



Welcome to the 2007 ACI Annual Meeting

2008



ARIZONA CORRECTIONAL INDUSTRIES

Annual Report - FY 2008

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:

I am pleased to present the Arizona Correctional Industries Annual Report for Fiscal Year 2008. ACI achieved record revenues in FY 2008, increasing sales 5.3% to \$28,664,556. Inmates worked a total of 3,213,076 hours in ACI programs. Labor Contracts alone increased inmate programs to over 2.1 million hours worked.

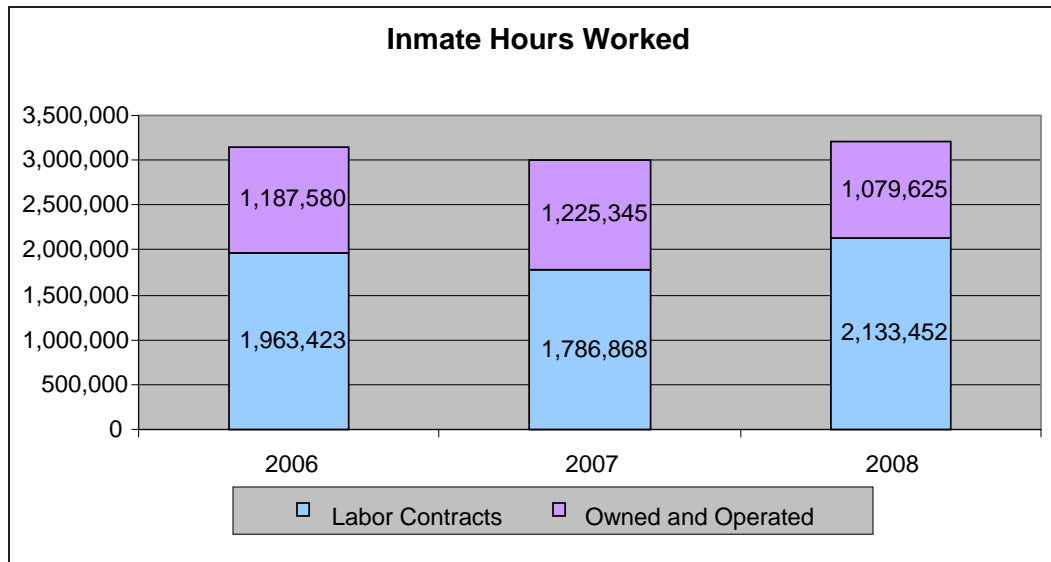
ACI's Net Income was \$619,727, or 2.16% of Total Revenue, compared to \$649,873 in FY 2007 – 2.39% of sales. Net Income has decreased due to rising raw material prices, fuel prices, and an increase in Correctional Officer costs to ACI owned and operated shops.

ACI work programs enabled male and female inmates to contribute \$7,522 to the Victim's Compensation Fund, and \$30,253 was deducted for court ordered dependent support. \$1,628,919 was deducted from their wages for room and board, and that amount was returned to the State of Arizona General Fund. Court Ordered Restitution deductions totaled \$329,140. Total deductions were \$2,036,915, or 29% of the \$7,141,496 wages paid to inmates.

In fiscal year 2008, ACI marketed over 3,800 products to 1,707 customers. Each labor contract averaged \$484,424 in annual revenue, and the owned and operated shops averaged \$32,206 annually per customer. ACI has 85 full-time staff, 3 part-time and 45 security officers dedicated to insuring that the male and female inmates working for ACI are receiving opportunities that will help prepare them for their return to the community.

Bill Branson
General Manager
Arizona Correctional Industries





Inmate Hours Worked

In fiscal year 2008, inmates worked 3,213,076 hours in ACI enterprises. This represents a 6.7% increase over the previous year. Labor contracts accounted for 66% of the hours worked, an increase of 19.4%. The increase was mostly due to expansion of existing programs. FY 2008 contracts and hours worked are:

Eurofresh – Wilcox	436,676	AZ Trailer Manufacturing	54,571
Televerde	323,815	Cargill, Inc.	39,362
Safety Services	322,710	Southeast AZ Medical Center	31,772
Hickman Eggs	168,288	ESB Modular Manufacturing	22,049
Greater Auto Auction	140,181	Duncan Family Farms	18,439
MVD	167,639	Morrison Management	17,920
CME – West	117,528	Farmer’s Investment Company	15,087
Eurofresh – Snowflake	91,411	H & H Trailer Manufacturing	9,801
CME – East	66,375	American Curb & Vent	7,753
Fiesta Canning Company, Inc.	58,006	AZ Cotton Research Council	4,520
LBJ Farms	56,536	Crothall Service Group	4,013

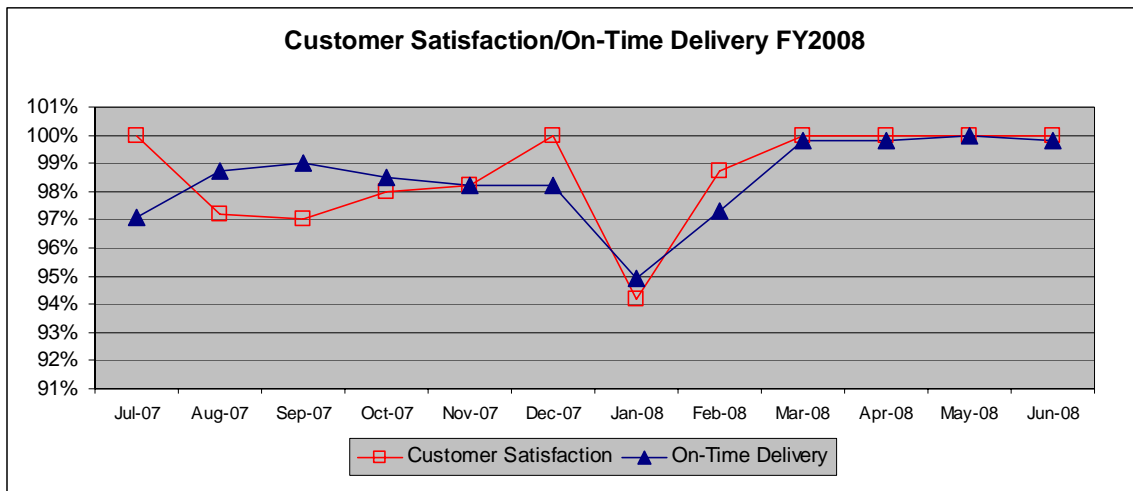
The ACI Owned and Operated shops had the following programs and inmate hours worked in FY 2008:

Bakery Division	189,825	License Plate Division	31,179
Metal Fabrication Division	122,346	Bedding Division	30,419
Douglas Sewing Division	102,598	Consumer Products Division	29,539
Sign and Graphics Division	89,628	Agriculture – Farm Division	26,656
Print Shop & Copy Center	82,727	Commodity Products Division	24,399
Furniture Shop	54,522	Central Office Operations	24,279
Perryville Sewing Division	51,232	Industrial Maintenance	19,995
Wood & Metal Refurbishing	49,561	Installation Group	16,512
Southern Warehouse Operations	43,449	Data Fulfillment Center	11,589
Industrial Yard Operations	37,897	Transportation Division	6,138
Upholstery Division	32,297		

ACI Quality Program

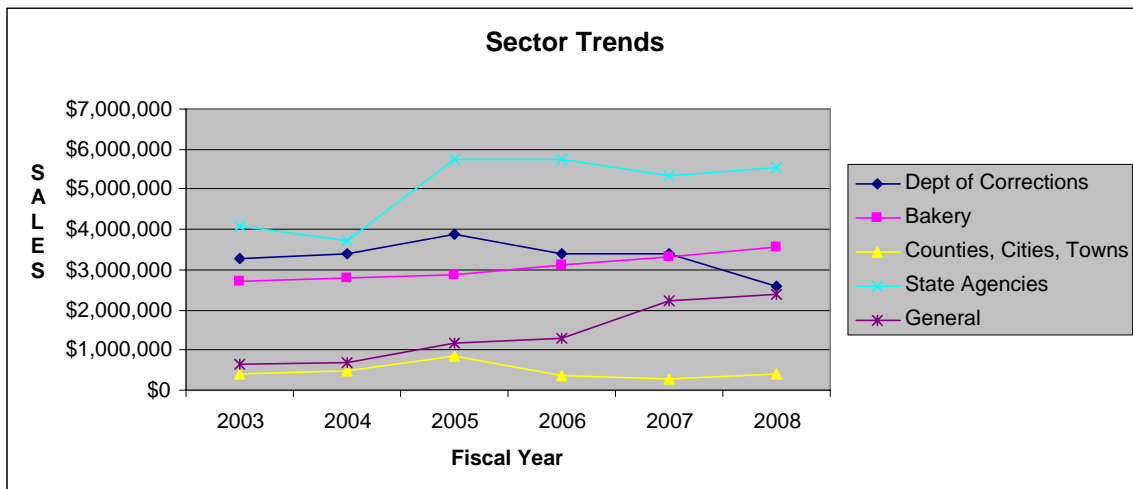
ACI continues to see a positive financial impact from the quality program that was implemented in 2004. ACI has nominated two Owned and Operated shops for the Arizona Quality Alliance Award for 2008. The Bakery and the Print Shop are two of ACI's most conscientious shops when it comes to quality and customer service, and will receive on-site visits from the AQA auditors mid to late October 2008.

We have developed key metrics for each ACI operation, and continue to track customer satisfaction each month. ACI surveys customers and the results are analyzed and changes to the processes are made accordingly. Customer satisfaction averaged 98.8% in FY08, with only 1 month achieving less than 95%. This was an increase from 95.4% in FY2007. On-time delivery was 98.6%, an improvement from 95.4% in FY2007.



Sector Trends

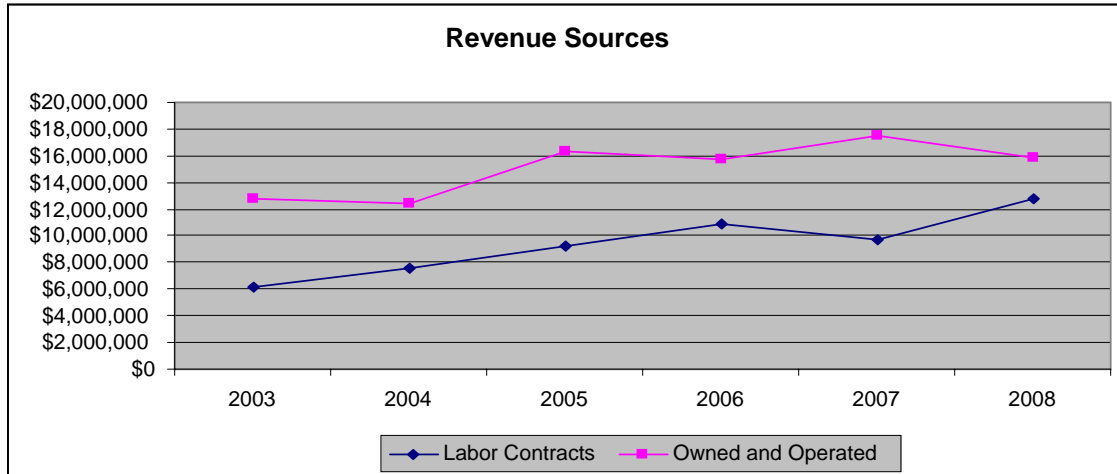
Within the Owned and Operated shops, Arizona State Agencies represent the largest customer sector. Due to reduced State revenues, many agencies have limited spending; however the total number of agencies buying from ACI has increased, so the overall result is a slight 3.8% increase. Prison growth has helped the ACI Bakery to increase sales by 7.4%, but margins have fallen due to increased wheat prices. Sales to the Department of Corrections have decreased 23.6% over the past fiscal year. The sector titled General represents sales to private sector companies, not for profit companies, and private citizens. This group has increased 6.25% over the previous year.



Owned and Operated Shops

The Owned and Operated shops generated Revenues of \$15,833,022. These are shops that are managed by ACI Staff, and in most cases, ACI security staff. Net Income for the shops was \$1,284,943. The ACI Bakery and License Plate Operations account for nearly half of the revenue (46%). The Metal Fabrication Shop achieved sales of \$1,574,319, during a year when there was no prison construction. Strong partnerships with the private sector helped replace sales that traditionally came from new prison construction.

The Owned and Operated shops still contribute a larger percentage of ACI sales than Labor Contracts. ACI Management believes it is important to continue growing the owned and operated shops because it creates a revenue balance with the Labor Contracts. It takes a greater capital investment to start or expand Owned and Operated businesses, but it also gives ACI more control over product and production.



Labor Contracts

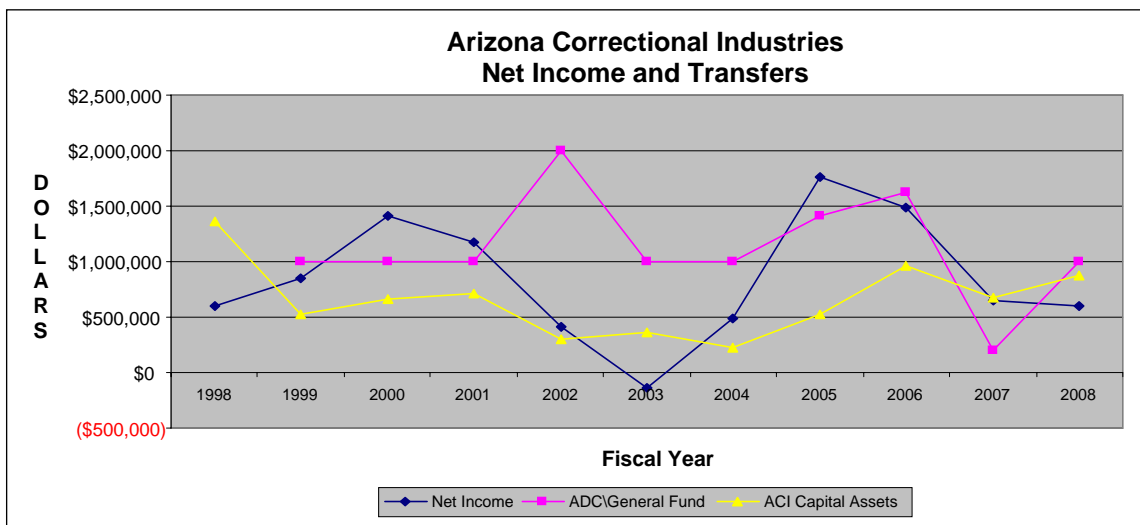
In fiscal year 2008, ACI Labor Contracts increased 32% to \$12,783,440. Net Income increased by \$1,120,410. In FY07 1,173 inmates were employed with ACI labor partners at 28 locations both inside and outside the prison facilities. This sector is expected to continue to increase and provide ACI with the greatest opportunity for future growth.

ACI labor partners are involved in agriculture, service, and manufacturing. Agriculture represents 37% of the total inmate hours worked in labor contracts. In the service sector ACI labor partners such as the Arizona Motor Vehicle Department, are involved in telemarketing call centers. This sector represents 36% of the total inmates hours work in labor contracts. Service industries overall amount to 53% of the total labor contract hours, and manufacturing represents 10% of the total labor contract hours.

Cash Flow Requirements

One of the biggest challenges facing ACI is maintaining adequate operating cash. By Statute, ACI is unable to establish banking relationships where lines of credit, factoring receivables, and other loan products are available for small businesses to help balance large swings in cash. ACI requires about \$2 million in operating funds, and often, untimely sweeps of cash reserves impact daily business operations.

ACI has been put in the position of delaying the purchase of capital equipment that helps productivity and profits, because the cash reserves are minimal. Also, low cash reserves inhibit ACI's ability to take advantage of competitive prices for raw materials. In today's volatile market, it's not uncommon to see swings of 15%-20% in the price of wheat, steel, or fabric. Without adequate reserves, we are forced to forfeit those opportunities to make wise and timely purchases of raw materials.



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

Assets	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash in Bank and on Hand	\$ 135,079	\$ 206,455
Cash on Deposit with State Treasurer	956,447	1,675,121
Accounts Receivable net	4,437,026	3,848,140
Interest Receivable	5,943	19,593
Inventories	3,405,653	3,413,154
Prepaid Expenses	128,364	127,730
Total Current Assets	<u>9,068,512</u>	<u>9,290,193</u>
Noncurrent Assets:		
Capital assets, not being depreciated	692,438	692,438
Capital assets, being depreciated, net	2,952,074	2,595,071
Total Noncurrent Assets	<u>3,644,512</u>	<u>3,287,509</u>
Total Assets	<u><u>12,713,024</u></u>	<u><u>12,577,702</u></u>
 Liabilities		
Current Liabilities:		
Accounts Payable	230,979	420,330
Accrued Payroll and Employee Benefits	816,165	325,167
Accrued Compensated Absences	256,160	242,925
Current Obligations Capital Lease	103,280	-
Deferred Revenue	41,309	142,088
Other Accrued Liabilities	433,292	486,448
Total Current Liabilities	<u>1,881,185</u>	<u>1,616,958</u>
Long Term Liabilities:		
Obligations Capital Lease	282,940	-
Total Long Term Liabilities	<u>282,940</u>	<u>-</u>
Net Assets:		
Invested in Capital Assets	3,644,512	3,287,509
Unrestricted	6,904,387	7,673,235
Total Net Assets	<u><u>\$ 10,548,899</u></u>	<u><u>\$ 10,960,744</u></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>2008</u>	<u>2007</u>
Sales	\$ 28,610,941	\$ 27,144,036
Cost of Goods Sold	<u>24,659,628</u>	<u>23,170,628</u>
Gross Profit	<u>3,951,313</u>	<u>3,973,408</u>
Operating Expenses		
Selling	830,333	763,722
General and Administrative	<u>2,600,450</u>	<u>2,649,210</u>
Total Operating Expenses	<u>3,430,783</u>	<u>3,412,932</u>
Operating Income	<u>520,530</u>	<u>560,476</u>
Nonoperating Revenues (Expenses)		
Investment Income	49,094	85,532
Net (Loss) Gain on Disposal of Equipment	<u>20,809</u>	<u>3,865</u>
Net Nonoperating Revenues	<u>69,903</u>	<u>89,397</u>
Net Income	590,433	649,873
Transfers out to other state funds	<u>(1,002,278)</u>	<u>(194,004)</u>
Increase (decrease) in net assets	(411,845)	455,869
Total net assets, July 1	10,960,744	10,504,875
Total net assets, June 30	<u>\$ 10,548,899</u>	<u>\$ 10,960,744</u>

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

	<u>2008</u>	<u>2007</u>
Cash flows from operating activity:		
Receipts from customers	\$ 28,022,056	\$ 26,415,740
Payments to suppliers for goods and services	(11,746,285)	(13,138,974)
Payments to employees	(7,613,809)	(6,907,945)
Payments to inmates	(7,929,725)	(6,937,621)
Net cash used for operating activities	<u>732,237</u>	<u>(568,800)</u>
Cash flows from noncapital financing activities:		
Cash transfers to other state funds	(1,002,278)	(194,004)
Net cash provided (used) for noncapital financing activities	<u>(1,002,278)</u>	<u>(194,004)</u>
Cash flows from capital and related financial activities:		
Obligations capital lease	282,940	-
Proceeds from sale of capital assets	20,809	3,865
Purchases of capital assets	(872,852)	(664,050)
Net cash provided (used) for capital and related financing activities	<u>(569,103)</u>	<u>(660,185)</u>
Cash flows from investing activities:		
Interest received on investments	49,094	85,532
Net cash provided (used) by investing activities	<u>49,094</u>	<u>85,532</u>
Net (decrease) in cash and cash equivalents	(790,050)	(1,337,457)
Cash and cash equivalents, July 1	<u>1,881,576</u>	<u>3,219,033</u>
Cash and cash equivalents, June 30	<u>\$ 1,091,526</u>	<u>\$ 1,881,576</u>

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

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash provided (used) for operating activities:		
Operating income	\$ 520,530	\$ 560,476
Adjustments to reconcile operating income to net cash provided (used) for operating activities:		
Depreciation expense	515,847	464,430
Net changes in assets and liabilities:		
Accounts receivable	(575,235)	(733,607)
Inventories	7,502	13,962
Prepaid expenses	(635)	(46,981)
Accounts payable	(189,352)	(908,302)
Accrued compensated absences	13,235	(20,325)
Accrued payroll and employee benefits	490,999	208,197
Other accrued liabilities	(50,654)	(106,650)
Net cash provided (used) for operating activities:	<u>\$ 732,237</u>	<u>\$ (568,800)</u>

2008 ACI Recognition Awards

Awards are based on sales revenue, profitability, and performance improvement over previous fiscal year.

Platinum Award

License Plates
Labor Contracts

Gold Award

Bakery
Metal Fabrication
Signs and Awards
Sewing Douglas
Sewing Perryville

Silver Award

Bedding

Bronze Award

Farm
Florence Upholstery
Copy Service

Employee of the Year

Nick Angel

ACI Operations By Location

Arizona State Prison Complex—Florence

ACI Metal Fabrication Factory
ACI Farms
ACI Bedding Factory
ACI Upholstery Shop
ACI Operations Administration
ACI Wood and Metal Refurbishing
ACI Transportation Division

ACI Prison Retail Outlet Store
LBJ Farms
Hickman Egg Ranch
ACI Consumer Products Division
ACI Industrial Maintenance
ACI Central Warehouse Operations
Cargill Animal Nutrition

Arizona State Prison Complex—Perryville

ACI Graphic Arts Division
ACI Installation/Support Services
ACI Garment Factory
Motor Vehicle Division Call Center
Hickman's Egg Ranch

Morrison Management Specialist
Greater Auto Auction
Crothall Services Group
Televerde
Duncan Family Farms

Arizona State Prison Complex—Tucson

ACI Sign/Office Products Factory
Motor Vehicle Division Call Center
ACI Bobbin Operation

Farmer's Investment Company
LBJ Farms

Arizona State Prison Complex—Lewis

ACI Furniture Shop
Common Market Equipment Company
Hickman's Egg Ranch

American Curb and Vent
Arizona Trailer Manufacturing
Greater Auto Auction

Arizona State Prison Complex—Winslow

ACI Commodity Products Manufacturing

Eurofresh

Arizona State Prison Complex—Douglas

ACI Garment Factory
Fiesta Canning

Arizona State Prison Complex—Eyman

ACI Bakery Operations
ACI License Plate Factory

Arizona State Prison Complex—Safford/Fort Grant

Eurofresh

Arizona State Prison Complex—Phoenix West

Arizona State Prison Complex—Yuma

Safety Services Co.

Arizona State Prison Complex—Marana

ESB Modular Manufacturing

ACI Central Administrative Office

ACI Copy Service
ACI Central Office Operations
ACI Data Fulfillment

ASP – Kingman

H&H Trailer Co.

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Department of Corrections Sales
Christine Lansford

Work Based Education
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Judi Longmeyer