

Arizona Correctional Industries

The Road to Sustainability

ANNUAL REPORT 2023



Arizona Department of Corrections Rehabilitation and Reentry

Our mission is to enhance public safety across Arizona through modern, effective correctional practices and meaningful engagements.

The Arizona Department of Corrections, Rehabilitation and Reentry (ADCRR) is committed to creating a safe, secure, and humane correctional system that provides a healthy environment for staff and offers the incarcerated population opportunities to learn and practice the necessary skills for success upon release.

With public safety top of mind, ADCRR and its more than 8,000 officers and professional staff are committed to identifying and leveraging opportunities for growth under Director Ryan Thornell, Ph.D., and his forward-thinking leadership team.

Driven by a heart for public service and a commitment to deliver a perfect effort each day, ADCRR is redefining itself as an agency whose daily work centers on transparency, accountability, and fairness.

Grounded in mutual respect, rapport-building, and meaningful engagement, Arizonans can expect ADCRR to be open, responsive, and responsible as we create a healthier environment for our staff, the incarcerated population, and Arizona Communities.

We are committed to modernizing correctional practices by making strategic investments across the agency as we reimagine corrections, expand program opportunities for our population, and offer professional development and support to our officers and professional staff.

ACI Mission

Support ADCRR's mission and create opportunities for incarcerated individuals to develop marketable skills and good work habits through enterprises that produce quality products and services for our customers.

ACI Vision

Support ADCRR's vision, serve as a resource for the public sector and private businesses throughout the state and operate successful business enterprises that help incarcerated individuals acquire occupational training and work experience.



Message from the Outgoing Assistant Director

FY2023 was a demanding year for Arizona Correctional Industries (ACI). Faced with steady increases in raw material and transportation costs, ACI successfully navigated this difficult environment. By focusing on a sustainable future, we ensured that all facets of the business were reviewed and performance improvement actions were established.

ACI experienced restructuring within several facets of the organization, but our goal of creating successful reentry opportunities for incarcerated individuals through training and support remained constant. One example was our partnership with the Televerde Foundation, who provided the PATHS reentry program for soon to be released ACI female workers. Another example is the purchase of EPICOR Data Analytics, which will be discussed later in this report. A significant reinvestment in ACI has been achieved. This will improve both the accounting and manufacturing areas of the company.

Despite the many challenges this year and changes in the buying behavior of our customer base, ACI remained focused on providing excellent service and saw great success.

ACI by the Numbers:

- \$52,895,000 in sales for FY23
- \$3,900,000 net income for FY23
- 3,436,122 hours worked by incarcerated individuals

ACI's success would not have been possible without the support of our leadership within the Arizona Department of Corrections, Rehabilitation and Reentry, as well as our business partners, customers, employees, and suppliers. ACI looks forward to continuing successful employment and rehabilitation of incarcerated individuals while delivering quality products and services throughout the state.

Lastly, after nearly 13 years as the Assistant Director of ACI, I will be retiring. It has been an honor to serve the State of Arizona, the Department of Corrections, Rehabilitation and Reentry, ACI, and the ACI staff who do incredible and meaningful work every day. I wish the best for ACI going forward.

We invite you to continue reading to learn more about Arizona Correctional Industries and our work through the stories and statistics featured in our annual report.

Sincerely,



Brian Radecki, Assistant Director



Finance and Accounting Reorganization

David Palma, CFO

While the Arizona and U.S. Job markets have made a stunning recovery over the past year, ACI has begun to strategize on rebuilding our financial, sales and marketing departments, which were decimated during the pandemic.

The loss of more than half of the jobs in accounting and sales left ACI dependent on a core group of dedicated staff who worked diligently to make FY2022 a success. To start the rebuilding process, the management positions of ACI's owned and operated businesses were expanded from three regions to four. The realigning of shops within each region created a more cohesive operation and improved quality and delivery of products across all industries.

With the retirement of its long-time CFO and other key accounting staff, ACI sought to hire a new CFO who could help ACI drive its sustainability efforts. David Palma took on this role in December. Palma, who came to ACI in early 2022 as Assistant Controller was the logical choice for CFO. With a BS in accounting and a masters in taxation, David brings experience working with a large agricultural company with locations in Arizona and California.

The role of CFO requires a solid financial core in business and state agency finance. The hierarchy of accounting positions at a company can vary, but similar to the military, smaller companies develop a chain of command, which allows for efficient operation. For ACI, this meant Palma will lead the creation of a more traditional tiered structure with a CFO, Controller and Assistant Controller. These changes are 80% complete and are expected to be in place by October 2023.

Palma is working to expand the IT Department to allow for the creation of a lead position to work exclusively within EPICOR, ACI's ERP system, to increase efficiency and expand the capabilities of the new data analytics system recently acquired by ACI. A second IT position will be structured to handle ACI's day-to-day IT needs and will be able to travel to the various ACI locations around the state to provide IT assistance to all operations.



EPICOR

ACI Implements EPICOR DATA ANALYTICS

Every business owner hopes to achieve a sustainable and profitable business model. In an effort to bolster and modernize our accounting system and make better-informed, timely decisions, ACI is incorporating Epicor Data Analytics “EDA” into our accounting system service package.

EDA accesses the data stored in our existing ERP system and allows us to manipulate, analyze, and present the information in a user-friendly interface. EDA will function on top of our current system, acting as a high-powered magnifying glass into our data tables. This structure allows us to continue to improve and streamline our ERP system while simultaneously maintaining our customizable reports, dashboards, and insights through EDA.

EDA will allow ACI to move past our labor-intensive, manual financial reporting process and quickly issue standard financial statements, compile budgets, forecast revenue, and customize dashboards and reports. The software is user friendly, with a drag-and-drop interface. This means that ACI management can easily customize reports to fit their needs without fear of accidentally altering the ERP system.

With the new capabilities afforded by EDA, ACI will have more insight into our data than ever before, and by extension, offer better transparency to both the department and the public. The software will be instrumental in evaluating the financial sustainability of our current work programs while also helping us assess the vocational training value and viability of future partnerships.

ACI will soon have the ability to develop and track industry-specific key performance metrics, such as inmate wage rates and training certifications within our system. These KPIs will be integrated into our standard reporting package, allowing us to closely track these indicators. Additionally, the EDA budgeting and forecasting tools will allow us to develop and refine a detailed business plan with specific, trackable goals that we can evaluate throughout the year.

Operating an enterprise that engages in activities that may include everything from metal fabrication to food service requires an agile accounting system capable of giving us the unique data insights and reporting tools we need to successfully execute our mission. EDA will help us better serve our inmate population by giving ACI the tools to ensure we allocate our resources so we can afford our inmates the best vocational training available in a financially sustainable way. Implementation is ongoing, but we expect to begin to see the benefits of this software by the end of 2023.



**ARIZONA
DEPARTMENT OF CORRECTIONS,
REHABILITATION & REENTRY**

Arizona Correctional Industries
FINANCIAL STATEMENTS
(unaudited)

YEAR ENDING
JUNE 30, 2023

Balance Sheet

	2023	2022
ASSETS		
CURRENT ASSETS		
CASH IN BANK & ON HAND	662	500
CASH AND DEPOSIT WITH TREASURER	21,647,792	18,888,973
ACCOUNTS RECEIVABLE - NET	6,228,833	9,681,707
INVENTORIES	10,169,959	9,580,218
PREPAID EXPENSES	138,640	232,758
TOTAL CURRENT ASSETS	38,185,887	38,384,157
PROPERTY & EQUIPMENT - NET	6,981,324	5,297,006
LONG TERM - OTHER ASSETS:		
DEFERRED EMPLOYER CONTRIB.	2,665,553	2,665,553
TOTAL LONG TERM - OTHER ASSETS	2,665,553	2,665,553
TOTAL ASSETS	47,832,765	46,346,717
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE	457,106	788,411
ACCRUED PAYROLL & BENEFITS	475,322	342,406
ACCRUED COMPENSATION	730,780	654,136
ACCRUED LIABILITIES	2,368,703	3,026,060
TOTAL CURRENT LIABILITIES	4,031,911	4,811,013
NONCURRENT LIABILITIES		
DEFERRED REVENUE	156,306	156,306
NET PENSION/OPEB LIABILITY	8,880,111	8,880,111
TOTAL NONCURRENT LIABILITIES	9,036,417	9,036,417
LONG TERM PENSION		
DEFERRED PENSION/OPEB INFLOW	3,573,527	3,573,527
TOTAL LONG TERM PENSION	3,573,527	3,573,527
TOTAL LIABILITIES	16,641,855	17,420,957
EQUITY		
CONTRIBUTED CAPITAL	2,463,077	2,463,077
CONTRIBUTED LAND/BUILDING	741,162	741,162
RETAINED EARNINGS	24,925,124	19,105,961
CURRENT PROFIT/(LOSS)	3,061,547	6,615,560
TOTAL EQUITY	31,190,910	28,925,760
TOTAL LIABILITIES & EQUITY	47,832,765	46,346,717

Statement of Operations

	<u>2023</u>	<u>2022</u>
SALES	52,585,768	54,066,547
COST OF GOODS SOLD	30,138,296	43,917,519
GROSS PROFIT	22,447,472	10,149,028
OPERATING EXPENSES		
SELLING	711,124	514,820
GENERAL AND ADMINISTRATIVE	17,768,063	2,761,972
TOTAL OPERATING EXPENSES	18,479,186	3,276,792
NON-OPERATING REVENUE/(EXPENSE)		
INVESTMENT INCOME	495,701	23,866
MISC. INCOME	0	6,155
NET GAIN/(LOSS) ON EQUIPMENT DISPOSAL	(1,402,439)	(286,697)
NET NON-OPERATING REVENUE/(EXPENSE)	(906,738)	(256,676)
INCOME BEFORE TRANSFERS	3,061,547	6,615,560
TRANSFERS TO STATE FROM ARIZONA FUNDS	(1,000,000)	7,870,018
TOTAL NET ASSETS, JULY 1	<u>28,925,760</u>	14,440,182
TOTAL NET ASSETS, JUNE 30	30,987,307	28,925,760

Statement of Cash Flows

	2023	2022
Cash flows from operating activities:		
Operating Income	2,565,847	\$ 6,585,539
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,324,208	1,467,386
(Increase)/Decrease in accounts receivable	3,452,874	79,278
(Increase)/Decrease in inventories	(589,741)	(1,416,898)
(Increase)/Decrease in prepaid expenses	94,118	(111,485)
Increase/(Decrease) in accounts payable	(331,305)	559,447
Increase/(Decrease) in accrued payroll & employee benefits	132,916	(12,243)
Increase/(Decrease) in accrued compensation	76,644	(38,011)
Increase/(Decrease) in deferred revenue	0	0
Increase/(Decrease) in other accrued liabilities	(657,357)	(227,782)
(Increase)/Decrease in long term deferred pension contribution	0	(810,245)
Increase/(Decrease) in long term pension liability	0	335,146
Net cash provided (used) by operating activities	6,068,203	\$ 6,410,132
Cash flows from noncapital financing activities:		
Cash transfer (to) from DOC	(1,000,000)	7,870,018
Net cash provided (used) for noncapital financing activities	(1,000,000)	\$ 7,870,018
Cash flows from capital and related financing activities:		
Acquisition and construction of property, plant and equipment	(1,401,984)	(362,325)
Gain(Loss) on disposal of fixed assets	(1,402,439)	286,697
Misc cash proceeds	0	6,155
Net cash provided (used) for capital and related financing activities	(2,804,422)	\$ (69,473)
Cash flows from investing activities:		
Interest receipts on investments	495,701	23,866
Net cash provided (used) by investing activities	495,701	\$ 23,866
Net increase (Decrease) in cash & cash equivalents	2,759,481	7,449,519
Beginning cash & cash equivalents balance	18,888,973	11,439,954
Ending cash & cash equivalents balance	21,648,454	\$ 18,889,473



NATIONAL
CORRECTIONAL
INDUSTRIES
ASSOCIATION

ACI Staff Member Wins National Award



Danielle Armbruster, NCIA Chairman Rey Holguin (IPS), Bobby Lumpkin, NCIA President

Each year, the National Correctional Industries Association accepts a nomination from each state for the Staff Award. The Staff Award recognizes the superior performance and supervisory excellence of a Correctional Industries staff member, other than the Industries director/administrator, who has made a significant and sustained contribution to a Correctional Industries program.

In the fall of 2022, Michael McCarville, Regional Operations Manager, nominated Industrial Programs Specialist (IPS) Rey Holguin as ACI's submission for the Staff Award.

After a 25-plus year career with the Arizona Department of Corrections, Rehabilitation and Reentry, and over six years at Arizona Correctional Industries, it was Rey's outstanding work as an IPS for the Hometown Hero Project call center inside the ADCRR prison in Tucson, Arizona, that made him an obvious choice for nomination.

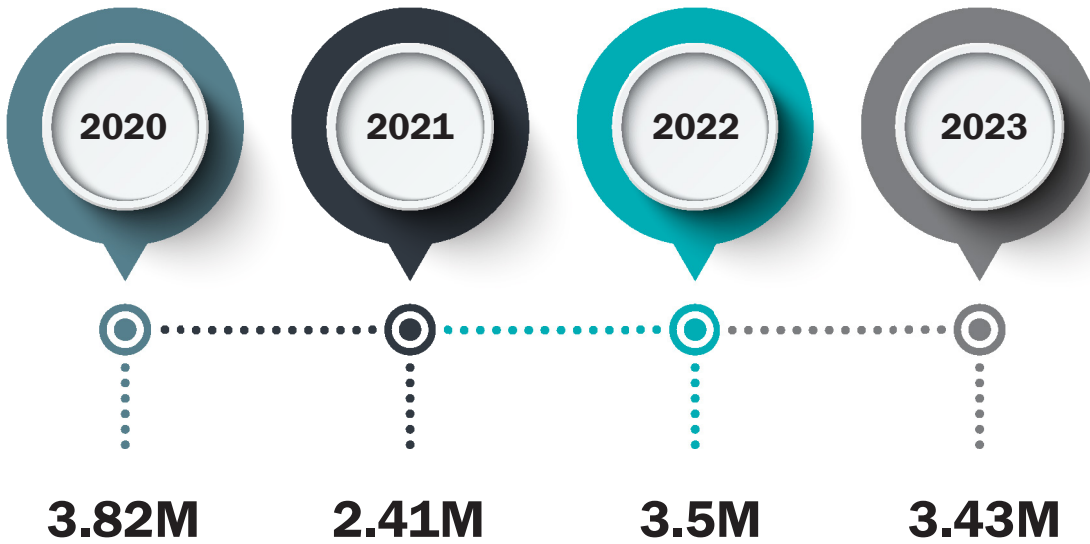
The IPS position provides for the safety and security at ACI work sites. During his time working with the Hometown Hero Project, Holguin has supervised inmates who have amassed over 625,000 work hours, generated revenue for the State of Arizona, along with income and job skills for the incarcerated individuals (many of whom have returned to work for the Hometown Hero Project after incarceration).

IPS Holguin was nominated for various achievements, but his outstanding performance for ACI during the COVID-19 pandemic is particularly of note. For 16 months, all ACI work crews outside the prison grounds were closed. Since the Hometown Hero Project operated on prison grounds, IPS Holguin was able to keep his crew working where many businesses could not. Rey Holguin risked coming to work daily, with COVID-19 spreading all around him. He never missed a day of work and worked with prison officials to keep his work crews healthy and away from COVID-19-infected inmates. Keeping this call center open was a key part of ACI's ability to remain operational during the pandemic. According to the owner of the Hometown Hero Project, "We would not have made it if not for Holguin."

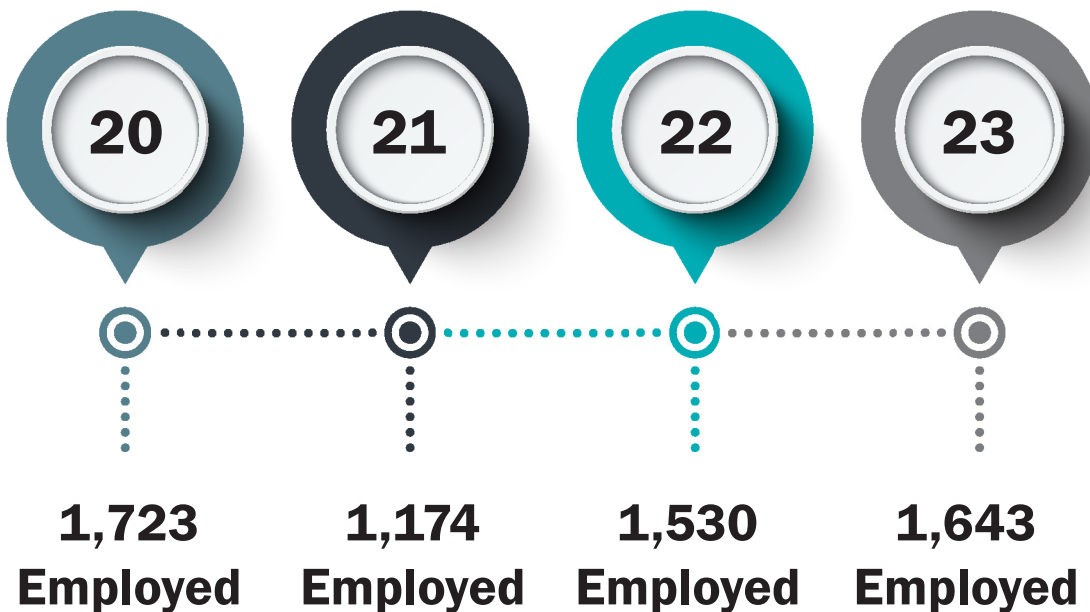
In addition, Rey Holguin helps get soon-to-be-released offenders post-incarceration employment by working with prison officials and helping eliminate many obstacles that ex-offenders experience after their release. ACI is proud to congratulate IPS Rey Holguin as the 2023 Western Region Staff Award winner.



Incarcerated Individuals Hours Worked by Fiscal Year



Number of Incarcerated Individuals Employed by Fiscal Year





4441 E. McDowell Road Phoenix, Arizona 85008
(602)-272-7600 ~ aci.az.gov

Printed by ACI Print Shop ASPC Perryville, Goodyear, AZ