

Arizona Correctional Industries

Annual Report

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ARIZONA CORRECTIONAL INDUSTRIES

Annual Report - FY 2009

Mission Statement

To create opportunities for inmates to develop marketable job skills, civility and good work habits through successful enterprises that produce quality products and services for our customers.

Dear Director Ryan:

The fortitude of a company is tested during difficult economic times, much like the times we are facing as a country today. While some companies buckle under tumultuous times, others merely survive. Those that thrive are remarkably different in how they operate. ACI is one of these remarkable few. During the 2009 Fiscal Year, Arizona Correctional Industries (ACI) achieved record revenues, increasing sales 11.5% to \$31,962,876. While these revenues are impressive, providing new work skills to inmates is certainly of greater importance. Inmates worked a total of 3,340,971 hours in ACI programs, while learning the benefits of a productive lifestyle. Furthermore, our mutually beneficial relationships with Labor Partners represented over 2 million inmate hours worked and provided affordable labor to many organizations that would have otherwise struggled to stay in business. ACI Owned and Operated businesses accounted for more than 1.2 million hours worked and gave our organization the platform to generate much needed revenue for the State of Arizona. Our Inter-Governmental Agreements (MVD) provided inmates another 107,009 hours of valuable job-training through their work assignments.

ACI work programs are invaluable for the State of Arizona and include:

- Creating 440 jobs in the private sector (ASU Study)
- Supporting Arizona businesses by purchasing raw materials and services
- Deducting from inmate wages to support many funds and programs
- Retaining funds that provide inmates financial assistance upon release
- Funding Security at all ACI operations, which frees up Department of Corrections Staff
- Teaching inmates valuable job skills that will help them find employment upon release

ACI has 63 full-time staff, 3 part-time and 51 (IPS) security officers ensure inmates who are working for us are afforded the necessary opportunities that will prepare them for their future. Our full-time staff generates the highest revenue compared to other Correctional Industry programs throughout the nation. We are proud of the invaluable contributions ACI has made to the State of Arizona and continue to look ahead to a future of success no matter what the economic climate may be.

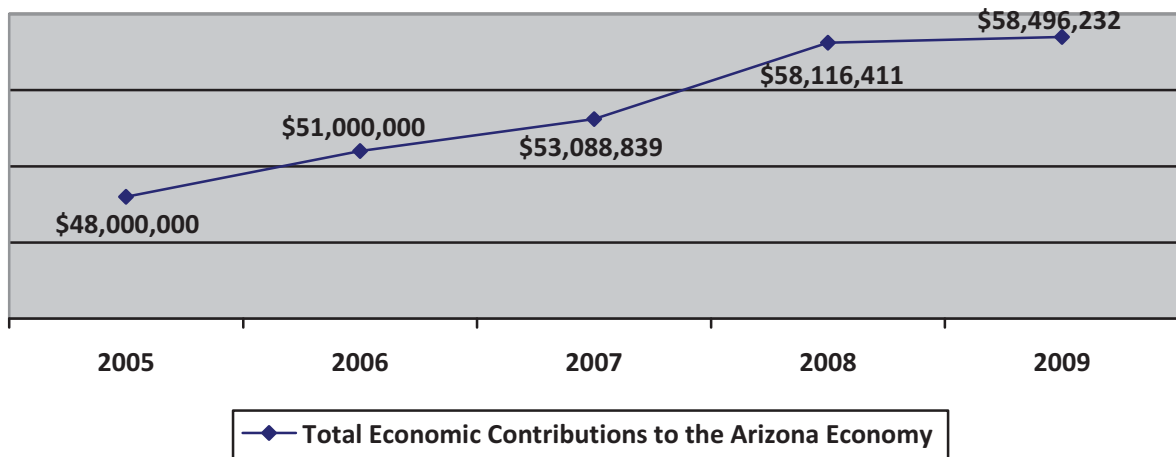


Bill Branson, General Manager

ACI Contributions to the State Economy

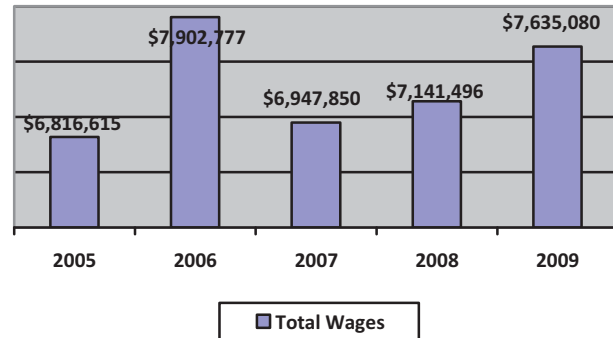
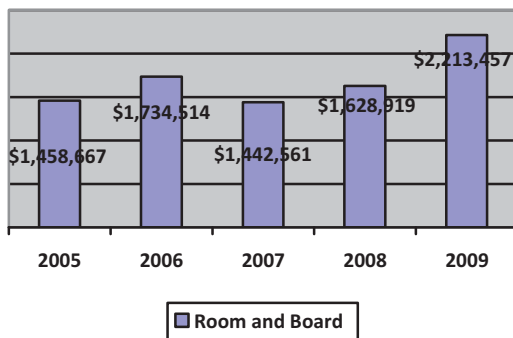
As the State of Arizona faces budget shortfalls and high unemployment rates, ACI provides a steady source of revenue and creates new jobs. According to the W.P. Carey School of Business at Arizona State University, the financial contributions ACI made to the State's economy in 2009 was \$58,496,232. These contributions come from two areas. First, the actual raw materials and services that ACI purchases from Arizona businesses, which totaled \$27,842,232. These purchases enable local companies to retain and hire new employees to meet the purchasing demands of ACI. It is estimated that \$30,654,000 in consumer expenditures were generated as a result of ACI related employment.

Additionally, ACI outsources labor to many businesses in Arizona. Though the contributions are difficult to estimate because many companies are privately held and the financial information is not public, it is clear that the ACI inmate work programs are imperative to the continuing operations of ACI's labor partners.



Inmate Deductions

Giving inmates a second chance to contribute to society is at the heart of what makes ACI work. Not only are inmates working to pay for their room and board, they are contributing to the State's General Fund. The chart below shows a five-year history of deductions that supplement the Arizona budget. In the past five years more than \$8.4 million has been contributed to the State's General Fund. These contributions are imperative to the success of Arizona's state funded programs that so many citizens depend on. The second chart shows the total wages paid to ACI inmates. In the past five years \$36,443,818 in wages has been paid for ACI work programs.

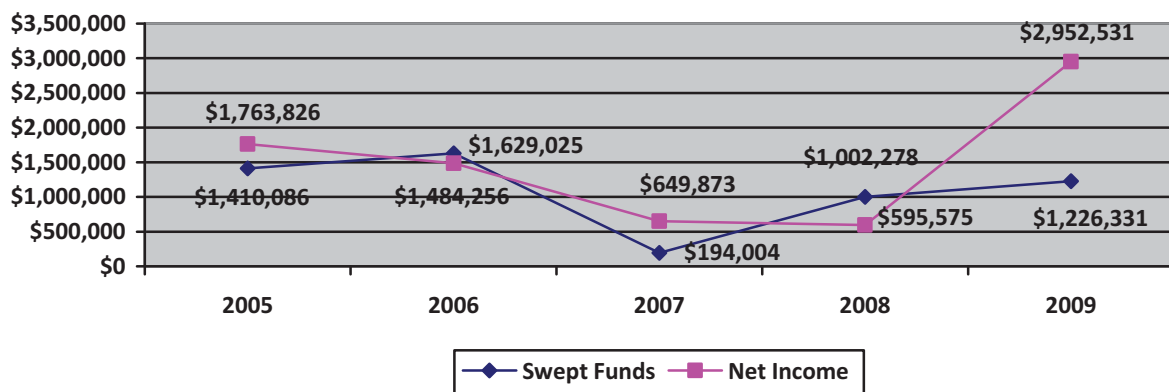


In addition to Inmates providing a boost to the State’s General Funds, they have other deductions that provide support to the Victim’s Compensation Fund (\$17,974.39), Dependent Support (\$43,101.04), Court Ordered Restitution (\$110,355.36), and the Alcohol Abuse and Treatment Fund (\$32,150.92). This enables inmates to right their wrongs yet not drain the State’s economy. Furthermore, inmates pay Arizona State Taxes (\$21,668.15), which provide more revenue for the state. A total of \$247,921 was deducted from wages in addition to Room and Board outlined above.

The benefit of their work is apparent as they give back to the communities they once violated. Yet, inmates also are provided a foundation to rebuild their lives through individual retention accounts. In 2009, \$3,344,599 was deducted from ACI inmate wages and placed in these designated accounts as directed by Arizona statute. This not only enables inmates to pay for housing, transportation, clothing, and food upon their release, it provides inmates the very financial stability they need to keep them from becoming repeat offenders. These funds further sustain inmates while they seek employment in order to become productive citizens

ACI Fund Transfers

Arizona Correctional Industries has contributed to Arizona’s State General Fund in eight of the past ten years. Since 1999, \$7,733,300 has been transferred from ACI to the State General Fund. In addition \$4,728,424 has been transferred from ACI to support the Department of Corrections Work Based Education programs. Unfortunately, in 2006 and 2008, more money was taken from ACI funds than ACI realized in net income. ACI would prefer to see fund sweeps that equaled a percentage of net income, even 50% of ACI’s net income would be acceptable to sustain business operations, and allow management to better plan for cash requirements. While it is true the fund sweeps has had a negative impact on cash flow at times, the overall result is that ACI remains a vibrant and resilient operation that provides significant contributions to Arizona’s General Fund and to Arizona’s economy.



ACI Quality Program

The dedication to quality products and operations is the cornerstone of ACI. The quality control program that was implemented in 2004, continues to prove valuable. We have developed key metrics for each ACI operation, and continue to conduct customer satisfaction surveys each month. Customer satisfaction averaged 96.8% in FY09. On-time delivery was 95.2%. In addition, when the customer was asked to score ACI's customer service on a scale of 1-10, with 10 being the highest, ACI scored 9.05. We continue to strive to meet our customer's needs and deliver unsurpassed quality above all else. Additionally, the ACI Quality Program teaches inmates valuable concepts, that goes beyond error free production of products and services.

2009 ACI Recognition Awards

Platinum Award

Metal Fabrication
Bedding
Labor Contracts

Gold Award

License Plates
Sewing Douglas
Sewing Perryville

Silver Award

Wood/Metal Refurbishing
Signs and Awards
Bakery
Farm
Commodity Products

Bronze Award

Data Fulfillment
Printing and Graphic Arts
Upholstery

Employee of the Year

Anil Shukla

Top Quality Performers

Procurement
Customer Service
Douglas Sewing
License Plate Manufacturing

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement on Net Assets-Enterprise Fund
Year Ended June 30

Assets	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash in Bank and on Hand	\$ 61,638	\$ 135,079
Cash on Deposit with State Treasurer	5,721,698	956,447
Accounts Receivable net	5,035,779	4,437,026
Interest Receivable	4,142	5,943
Inventories	3,360,568	3,405,653
Prepaid Expenses	87,300	128,364
Total Current Assets	<u>14,271,125</u>	<u>9,068,512</u>
Noncurrent Assets:		
Capital assets, not being depreciated	803,608	695,216
Capital assets, being depreciated, net	<u>2,704,289</u>	<u>2,949,296</u>
Total Noncurrent Assets	<u>3,507,897</u>	<u>3,644,512</u>
Total Assets	<u><u>17,779,022</u></u>	<u><u>12,713,024</u></u>
Liabilities		
Current Liabilities:		
Accounts Payable	527,983	230,979
Accrued Payroll and Employee Benefits	607,145	816,165
Accrued Compensated Absences	331,543	256,160
Current Obligations Capital Lease	83,390	77,033
Deferred Revenue	519,692	41,309
Other Accrued Liabilities	<u>3,254,476</u>	<u>433,292</u>
Total Current Liabilities	<u>5,324,229</u>	<u>1,854,938</u>
Long Term Liabilities:		
Obligations Capital Lease	<u>225,674</u>	<u>309,064</u>
Total Long Term Liabilities	<u>225,674</u>	<u>309,064</u>
Net Assets:		
Invested in Capital Assets	3,198,833	3,262,850
Unrestricted	<u>9,030,287</u>	<u>7,286,049</u>
Total Net Assets	<u>\$ 12,229,120</u>	<u>\$ 10,548,899</u>

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Enterprise Fund
Year Ended June 30

	<u>2009</u>	<u>2008</u>
Sales	\$ 31,943,469	\$ 28,610,941
Cost of Goods Sold	25,444,182	24,616,953
Gross Profit	<u>6,499,287</u>	<u>3,993,988</u>
Operating Expenses		
Selling	853,223	830,333
General and Administrative	2,855,466	2,600,450
Total Operating Expenses	<u>3,708,689</u>	<u>3,430,783</u>
Operating Income	<u>2,790,598</u>	<u>563,205</u>
Nonoperating Revenues (Expenses)		
Investment Income	20,990	49,094
Net Gain on Disposal of Equipment	188,773	20,809
Interest Expense	<u>(47,831)</u>	<u>(42,675)</u>
Net Nonoperating Revenues (Expenses)	<u>161,932</u>	<u>27,228</u>
Net Income	2,952,530	590,433
Transfers out to other state funds	<u>(1,272,309)</u>	<u>(1,002,278)</u>
Increase (decrease) in net assets	1,680,221	(411,845)
Total net assets, July 1	10,548,899	10,960,744
Total net assets, June 30	<u>\$ 12,229,120</u>	<u>\$ 10,548,899</u>

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Cash Flows - Enterprise Fund
Year Ended June 30

	<u>2009</u>	<u>2008</u>
Cash flows from operating activity:		
Receipts from customers	\$ 34,646,084	\$ 28,022,056
Payments to suppliers for goods and services	(12,002,165)	(11,703,610)
Payments to employees	(7,902,114)	(7,613,809)
Payments to inmates	(8,455,484)	(7,929,725)
Net cash used for operating activities	<u>6,286,321</u>	<u>774,912</u>
Cash flows from noncapital financing activities:		
Cash transfers to other state funds	<u>(1,272,309)</u>	<u>(1,002,278)</u>
Net cash provided (used) for noncapital financing activities	<u>(1,272,309)</u>	<u>(1,002,278)</u>
Cash flows from capital and related financial activities:		
Interest payment on debt	(47,831)	(42,675)
Obligations capital lease	(124,987)	282,940
Proceeds from sale of capital assets	188,773	20,809
Purchases of capital assets	<u>(359,147)</u>	<u>(872,852)</u>
Net cash provided (used) for capital and related financing activities	<u>(343,192)</u>	<u>(611,778)</u>
Cash flows from investing activities:		
Interest received on investments	<u>20,990</u>	<u>49,094</u>
Net cash provided (used) by investing activities	<u>20,990</u>	<u>49,094</u>
Net (decrease) in cash and cash equivalents	4,691,810	(790,050)
Cash and cash equivalents, July 1	<u>1,091,526</u>	<u>1,881,576</u>
Cash and cash equivalents, June 30	<u>\$ 5,783,336</u>	<u>\$ 1,091,526</u>

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Cash Flows - Enterprise Fund
Year Ended June 30

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash provided (used) for operating activities:		
Operating income	\$ 2,790,598	\$ 563,205
Adjustments to reconcile operating income to net cash provided (used) for operating activities:		
Depreciation expense	495,760	515,847
Net changes in assets and liabilities:		
Accounts receivable	(596,953)	(575,235)
Inventories	45,084	7,502
Prepaid expenses	41,064	(635)
Accounts payable	297,005	(189,352)
Accrued compensated absences	75,383	13,235
Accrued payroll and employee benefits	(209,021)	490,999
Other accrued liabilities	3,347,401	(50,654)
Net cash provided (used) for operating activities:	<u>\$ 6,286,321</u>	<u>\$ 774,912</u>

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Schedule of Fixed Assets & Accumulated Depreciation
Year Ended June 30

SCHEDULE OF FIXED ASSETS:

	<u>2008</u>	<u>INCREASE</u>	<u>DECREASE</u>	<u>2009</u>
Land	692,438			692,438
Land improvements	240,438			240,438
Building	804,012			804,012
Building improvements	901,035	12,019	18,188	894,866
Equipment	7,549,645	286,832	308,237	7,528,240
Construction in progress	2,778	111,170	2,778	111,170
Totals	<u>\$10,190,346</u>	<u>\$410,021</u>	<u>\$329,203</u>	<u>\$10,271,164</u>

SCHEDULE OF ACCUMULATED DEPRECIATION:

Land improvements	239,334	117		239,451
Building	369,848	30,804		400,652
Building improvements	469,450	28,567	884	497,133
Equipment	5,467,202	436,272	277,443	5,626,031
Totals	<u>\$6,545,834</u>	<u>\$495,760</u>	<u>\$278,327</u>	<u>\$6,763,267</u>
Property, Plant, Equipment Net of Accumulated Depreciation	<u>\$3,644,512</u>	<u>(\$85,739)</u>	<u>\$50,876</u>	<u>\$3,507,897</u>

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