 (602) 272-7600 aci.az.gov
Printed by ACI Print Shop ASPC-Perryville, Goodyear, AZ